

saipem energy services



Annual Report 2011

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Board of Directors and Statutory Auditors

BOARD OF DIRECTORS¹

Deputy Chairman and Chief Executive Officer
Mario Rossi Ganzer

Directors

Mariano Avanzi
Alberto Cipelli (from April 19, 2011)
Paolo Daleffe
Yves Inbona (until April 19, 2011)
Massimo Rocuzzo

BOARD OF STATUTORY AUDITORS¹

Chairman
Fabio Venegoni

Statutory Auditors

Dario Cifoni
Gian Luca Officio

Alternate Auditors

Antonio Di Bruno
Renzo Ottantadue

INDEPENDENT AUDITORS

Reconta Ernst & Young SpA

(1) In office until December 31, 2011. The company was merged into in Saipem SpA with effect from January 1, 2012.

Saipem Energy Services SpA is subject to the direction and coordination of Eni SpA



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Directors' Report

Business and operating review

Saipem Energy Services SpA (SES) offers specialist services in the following sectors: offshore plant engineering, subsea pipelines and facilities engineering, FPSO (Floating, Production Storage and Offloading) business management services, maintenance of oil plants, subsea robotics design and construction, offshore pipeline inspections, repair and trenching.

The Company is made up of a number of different operating units based in various locations in Italy and overseas (Congo):

- Maintenance & FPSO operations in Milan, Italy and Pointe Noire, Congo;
- Fabrication in Arbatax, Italy;
- Sealine & Subsea engineering in Fano, Italy;
- Sonsub (subsea robotics) in Marghera, Italy;
- Leased FPSO development and upgrading, Milan, Italy;
- Offshore Plants engineering in Milan, Italy (providing services to the other functions and to a number of projects).

The agreement for the merger by incorporation of Saipem Energy Services into Saipem SpA was signed on October 28, 2011 and became effective from January 1, 2012.

The Company's 2011 operations generated revenues of €258.7 million and operating profit of €19.2 million. Sales to Eni Group companies and sales to Saipem Group companies both accounted for 39% each of turnover.

The principal operations carried out by the Company in 2011 related to:

Maintenance

In Congo for Eni Congo:

- framework agreement for maintenance on Offshore platforms;
- work on platforms aimed at reducing atmospheric emissions as part of the 'Zero Torchage' project;
- work to connect new wells to the 'Ikalou Sud' platform;

Engineering and maintenance work in Italy for Eni E&P.

Fabrication

Fabrication work at the Arbatax yard:

- completion of anchoring and tensioning systems on deep water oil pipelines on the 'Kizomba' project for ExxonMobil;
- completion of anchoring and tensioning systems on deep water oil pipelines on the 'Usan' project for Total;

- construction and delivery of jacket on 'West Franklin' project for Total UK;
- modifications to S44 cargo barge for transportation of jacket on 'West Franklin' project for Saipem SpA;
- Procurement and Construction management activities in M3 and M4 areas of Sannazzaro Est refinery for Eni R&M.

Engineering activities for Saipem Group and Eni Group.

Sealine & Subsea:

- detailed design for procurement and laying of subsea pipelines on 'Wasit' project;
- detailed design for deep water subsea pipelines and facilities for 'MISR Egitto West Deep Burullus' project for Saipem SpA;
- detailed design and operational support on 'Nord Stream' project;
- engineering for subsea pipelines on 'Dragon-Cigma Pipeline' project for Saipem America Inc.

Sonsub (Subsea Robotics):

- management of subsea pipeline emergency repair system for end client Dolphin Energy Ltd;
- winter modifications, maintenance and repairs to burial system for Kashagan field on board 'Castoro 16';
- installation of flexible cables and pipelines for Kashagan field;
- maintenance services on 'SIRCOS' pipeline repair system.

Leased FPSO

The Aquila project for Eni SpA - E&P Division involves the supply and operation of an FPSO unit for a total of 20 years. For the first 8 years, the unit will be deployed for the development of the Aquila field in the Adriatic Sea at a depth of 515 metres.

