



Saipem

001



SIX MONTH REPORT

AS AT 30TH OF JUNE 1999

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SIX MONTH REPORT AS AT 30TH OF JUNE 1999



Saipem

■ Saipem is present in the following countries:

Europe: France, Great Britain, Italy, Holland, Norway, Portugal, Switzerland

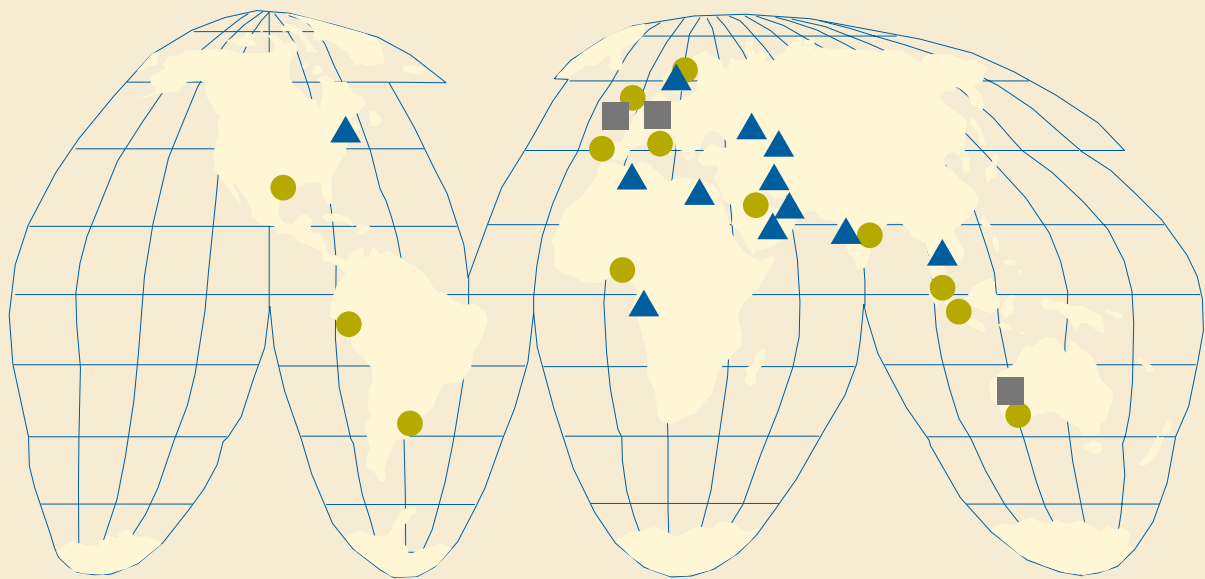
Americas: Argentina, Canada, Peru, U.S.A.

C.S.I.: Azerbaijan, Kazakhstan

Africa: Algeria, Congo, Egypt, Libya, Nigeria

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

Far East: Australia, Indonesia, Malaysia, Singapore, Thailand



● Subsidiaries

■ Joint Venture Companies

▲ Branches

SIX MONTH RESULTS

In presenting results for the first six months of 1999, we have already complied with the law which states that, as from the year 2001, all financial statements must be quoted in euros, using the irreversible exchange rate fixed on 29th of December 1998. Operating revenues for the Saipem Group to 30th of June 1999 were 776 million euros (793 million for the same period in 1998) and net income amounted to 37 million euros for the period (50 million for the same period in 1998). 1999 is the year in which most of the previously defined Saipem Group strategies will be put into operation.

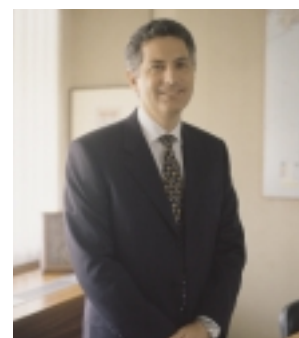
The most important projects, already completed during the first six months, and which will have a crucial impact on the future of Saipem, are:

- an investment of 227 million euros, out of the 878 million for the four year period, 1998-2001, for the completion on Saipem 7000 of the deep water "J" lay system, an important step ahead in the conversion of Scarabeo 7 from a flotel to a semi-submersible drilling rig and the completion of half of the ultra deep water development vessel, Saipem 10000;
- the acquisition of important projects in the onshore construction sector following the recently introduced selective commercial policy;
- the most important part of the Change Management project was successfully concluded with the re-organisation of the Group structure and corporate activities and the commencement of the new integrated information system in the finance and administration departments.

With regard to the results for the six-month period, it should be stated that they are influenced by seasonal climatic conditions, which in turn may affect the volume of work completed, as well as the resultant profit levels in these sectors. Consequently, the results from one particular period may vary significantly from the same period of a preceding year, therefore precluding the simple extrapolation of figures in order to derive an estimate for the entire year.

It should also be noted that the low price of crude oil, through March 1999 and the resultant consolidations by Oil Companies have caused a drastic reduction in exploration activities, as well as constraints being placed on their development programmes. These conditions have reduced opportunities for service contractors, in both the construction and drilling sectors. In addition, the latter sector has been further penalised due to the renegotiation of day rates on certain existing contracts. These composite negative factors have proved to be worse than previously estimated, and although the price of crude oil has recovered significantly since the second half of March, an improvement in capital spending should not be expected until the second half of the year 2000. Therefore, on the basis of available information, and despite the commencement of operations of the "Blue Stream" project, now expected in the month of October 1999, a 15-20% reduction in operating income can be expected for the 1999 financial year, compared to the record level of 1998.

In conclusion, it can be stated that Saipem, together with a united work force, is resolutely carrying out its growth and consolidation programme within the market, and containing with greater efficiency than its competitors, damages which have proved to be worse than foreseen.



Stefano Cao
Chairman & CEO



Giancarlo Mazzone
Managing Director & CFO

COMPANY OFFICERS (1)

Chairman and Chief Executive Officer
Entrusted with ordinary and extra-ordinary powers, except for the limits prescribed by law and by the company's memorandum and articles of association.

Stefano Cao

Managing Director
Chief Financial Officer
Giancarlo Mazzone

Directors

Franco Bruni
Paolo Andrea Colombo
Carlo Grande
Roberto Jaquinto
Marco Mangiagalli
Alfredo Moroni
Marco Reboa

BOARD OF STATUTORY AUDITORS (1)

Chairman
Gaetano Troina

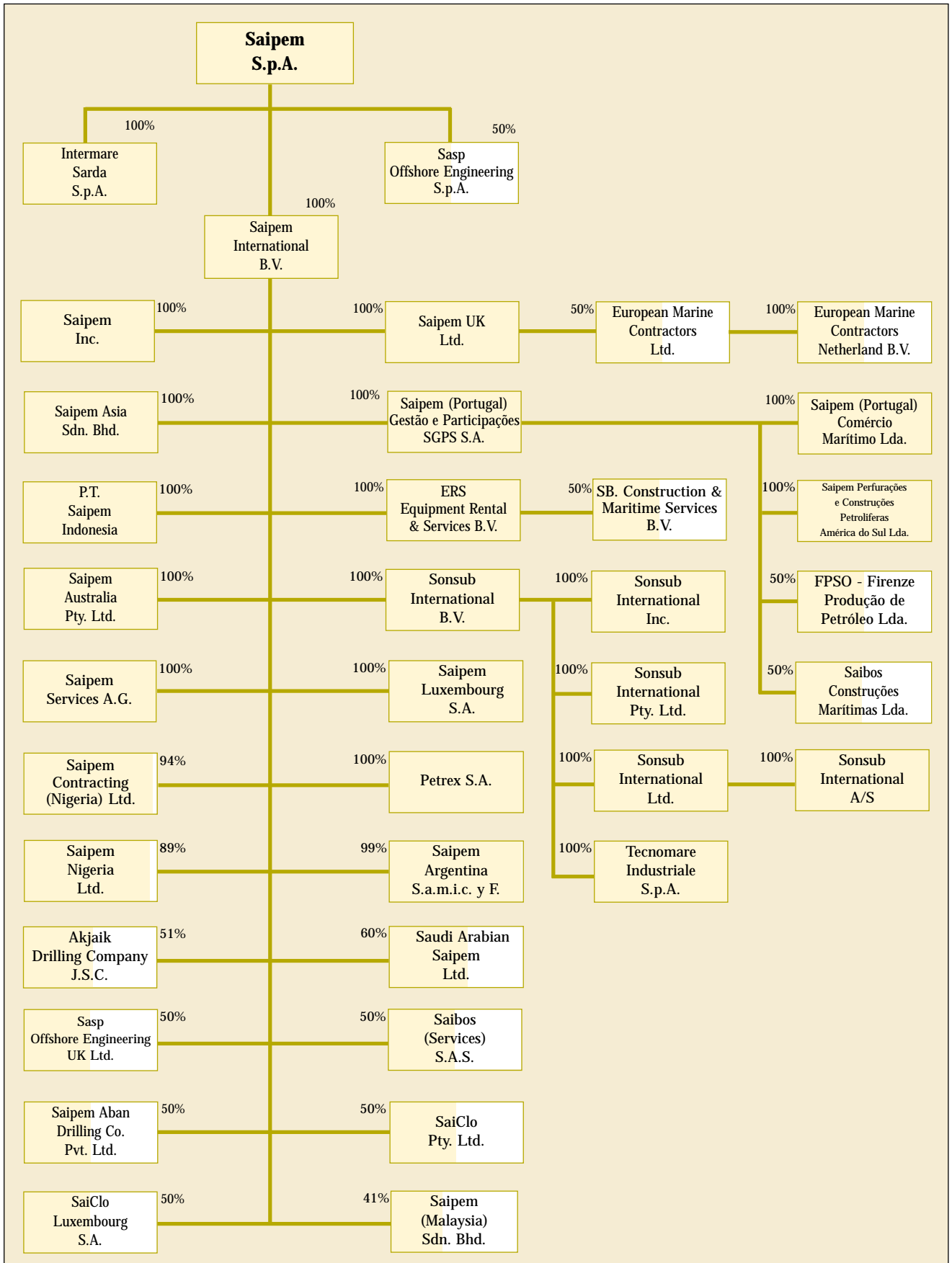
Statutory Auditors
Aldo Sanchini
Giorgio Viva

Alternate Statutory Auditors
Giovanni Battista Fregoso
Bruno Maier

INDEPENDENT AUDITORS (2)
KPMG S.p.A.

(1) Appointed by the Shareholders' meeting, 26th of July 1999, for three years

(2) Appointed by the Shareholders' meeting, 16th of April 1998, for the six monthly report, for the three year period 1998-2000



REPORT OF THE DIRECTORS



Saipem

P E R F O R M A N C E O F S A I P E M S . P . A . S H A R E S

During the course of the first six months of 1999, the value of Saipem ordinary shares increased, on the Milan Stock Exchange, from 3.60 euros at the end of 1998, to 3.89 euros at the end of June 1999 (an increase of 7.9%).

The performance of Saipem's shares is influenced by fluctuations in the stock market and by expectations about conditions specific to the markets in which Saipem operates. The strong decline in the price of crude oil, which has continued since the first half of March 1999, and the unexpected recovery in the second quarter of 1999 has noticeably influenced the share performance of companies operating in the Oil services sector. The performance of Saipem's shares continued their downward trend during the first few months of 1999, occasionally reaching 3.0 euros. A strong recovery in the share price was recorded during the second quarter, when the maximum quotation reached 4.28 euros, concurrently with the upswing in the price of crude oil. The stability in the price of crude oil at high levels, together with an announcement to initiate important infra-structural projects for the transport of oil and gas in the Mediterranean and Black Seas, had an additional positive influence on the share performance after 30th of June 1999. This confirmed the trend, which was becoming evident towards the end of the first six months.

