saipem

Interim Consolidated Report as of June 30, 2014

Mission

Pursuing satisfaction of our clients in the energy industry, we tackle each challenge with safe, reliable and innovative solutions. Our competent, multi-local teams provide sustainable development for our Company and for the communities in which we operate.

Our core values

Commitment to health and safety, openness, flexibility, integration, innovation, quality, competitiveness, teamwork, humility, internationalisation, responsibility and integrity.

Disclaimer

By their nature, forward-looking statements are subject to risk and uncertainty since they are dependent upon circumstances which should or are considered likely to occur in the future and are outside of the Company's control. These include, but are not limited to: monetary exchange and interest rate fluctuations, commodity price volatility, credit and liquidity risks, HSE risks, the levels of capital expenditure in the oil and gas industry and other sectors, political instability in areas where the Group operates, actions by competitors, success of commercial transactions, risks associated with the execution of projects (including ongoing investment projects), in addition to changes in stakeholders' expectations and other changes affecting business conditions.
Actual results could therefore differ materially from the forward-looking statements.
The financial reports contain in-depth analyses of some of the aforementioned risks.
Forward-looking statements are to be considered in the context of the date of their release. Saipem SpA is under no obligation to review, update or correct them subsequently, except where this is a mandatory requirement of the applicable legislation.
The forward-looking statements given herein are not intended to constitute an invitation to invest or to provide legal, accounting, tax or investment advice and should not be relied upon in that regard.

Countries in which Saipem operates

EUROPE
Austria, Belgium, Croatia, Cyprus, Denmark, France, Greece, Italy, Luxembourg, Malta, Netherlands, Norway, Poland, Portugal, Romania, Spain, Sweden, Switzerland, Turkey, United Kingdom

AMERICAS
Bolivia, Brazil, Canada, Chile, Colombia, Dominican Republic, Ecuador, Mexico, Peru, Suriname, United States, Venezuela

CIS
Azerbaijan, Kazakhstan, Russia, Turkmenistan, Ukraine

AFRICA
Algeria, Angola, Cameroon, Congo, Egypt, Gabon, Ghana, Libya, Mauritania, Morocco, Mozambique, Nigeria, South Africa, Togo, Uganda

MIDDLE EAST
Iraq, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates, Yemen

FAR EAST AND OCEANIA
Australia, China, India, Indonesia, Japan, Malaysia, Myanmar, Pakistan, Papua New Guinea, Singapore, Thailand, Vietnam

Board of Directors and auditors of Saipem SpA

BOARD OF DIRECTORS[1]

Chairman
Francesco Carbonetti

CEO[3]
Umberto Vergine

Directors
Fabrizio Barbieri, Rosario Bifulco, Nella Ciuccarelli, Guido Guzzetti, Federico Ferro-Luzzi, Enrico Laghi, Nicla Picchi

BOARD OF STATUTORY AUDITORS[2]

Chairman
Mario Busso

Statutory Auditors
Anna Gervasoni
Massimo Invernizzi

Alternate Statutory Auditors
Elisabetta Maria Corvi
Paolo Sfameni

(1) Appointed on May 6, 2014 by the Shareholders' Meeting for 2014 until the approval of the 2014 Annual Report.
(2) Appointed on May 6, 2014 by the Shareholders' Meeting until the approval of the 2016 Annual Report.
(3) Appointed as CEO by the Board of Directors on May 9, 2014.

Independent Auditors

Reconta Ernst & Young SpA

Saipem is a subsidiary of Eni SpA

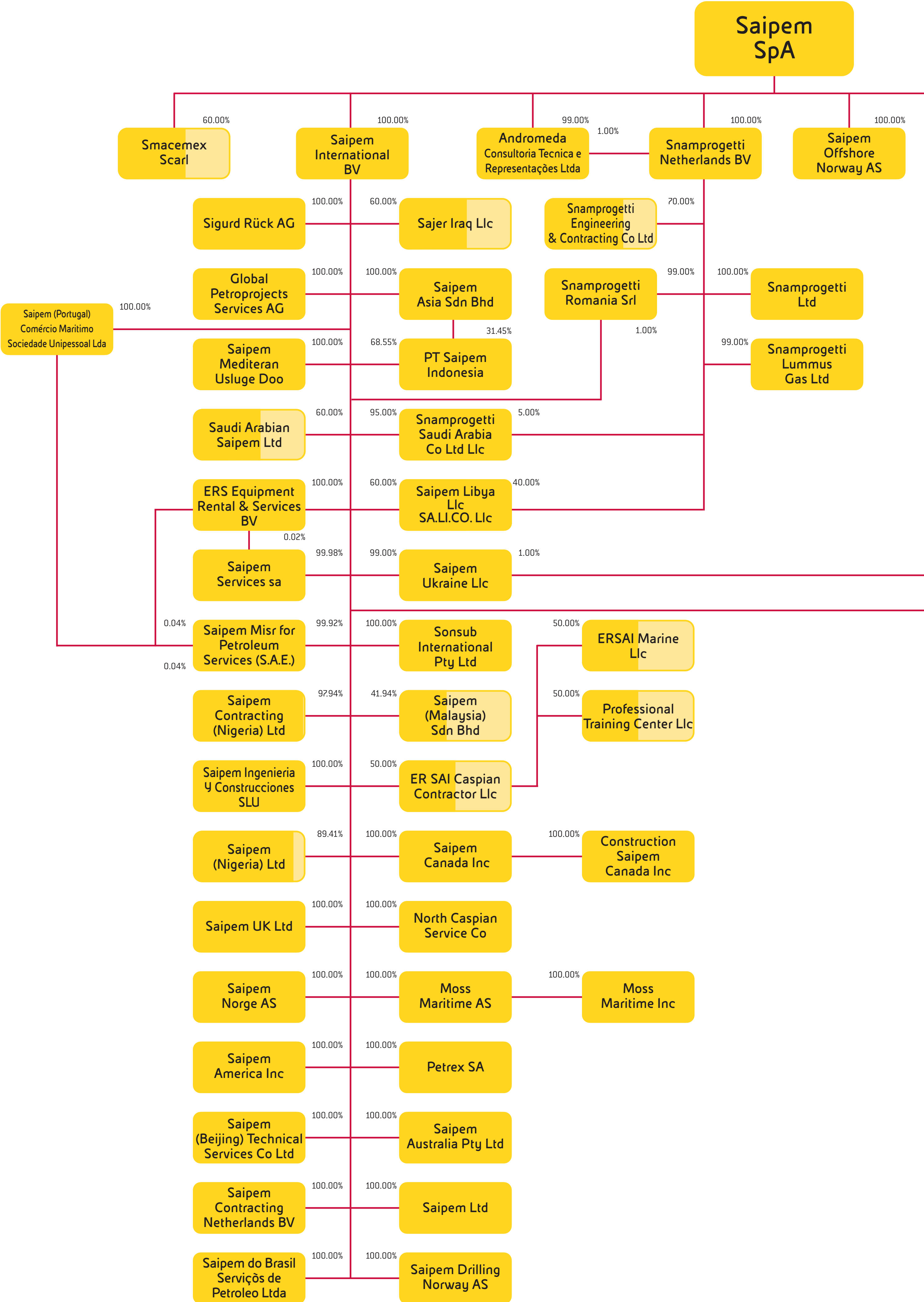
Approved by the Board of Directors on July 29, 2014