The completion of the installation of the FPSO unit towards the end of 2011 allowed the operations phase to begin.

Since November 2007, the FPSO 'Cidade de Vitoria' has been operating in Brazilian waters offshore Espirito Santo state, 50 nautical miles from the state capital Vitoria on the Golfinho project, as part of an eleven-year contract with Petrobras on the second phase of development of the Golfinho field, situated at a water depth of 1,400 metres.

The FPSO 'Cidade de Vitoria' has a maximum production capacity of 100,000 barrels a day, 3.5 million cubic metres of gas a day (for on board use, gas lift or gas export) and field water injection capability (22,000 cubic metres a day).

In addition to the vessels 'FPSO Firenze' and 'Cidade de Vitoria', the Company also owns the VLCC-class oil tanker 'Apollo 16', which it purchased in 2010 with a view to carrying out a potential conversion.

Financial and economic results

Results of operations

Income statement

(€ thousand)	2010	2011	Change	% Ch.
Net sales from operations	439,310	258,709	(180,600)	(41.11)
Other income and revenues	1,371	90	(1,280)	(93.40)
Operating expenses	(385,519)	(215,136)	170,383	(44.20)
Other operating income (expenses)	174	57	(117)	(67.23)
Depreciation, amortization and impairment	(7,606)	(24,410)	(16,804)	220.94
Operating profit (EBIT)	47,730	19,311	(28,419)	(59.54)
Net finance expense	(12,495)	(7,513)	4,982	(39.87)
Net income from investments	-	-	-	-
Income before taxes	35,235	11,798	(23,437)	(66.52)
Income tax for the year	(12,917)	(6,344)	6,573	(50.88)
Net profit	22,318	5,454	(16,864)	(75.56)

Net sales from operations amounted to €258,709 thousand, down €180,600 thousand compared with the previous year mainly due to the sale in the final few months of 2010 of two business activities which carried out maintenance work in Italy. Services provided to Eni Group companies and services provided to Saipem Group companies accounted for 39% each of turnover. Operating expense amounted to €215,136 thousand, representing a decrease against 2010 that was essentially in line with the fall in revenues. Depreciation, amortisation and impairment amounted to €24,410 thousand, representing a sharp increase (up €16,804 thousand) compared with 2010, mainly due to the depreciation of the FPSO 'Cidade de Vitoria', which was purchased during the final quarter of 2010.

Operations carried out by the Company during 2011 generated an operating profit of €19,311 thousand (€47,730 thousand in 2010).

The Company incurred net finance expense of €7,513 thousand in 2011 (€12,495 thousand in 2010). The change was essentially due to the positive effects of derivative contracts entered into to hedge against the Company's exchange rate risk exposure.

Income before income taxes amounted to €11,798 thousand. Taxes for the year amounted to €6,344 thousand and comprised Ires (corporation tax) of €4,365 thousand and Irap (regional tax on productive activities) of €1,979 thousand. Net profit amounted to €5,454 thousand.

Balance sheet and financial position

Reclassified balance sheet

The reclassified consolidated balance sheet aggregates asset and liability amounts from the statutory balance sheet according to function, under three basic areas: operating, investing and financing. Management believes that the reclassified consolidated balance sheet provides useful information in assisting investors to assess Saipem Energy Services' capital structure and to analyse its sources of funds and investments in fixed assets and working capital.

Management uses the reclassified consolidated balance sheet to calculate key ratios such as Return On Average Capital Employed

(ROACE) and the proportion of net borrowings to shareholders' equity (leverage).