Approximately 280 million shares were traded during the first six months of 1999, compared to 297 million, which were traded for the same period in 1998. The value of the shares traded amounted to 1,102 million euros as opposed to 1,606 million euros for the same period in 1998, during which the share price reached its highest ever level.

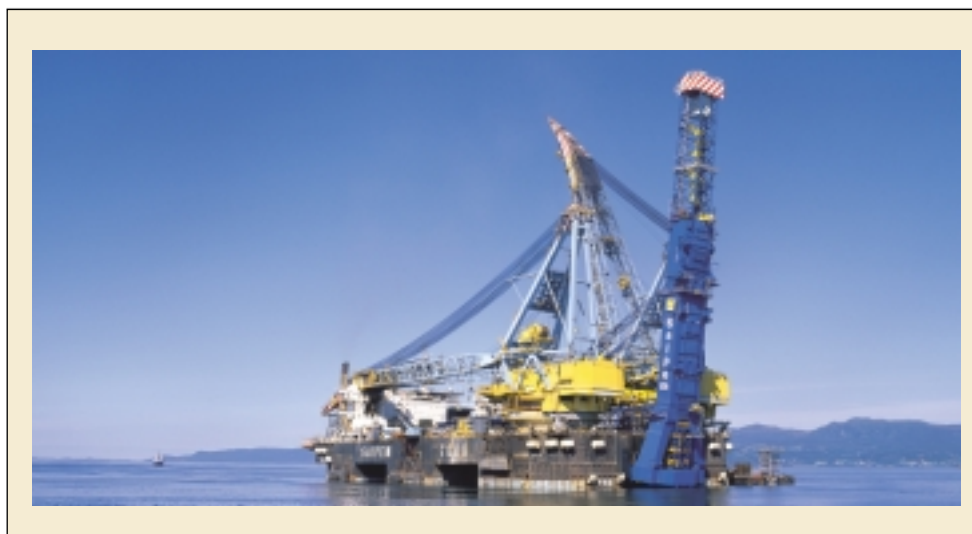
The performance of the savings shares during the first six months of 1999 was inferior to that of the ordinary shares. This was due in part to a decision taken at the extraordinary shareholders' meeting held on 16th of December 1998, which allowed the owners of savings shares to convert them to ordinary shares at a nominal value. The savings shares increased in value by 6.4%, from 3.59 euros at the end of 1998 to 3.82 euros at the end of June 1999. The volume of shares traded to the end of June 1999 amounted to 0.7 million (3.8 million for the same period in 1998) for a value of 2.6 million euros (19.6 million euros for the same period in 1998).

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

Share prices on the Milan Stock Exchange

	1995	1996	1997	1998	(in euros)
					First six months of 1999
Ordinary shares					
high	1.99	4.09	5.59	6.08	4.28
low	1.30	1.75	3.61	3.11	2.95
average	1.70	3.12	4.50	4.51	3.63
end of period	1.88	3.64	4.82	3.60	3.89
Savings shares					
high	1.33	2.06	3.96	6.06	4.19
low	0.96	1.04	1.91	3.19	3.30
average	1.13	1.59	2.87	4.33	3.67
end of period	1.04	2.04	3.96	3.59	3.82

OPERATING REVIEW



Stavanger, Norway.
The Saipem 7000 in J-lay configuration.

NEW ORDERS AND BACKLOG

Orders Awarded to the Saipem Group for the first six months of 1999

	First six months of 1998		(millions of euros) First six months of 1999	
	Amount	%	Amount	%
Saipem S.p.A.	773	65%	247	62%
Other group companies	409	35%	153	38%
Total	1,182	100%	400	100%
Offshore Construction	321	27%	180	45%
Offshore Drilling and Floating Production	432	37%	26	7%
Onshore Drilling	85	7%	25	6%
Onshore Construction	344	29%	169	42%
Infrastructure	—	—	—	—
Total	1,182	100%	400	100%
Italy	96	8%	116	29%
Abroad	1,086	92%	284	71%
Total	1,182	100%	400	100%
Eni Group	517	44%	138	34%
Third Parties	665	56%	262	66%
Total	1,182	100%	400	100%

The strong competitive position of Saipem and the high regard in which it is held due to the quality of the services offered, have resulted in the Group being awarded new orders for a total of 400 million euros, (1,182 million in the first six months of 1998). This was achieved, despite a situation of total market stagnation.

Of the total orders awarded, 45% refer to the offshore construction sector, 7% to offshore drilling and floating production, 6% to onshore drilling and 42% to onshore construction. Orders to be executed outside of Italy represent 71% of the total (92% in the first six months of 1998). Acquisitions by the Eni Group of companies represent 34% of the total, a decrease in respect of the 44% for the first six months of 1998. Finally, new orders awarded to Saipem S.p.A. were 62% of the total awarded to the Group.



Stavanger, Norway.
Innovator ROV for ultra deep water operations
on board Saipem 7000.

Saipem Group - Backlog of Orders at 30th of June 1999

	30 th of June 1998		30 th of June 1999	
	Amount	%	Amount	%
Saipem S.p.A.	1,833	67%	1,445	69%
Other Group Companies	902	33%	642	31%
Total	2,735	100%	2,087	100%
Offshore Construction	935	34%	657	31%
Offshore Drilling and Floating Production	802	30%	692	34%
Onshore Drilling	89	3%	69	3%
Onshore Construction	625	23%	388	19%
Infrastructure	284	10%	281	13%
Total	2,735	100%	2,087	100%
Italy	505	18%	585	28%
Abroad	2,230	82%	1,502	72%
Total	2,735	100%	2,087	100%
Eni Group	701	26%	668	32%
Third Parties	2,034	74%	1,419	68%
Total	2,735	100%	2,087	100%

The backlog, still to be executed at the 30th of June 1999, amounted to 2,087 million euros, compared with 2,463 million at 31st of December 1998, and 2,735 million at 30th of June 1998. As for the breakdown by sector, 31% is attributable to offshore construction, 34% to offshore drilling and floating production, 3% to onshore drilling, 19% to onshore construction and 13% to infrastructure.

Saipem S.p.A. has 69% of the overall backlog of orders. Orders to be executed outside of Italy amount to 72%, whilst orders awarded by members of the Eni Group represent 32% of the total.

INVESTMENTS

Group investments in tangible and intangible assets for the first six months of 1999 totalled 227 million euros (of which 20 million was invested by Saipem S.p.A.), compared to 142 million for the same period in 1998 (26 million invested by Saipem S.p.A.).

The investments for the period are an important step forward in the continuation of the four-year investment plan of 878 million euros which, was initiated in 1997 and mainly aimed at significantly improving the operating capacity in deep water, in accordance with market trends.

The following table provides a breakdown of investments:

	First six months of 1998	First six months of 1999
Saipem S.p.A.	26	20
Other Group Companies	116	207
Total	142	227
Offshore Construction	51	103
Offshore Drilling and Floating Production	68	106
Onshore Drilling	5	7
Onshore construction	8	3
Others	10	8
Total	142	227

Analysing the different sectors:

OFFSHORE CONSTRUCTION

	30 th of June 1998	31 st of December 1998	30 th of June 1999
Offshore Construction			
Pipelines laid (km)			
-Italy	13	191	15
-Abroad	992	1,818	576
Total km	1,005	2,009	591
Structures installed (tonnes.)			
-Italy	3,312	4,036	4,238
-Abroad	40,593	61,295	56,480
Total tonnes	43,905	65,331	60,718

General information

The Saipem Group is one of the world leaders in traditional Offshore Construction, comprising the laying of large diameter sealines, in medium depths, and the installation of fixed platforms. Of the semi-submersible fleet of vessels that Saipem operates and are equipped with state-of-the-art equipment and technology, the most important are; Saipem 7000, with its dynamic positioning capability, lifting capacity of 14,000 metric tons and "J" lay system of laying sealines in deep waters, and the Castoro Sei, which is used for the laying of large diameter sealines. Saipem also has a strong presence in the rapidly expanding deep water market, using highly sophisticated and technologically advanced equipment, such as remotely controlled under water vehicles and especially equipped robots to carry out complex work in deep water.

Companies active in the Offshore Construction sector, in addition to the parent company, are:

- Saipem U.K.;
- European Marine Contractors (jointly owned and managed with Brown & Root);
- Saibos Construções Marítimas (jointly owned and managed with Bouygues Offshore), which has initiated construction of a special Field Development Ship in order to assist the Oil Companies in the development of deep water fields;
- Saipem Malaysia, Saipem Asia and Saipem Indonesia, Sonsub;
- SaiClo (jointly owned and managed with the Australian company Clough);
- SASP Offshore Engineering (jointly owned and managed with Snamprogetti), Intermare Sarda and Tecnomare Industriale, purchased at the end of 1998, which develops and produces advanced marine and under water systems and vehicles.

Market overview

The **Offshore Construction** sector has undergone a significant contraction during the first six months of 1999, as a result of the low price of crude oil throughout 1998.

The traditional segments of **fixed platform installations** and the **laying of sealines** in shallow waters, are those activities which have suffered a decline in all geographical areas following the unfavourable market conditions.

Subsea installations and **ultra deep water sea line laying**, both of which utilise a high level of advanced technology and a minimal number of personnel, have remained at acceptable levels and actually show signs of improving, particularly in the Gulf of Mexico and West Africa.

New orders

The most significant contracts awarded for the period were:

- The installation of structures and laying of sealines in the Adriatic Sea on behalf of the Agip division of Eni. The contract was awarded to Saipem S.p.A.;
- The engineering for the Blue Stream project on behalf of Snam S.p.A. The contract was awarded to Saipem S.p.A.;



*Stavanger, Norway.
The Saipem 7000 in J-lay configuration.*



Otranto Canal, South Adriatic Sea.
FPSO Firenze, floating production system.

- The installation of the following structures in the Adriatic Sea on behalf of the Agip division of Eni:
- a four legged, 700 tonne jacket, 48" diameter piles and six, 20" diameter guide tubes on the Barbara North West platform;
- a four legged, 450 tonne jacket, 48" diameter piles and four, 30" diameter guide tubes on the Annalisa platform;
- a 650 tonne deck on the Anemone B platform.

On behalf of Petrojet in Egypt, the engineering for the installation and installation and transport from Maadia to Ha'py Field of a four legged, 1,300 tonne jacket, four x 48" diameter piles and a three level integrated deck on the Ha'py platform. The contract was awarded to Saipem S.p.A.

Investments

The most significant investments in the offshore construction sector were:

- modifications to the Saipem 7000 vessel were completed, enabling her to lay pipelines in the "J" mode, in ultra deep waters, whilst using her dynamic positioning capability. This is a new feature of the vessel which, with its heavy lifting capacity, is already at the top of its category for the transport and installation of platforms. The vessel, was delivered by the Verolme Botlek shipyard in Rotterdam and after having installed several platforms in the North Sea, testing of the "J" lay system was successfully completed in July;
- construction and procurement continued on an advanced, deep water field development ship, by Samsung in Korea. The work is being carried out on behalf of Saibos, a 50/50 joint venture company between Saipem and Bouygues Offshore. The new ship will be an advanced, dynamically positioned, multipurpose, workshop, equipped with a J-lay tower capable of laying smaller diameter sealines, up to 20", in ultra deep waters. It will also be used for underwater installation work. This investment follows the extension of the scope of work by Saibos to include deep water activities. The two year construction period is expected to terminate with delivery of the vessel in the year 2000;
- Sonsub, continued it's construction programme, for the production of a number of new ROVs (Remote Operated Vehicles), which will have advanced operational capabilities for construction, inspection and intervention work in ultra deep waters and;
- research activities continued on the development of technically advanced solutions for deep water operations, as well as on the realisation of new welding systems, to be used for the laying of sealines in the "J" mode.