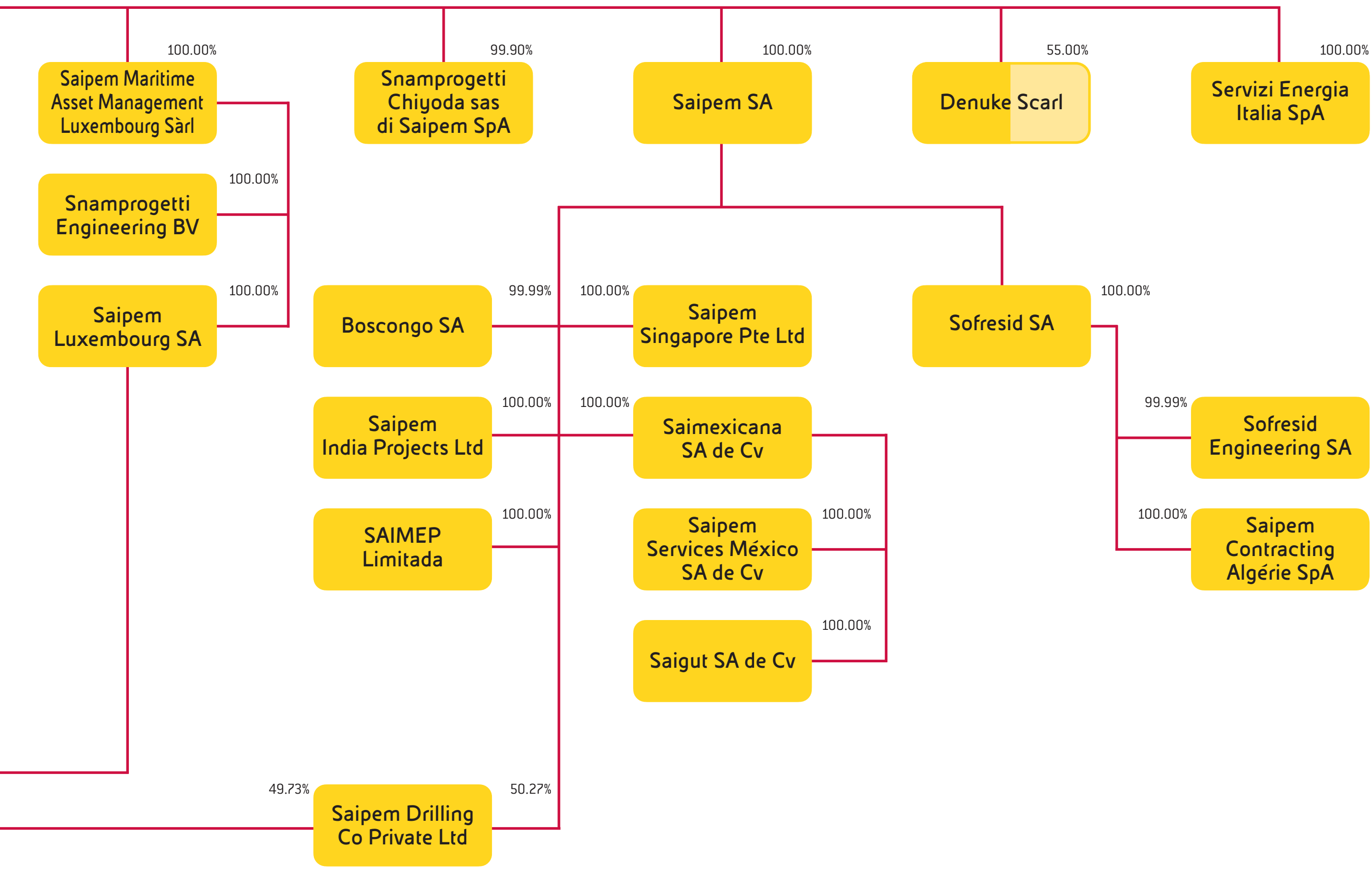
Interim results[1]