(€ thousand)	Dec. 31, 2010	Dec. 31, 2011	Change
Net tangible assets	516,451	555,528	39,077
Net intangible assets	358	430	72
Investments	31,029	301	(30,728)
Non-current assets	547,837	556,259	8,421
Net current assets	(11,242)	102,460	113,702
Employee termination indemnities	(6,109)	(6,175)	(66)
Capital employed, net	530,486	652,544	122,057
Shareholders' equity	144,484	140,959	(3,525)
Net borrowings	386,002	511,585	125,583
Funding	530,486	652,544	122,058
Leverage (net borrowings/shareholders' equity including minority interest)	2.67	3.63	0.01

Fixed assets increased by €8,421 thousand compared with December 31, 2010, mainly due to the effect of the investments in the Aquila project, which were partially offset by the sale of the interest in Saipem Do Brasil.

Net current assets increased by €113,702 thousand at December 31, 2010. This was mainly due to a decrease in trade payables that was caused by a drop in volumes and the repayment of debts taken on to purchase FPSO units.

The provision for employee benefits increased by €66 thousand at December 31, 2010.

As a result of the above changes, net capital employed rose by €122,057 thousand compared with December 31, 2010, to €652,544 thousand.

Shareholders' equity decreased from €144,484 thousand at December 31, 2010 to €140,959 thousand, mainly due to the use of the reserve for exchange rate hedges, which more than offset 2011 net profit.

Net borrowings

(€ thousand)	Dec. 31, 2010	Dec. 31, 2011	Change
Financing payables	405,120	516,350	111,230
Cash and cash equivalents	(19,118)	(4,765)	14,353
Net borrowings	386,002	511,585	125,583
Shareholders' equity	144,484	140,959	(3,525)

The Company's net borrowings, which are almost entirely with Eni SpA, increased at December 31, 2010 by €125,583 thousand to €511,585 thousand, mainly due to investments connected with the FPSO business (in particular the payment of the final

instalment of €88,200 thousand for the vessel 'Cidade de Vitoria', which is being deployed on the Golfinho project), the purchase of the vessel 'Apollo 16' (€11,000 thousand) as well as investments for the completion of the 'FPSO Firenze' for the Aquila project.

Reclassified cash flow statement

(€ thousand)	2010	2011	Change
Net profit	22,318	5,454	(16,864)
<i>Adjustments to reconcile net profit to net cash provided by operating activities</i>			
Depreciation, amortization and other non-monetary items	7,606	24,134	16,528
Dividends, interests and income taxes	16,654	14,783	(1,870)
Variation in working capital relating to operations	68,577	(106,799)	(175,375)
Dividends received, income taxes paid, interest (paid) and received	(25,585)	(20,456)	5,129
Net cash flow from operations	89,570	(82,883)	(172,453)
Capital expenditure	(415,606)	(63,559)	352,047
Investments and purchase of consolidated subsidiaries and businesses	(30,733)	-	30,733
Disposals	14,210	30,728	16,518
Free cash flow	(342,559)	(115,714)	226,845
Borrowings (repayment) of debt related to financing activities	323,500	111,000	(212,500)
Effect of exchange differences	3,113	(889)	(4,003)
Net cash flow for the period	(15,946)	(5,604)	10,342
Free cash flow	(342,559)	(115,714)	226,845
Cash flow from capital and reserves	26,435	(8,979)	(35,414)
Change in net borrowings	10,489	(14,583)	(25,072)
Net debt at beginning of year	8,509	18,998	
Net debt at end of year	18,998	4,415	

The net cash flow from operations of negative €82,883 thousand, which was mainly due to changes in working capital relating to operations, and the net cash flow from investment activities of

negative €32,831 thousand, generated a negative free cash flow of €115,714 thousand.