OFFSHORE DRILLING AND FLOATING PRODUCTION

	30 th of June 1998	31 st of December 1998	30 th of June 1999
Offshore Drilling			
Metres drilled			
-Abroad	45,846	94,212	43,911
Total mt	45,846	94,212	43,911
Wells drilled			
-Abroad	23	52	28
Total	23	52	28

General information

The **Group's Offshore Drilling** presence is concentrated in Northern Europe, West Africa and India. Use of the fourth generation semi-submersible drilling rig, Scarabeo 5, capable of working at depths of over 1,800 metres and of drilling to a depth of over 9,000 metres, places the Group at the top of it's sector as far as technical capability is concerned. Saipem Nigeria, Petrex, Saipem Perfurações Construções Petrolíferas América do Sul and Saipem S.p.A. all operate in these sectors.

In the **Floating Production** sector, FPSO Firenze Produção de Petróleo (jointly owned and

managed with Single Buoy Moorings) operate a floating production system in the Aquila field on behalf of Agip, in the South Adriatic sea.

Market overview

The level of activity in the **Offshore Drilling** sector, during the last six months has continued to contract. Shallow water drilling activity has shown a marked decline with strong negative impacts experienced on both daily operating rates, forcing the re-negotiation of existing contracts, and on the utilisation of available equipment.

Contractors operating in the deep water sector, with medium and long term contracts, have been better protected from the effects of this negative cycle, although some of the previously signed, advantageous contracts, have been postponed or re-negotiated.

The **Floating Production** sector has continued to grow, as in the recent past, and is presently mainly concentrated in West Africa and Brazil.

New orders

The most significant contracts awarded for the period were:

- the extension of Saipem's existing contract in Nigeria, with regard to the charter of the drillship, Perro Negro 2, on behalf of Elf in Nigeria;
- the extension of Saipem's existing contract until the year 2000, with regard to the charter of the drillship Perro Negro 4, on behalf of Petrobel in Egypt;
- the extension, by one year, of Saipem's existing service and maintenance and workover contract on the Loango platform, on behalf of Agip Recherches Congo.

Investments

The most significant investments in the offshore drilling and floating production sector were:

- the finalisation of the conversion of Scarabeo 7, from a floatel, into a semisubmersible drilling rig capable of operating in waters up to 1,200 metres, and drilling to depths of 7,600 metres;
- the continuation of construction work on the 228 metre, drillship, Saipem 10000, at the Samsung shipyards in Korea. The Saipem 10000 will be capable of operating in ultra deep waters, up to 3,000 metres, in the dynamic positioning mode and with a storage capacity of 140,000 barrels. It will have the flexibility to perform extended well testing work. Completion is expected by the second quarter of 2000.

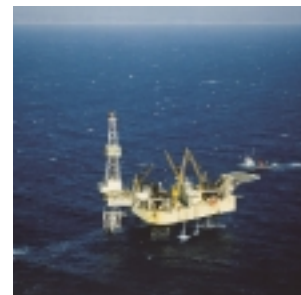
Major Equipment utilisation:

Vessel Type	Days under contract
Semi-submersible Drilling Vessels	
Scarabeo 3 ^(*)	181
Scarabeo 4 ^(*)	-
Scarabeo 5 ^(**)	181
Scarabeo 6 ^(*)	170
Jack Ups	
Perro Negro 2 ^(*)	181
Perro Negro 3 ^(*)	181
Perro Negro 4 ^(*)	179
Perro Negro 5 ^(*)	181
FPSO - Firenze ^(***)	181

^(*) Equipment owned by subsidiary companies.

^(**) Equipment leased by Saipem S.p.A.

^(***) Equipment owned by joint venture companies.



Perro Negro 2 jack-up drilling rig.



Italy, drilling rigs in the Po Valley.

ONSHORE DRILLING

	30 th of June 1998	31 st of December 1998	30 th of June 1999
Onshore Drilling			
Metres drilled			
-Italy	18,273	38,879	9,148
-Abroad	64,179	128,199	27,947
Total mt	82,452	167,078	37,095
Wells drilled			
-Italy	14	23	5
-Abroad	29	55	14
Total	43	78	19

General information

The **Onshore Drilling** activity of the Group is primarily located in Italy, Algeria, Egypt, Nigeria, Kazakhstan, Peru and India. The companies operating in the sector are Saipem Nigeria, Petrex, Sadco (a jointly owned and managed Indian company together with Aban Drilling Co.), Saipem Perfurações Construções Petrolíferas América do Sul and Saipem S.p.A. In a joint venture with Trevi S.p.A., Saipem S.p.A. also drills "slim hole" wells using proprietary, hydraulic technology.

Market overview

Onshore drilling in the geographical areas of interest to Saipem was particularly penalised both in terms of use of equipment and the day rates, for the six months. However, the oil companies are starting to show signs of interest in new exploration programmes, following the increase in the price of crude oil. This interest, however, will only become significant during the year 2000.

New orders

The most significant contracts awarded for the period were:

Italy

- The extension of an existing Saipem S.p.A. contract with regard to the charter of three units on behalf of the Agip division of Eni.;

Algeria

- The charter of a drilling unit in Algeria for 12 months, for one well, on behalf of Louisiana Land & E. Algeria Ltd was awarded to Saipem S.p.A.;

Malta

- The extension of an existing Saipem S.p.A. contract on behalf of Oil Explorer Malta;

Nigeria

- The charter of a drilling unit in Nigeria, for 24 months on behalf of Naoc was awarded to Saipem S.p.A.

Investments

Investments carried out in this sector for the period, refer mainly to maintaining the productive capacity of the rigs and equipment currently being used in the new logistic base at Port Harcourt in Nigeria. The base was constructed in support of the onshore drilling and construction contract.

ONSHORE CONSTRUCTION

	30 th of June 1998	31 st of December 1998	30 th of June 1999
Onshore Construction			
Pipelines laid (km)			
-Italy	162	162	—
-Abroad	483	711	544
Total km	645	873	544
Industrial plant (tonnes)			
-Abroad	10,264	30,514	16,980
Total tonnes	10,264	30,514	16,980

General information

The Saipem Group has historically been a leader in the **Onshore Construction** sector, completing demanding projects principally involving the laying of large diameter pipelines in harsh environmental conditions and the construction of large complex petrochemical plants. The regions, in which the Group consistently operates, are Nigeria and the Arabian Peninsula. It is presently involved in the completion of important projects in the Sudan, Argentina and Thailand. Work in Italy was terminated due to a lack of viable possibilities, following the completion of the gas transport project on behalf of SNAM.

Saipem S.p.A., Saipem Contracting Nigeria, Saudi Arabian Saipem, Saipem Malaysia and Saipem Asia all operate in this sector, whilst the asset holding unit, Equipment Rental & Services B.V. (E.R.S.), manages the Group's operating equipment.

Market overview

The level of **onshore pipeline construction** activity for the period remained constant, especially with regard to the development of infrastructure for the transport of gas.

Plant construction for the period was particularly negative following a further contraction of the petrochemical market in respect of the construction of refineries. The South East Asian, financial-economic crisis continues to have a negative effect in that area, as per the previous six months.

New orders

The most significant contracts awarded to Saipem for the period were:

- The "Ratchaburi to Wang Noi Gas Pipeline" project, in Thailand, for the construction of a gas line, from the existing Yadana Gas Pipeline to the future Power Station in Wang Noi, on behalf of the Petroleum Authority of Thailand (PTT). The project comprises detailed engineering, supply of materials and the construction and commissioning of the gas line. It also involves the installation of two pipelines, 153km and 3 Km in length, each respectively 30" and 36" in diameter, nine line valves, two metering stations, the installation of a SCADA system (Supervisory Control And Data Acquisition) and all telecommunications. The contract was awarded to Saipem Asia Sdn in a consortium with Mitsui and Co. Ltd.;
- The "AG Gathering Pipelines Project – Obigbo Node Pipelines" on behalf of Shell Petroleum Development Company of Nigeria Ltd. The project entails detailed engineering, supply of materials and the construction of a gas transmission system amongst the AG Plants at Imo River, Obigbo and Agdada in the Port Harcourt area, comprising seven Piggings Manifolds and six lines of 8", 12" and 16" in diameter for a total length of 54 Km. The contract was awarded to Saipem S.p.A.;
- The "Nembe Associated Gas Gathering Project" in Nigeria, on behalf of Shell Petroleum Development Company of Nigeria Ltd./Willbros West Africa, which entails the laying of several 12" and 24" gas lines for a total of 27 Km, hydrostatic testing and commissioning of them and the construction of launching stations and receiving Pigs in Nembe. The project was awarded to the joint venture of Saipem S.p.A. together with Belfinger Berger for the offshore Nigeria part and to Belfinger Berger Gos Nigeria and Saipem Contracting for the onshore Nigeria works.



Saudi Arabia, the laying of a pipeline.



Saudi Arabia, excavation of a trench for the laying of a pipeline.

Investments

Investments for the period, in the onshore construction sector, were limited to the refurbishment of certain existing equipment, in order to complete existing contracts and upgrading works at the new logistic base at Port Harcourt in Nigeria.

INFRASTRUCTURE

Activities in the infrastructure sector mainly relate to the High Speed Rail Project, on behalf of TAV (Treno Alta Velocità). Saipem has a 13.7% share in the Cepav 1 consortium for the construction of the Milano - Bologna section.

TAV was presented with a price quotation in December 1998 for the entire Milano - Bologna section and Italferr is currently completing a preliminary investigation into the technical details of the project. Should the project proposal be accepted, the "Atto Integrativo" should be signed before the end of November 1999.

Saipem S.p.A. also has a 12% share in the CEPAV 2 Consortium for the construction of the Milano-Verona section. The project will be modified to reflect changes agreed by the Inter-Ministerial Commission. In particular, the routing through Brescia has yet to be defined.

Works performed by other consortia, in which Saipem S.p.A. is a participating partner, are as follows:

- construction works, by the Sapro consortium, for the Courthouse in Pescara have continued and a decision is expected on the financing arrangements for the construction of a Juvenile Courthouse, in Sassari. Activities by the Venezia Nuova consortium, for the protection of the "Laguna Veneta" from the exceptionally high floods, continued. The U.S.G. consortium and the Società Consortile Sage are still in the liquidation phase.

RESEARCH AND DEVELOPMENT

Saipem S.p.A., drawing upon the services of professional personnel from the various companies within the Group, has confirmed its commitment to technological innovation, which is indispensable in consolidating and improving its competitive position. Following previous technological successes, the company has continued its Research and Development activities with the aim of anticipating, as well as meeting evolving market requirements. Up to the 30th of June 1999, approximately 7 million euros were spent on projects previously started, as well as on new initiatives.

Pure research costs of approximately 2 million euros, were, as usual, fully expensed in the income statement, whilst costs associated with the production of new equipment and prototypes, of approximately 5 million, were capitalised.

Research & Development expenditures have been focused on the areas where analyses revealed that positive market trends, the probability of success and significant potential economic benefits, were extremely high. Consequently, the main thrust of the innovative research technology, has been in the offshore and sub sea sections, where increasing opportunities for the exploitation of deep water fields are foreseen.

Significant projects carried out during the period were as follows:

- continuation of the industrialisation of the Electron Beam Welding System, testing of which was completed in 1996. The system uses an electron beam, to rapidly weld the required thick-wall pipe sections in a single operation, without the need for additional materials. These lines are intended for very deep waters, where the market is rapidly expanding;
- the continuation of testing of a mixed synthetic and steel cable mooring system, capable of increasing the deep water operating capabilities of second generation drilling rigs, thereby rendering them more competitive with newer generation rigs;
- the conclusion of a feasibility study, and the start of development of prototypes, for the Blue Stream project. The prototypes can be divided into two main categories:
 - auxiliary sealine laying systems :- a system for the monitoring of touch down on the sea bed, strain gages, and roller systems for the guiding of pipe sections to be used on the S7000;
 - under water intervention systems:- for stabilising sealines (machinery for pre-post trenching);
- production and testing of a new prototype generation welding system "Passo" which uses two welding heads simultaneously to reduce cycle time. Following successful completion of testing, the construction of an industrial prototype was started;
- the start of development of a proprietary control system, for Sonsub ROVs, which will permit better performance and operational flexibility;
- the validation of an innovative method of improving the buoyancy system, designed for ultra deep waters and the stipulation of an agreement with the Scottish company, Balmoral, for the production of it, under licence;
- the start of production of the "Presto" fully automatic welding system for onshore pipelines and;
- the start of construction of an "on line", non-destructive, control system for welding of sealines.