Revenues amounted to € 5,966 million (€ 5,246 million in the same period of 2013).
Operating profit/EBIT totalled € 293 million (-€ 225 million in the same period of 2013).
Net profit was € 136 million (-€ 330 million in the same period of 2013).
Cash flow (net profit plus depreciation and amortisation) totalled € 498 million (€ 21 million in the same period of 2013).
The shares of overall revenues generated by the various business segments during the period were as follows: Offshore Engineering & Construction sector 53.4% of revenues, Onshore Engineering & Construction sector 31.7%, Offshore Drilling sector 9.3% and Onshore Drilling sector 5.6%.
Net financial debt at June 30, 2014 amounted to € 5,104 million, representing an increase of € 344 million from December 31, 2013. This was due to working capital movement over the period, which was driven in particular by contract terms and conditions establishing project payment structures and timings and milestone approvals. In addition, the intensive, complex commercial dialogue the Company has been involved in with a number of clients to conclude negotiations on a series of low margin (legacy) contracts, which represents a typical feature of the final stages of the type of project undertaken by Saipem, continued during the period.
Capital expenditure in the first half of 2014 amounted to € 329 million (€ 490 million in the first half of 2013).
The Group was awarded new contracts worth € 13,132 million during the first six months of the year, while the order backlog at June 30, 2014 amounted to € 24,215 million. This includes the impact of the cancellation of orders relating to the charter of an onshore drilling rig in Ukraine, following a request for early termination by the client Shell.

(1) As a result of the introduction of the new IFRS 10 and IFRS 11 accounting standards, the rules for consolidating Saipem Group investments have been redefined. IFRS 11 requires investments in joint ventures to be accounted for using the equity method, from January 1, 2014. Previously, these shareholdings were consolidated using the proportional method. Operating data for the Group is presented here using the new consolidation rules. Prior period data has been adjusted for comparative purposes. For further details, see 'Effects of restatement: Financial Statements'.
As announced in the press release of February 11, 2014 and in accordance with the effects arising from the decision to apply IAS 8.42 to the 2012 Financial Statements comparative figures, the restated Saipem income statement for the first half of 2013 includes revenues of €245 million that were previously booked in 2012.

Saipem Group structure
(subsidiaries)


Saipem SpA
60.00%
Smacemex Scarl
100.00%
Saipem International BV
99.00%
Andromeda Consultoria Tecnica e Representações Ltda
1.00%
100.00%
Snamprogetti Netherlands BV
100.00%
Saipem Offshore Norway AS
100.00%
Sigurd Rück AG
60.00%
Sajer Iraq Llc
Snamprogetti Engineering & Contracting Co Ltd
70.00%
100.00%
Global Petroprojects Services AG
100.00%
Saipem Asia Sdn Bhd
Snamprogetti Romania Srl
99.00%
100.00%
Snamprogetti Ltd
Saipem (Portugal) Comércio Maritimo Sociedade Unipessoal Lda
100.00%
31.45%
1.00%
100.00%
Saipem Mediteran Usluge Doo
68.55%
PT Saipem Indonesia
99.00%
Snamprogetti Lummus Gas Ltd
60.00%
Saudi Arabian Saipem Ltd
95.00%
Snamprogetti Saudi Arabia Co Ltd Llc
5.00%
ERS Equipment Rental & Services BV
100.00%
60.00%
Saipem Libya Llc SA.LI.CO. Llc
40.00%
0.02%
99.98%
Saipem Services sa
99.00%
Saipem Ukraine Llc
1.00%
0.04%
Saipem Misr for Petroleum Services (S.A.E.)
99.92%
0.04%
100.00%
Sonsub International Pty Ltd
50.00%
ERSAI Marine Llc
97.94%
Saipem Contracting (Nigeria) Ltd
41.94%
Saipem (Malaysia) Sdn Bhd
50.00%
Professional Training Center Llc
100.00%
Saipem Ingenieria y Construcciones SLU
50.00%
ER SAI Caspian Contractor Llc
89.41%
Saipem (Nigeria) Ltd
100.00%
Saipem Canada Inc
100.00%
Construction Saipem Canada Inc
100.00%
Saipem UK Ltd
100.00%
North Caspian Service Co
100.00%
Saipem Norge AS
100.00%
Moss Maritime AS
100.00%
Moss Maritime Inc
100.00%
Saipem America Inc
100.00%
Petrex SA
100.00%
Saipem (Beijing) Technical Services Co Ltd
100.00%
Saipem Australia Pty Ltd
100.00%
Saipem Contracting Netherlands BV
100.00%
Saipem Ltd
100.00%
Saipem do Brasil Serviçõs de Petroleo Ltda
100.00%
Saipem Drilling Norway AS