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Financial Statements
as at and for the year ended
December 31, 2011

Balance sheet

(€)	Note	December 31, 2010		December 31, 2011	
		Total	of which with related parties	Total	of which with related parties
ASSETS					
Current assets					
Cash and cash equivalents	(No. 1)	19,117,979	17,898,144	4,765,204	4,738,882
Trade and other receivables	(No. 2)	183,838,654	168,295,363	213,229,187	204,880,693
Inventories	(No. 3)	83,378,266	28,573,995	45,876,214	-
Current tax assets	(No. 4)	4,340,211		1,774,546	
Other current tax assets	(No. 5)	1,188,192		1,148,683	
Other current assets	(No. 6)	7,472,654		2,790,729	
Total current assets		299,335,956		269,584,562	
Non-current assets					
Property, plant and equipment	(No. 7)	516,451,090		555,527,655	
Intangible assets	(No. 8)	357,838		430,311	
Investments	(No. 9)	31,028,544	31,018,544	301,000	-
Deferred tax assets	(No. 10)	440,836		492,096	
Other non-current assets	(No. 11)	24,872		22,108	
Total non-current assets		548,303,180		556,773,170	
TOTAL ASSETS		847,639,136		826,357,733	

(€)	Note	December 31, 2010		December 31, 2011	
		Total	of which with related parties	Total	of which with related parties
LIABILITIES					
Current liabilities					
Short-term debt	(No. 12)	355,120,200	355,120,200	466,350,352	466,053,214
Current portion of long-term debt	(No. 13)	-	-	10,000,000	10,000,000
Trade and other payables	(No. 14)	278,913,320	147,727,838	135,802,491	47,321,131
Income tax payables	(No. 15)	-	-	2,804,454	-
Other current tax liabilities	(No. 16)	2,155,011	-	2,458,119	-
Other current liabilities	(No. 17)	446,910	-	14,445,188	-
Total current liabilities		636,635,441		631,860,604	
NON-CURRENT LIABILITIES					
Long-term debt	(No. 18)	50,000,000	50,000,000	40,000,000	40,000,000
Provisions for contingencies	(No. 19)	2,044,265	-	2,669,637	-
Provisions for employee benefits	(No. 20)	6,108,963	-	6,175,248	-
Deferred tax liabilities	(No. 21)	8,366,480	-	4,693,496	-
Total non-current liabilities		66,519,708		53,538,381	
TOTAL LIABILITIES		703,155,149		685,398,984	
SHAREHOLDERS' EQUITY					
	(No. 22)				
Share capital (*)		9,020,216	-	9,020,216	-
Other reserves		46,480,697	-	37,501,496	-
Retained earnings		66,664,733	-	88,983,074	-
Net profit for the year		22,318,341	-	5,453,962	-
Total shareholders' equity		144,483,987		140,958,748	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		847,639,136		826,357,733	

(*) Share capital: 9,020,216 fully paid shares with a nominal value of €1.00 each.

Income statement

(€)	Note	2010		2011	
		Total	of which with related parties	Total	of which with related parties
REVENUES	(No. 23)				
Net sales from operations		439,309,695	365,844,530	258,709,499	200,503,159
Other income and revenues		1,370,699	145,897	90,422	70,312
Total revenues		440,680,394		258,799,921	
OPERATING EXPENSE	(No. 24)				
Purchases, services and other		(334,795,829)	(103,709,838)	(172,811,690)	(71,180,496)
Payroll and related costs		(50,723,191)		(42,324,254)	
Depreciation, amortization and impairment		(7,605,965)		(24,410,428)	
Other operating income (expense)		174,291		57,116	
Total operating expense		(392,950,694)		(239,489,256)	
OPERATING PROFIT		47,729,700		19,310,665	
FINANCE INCOME (EXPENSE)	(No. 25)				
Financial income		3,801,985	10,870	2,543,354	20,979
Financial expense		(7,717,979)	(3,600,283)	(11,260,293)	(8,440,061)
Derivatives		(8,578,849)	(8,578,849)	1,204,230	1,204,230
Total financial income (expense)		(12,494,843)		(7,512,710)	
Income before taxes		35,234,857		11,797,955	
Income taxes	(No. 26)	(12,916,516)		(6,343,993)	
Net profit for the year	(No. 27)	22,318,341		5,453,962	

Headquarters: San Donato Milanese (Milan) - Italy
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Branches:
Venice - Frazione Marghera (VE)
Via delle Industrie, 28



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