H E A L T H , S A F E T Y A N D E N V I R O N M E N T



Saudi Arabia, the laying of a pipeline.

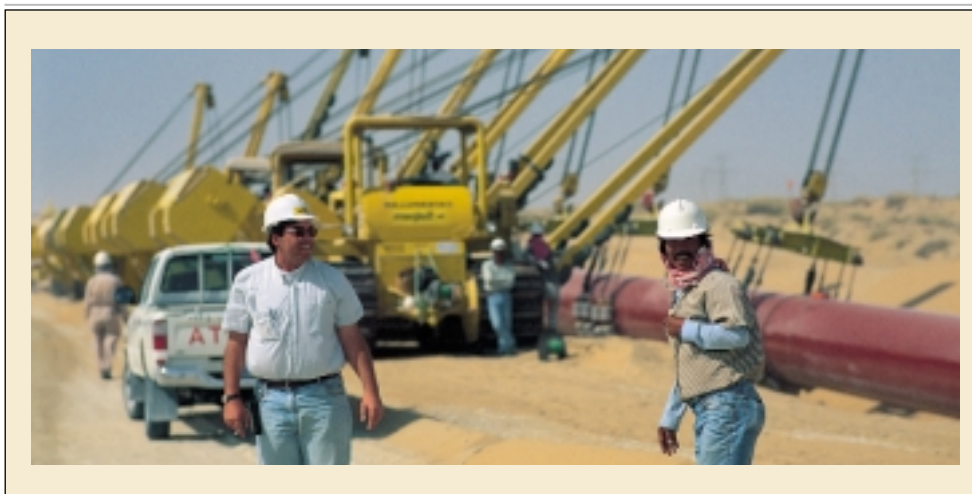
During the first six months of this year, Saipem S.p.A. has been actively engaged in the finalisation and distribution of the new system for the management of health, safety and environment, which was finished in December 1998. This has allowed the establishment of guidelines and standards for HSE (Health, Safety and Environment) throughout the Group.

In addition, Saipem S.p.A.'s new HSE Management System, comprising an instruction manual and the relative work regulations, has been submitted for approval.

In particular, during 1999:

- an HSE awareness programme was actuated, through a series of meetings and training sessions with Group management. By analysing the feed-back from the courses, modifications to the Group Management System could be carried out;
- HSE training courses for site, production unit, logistic base and peripheral office personnel, together with local HSE managers and HSE experts were carried out;
- a re-organisation of the HSE units of the subsidiary companies and on the work sites, in order to allow independent management to be carried out, whilst being based on common elements;
- an audit inspection programme was launched abroad and in Italy, in collaboration with local management, to monitor and verify that HSE procedures and standards were being correctly applied throughout the Group's operational activities;
- special HSE courses were implemented, with the direct intervention of management, aimed mainly at those people responsible for safety at the sites, production units, logistic bases and offices;
- the risk analysis and valuation programme was continued, to correct any risks present in the logistic bases, production units/sites and offices of the Saipem Group;
- the Group started upgrading the Safety and Management Systems (SMS) on all its vessels, in line with national and international (International Maritime Organisation) safety regulations and;
- the use of the GIPSI (Gestione Informazioni Prestazioni Sanitarie Individuale - Individual Health Information Management) system is now well established for the management of hygiene and medicine at work and in particular for the verification of health emergencies.

HUMAN RESOURCES



Saudi Arabia, the laying of a pipeline.

The types of activities undertaken by the Saipem Group confer two important peculiarities on the human resource:

- flexibility, because activities can be performed either with its own personnel, temporary personnel or through sub-contractors;
- variable impact, as the total number of personnel (internal and/or external) varies according to the types of contracts undertaken.

These factors do not easily allow the use of conventional ratios, which depend on a constant proportion of headcount to annual turnover.

In addition, the seasonable variability of our work volume and our reliance on International labour, and/or Italian personnel with temporary contracts, renders more meaningful, ratios based on average year headcount rather than end of the year headcount.

This having been said, the Group employed an average of 11,410 people for the first six months of 1999 (11,412 for the same period in 1998) of whom 3,101 were employed by Saipem S.p.A. (3,861 for the same period in 1998).

	First six months of 1998	First six months of 1999
Saipem S.p.A	3,861	3,101
Other Group Companies	7,551	8,309
	11,412	11,410
Offshore Construction	2,361	2,636
Offshore Drilling and Floating Production	835	872
Onshore Drilling	1,427	1,582
Onshore Construction	6,090	5,629
Infrastructure	18	18
Staff	681	673
Total (*)	11,412	11,410
Italian	2,790	2,628
Foreign	8,622	8,782
Italian - Permanent personnel	2,448	2,409
Italian - Temporary personnel	342	219
	2,790	2,628

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

The average number of people employed for the period is as follows; a decrease of 8% in Onshore Construction, an increase of 12% in Offshore Construction and 11% in Onshore Drilling, in respect of the same period for 1998. It should be noted that 80% of the total workforce are of international origin.

This trend has been accentuated by the contraction of activities in the Onshore Construction and Onshore Drilling sectors in Italy. Resulting from this crisis period, the following agreements have been reached with Unions:

- Solidarity Contract in the Onshore Drilling sector (295 personnel involved);
- C.I.G.S. (Cassa Integrazione Guadagni Straordinaria) due to difficulties in the Onshore Construction sector (153 personnel involved);
- C.I.G.S. (Cassa Integrazione Guadagni Straordinaria) due to difficulties at Head office and the logistic bases in Italy (105 personnel involved).

In addition to the aforementioned Union agreements, which promise an increase in efficiency, a working towards results and a reduction of grievances, the following agreements were reached:

- Bonus share levels for 1999;
- New working hours for the Head Office in San Donato Milanese.

Five New University graduates were employed for a specific period in order to improve the personnel mix, despite the uncertain work environment.

In order to increase employee fidelity, an incentive programme was launched for managers, in which they work towards achieving company goals. The methods of evaluating work performance were also revised, and in particular, a skill evaluation system was initiated, in order to improve the connection between the use of personnel and the professional training and development programmes.

Internationalisation of the human resource was intensified following the interchange of personnel within the Group, in order to increase the professional development and value of the employees.

The Change Management project is in an advanced stage of implementation following the establishment of human resource criteria such as:

- creation of the Corporate structure, review of the relationship between Corporate and the peripheral units and decentralisation of activities to the peripheral units;
- implementation of prime change actions in order to improve company processes;
- the issue of a set of standards for a valuation system and Group compensation system, which complies with the Group documentation system, as well as a formal organisation chart;
- establishment of a new system of planning and programming of personnel;
- a review of the personnel information system in order to operate an integrated and decentralised Group personnel management system.

I N F O R M A T I O N S Y S T E M

As part of the Change Management project, the new integrated information system SAP-R3I has been implemented in respect of the invoicing process. In addition detailed planning and prototyping for the logistic area (procurement, asset management, maintenance and warehouse) has been completed.

Distribution to Group companies, of "light" software has begun. This software was finalised last year, as an interim solution, or as an alternative, in the less complex applications, to SAP-R3I.

COMMENTS ON THE FINANCIAL AND ECONOMIC RESULTS

RESULTS OF OPERATIONS

Saipem Group - Reclassified income statement

	First six months of 1998	First six months of 1999	(millions of euros) Variations
Operating revenues	793	776	(2.1%)
Other income and revenues	21	6	
Purchases, services and other costs	(535)	(527)	
Payroll and related costs	(161)	(153)	
Gross operating income	118	102	(13.6%)
Amortisation, depreciation and write-downs	(47)	(46)	
Operating income	71	56	(21.1%)
Financial (expenses), net	(3)	(8)	
Income before income taxes	68	48	(29.4%)
Income taxes	(18)	(11)	
Net income for the period	50	37	(26.0%)

Due to the price of crude oil remaining depressed until the first half of March 1999, the Oil Companies drastically reduced their exploration programmes, cut back or postponed development programmes and started a consolidation process. This resulted in a reduction of opportunities within the construction and drilling sectors and penalties being applied due to the re-negotiation of contract day rates for existing projects. **Operating revenues** for the six months decreased by 2.1% whilst **gross operating income** decreased by 13.6%. Such decreases were primarily due to the reduction of drilling rates.

Depreciation and amortisation of tangible and intangible fixed assets amounted to 46 million euros, substantially unchanged compared to the same period in the previous year (47 million euros), despite part of the new investments being amortised in the second half of the year.

Operating income was 56 million euros, a decrease of 21% in respect of the same period for the previous year.

The increase in net borrowings, mainly as a consequence of the growth in capital expenditures, resulted in the increase of financial expenses to 8 million euros, compared to 3 million euros for the first six months of 1998. **Income before income taxes** therefore amounts to 48 million euros, a decrease of 29.4% when compared with the same period in 1998.

Income taxes were 11 million euros, a decrease of approximately 7 million euros in respect of the first six months for 1998. Therefore **net income for the period**, reached 37 million euros, a reduction of 26% in respect of the same period in 1998.

Operating income and costs by destination

	First six months of 1998	First six months of 1999	(millions of euros) Variations
Operating revenues	793	776	(2.1%)
Production costs	(675)	(655)	
Idle costs	(11)	(19)	
Selling expenses	(7)	(7)	
Research and development costs	(1)	(2)	
Other operating income net	8	—	
Contribution from operations	107	93	(13.1%)
General and administrative expenses	(36)	(37)	
Operating income	71	56	(21.1%)

Operating revenues, as previously mentioned, decreased by 2.1% to 776 million euros. Production costs, which include direct costs and depreciation and amortisation of assets, amount-

ed to 655 million euros (675 million in the first six months of 1998); the decrease is related to the volume of activity.

Idle costs, which includes vessel and onshore construction equipment costs when idle, have increased mainly due to the non-use of the drill ship Scarabeo 4 and some onshore drilling equipment.

Selling expenses have remained in line with those for the same period of 1998, whilst costs for research and development slightly increased.

Other operating income for the period ended 30th of June 1998, included 4 million euros from the sale of 50% of the vessel «Maxita» and the release of contract risk provisions no longer required, whilst there was no operating income for the current six months.

Contribution from operations decreased for the period by 13.1%, reaching 93 million euros.

General and administrative expenses, which also include amortisation of the SAP modules, in use since the beginning of the fiscal year, have marginally increased in respect of the previous six-month period.

Analysis of results achieved by major sectors:

Offshore Construction

	(millions of euros)	
	First six months of 1998	First six months of 1999
Operating revenues	429	424
Operating expenses net of cost of materials	(298)	(298)
Cost of materials	(67)	(64)
Depreciation and amortisation	(19)	(15)
Contribution from operations (*)	45	47

(*) Operating income before general and administrative expenses.

Revenues for the first six months of 1999 were 424 million euros, which remained in line with those for the same period of the preceding year.

Contribution from operations, whilst remaining stable, recorded a loss of approximately 20 million euros in connection with the Jamangar project in India caused by unforeseen problems during the execution phase. However, the loss was almost entirely compensated by increased contribution from other projects.

Offshore Drilling and Floating Production

	(millions of euros)	
	First six months of 1998	First six months of 1999
Operating revenues	85	83
Operating expenses	(39)	(46)
Depreciation and amortisation	(15)	(15)
Contribution from operations (*)	31	22

(*) Operating income before general and administrative expenses.