The chart only shows subsidiaries

Operating and Financial Review

Saipem SpA share performance

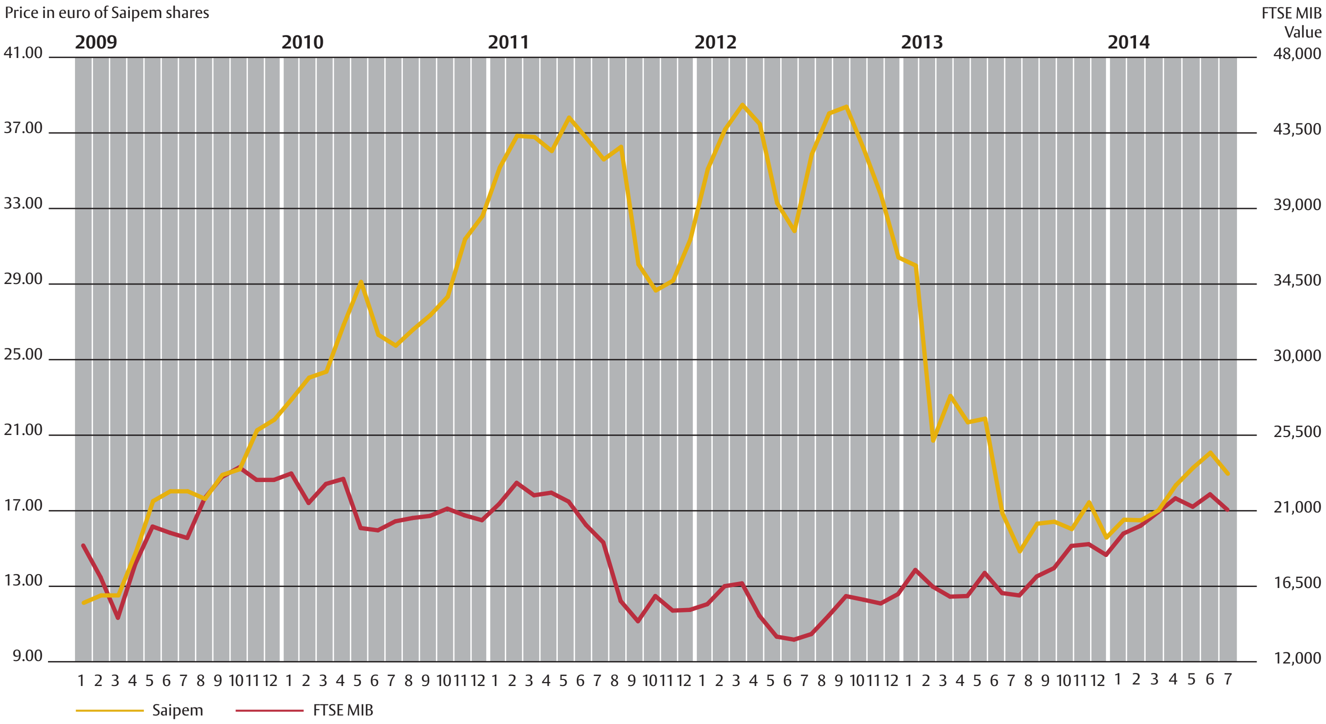
During the first half of 2014, the value of Saipem ordinary shares on the Milan Stock Exchange registered an increase of 27%, reaching a price of €19.72 at June 30, 2014, versus €15.54 at year end 2013.
In the same period, the FTSE MIB index, which records the performance of the 40 most liquid and capitalised Italian stocks, reported a gain of 12%.
The stock hit its half year period low of €15.50 on January 2 and for the first month of 2014 maintained the downward trend observed in the last final part of 2013, due to the weak price trend that affected the whole of the Oil Services sector and to uncertainty over the Company's 2013 results.
As of February, however, the price began to climb, buoyed by the announcement of earnings targets for 2014 that allayed investors' fears. An improved operating and commercial performance on the low-margin contracts still in the backlog, coupled in particular with the excellent levels of new contract awards secured during the first half of 2014, amounting to more than €12 billion helped restore a growing climate of investor confidence in terms of Saipem's ability to attract new business but also with regard to clearer visibility on future prospects. After a year, the share price rose back up above the €20 mark in early June, hitting its period maximum of €20.89 on June 20 and closing the half year just under €20 at €19.72.

Saipem's market capitalisation at the end of the period was approximately €8.7 billion. In terms of share liquidity, shares traded in the first half of the year totalled approximately 391 million, versus the 511 million registered in the first half of 2013. The average number of shares traded daily for the period totalled 3.1 million (4 million in the first half of 2013). The value of shares traded amounted to just below €7 billion, compared with €10.6 billion in the first half of 2013.
On May 6, the Saipem shareholders' meeting approved the distribution of a €0.05 dividend for savings shares only, amounting to 5% of the nominal value, pursuant to Article 6 of the Articles of Association.

The price of savings shares, which are convertible at par with ordinary shares, and are of limited number (110,796 at June 30, 2014), increased by 17% over the period, closing at €20 at June 30, 2014.

Share Prices on the Milan Stock Exchange	(€)	**2010**	**2011**	**2012**	**2013**	**First half 2014**
Ordinary shares:						
- maximum		37.27	38.60	39.78	32.18	20.89
- minimum		23.08	23.77	29.07	12.60	15.50
- average		28.16	33.89	35.52	19.31	18.02
- period-end		36.90	32.73	29.41	15.54	19.72
Savings shares:						
- maximum		37.00	39.25	39.40	35.00	20.99
- minimum		23.00	30.00	30.00	16.00	16.22
- average		29.80	34.89	34.72	24.50	18.20
- period-end		36.50	30.00	35.00	17.10	20.00