The decrease in revenue of 2 million euros, for the period, is primarily a result of the non-utilisation of Scarabeo 4 and the general decrease in day rates re-negotiated with the clients. However, this was almost entirely offset by the near total use of FPSO – Firenze and the Scarabeo 6.

The increase in operating expenses of 7 million euros, is mainly associated with the utilisation in 1999 of the semi-submersible rig Scarabeo 6, which, although under contract, was not operational during the first six months of 1998. This was due to an upgrading of the vessel, requested and partially reimbursed by the Client.

Onshore Drilling

	(millions of euros)	
	First six months of 1998	First six months of 1999
Operating revenues	68	54
Operating expenses	(46)	(44)
Depreciation and amortisation	(5)	(5)
Contribution from operations ^(*)	17	5

() Operating income before general and administrative expenses*

The significant reduction in revenue and contribution of 14 and 12 million euros respectively, is principally due to the decline in national and international markets, leading to the re-negotiation of day rates on some of the existing contracts.

Onshore Construction

	(millions of euros)	
	First six months of 1998	First six months of 1999
Operating revenues	210	215
Operating expenses net of cost of materials	(155)	(122)
Cost of materials	(36)	(68)
Depreciation and amortisation	(6)	(6)
Contribution from operations ^(*)	13	19

() Operating income before general and administrative expenses*

The increase in contribution is the result of a more selective commercial policy favouring fewer, more complex projects, in difficult areas, where the Group is more competitive and accompanied by improved operational efficiency.

CONSOLIDATED BALANCE SHEET AND FINANCIAL POSITION

Saipem Group - Reclassified consolidated balance sheet

	(millions of euros)	
	31.12.1998	30.06.1999
Tangible fixed assets	885	1,095
Intangible fixed assets	25	28
	910	1,123
Offshore Construction	382	487
-Offshore Drilling and Floating Production	381	478
-Onshore Drilling	57	61
-Onshore Construction	70	73
-Others	20	24
Financial investments	4	4
Non-current assets	914	1,127
Net current assets	137	217
Employees' termination benefits	(21)	(21)
Capital employed	1,030	1,323
Group shareholders' equity	894	920
Minority interests in net equity	1	1
Net debt	135	402
Cover	1,030	1,323

At the 30th of June 1999, **non-current assets** reached 1,127 million euros, an increase of 213 million euros compared to the end of 1998. The increase of 210 million euros level is mainly associated with tangible fixed assets and can principally be attributed to investments in the offshore sectors.

These investments relate to:

- the ongoing conversion of Scarabeo 7, from a floatel to a semi-submersible deep water drilling rig;
- the construction of a new, deep water, drillship, Saipem 10000;
- the upgrading of the semi-submersible drilling rig Scarabeo 6 and;
- the installation on the Saipem 7000 of a deep-water "J" lay system and initial expenditures for the construction of a new Field Development Ship for subsea field development.

Net current assets increased during the period, by 80 million euros, from 137 million euros at the end of 1998 to 217 million euros at the end of June 1999. This was due to seasonal factors which significantly influenced working capital.

As a result, total **capital employed** increased by 293 million euros for the period to reach 1,323 million euros at 30th of June 1999 (1,030 million euros at the end of 1998).

The **group shareholders' equity** increased by 26 million euros to reach 920 million at 30th of June 1999 (894 million euros at the end of 1998). The increase is due to the net income for the period and from the effect of the translation of those financial statements denominated in currencies different from the euro, net of dividends distributed amounting to 38 million euros.

The increase in the group shareholders' equity, which was less than the capital employed, has increased **net debt** to 402 million euros at the 30th of June 1999 (135 million euros at the end of 1998).

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

	31.12.1998	(millions of euros) 30.06.1999
Net income before minority interest	114	37
Adjustments to reconcile cash generated from operating income before changes in working capital:		
- depreciation, amortisation and other non-monetary items	68	34
- gain on disposals of assets	(6)	(1)
- dividends, interest, extraordinary income/expenses and income taxes	34	11
Cash generated from operating income before changes in working capital	210	81
Changes in working capital related to operations	(85)	(75)
Dividends, interest, extraordinary income/expenses and income taxes received/(paid) during the year	(38)	18
Net cash provided from operating activities	87	24
Capital expenditures	(344)	(227)
Acquisition of investments	(1)	—
Disposals	28	1
Other investments and disposals	3	(24)
Free cash flow	(227)	(226)
Investments and disposals related to financing activities	(122)	74
Changes in financial debt	(51)	241
Changes in net equity	171	(38)
Effect of changes in consolidation area and exchange differences relating to cash and cash equivalents	(12)	3
Net cash flow for the period	(241)	54
Free cash flow	(227)	(226)
Changes in share capital and premium reserve net of dividends paid	171	(38)
Exchange differences on net debt and other changes	(13)	(3)
Change in net debt	(69)	(267)

The **cash generated from operating income before changes in working capital**, (81 million euros), has facilitated the financing of the increase in working capital for the six months and generated **net cash provided from operating activities** of 24 million euros.

As a result of net investments of 250 million euros, the **free cash flow** is negative by 226 million euros.

The changes in net equity were negative in the sum of 38 million euros, following net dividends paid, whilst net debt incremented by 3 million euros following the conversion of cash and cash equivalents denominated in currencies other than euros. Consequently, **net debt** has increased to 267 million euros.

In particular:

The **cash generated from operating income before changes in working capital** (+81 million euros) consists of net income for the period of 37 million euros, adjusted for the following:

- depreciation, amortisation and write downs of non-current assets (+46 million euros);
- a reduction in provision for contingencies (-13 million euros) as a result of the actual costs being incurred, for which the provisions had originally been made;
- a variation in the employee termination indemnity (+1 million euros);
- capital gains realised on the disposal of assets (-1 million euros); and
- income taxes (+11 million euros).

The increase in working capital, related to operations (-75 million euros) is partly attributable to the delayed receipts from insurance companies relating to the Jamnagar project in India and in part due to seasonal variations.

Capital expenditure amounted to 227 million euros, whilst disinvestments of +1 million euros refer to the sale of some onshore construction equipment.

The change in net equity (-38 million euros) relates exclusively to the payment of dividends to shareholders' on the 1998 results.

OTHER INFORMATION

SUBSEQUENT EVENTS

The Group was awarded new contracts during July and August, for a total value of 14 million euros, of which 3 million euros was awarded to Saipem S.p.A.

The most significant contracts awarded entirely in the Offshore Construction sector were:

- the Petronius project in the U.S.A. on behalf of Texaco, which involves the transport and installation of a 3,800 tonne deck. The contract was awarded to Saipem Inc;
- the Gas Injection for the Kitina platform project in the Congo on behalf of Agip Recherches Congo, which involves engineering and the supply of compressors. The contract was awarded to Saipem S.p.A.;
- the Texaco Captain project in the North Sea on behalf of Brown & Root Energy Services, which involves the transport and installation of an under water template. The contract was awarded to Saipem U.K. Ltd.;
- the West Sole Trenching project in the North Sea on behalf of BP/Aramco, which comprises the digging of trenches and the laying of a 24" and 16" diameter sea line, 3 and 4 kilometres long respectively. The contract was awarded to European Marine Contractors Ltd. and;
- the Asgard ERB (Export Riser Base) project in the North Sea on behalf of Rockwater, which entails the installation of an 80 m, 28" diameter "spool piece" for the export line on the Asgard platform belonging to Statoil. The contract was awarded to Saipem U.K. Ltd.

MANAGEMENT EXPECTATIONS OF OPERATIONS

The projects included in the orders backlog at the end of June 1999, the execution of which, is programmed for the second part of the year, are expected to generate revenues totalling 658 million euros, of which 294 million refer to Offshore Construction, 235 million refer to Onshore Construction, 89 million refer to Offshore Drilling and Floating Production and 40 million refers to Onshore Drilling.

It should be noted that the low price of crude oil, through March 1999, and Oil Company resultant consolidations have caused in a reduction in exploration activity, as well as constraints being placed on their development programmes. These conditions have reduced opportunities for service contractors, in both the construction and drilling sectors. In addition, the latter sector has been further penalised due to the re-negotiation of day rates on certain existing contracts. These composite negative factors have proved to be worse than previously estimated, and although the price of crude oil has recently recovered significantly, an improvement in capital spending should not be expected until the second half of the year 2000.

It's worth noting, that the Onshore and Offshore Construction sectors, and, to a lesser extent both of the Drilling sectors, are influenced by seasonal climatic conditions, which in turn may affect the volume of work completed as well as the resultant profit levels in these sectors. Consequently, the results from one particular period may vary significantly from the same period of a preceding year, therefore precluding the simple extrapolation of figures in order to derive an estimate for the entire year.

On the basis of available information and despite the commencement of operations of the "Blue Stream", now expected in the month of October 1999, a reduction of 15-20% in operating income is expected for the 1999 financial year, compared to the record level of 1998.

RELATED PARTY TRANSACTIONS

As required by the "Commissione Nazionale per le Società e la Borsa" (The National Commission for Corporations and the Stock Exchange) regulations No. 97001754 dated 20th of February 1997 and No. 98015375 dated 27th of February 1998, we provided below a list of principle trans-

actions with related parties.

Saipem S.p.A. is a company controlled by Eni S.p.A. The transactions entered into by Saipem S.p.A., and all of the consolidated Saipem Group companies, with related parties, essentially reflect the supply of services, the trading of materials, and the receipt and use of financial instruments, with other companies controlled and related to Eni S.p.A. These operations are an integral part of the ordinary day-to-day business and are executed at market conditions. That is, at prices, which would have applied between independent parties.

All the transactions entered into have been executed for the mutual benefit of the companies involved.

The table below shows the value of transactions, 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 due to their non-materiality are summarised according to the following categories:

- Eni S.p.A. subsidiary companies
- Eni S.p.A. associated companies
- Other related parties

Commercial and other transactions

(millions of euros)

Denomination	Receivables	Payables	First six months of 1999			
			Costs		Revenue	
			Materials	Services	Materials	Other
Eni S.p.A.	12	10	1	-	39	-
Snam S.p.A.	9	-	-	-	2	-
Snamprogetti S.p.A.	7	-	-	-	1	-
Agip Recherches Congo SA	1	-	-	-	1	-
Enidata S.p.A.	-	7	-	8	-	-
Naoc - Nigerian Agip Oil Co. Ltd.	4	1	-	-	4	-
Agip Petroli S.p.A.	-	-	2	-	-	-
Sasp Offshore Engineering S.p.A.	-	3	-	1	-	-
Consorzio Eni per l'Alta Velocità - Cepav 1	-	14	-	-	-	-
Padana Assicurazioni S.p.A.	2	3	-	3	-	-
Eni Subsidiary companies	-	6	-	3	-	-
Eni Associated companies	-	-	-	1	-	-
Total	35	44	3	16	47	-

Saipem S.p.A., and all of the consolidated Saipem Group companies, provide services, to the Eni Group of companies, primarily in the Onshore Construction and in the Onshore and Offshore Drilling sectors, both in Italy and abroad. During the first six months of 1999 operating revenues from the Eni Group of companies amounted to 47 million euros to which correspond, on the basis of normal contractual payment terms, receivables of 35 million euros as of the 30th of June 1999.

Financial transactions

(millions of euros)

Denomination	30 th of June 1999			First six months of 1999	
	Receivables	Payables	Obligations	Costs	Income
Enifin S.p.A.	1	216	913	6	1
Enibank International Bank Ltd.	49	157	382	4	-
Serleasing S.p.A.	-	36	-	2	-
Eni subsidiary companies	1	-	-	-	-
Total	51	409	1,295	12	1

Enifin S.p.A. provides financial services to the Eni companies and is entirely owned by Eni S.p.A. 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 risks.

YEAR 2000

As mentioned in the 1998 Director's Report, Saipem S.p.A. and subsidiary companies have for some time been studying and implementing the modest modifications to the administration and management information system. Modifications have also been performed on the operational and control systems in use on all vessels. These improvements will help avoid any problems associated with the year 2000 and should be completed prior to the end of November 1999.

CONSOLIDATED FINANCIAL STATEMENTS
AS AT 30TH OF JUNE 1999



Saipem

BALANCE SHEETS

	30.6.1998	31.12.1998	(millions of euros) 30.6.1999
ASSETS			
Share capital to be received	-	-	-
Non-current Assets			
-Intangible assets	23	25	28
-Tangible assets	750	885	1,095
-Financial fixed assets	5	4	4
Total non-current assets	778	914	1,127
Current assets			
- Inventories	181	188	225
- Accounts receivable	704	802	736
- Cash	172	50	104
Total current assets	1,057	1,040	1,065
Prepayments and accrued income	24	25	32
Total assets	1,859	1,979	2,224

	30.6.1998	31.12.1998	(millions of euros) 30.6.1999
LIABILITIES			
Shareholders' Equity:			
- Share Capital	227	227	227
- Share premium reserve	291	291	291
- Revaluation reserve as per law No. 413 dated 30.12.1991	2	2	2
- Legal reserve	20	20	22
- Other reserves	41	21	48
- Reserve for exchange rate differences	41	21	48
- Retained earnings	219	219	293
- Net income for the period	50	114	37
Total Group shareholders' equity	850	894	920
Minority interests in net equity	-	1	1
Total	850	895	921
Provision for contingencies	68	62	55
Employees' termination pay	27	21	21
Accounts payable	885	951	1,162
Accrued expenses and deferred income	29	50	65
Total liabilities	1,859	1,979	2,224

GUARANTEES AND OTHER MEMORANDUM AND CONTINGENCY ACCOUNTS

Guarantees given on behalf of:	381	461	487
- subsidiary companies	204	258	273
- associated companies	148	189	207
- parent companies	6	6	6
- subsidiaries controlled by parent company	10	-	-
- others	13	8	1
Guarantees given to third parties on behalf of the Group	587	458	472
Collateral	4	0	4
Other memorandum and contingency accounts :			
Commitments	1,012	936	934
Total	1,984	1,855	1,897

STATEMENTS OF INCOME

(millions of euros)

	First six months of 1998	1998	First six months of 1999
Revenues:			
Turnover	781	1,689	744
Variation in contract work in progress	12	17	32
Increase in internal work capitalised under fixed assets	12	33	8
Other revenues and income	22	35	5
Total revenues	827	1,774	789
Operating expenses:			
Raw materials, consumables and supplies	133	337	147
Services	327	627	274
Use of third party assets	80	199	100
Payroll and related costs	161	330	155
Amortisation, depreciation and write- downs	47	98	46
Variation in raw materials, supplies and consumables	(4)	(9)	1
Other provisions	6	20	5
Other operating costs	6	16	5
Total operating expenses	756	1,618	733
Difference between revenues and operating expenses	71	156	56
Financial income and expenses:			
Income from investments	1	2	-
Other financial income	21	88	28
Interest and other financial expenses	25	97	36
Total financial income and expenses	(3)	(7)	(8)
Adjustment to financial asset values	-	-	-
Extraordinary income and expenses	-	-	-
Income before income taxes	68	149	48
Income taxes	18	35	11
Net income for the period	50	114	37

NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS



Saipem

STATEMENT OF CASH FLOW

(millions of euros)

	1998	First six months of 1999
Net income for the period	114	37
Depreciation and amortisation	94	46
Write-downs (revaluations)	2	-
Net change in provision for contingencies	(24)	(13)
Net change in employees' termination pay	(5)	1
Losses on disposals, eliminations and transfers	1	-
Losses (gains) on accounts receivable in relation to disposals	(7)	(1)
(Dividend income)	(1)	-
(Interest income)	(11)	(4)
Interest expenses	11	4
Income taxes	35	11
<i>Operating income before working capital changes</i>	<i>209</i>	<i>81</i>
(increase) decrease :		
Inventories	(25)	(33)
Trade and other accounts receivable	(137)	(3)
Prepayments and accrued income	(15)	(9)
Trade and other accounts payable	67	(43)
Accrued expenses and deferred income	25	13
<i>Cash generated from operations</i>	<i>124</i>	<i>6</i>
Dividends received	1	-
Interest received	13	4
Interest paid	(11)	(4)
Extraordinary (expense)/income (paid)/received	3	-
Income taxes paid	(43)	18
Net cash flow from operating activities	87	24
Investments:		
Intangible assets	(18)	(8)
Fixed assets	(316)	(219)
Purchase of controlling interest in consolidated companies, net of cash	(9)	-
Investments and own shares	(1)	-
Changes in accounts receivable in relation to investments	(3)	(24)
Additions to short-term financing receivables	(131)	(9)
<i>Outflows resulting from investments</i>	<i>(478)</i>	<i>(260)</i>
Disposals:		
Fixed assets	28	1
Securities	5	-
Reduction in short-term financing receivables	8	83
<i>Inflows resulting from disposals</i>	<i>41</i>	<i>84</i>
Net cash flow from investing activities	(437)	(176)
Payment of long-term financial debts	(5)	-
Additions to (reduction in) short-term current account debts	(46)	241
Increase in share capital and premium reserve from third parties	205	-
Dividends paid	(34)	(38)
Net cash flow from financing activities	120	203
Effect of change in consolidation area	(3)	-
Effect of change in consolidation area - cash of subsidiaries acquired/disposed	(2)	-
Net effect of changes in consolidation area	(5)	-
<i>Effect of exchange differences</i>	<i>(7)</i>	<i>3</i>
Net cash flow for the period	(242)	54
Cash at the beginning of the period	292	50
Cash at the end of the period	50	104

BASIS OF PREPARATION

The consolidated financial statements as of and for the period ended 30th of June 1999 have been prepared in accordance with the regulations approved by the "Commissione Nazionale per le Società e la Borsa" (National Commission for Companies and the Stock Exchange). Resolution no 9389 of 1st of August 1995 has been complied with by the parent company. These statements been further integrated, in order to provide more accurate information, through the following statements:

Consolidated reclassified balance sheet;

Consolidated reclassified profit and loss account.

The consolidated financial statements comprise the half-year financial statements of Saipem S.p.A. and also the Italian and foreign subsidiaries over which Saipem S.p.A. exerts direct and indirect control. This control is held by way of majority holdings of voting rights or sufficient voting rights to exert a dominant influence at a general shareholders' meeting. Those subsidiaries, which are held as joint ventures, are also stated using the proportionate method.

Companies held exclusively for subsequent sale, those in liquidation and minor investments of immaterial size have been excluded from the consolidation.

The consolidation principles adopted are consistent with those of the prior period.

Listed in the following tables are the subsidiaries and associates of Saipem S.p.A. according to article 2359 of the Civil Code. They include a summary by location (in Italy and abroad) and details on the consolidation methods or valuation criteria used, together with details of any changes in area of consolidation which occurred during the period. The last paragraph of article 39 of legislative decree No. 127 dated 9th of April 1991 was taken into account when preparing the list of companies.

Significant post balance sheet events are disclosed in the Report of the Directors section.

Consob, in its' circular letter No. 97001574 dated 20th of February 1997, recommends that all companies listed on the Stock Exchange have their six-monthly statements reviewed by an independent auditor. The ordinary shareholders' meeting held on 16th of April 1998, following the recommendations of the Board of Auditors, has appointed KPMG S.p.A. to perform a limited review of the financial statements of the parent company, Saipem S.p.A., and the consolidated half-year financial statements for the three years 1998-2000.

AREA OF CONSOLIDATION

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.	440,000,000,000	-
Subsidiaries:				
In Italy				
Intermare Sarda S.p.A.	Tortoli (NU)	Lit.	13,000,000,000	100
Abroad				
Saipem International BV	Amsterdam	Nlg	380,000,000	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	Esc	10,000,000,000	100
Saipem Luxembourg S.A.	Luxembourg	Lfr	125,962,250	100
Sonsub International B.V.	Amsterdam	Nlg	20,000,000	100
Saipem Australia Pty. Ltd.	Sydney	A\$	17,661,000	100
Petrex S.A.	Iquitos	N.Soles	11,085,440	100
Saipem (Asia) Sdn. Bhd.	Kuala Lumpur	M.Ring.	8,116,500	100
Saipem U.K. Ltd.	London	£	6,470,000	100
Saipem (Services) AG	Zurich	SFr	5,000,000	100
P.T. Saipem Indonesia	Jakarta	US\$	1,250,000	100
Saipem Inc.	Houston	US\$	1,000,000	100
ERS Equipment Rental & Services B.V.	Amsterdam	Nlg	200,000	100
Saipem Contracting (Nigeria) Ltd.	Lagos	Nara	270,000,000	94
Saipem (Nigeria) Ltd.	Lagos	Naira	259,200,000	89
Saudi Arabian Saipem Ltd.	Al-Khobar	SR	5,000,000	60
Saipem (Malaysia) Sdn. Bhd.	Kuala Lumpur	M.Ring.	1,023,500	41
Saipem (Portugal) Gestão de Participações SGPS S.A.:				
Saipem (Portugal) Comércio Marítimo Lda.	Funchal	Esc	60,000,000,000	100
Saipem Perfurações e Construções Petrolíferas				
América do Sul Lda.	Funchal	Esc	45,000,000	100
Sonsub International B.V.:				
Sonsub International Inc.	Delaware	US\$	43,333,333	100
Sonsub International Pty Ltd.	Perth	A\$	6,600	100
Sonsub International Ltd.	Aberdeen	£	5,900,752	100
Tecnomare Industriale S.p.A.	Venezia	Lit.	1,700,000,000	100
Sonsub International Ltd.:				
Sonsub International A/S	Oslo	N.Kr.	850,000	100

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)	Lit.	5,000,000,000	50
Indirectly related companies:				
Saipem UK Ltd.:				
European Marine Contractors Ltd.	London	£	14,000,000	50
Saipem International BV:				
Saibos (Services) S.A.S.	Paris	Fr	250,000	50
SaiClo Pty. Ltd.	Perth	A\$	5,000,000	50
SASP Offshore Engineering U.K. Ltd.	London	£	500,000	50
Saipem Aban Drilling Co. Pvt. Ltd.	Madras	Rs	50,000,000	50
SaiClo Luxembourg S.A.	Luxembourg	L. Fr	6,000,000	50
European Marine Contractors Ltd.:				
European Marine Contractors Netherlands B.V.	Rotterdam	Nlg	10,000	50
Saipem (Portugal) Gestão de Participações SGPS S.A.:				
Saibos Construções Marítimas Lda.	Funchal	Esc	11,046,980,000	50
FPSO Firenze Produção de Petróleo 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

Companies accounted for using the equity method

Company	Registered office	Currency	Capital stock	% of holding of the Group
Indirect shareholdings:				
Saipem International B.V.:				
AKJAIK Drilling Company J.S.C. (*)	Aksai	US\$	200,000	51
Saipem Argentina S.a.m.i.c. y F. (**)	Buenos Aires	Pta	6,000	99

(*) *in-active during the first six months of 1999*

(**) *immaterial sized company*

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	Lit.	20,000,000	51
Consorzio SAPRO	Pescara	Lit.	20,000,000	51
Directly 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
Consorzio Eniacqua Calabria (*)	Catanzaro	Lit.	20,000,000	33
Queiroz Petro S.A.	Rio de Janeiro	Rls	1,511,484	33

(*) *in liquidation*

The only variation which occurred during the first six months of 1999, relates to the acquisition of 50% of SaiClo Luxembourg S.A.