Saipem and FTSE MIB - Average monthly prices January 2009-July 2014



Glossary

Financial terms

- **Adjusted net result** net result adjusted to exclude special items.
- **EBIT** Earnings Before Interest and Tax (operating result).
- **EBITDA** Earnings Before Interest, Taxes, Depreciation and Amortisation.
- **IFRS** International Financial Reporting Standards. Accounting standards issued by the IASB (International Accounting Standards Board) and adopted by the European Commission, comprising International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) and the interpretations issued by the International Financial Reporting Interpretation Committee (IFRIC) and the Standing Interpretations Committee (SIC) adopted by the IASB. The name International Financial Reporting Standards (IFRS) has been adopted by the IASB for standards issued after May 2003. Standards issued before May 2003 have maintained the denomination IAS.
- **Leverage** a measure of a company's level of indebtedness, calculated as the ratio between net borrowings and shareholders' equity including minority interest.
- **OECD** Organisation for Economic Cooperation and Development.
- **ROACE** Return On Average Capital Employed, calculated as the ratio between the net result before minority interest, plus net finance charges on net borrowings less the related tax effect and net average capital employed.
- **Special items** items of income arising from events or transactions that are non-recurring or that are not considered to be representative of the ordinary course of business.

Operational terms

- **Buckle detection** system that utilises electromagnetic waves during pipelaying to signal collapse of or deformations to pipeline laid.
- **Carbon Capture and Storage** technology which enables the carbon present in gaseous effluents from hydrocarbon combustion and treatment plants to be captured and stored over long periods of time in underground geological formations, thus reducing or eliminating carbon dioxide emissions into the atmosphere.
- **Central Processing Facility** production unit performing the first transformation of crude oil or natural gas.
- **Commissioning** series of processes and procedures undertaken in order to start operations of a gas pipeline, associated plants or equipment.
- **Concrete coating** reinforced concrete coating for subsea pipelines in order to ballast and protect them from damage and corrosion.
- **Conventional waters** water depths of up to 500 metres.
- **Cracking** chemical-physical process, typically employed in dedicated refinery plants, whose objective is to break down the heavy hydrocarbon molecules obtained from primary distillation into lighter fractions.
- **Deck** area of a vessel or platform where process plants, equipment, accommodation modules and drilling units are located.
- **Decommissioning** process undertaken in order to end operations of a gas pipeline, associated plant or equipment. Decommissioning may occur at the end of the life of the plant, following an accident, for technical or financial reasons, and/or on environmental or safety grounds.
- **Deep waters** water depths of over 500 metres.
- **Downstream** all operations that follow exploration and production operations in the oil sector.
- **Drillship** vessel capable of self-propulsion, designed to carry out drilling operations in deep waters.
- **Dry-tree** wellhead located above the water on a floating production platform.
- **Dynamic Positioned Heavy Lifting Vessel** vessel equipped with a heavy-lift crane, capable of holding a precise position through the use of thrusters, thereby counteracting the force of the wind, sea, current, etc.
- **EPC** (Engineering, Procurement, Construction) a type of contract typical of the Onshore construction sector, comprising the provision of engineering services, procurement of materials and construction. The term 'turnkey' is used to indicate that the system is delivered to the client ready for operations, i.e. already commissioned.
- **EPCI** (Engineering, Procurement, Construction, Installation) type of contract typical of the Offshore construction sector, which relates to the realisation of a complex project where the global or main contractor (usually a construction company or a consortium) provides the engineering services, procurement of materials, construction of the system and its infrastructure, transport to site, installation and commissioning/preparatory activities for the start-up of operations.
- **Fabrication yard** yard at which offshore structures are fabricated.
- **Facilities** auxiliary services, structures and installations required to support the main systems.
- **FDS** (Field Development Ship) dynamically-positioned multi-purpose crane and pipelay vessel.
- **FEED** (Front End Engineering and Design) basic engineering and preliminary activities carried out before beginning a complex project to evaluate its technical aspects and enable an initial estimate of the investment required.
- **Flare** tall metal structure used to burn off gas produced by oil/gas separation in oil fields when it is not possible to utilise it on site or ship it elsewhere.

- **FLNG** Floating Liquefied Natural Gas unit used for the treatment, liquefaction and storage of gas which is subsequently transferred onto vessels for transportation to end-use markets.
- **Floatover** type of module installation on offshore platforms that does not require lifting operations. A specialised vessel transporting the module uses a ballast system to position itself directly above the location where the module is to be installed. Once this has been completed, the vessel backs off and the module is secured to the support structure.
- **Flowline** pipeline used to connect individual wells to a manifold or to gathering and processing facilities.
- **FPSO vessel** Floating Production, Storage and Offloading system comprising a large tanker equipped with a high-capacity production facility. This system, moored at the bow to maintain a geo-stationary position, is effectively a temporarily fixed platform that uses risers to connect the subsea wellheads to the on-board processing, storage and offloading systems.
- **FSRU** (Floating Storage Regasification Unit) a floating terminal in which liquefied natural gas is stored and then regasified before being transported by pipeline.
- **Gas export line** pipeline for carrying gas from the subsea reservoirs to the mainland.
- **Hydrocracker** installation in which large hydrocarbon molecules are broken down into smaller ones.
- **Hydrotesting** operation involving high pressure (higher than operational pressure) water being pumped into a pipeline to ensure that it is devoid of defects.
- **Hydrotreating** refining process aimed at improving the characteristics of oil fractions.
- **International Oil Companies** privately-owned, typically publicly traded, oil companies engaged in various fields of the upstream and/or downstream oil industry.
- **Jacket** platform underside structure fixed to the seabed using piles.
- **Jack-up** mobile self-lifting unit comprising a hull and retractable legs used for offshore drilling operations.
- **J-laying** method of pipelaying that utilises an almost vertical launch ramp, making the pipe configuration resemble the letter 'J'. This configuration is suited to deep water pipe laying.
- **Leased FPSO** FPSO vessel for which a lease contract is in place between a client/lessee (i.e. an oil company) and a contractor/lessor, whereby the lessee makes lease payments to the lessor for use of the vessel for a specific period of time. At the end of the lease term, the lessee has the option to purchase the FPSO.
- **Local Content** policy whereby a company develops local capabilities, transfers its technical and managerial know-how and enhances the local labour market and businesses through its own business activities.
- **LNG** (Liquefied Natural Gas) obtained by cooling natural gas to minus 160° C. At normal pressure, gas is liquefied to facilitate its transportation from the place of extraction to that of processing and/or utilisation. A tonne of LNG is equivalent to 1,500 cubic metres of gas.
- **LPG** (Liquefied Petroleum Gas) produced in refineries through the fractionation of crude oil and subsequent processes, liquid petroleum gas exists in a gaseous state at ambient temperatures and atmospheric pressure, but changes to a liquid state under moderate pressure at ambient temperatures, thus enabling large quantities to be stored in easy-to-handle metal pressure vessels.
- **LTI** (Lost Time Injury) any work-related injury that renders the injured person temporarily unable to perform any regular job or restricted work on any day/shift after the day or shift on which the injury occurred.
- **Midstream** sector comprising all those activities relating to the construction and management of the oil transport infrastructure.
- **Moon pool** opening in the hull of a drillship to allow for the passage of operational equipment.
- **Mooring buoy** offshore mooring system.
- **Multipipe system** subsea gas/liquid gravity separation system using a series of small diameter vertical separators operating in parallel (for deep water application).
- **National Oil Companies** state-owned/controlled companies engaged in oil exploration, production, transportation and conversion.
- **NDT** (Non Destructive Testing) series of inspections and tests used to detect structural defects conducted using methods that do not alter the material under inspection.
- **NDT Phased Array** non-destructive testing method that employs ultrasound to detect structural or welding defects.
- **Offshore/Onshore** the term offshore indicates a portion of open sea and, by extension, the activities carried out in this area, while onshore refers to land operations.
- **Oil Services Industry** companies that provide services to the oil exploration and production sector but which are not directly engaged themselves in oil production.
- **Pig** piece of equipment used to clean, descale and survey a pipeline internally.
- **Piggy backed pipeline** small-diameter pipeline, fixed to a larger pipeline, used to transport a product other than that of the main line.
- **Pile** long, heavy steel pylon driven into the seabed. A system of piles is used as the foundation for anchoring a fixed platform or other offshore structures.
- **Pipe-in-pipe** subsea pipeline system comprising 2 coaxial pipes, used to transport hot fluids (oil and gas). The inner pipe transports the fluid, whereas the outer pipe carries the insulating material necessary to reduce heat loss to the sea. The outer pipe also protects the pipeline from water pressure.
- **Pipe-in-pipe forged end** forged end of a coaxial double pipe.
- **Pipelayer** vessel used for subsea pipe laying.
- **Pipeline** pipes and auxiliary equipment used principally for transporting crude oil, oil products and natural gas to the point of delivery.
- **Pipe Tracking System** (PTS) an electronic system used to ensure the full traceability of the components of subsea pipes installed on a project.
- **Piping and Instrumentation Diagram** (P&ID) diagram showing all plant equipment, piping and instrumentation with associated shutdown and safety valves.