Variations to the area of consolidation in respect of the period ended 30th of June 1998 were as follows:

- the newly incorporated company Saipem Luxembourg S.A. was included in the consolidation using the full consolidation method;
- following the acquisition of the residual 50% stake in Petrex S.A. and Saipem Perfurações e Construções Petrolíferas América do Sul Lda held by third parties, these companies were included in the consolidation using the full consolidation method from July 1998. In previous years, these companies had been included in the consolidation using the proportionate method;
- SB Construction and Maritime Services B.V. were included in the consolidation using the proportionate method as their activities acquired a greater significance. They had previously been included in the consolidation using the equity method for the period ended 30th of June 1998;
- following the acquisition of an additional 10% stake in the capital of Saipem Aban Drilling Co. Pvt. Ltd. made towards the end of 1998, the total interest in this company increased to 50%. Thus, the financial statements of this company were included in the consolidation using the proportionate method, instead of the equity method used in the financial statements for the period ended 30th of June 1998 and;
- following the acquisition of the entire share capital of Tecnomare Industriale S.p.A. made towards the end of 1998, this company was included in the consolidation for the first time using the full consolidation method.

Moreover, the following events took place during the year:

- Saipem S.p.A. sold its 40% interest in Saipem Aban Drilling Co. Pvt. Ltd. to Saipem International B.V. in December 1998.;
- the investment in Saipem (Malaysia) Sdn Bhd, previously held by Saipem (Services) AG, was transferred to Saipem International B.V. in July 1998 and;
- the investment in S.B. Construction and Maritime Services B.V., previously held by Saipem International B.V. was transferred to ERS Equipment Rental & Services B.V. in September 1998.

The six monthly financial statements of consolidated companies have been amended, when 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, accounting and valuation criteria

The principles of consolidation, accounting and valuation criteria applied are those used for the preparation of the end of year consolidated financial statements as of 31st of December 1998 and for those to 30th of June 1998.

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.

Currency	Exchange rate at 30-06-99	Average exchange rate
Saudi Riyal	3.87	4.09
Australian dollar	1.56	1.69
Pound sterling	0.66	0.67
Malaysian ringgit	3.92	4.14
Nigerian naira	103.74	101.90
Indian rupee	45.27	46.88
US dollar	1.03	1.09
Swiss franc	1.60	1.60

CAPTION DETAILS OF THE FINANCIAL STATEMENTS

BALANCE SHEET - ASSETS

NON-CURRENT ASSETS

Intangible assets

Amounted to 28 million euros at 30th of June 1999, an increase of 3 million euros in respect of 31st of December 1998. Non-current intangible assets of 21 million euros refer to Saipem S.p.A. whilst the remaining 7 million euros refer to other Group companies.

	Start-up and capital costs	Industrial patents and similar rights	Goodwill	Differences from consolidation	Assets under development and payments on account	Other	(millions of euros) Total
Historical cost							
Balance at 31-12-98	10	9	13	6	8	20	66
Acquisitions	-	1	-	-	7	-	8
Exchange rate differences	-	(1)	-	-	(1)	-	(2)
Transfers	-	4	-	-	(4)	(1)	(1)
Balance at 30-06-99	10	13	13	6	10	19	71
Accumulated amortisation							
Balance at 31-12-98	3	6	12	1	-	19	41
Amortisation	1	1	-	-	-	-	2
Exchange rate differences	-	-	-	-	-	-	-
Balance at 30-06-99	4	7	12	1	-	19	43
Net book value	6	6	1	5	10	-	28

The acquisitions for the period refer principally to costs incurred for the implementation of the integrated information system SAP R3I.

Tangible assets

Tangible assets to 30th of June 1999 amounted to 1,095 million euros, a net increase of 210 million euros in respect of 31st of December 1998. Principal movements for the period are identified as follows:

	Land and buildings	Plant and machinery	Industrial and commercial equipment	Other assets	Assets under construction and payments on account	(millions of euros) Total
Historical cost						
Balance at 31-12-98	46	1,148	236	32	320	1,782
Movements:						
Acquisitions	1	8	5	1	204	219
Transfers	-	-	1	-	-	1
Disposals	-	(3)	(1)	-	-	(4)
Write-offs	-	(1)	-	-	-	(1)
Exchange rate differences	2	32	28	-	1	63
Balance at 30-06-99	49	1,184	269	33	525	2,060
Accumulated amortisation						
Balance at 31-12-98	19	678	180	20	-	897
Movements:						
Depreciation	2	30	9	3	-	44
Disposals	-	(3)	(1)	-	-	(4)
Write-offs	-	(1)	-	-	-	(1)
Exchange rate differences	-	11	19	(1)	-	29
Balance at 31-12-98	21	715	207	22	-	965
Net book value	28	469	62	11	525	1,095
Revaluations on assets held at 30-06-99	3	23	19	-	-	45

Acquisitions of 219 million euros, for the period mainly relate to the:

- continuation of construction activities relating to the drillship Saipem 10000 capable of drilling in ultra deep waters (81 million euros);
- installation on Saipem 7000 of a system for laying sea lines in deep waters with the "J" method (66 million euros);
- conversion of the Scarabeo 7 floatel, into a semi-submersible drilling rig for deep waters (24 million euros) and;
- construction of a Field Development Ship (FDS) for the development of subsea fields (11 million euros).

Certain tangible fixed assets have been revalued in previous years in accordance with specific monetary re-valuation legislation. The net value of revaluation on land and buildings to 30th of June 1999 amounted to 1 million euros.

Fixed assets include freely transferable assets of 5 million euros and leased assets of 32 million euros. Leased assets comprise leasing contracts for the use of the deep sea drilling vessel (Scarabeo 5) and remote operating vehicles (ROV's).

Financial fixed assets

Amounted to 4 million euros at 30th of June 1999. As can be seen from the following table, there were no movements during the six-month period.

Financial fixed assets	Cost	Adjustments	(millions of euros) Total
Opening balance			
- Subsidiaries	1	-	1
- Associated companies	-	-	-
- Other companies	4	(1)	3
Total	5	(1)	4
Six month movements			
Acquisitions			
- Subsidiaries	-	-	-
- Associated companies	-	-	-
Total	-	-	-
Closing balance			
- Subsidiaries	1	-	1
- Associated companies	-	-	-
- Other companies	4	(1)	3
Grand Total	5	(1)	4

CURRENT ASSETS

Inventories

Inventories to 30th of June 1999 amounted to 225 million euros, an increase of 37 million euros with respect to the prior year. Movements for the first six months have been set out below:

	Raw materials and consumables	Contract work in progress	(millions of euros) Total
Opening Balance:			
Original value (a)	75	117	192
Provision for write downs (b)	(4)	-	(4)
Net value	71	117	188
Six month movements			
Original Value:			
Operating variations	1	32	33
Exchange rate differences and other variations	1	3	4
Total (c)	2	35	37
Closing Balance:			
Original value (e = a + c)	77	152	229
Provision for write downs	(4)	-	(4)
Net carrying value	73	152	225

Accounts receivable

Accounts receivable to 30th of June 1999 amounted to 736 million euros, a decrease of 66 million euros in respect of the previous year. Movements for the first six months have been set out below:

	(in millions of euros)
	Total
Variations in receivables component of current assets	
Opening Balance	
Original value (a)	840
Provision for write-downs (b)	(38)
Net value	802
Six months movements	
Original value:	
Operating variations	(83)
Exchange rate differences	17
Total (c)	(66)
Changes in consolidation area (d)	-
Provision for write-downs:	
Allocations/utilisation	-
Exchange rate differences	-
Total (d)	-
Closing Balance:	
Original value (e=a+c)	774
Provision for write-downs (f=b+d)	(38)
Net value	736

The caption includes trade receivables, other receivables, amounts due from subsidiaries and associates, as follows:

	(millions of euros)
Trade receivables	484
Other receivables	227
Associated companies	18
Eni Group	6
Subsidiary companies	1
Total	736

Total receivables from companies of the Eni Group amount to 37 million euros, including 2 million euros relating to financial credits.

Cash and equivalents

Amounted to 104 million euros at 30th of June 1999, an increase of 54 million euros in respect of the previous year and comprises temporary liquid funds directly correlated to the bank overdraft generated by treasury operations made at a Group level.

PREPAYMENTS AND ACCRUED INCOME

Amounted to 32 million euros at 30th of June 1999, an increase of 7 million euros in respect of the previous year and include deferred tax assets by Saipem S.p.A. and a foreign subsidiary of 2 million euros. In addition they include interest income on contracts taken out to hedge foreign currency risks and on interest income on investments held as current assets, and costs which are not related to the period under examination (such as leasing costs, insurance premiums and other costs).

BALANCE SHEET - LIABILITIES

SHAREHOLDERS' EQUITY

The shareholders' equity of the Group amounted to 920 million euros at the 30th of June 1999, an increase of 26 million euros, in respect of the 31st of December 1998.

The translation reserve relates to the differences arising from the translation of statements of those companies, expressed in other currencies, into the functional currency utilised in the consolidated financial statements.

The following tables indicate movements in net consolidated shareholders' equity, the reconciliation between the net equity, the results of Saipem S.p.A. and the net equity and results of the Group for the half-year.

Reconciliation of statutory net income for the period and Shareholders' equity to consolidated net income and Shareholders' equity for the period.

	Shareholders' equity	(millions of euros) Net income for the period
As reported in statutory financial statements	608	14
Differences between book value and shareholders' equity, including results for the period, of consolidated subsidiaries	465	24
Consolidated adjustments for:		
Unrealised inter-company profit elimination	(143)	(3)
Elimination of tax effects	(1)	-
Other adjustments	(8)	2
Total shareholders' equity	921	37
Minority interests in capital and reserves	(1)	-
Group shareholders' equity	920	37

Movements in consolidated shareholders' equity for the period ending 30th of June 1999

	Share capital	Share premium reserve	Reval. reserve	Legal reserve	Other reserves	Retained earnings	Net income for the period	(millions of euros) Total
Balance at 31-12-98	227	291	2	20	21	219	114	894
Distributed dividends	-	-	-	-	-	-	(38)	(38)
Retained earnings for 1998	-	-	-	2	-	74	(76)	-
Exchange differences	-	-	-	-	27	-	-	27
Net income for the period	-	-	-	-	-	-	37	37
Balance at 30-06-99	227	291	2	22	48	293	37	920

PROVISION FOR CONTINGENCIES

Provision for contingencies amounted to 55 million euros, a decrease of 7 million euros in respect of the previous year. The changes and composition are set out below:

(millions of euros).

	Severance pay and similar provisions	Income taxes	Periodic maintenance	Contractual risks	Losses on long term contracts	Provision for other risks and charges	Provision for restructuring costs	Other	Total
Opening balance at 31-12-1998	5	10	14	4	10	14	2	3	62
Movements during the period:									
Allocations	-	2	4	-	1	-	-	-	7
Utilisation	(1)	(1)	(2)	(4)	(10)	-	-	(1)	(19)
Exchange differences and other variations									
	2	1	1	-	1	-	-	-	5
Closing balance at 30-06-1999	6	12	17	-	2	14	2	2	55

The periodic maintenance reserve shows a net increase of 2 million euros due to write-offs during the six months by two foreign subsidiaries, in order to carry out programmed maintenance on some vessels.

The provisions for contractual risks, which was established to cover risks associated with the execution of works, shows a nil balance following the use of the provision, by a foreign subsidiary, to cover the costs incurred during the six months.

The provisions for losses on long term contracts shows a decrease in respect of 31st of December 1998, mainly due to the utilisation of the provision to cover charges incurred by Saipem S.p.A. and a foreign subsidiary.

The tax allocation has increased by 2 million euros in respect of 31st of December 1998, following appropriations carried out during the six months by Saipem S.p.A. in order to avoid potential taxation litigations with companies in foreign countries.