- **Pre-commissioning** phase comprising pipeline cleaning out and drying.
- **Pre-drilling template** support structure for a drilling platform.
- **Pre-Salt layer** geological formation on the continental shelves offshore Brazil and Africa.
- **Pre Travel Counselling** health and medical advice designed to take into account the health of the individual worker and ensure that he/she is furnished with adequate information on the specific risks present in his/her country of destination and the preventive measures that should be adopted.
- **Pulling** minor operations on oil wells due to maintenance or marginal replacements.
- **QHSE** Quality, Health, Safety, Environment.
- **Rig** drilling installation comprising the derrick, the drill deck (which supports the derrick), and ancillary installations that enable the descent, ascent and rotation of the drill unit, as well as mud extraction.
- **Riser** manifold connecting the subsea wellhead to the surface.
- **ROV** (Remotely Operated Vehicle) unmanned vehicle, piloted and powered via umbilical, used for subsea surveys and operations.
- **Shale gas** unconventional gas extracted from shale deposits.
- **Shallow water** see Conventional waters.
- **Sick Building Syndrome** a combination of ailments associated with a person's place of work. The exact causes of the syndrome are not known but the presence of volatile organic compounds, formaldehyde, moulds and dust mites may be contributing factors.
- **S-laying** method of pipelaying that utilises the elastic properties of steel, making the pipe configuration resemble the letter 'S', with one end on the seabed and the other under tension on-board the ship. This configuration is suited to medium to shallow-water pipelaying.
- **Slug catcher** equipment for the purification of gas.
- **Sour water** water containing dissolved pollutants.
- **Spar** floating production system, anchored to the seabed by means of a semi-rigid mooring system, comprising a vertical cylindrical hull supporting the platform structure.
- **Spare capacity** relationship between crude oil production and production capacity, i.e. quantity of oil that is not currently needed to meet demand.
- **Spool** connection between a subsea pipeline and the platform riser, or between the terminations of 2 pipelines.
- **Spoolsep** unit used to separate water from oil as part of the crude oil treatment process.
- **Stripping** process through which volatile compounds are removed from the liquid solution or the solid mass in which they have been diluted.
- **Subsea processing** operations performed in offshore oil and/or natural gas field developments, especially relating to the equipment and technology employed for the extraction, treatment and transportation of oil or gas below sea level.
- **Subsea tiebacks** lines connecting new oil fields with existing fixed or floating facilities.
- **Subsea treatment** new process for the development of marginal fields. The system involves the injection and treatment of sea-water directly on the seabed.
- **SURF** (Subsea, Umbilicals, Risers, Flowlines) facilities, pipelines and equipment connecting the well or subsea system to a floating unit.
- **Tandem Offloading** method used for the transfer of liquids (oil or LNG) between 2 offshore units in a line via aerial, floating or subsea lines (unlike side-by-side offloading, where the 2 units are positioned next to each other).
- **Tar sands** mixture of clay, sand, mud, water and bitumen. The bitumen in tar sands is composed principally of high molecular weight hydrocarbons and can be converted into a variety of oil products.
- **Template** rigid modular subsea structure where the oilfield well-heads are located.
- **Tender assisted drilling unit** (TAD) offshore platform complete with drilling tower, connected to a drilling support tender vessel housing all necessary ancillary infrastructures.
- **Tendon** pulling cables used on tension leg platforms to ensure platform stability during operations.
- **Tension Leg Platform** (TLP) fixed-type floating platform held in position by a system of tendons and anchored to ballast caissons located on the seabed. These platforms are used in ultra-deep waters.
- **Tie-in** connection between a production line and a subsea wellhead or simply a connection between two pipeline sections.
- **Tight oil** oil 'trapped' in liquid form deep below the earth's surface in low permeability rock formations, which it is difficult to extract using conventional methods.
- **Topside** portion of a platform above the jacket.
- **Train** series of units carrying out a complex refining, petrochemical, liquefaction or natural gas regasification process. A plant may be made up of one or more trains of equal capacity operating in parallel.
- **Trenching** burying of offshore or onshore pipelines.
- **Trunkline** oil pipeline connecting large storage facilities to the production facilities, refineries and/or onshore terminals.
- **Umbilical** flexible connecting sheath, containing flexible pipes and cables.
- **Upstream** relating to exploration and production operations.
- **Vacuum** second stage of oil distillation.
- **Wellhead** fixed structure separating the well from the outside environment.
- **Wellhead Barge** (WHB) vessel equipped for drilling, workover and production (partial or total) operations, connected to process and/or storage plants.
- **Workover** major maintenance operation on a well or replacement of subsea equipment used to transport the oil to the surface.

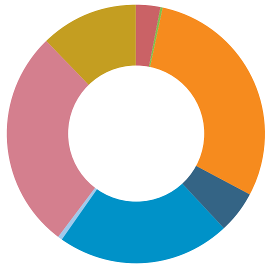
Operating review

As a result of the introduction of the new IFRS 10 and IFRS 11 accounting standards, the rules for consolidating Saipem Group investments have been redefined. IFRS 11 requires investments in joint ventures to be accounted for using the equity method, from January 1, 2014. Previously, these shareholdings were consolidated using the proportional method. Operating data for the Group is presented here using the new consolidation rules. Prior period data has been adjusted for comparative purposes.

New contracts and backlog

New contracts awarded to the Saipem Group during the first half of 2014 amounted to €13,132 million (€6,704 million in the first half of 2013).
63% of all contracts awarded were in the Offshore Engineering & Construction sector, 33% in the Onshore Engineering & Construction sector, 1% in the Offshore Drilling sector and 3% in the Onshore Drilling sector.

New contracts by geographical area
(€13,132 million)



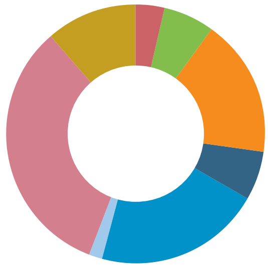
New contracts to be carried out abroad made up 97% and contracts awarded by Eni Group companies 8% of the overall figure. Orders awarded to the parent company Saipem SpA accounted for 71% of the overall total.

Saipem Group - New contracts awarded during the first half of 2014

Year 2013		Year 2013 restated		(€ million)	First half 2013		First half 2013 restated		First half 2014	
Amount	%	Amount	%		Amount	%	Amount	%	Amount	%
1,590	15	1,626	16	Saipem SpA	1,510	21	1,524	23	3,568	27
9,063	85	8,436	84	Group companies	5,641	79	5,180	77	9,564	73
10,653	**100**	**10,062**	**100**	**Total**	**7,151**	**100**	**6,704**	**100**	**13,132**	**100**
5,777	54	5,581	55	Offshore Engineering & Construction	4,155	58	4,038	60	8,238	63
2,566	24	2,193	22	Onshore Engineering & Construction	1,956	27	1,635	24	4,328	33
1,401	13	1,401	14	Offshore Drilling	913	13	913	14	142	1
909	9	887	9	Onshore Drilling	127	2	118	2	424	3
10,653	**100**	**10,062**	**100**	**Total**	**7,151**	**100**	**6,704**	**100**	**13,132**	**100**
591	6	547	5	Italy	364	5	378	6	406	3
10,062	94	9,515	95	Outside Italy	6,787	95	6,326	94	12,726	97
10,653	**100**	**10,062**	**100**	**Total**	**7,151**	**100**	**6,704**	**100**	**13,132**	**100**
1,514	14	1,514	15	Eni Group	1,134	16	1,134	17	1,040	8
9,139	86	8,548	85	Third parties	6,017	84	5,570	83	12,092	92
10,653	**100**	**10,062**	**100**	**Total**	**7,151**	**100**	**6,704**	**100**	**13,132**	**100**

The backlog of the Saipem Group as at June 30, 2014 stood at €24,215 million.
The breakdown of the backlog by sector is as follows: 55% in the Offshore Engineering & Construction sector, 27% in the Onshore Engineering & Construction sector, 12% in Offshore Drilling and 6% in Onshore Drilling.
96% of orders are on behalf of overseas clients, while orders from Eni Group companies represent 12% of the overall backlog.
The parent company Saipem SpA accounted for 29% of the total order backlog.