EMPLOYEES' TERMINATION PAY

This amounts to 21 million euros at 30th of June 1999. Variations are set out below:

(millions of euros)

	Total
Opening balance	21
Variations during the period:	
Allocations	2
Utilisation	(1)
Other differences	(1)
Closing balance	21

PAYABLES

Amounted to 1,162 million euros at 30th of June 1999, an increase of 211 million euros in respect of the previous year. Movements for the period are shown in the table below:

	(millions of euros)
Total	
Opening balance	951
Movement for the period	
Operation movements	186
Exchange rate differences	25
Closing balance	1,162

These items may be broken down as follows:

	(millions of euros)
Due to other financial institutions	409
Accounts payable	355
Due to banks	168
Advances	79
Amounts payable to taxation authorities	60
Amounts payable to third parties	17
Amounts payable to personnel	15
Amounts payable to Cepav 1 & 2	14
Social security charges payable	4
Amounts payable to associated companies	2
Amounts payable to controlling companies	2
Other accounts payable	37
Total	1,162

Amounts payable to Eni Group companies amounted to 453 million euros. As of 30th of June 1999, payables due after five years amount to 10 million euros.

ACCRUED EXPENSES AND DEFERRED INCOME

Amounted to 65 million euros at 30th of June 1999, and represent an increase of 15 million euros in respect of the previous year. They mainly relate to adjustments to revenue for long term contracts in accordance with the principle of competence (59 million euros) and portions of interest on current contracts and leases.

GUARANTEES AND OTHER MEMORANDUM AND CONTINGENCY ACCOUNTS

Amounted to 1,897 million euros at 30th of June 1999 (1,855 million euros, at 31st of December 1998).

Guarantees

Amounted to 959 million euros and mainly relate to guarantees issued by banks on behalf of Saipem S.p.A., subsidiaries and associated companies for tender execution, for retention money and for credit lines.

Collateral

Amounted to 4 million euros and mainly consists of liens on fixed assets granted by an Italian subsidiary to a bank as security for a loan received.

Other memorandum and contingency accounts

Amounted to 934 million euros and refer to commitments on hedging contracts. Details are shown in the following table:

	Value at 31-12-98	(millions of euros) Value at 30-06-99
Purchase of foreign currency	369	300
Sale of foreign currency	567	634
Total	936	934

Off-balance sheet commitments and contingencies

Saipem S.p.A., has agreed to fulfil contractual obligations entered into by subsidiary and associated companies where they fail to fulfil contractual obligations themselves, as well paying for any damages suffered as a result of any failure to meet those obligations. These commitments guarantee to cover contracts to a value of 1,321 million euros (1,869 million euros at 31st of December 1998).

STATEMENT OF INCOME

REVENUES

Turnover

Amounted to 744 million euros to 30th of June 1999, a decrease of 37 million euros in respect of the same period for the previous year.

A breakdown of the turnover per sector of activity is set out below.

	First six months of 1998	First six months of 1999
		(millions of euros)
Offshore Construction	395	421
Onshore Construction	233	186
Offshore Drilling and Floating Production	85	83
Onshore Drilling	68	54
Total turnover	781	744

Turnover per geographical area is as follows:

Geographical area ^(*)	First six months of 1998	First six months of 1999
		(millions of euros)
Italy	86	56
EEC	143	63
Rest of Europe	8	182
Africa	222	171
Middle and Far East	215	217
Americas	107	55
Total	781	744

(*) Measured according to final destination of the services

Revenues from Eni Group companies amounted to 47 million euros.

Variation in contract work in progress

Variation in contract work in progress during the first six months of 1999 increased by 32 million euros (there was a 12 million euro increase for the same period in 1998), relating to Offshore and Onshore Construction contracts.

Increase in internal work capitalised under fixed assets

This item relates to the capitalisation of costs for internal work.

Other revenues and income

Amounted to 7 million euros, a decrease of 15 million euros in respect of the same period for previous year.

The figures are detailed below:

		(millions of euros)
Revenues for personnel on loan to other companies		3
Others		3
Gains on sale of tangible fixed assets		1
Total		7

OPERATING EXPENSES

Raw materials, consumables and supplies

Amounted to 147 million euros, an increase of 14 million euros in respect of the same period for the previous year and comprise costs for the purchase of raw materials used in operating activities as well as consumables and supplies.

Costs for raw materials, consumables and supplies purchased from Eni Group companies amounted to 3 million euros.

Services

Amounted to 278 million euros, a decrease of 49 million euros in respect of the same period for the previous year.

Such costs relate to sub-contracting, engineering and management work, insurance, transport, consulting and technical services, maintenance, postal and telegraphic services, personnel and other general services.

They include 13 million euros in respect of Eni Group companies.

Use of third party assets

Costs for the use of third party assets amounted to 100 million euros, an increase of 20 million euros in respect of the first six months for 1998. These costs comprise leasing instalments, rental of vessels, motor vehicles and aircraft, land and buildings, as well as costs for licenses and industrial patents.

Costs for the use of third party assets due to Eni Group companies amounted to 2 million euros.

Payroll and related costs

Amounted to 155 million euros, a decrease of 6 million euros in respect of the same period for 1998. This amount includes salaries and wages, employees' termination indemnities, vacations accrued but not yet taken and social security contributions in accordance with current labour contracts and legislation.

The average number of employees is shown in the section "Human Resources".

Amortisation, depreciation and write-downs

Amounted to 46 million euros, a decrease of 1 million euros in respect of the same period for 1998.

The amount includes the amortisation and depreciation, during the period, of intangible and tangible fixed assets amounting to 2 million and 44 million euros respectively.

Variations in raw materials, supplies and consumables

Increased by 1 million euros, and relate to spare parts and consumables for internal use rather than for resale.

Other provisions

Amounted to 7 million euros, an increase of 1 million euros in respect of the same period for 1998 and essentially refer to charges made by foreign subsidiaries and to the maintenance provisions for marine equipment (5 million euros).

Other operating costs

Amounted to 5 million euros, a decrease of 1 million euros in respect of the same period for 1998 and refers to:

	(millions of euros)
Other indirect taxation	2
Charges on trading transactions	1
Taxation and customs duties	1
Damages not covered by insurance	1
Total	5

Other financial income

Amounted to 28 million euros, an increase of 7 million euros in respect for the first six months for 1998, and refers to:

	(millions of euros)
Exchange rate gains	22
Interest from others	3
Interest on guarantees	1
Interest from associated companies	1
Other	1
Total	28

Interest and other financial expenses

Amounted to 36 million euros, an increase of 11 million euros in respect of the first six months for 1998, and refer to:

	(millions of euros)
Exchange rate losses	21
Interest due to Eni Group financing companies	10
Interest expenses and other charges on sums due to banks	3
Charges on guarantees	1
Other	1
Total	36

INCOME TAXES

Amounted to 11 million euros, a decrease of 7 million euros in respect of the first six months for 1998. The decrease is due the smaller taxable income as well as the expected tax reimbursement from the Italian taxation authorities. This reimbursement is due to the positive outcome of a litigation case in which, income derived from operations performed by Saipem Italia in Southern Italy, were de-taxed following the application of a law granting taxation rebates.

NET INCOME FOR THE PERIOD

Net income for the first six months of 1999, amounted to 37 million euros, a decrease of 13 million euros in respect of the same period for 1998, and relates entirely to the Group.

RECLASSIFIED BALANCE SHEET

	30-06-98	31-12-98	(millions of euros) 30-06-99
Fixed assets	750	885	1,095
Intangible assets	23	25	28
Net tangible and intangible assets	773	910	1,123
- Offshore Construction	335	382	487
- Offshore Drilling and Floating Production	312	381	478
- Onshore Drilling	36	57	61
- Onshore Construction	74	70	73
- Others	16	20	24
Financial investments	5	4	4
Non-current assets (a)	778	914	1,127
Inventories	181	188	225
Current assets	702	630	697
Current liabilities	(663)	(619)	(650)
Provision for contingencies	(68)	(62)	(55)
Net current assets (b)	152	137	217
Employees' termination pay (c)	(27)	(21)	(21)
Capital employed (d=a+b-c)	903	1,030	1,323
Group shareholders' equity (e)	850	894	920
Minority interests in net equity (f)	-	1	1
Net financial debt - medium and long term	47	43	46
Net financial debt - short term	6	92	356
Net debt (g)	53	135	402
Cover (h = e + f + g)	903	1,030	1,323

RECLASSIFIED INCOME STATEMENT

	30-06-98	1998	(millions of euros) 30-06-99
BY NATURE OF COST			
Operating revenues	793	1,705	776
Other income and revenues	22	32	6
Purchases, services and other costs	(536)	(1,162)	(527)
Payroll and related costs	(161)	(322)	(153)
Gross operating income (a)	118	253	102
Amortisation, depreciation and write-downs (b)	(47)	(96)	(46)
Operating income (c = a-b)	71	157	56
Financial expenses, net (d)	(4)	(9)	(8)
Income from investments, net (e)	1	1	-
Income before income tax (f = c - d + e)	68	149	48
Income taxes (g)	(18)	(35)	(11)
Net income for the period (h = f - g)	50	114	37
Income for the period attributable to third parties (i)	-	-	-
Group net income for the period (l = h - i)	50	114	37

RECLASSIFIED INCOME STATEMENT

	30-06-98	1998	(millions of euros) 30-06-99
BY COST ALLOCATION			
Operating revenues	793	1,705	776
Production costs	(675)	(1,445)	(655)
Idle costs	(11)	(25)	(19)
Selling expenses	(7)	(14)	(7)
Research and development costs	(1)	(3)	(2)
Other operating income, net	8	9	-
Contribution from operations	107	227	93
General and administrative expenses	(36)	(70)	(37)
Operating income	71	157	56
Financial expenses, net	(4)	(9)	(8)
Income from investments, net	1	1	-
Income before income taxes	68	149	48
Income taxes	(18)	(35)	(11)
Net income for the period	50	114	37
Income for the period attributable to third parties	-	-	-
Group net income for the period	50	114	37

AUDITOR'S REPORT



Revisione e organizzazione contabile

KPMG S.p.A.
Via Vittor Pisani 25
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(Translation from the Italian original which remains the definitive version)

Review report

To the shareholders of
Saipem S.p.A.

- 1 We have performed a review of the half year report of Saipem S.p.A. and Saipem group as of and for the six months ended 30 June 1999, comprising the balance sheet, profit and loss account and the relative notes, both parent company only and consolidated. We have also reviewed that part of the notes describing the activities of the parent company and group for the period with the sole objective of verifying consistency with the remainder of the half year report.
- 2 Our review has been performed in accordance with Consob guidelines set out in Consob resolution no 10867 dated 31 July 1997. The review of the half year reports of certain subsidiary and associated companies, representing approximately 12% and 20% of consolidated assets and consolidated revenues respectively, has been performed by other auditors which provided us with their reports thereon. The review consisted primarily of the collection of information relating to the financial data and the consistency of application of the accounting policies through discussions with company management and analytical procedures applied to the financial data presented. The review excluded such audit procedures as tests of controls and verification or validation of assets and liabilities and is significantly less than a full scope audit performed in accordance with generally accepted auditing standards. As a consequence, contrary to our reports on the annual parent company only and consolidated financial statements, we do not express an opinion on the half year report.
- 3 With regards to the comparative figures relative to the annual financial statements, annual consolidated financial statements and half year report of the previous year, reference should be made to our reports dated 13 April 1999 and 12 October 1998.



KPMG S.p.A. è membro della KPMG International.

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Società per azioni
Capitale sociale Lit. 8.024.800.000/10
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- 4 Based on the procedures performed by us, we are not aware of any material modification or integrations that should be made to the balance sheet, profit and loss account and relative notes described in paragraph 1 above for them to be in conformity with Consob guidelines governing half year reports approved with resolution no 8195 dated 30 June 1994 and subsequent modifications.

Milan, 20 September 1999

KPMG S.p.A.

(Signed on the original)

Flavio Zappettini
Director of Audit