Backlog
by geographical area
(€24,215 million)



Saipem Group - Backlog as at June 30, 2014

Dec. 31, 2013		Dec. 31, 2013 restated		(€ million)	June 30, 2013		June 30, 2013 restated		June 30, 2014	
Amount	%	Amount	%		Amount	%	Amount	%	Amount	%
5,189	30	5,189	30	Saipem SpA	8,204	38	8,204	39	7,071	29
12,325	70	11,876	70	Group companies	13,500	62	12,965	61	17,144	71
17,514	**100**	**17,065**	**100**	**Total**	**21,704**	**100**	**21,169**	**100**	**24,215**	**100**
8,447	48	8,320	49	Offshore Engineering & Construction	10,666	49	10,552	50	13,374	55
4,436	25	4,114	24	Onshore Engineering & Construction	6,656	31	6,235	29	6,552	27
3,390	20	3,390	20	Offshore Drilling	3,543	16	3,543	17	2,976	12
1,241	7	1,241	7	Onshore Drilling	839	4	839	4	1,313	6
17,514	**100**	**17,065**	**100**	**Total**	**21,704**	**100**	**21,169**	**100**	**24,215**	**100**
784	4	784	5	Italy	1,852	9	1,838	9	928	4
16,730	96	16,281	95	Outside Italy	19,852	91	19,331	91	23,287	96
17,514	**100**	**17,065**	**100**	**Total**	**21,704**	**100**	**21,169**	**100**	**24,215**	**100**
2,261	13	2,261	13	Eni Group	3,213	15	3,213	15	2,850	12
15,253	87	14,804	87	Third parties	18,491	85	17,956	85	21,365	88
17,514	**100**	**17,065**	**100**	**Total**	**21,704**	**100**	**21,169**	**100**	**24,215**	**100**

Capital expenditure

Capital expenditure in the first half of 2014 amounted to €329 million (€490 million in the first half of 2013) and mainly related to:
- €135 million in the Offshore Engineering & Construction sector, relating mainly to the continuation of construction activities on the new base in Brazil, class reinstatement works on the heavy lift vessel Saipem 3000 and the maintenance and upgrading of the existing asset base;
- €20 million in the Onshore Engineering & Construction sector relating to the purchase of equipment and the maintenance of the existing asset base;
- €105 million in the Offshore Drilling sector, relating mainly to class reinstatement works for the semi-submersible rig Scarabeo 7, and to the maintenance and upgrading of the existing asset base;
- €69 million in the Onshore Drilling sector, relating to upgrading of rigs due to operate in Saudi Arabia, and to the maintenance and upgrading of the existing asset base.

The following table provides a breakdown of capital expenditure in the first half of 2014:

Capital expenditure

Year 2013	Year 2013 restated	(€ million)	First half 2013	First half 2013 restated	First half 2014
157	157	Saipem SpA	49	49	48
751	745	Group companies	443	441	281
908	**902**	**Total**	**492**	**490**	**329**
398	393	Offshore Engineering & Construction	213	212	135
125	124	Onshore Engineering & Construction	89	88	20
174	174	Offshore Drilling	64	64	105
211	211	Onshore Drilling	126	126	69
908	**902**	**Total**	**492**	**490**	**329**

Details of capital expenditure for the individual business units are provided in the following pages.

Offshore Engineering & Construction

General overview

The Saipem Group possesses a strong, technologically advanced and highly versatile fleet, as well as world class engineering and project management expertise. These unique capabilities and competencies, together with a long-standing presence in strategic frontier markets, represent an industrial model that is particularly well suited to EPCI projects.

The fleet's flagship vessel is the Castorone – 330-metre long, 39-metre wide mono-hull pipelay vessel equipped with a class 3 dynamic positioning (DP) system, an S-lay system and features allowing for the installation of a J-lay tower.
The Castorone has been designed for challenging large-diameter, deep water pipelay projects, but it also possesses the flexibility and productivity necessary for effective deployment on less complex projects.
The vessel's distinctive features include a class 3 DP system, the capacity to fabricate and lay triple joint pipes of up to 48" in diameter (60" including coating) with a tensioning capacity of up to 750 tonnes (up to 1,500 tonnes in conditions of pipe flooding using a special patented clamp), a highly automated firing line made up of 7 workstations (3 welding and 4 completion/inspection stations), an articulated stinger for pipelaying in shallow and deep water with an advanced control system, and the capacity to operate in extreme environments (Ice Class A0).

Meanwhile, the current trend for deep water field developments continues to drive the success of the FDS 2, which is a 183-metre long, 32-metre wide mono-hull equipped with a cutting-edge class 3 DP system and a pipeline fabrication system. The FDS 2 has a vertical J-lay tower with a holding capacity of 2,000 tonnes capable of laying quad joint sealines of up to 36" in diameter and also possesses the capability to operate in S-lay mode.
With its 1,000 tonne crane and two 750 and 500 tonne capstan winches (the latter featuring a heave compensation system), the FDS 2 is suited to even the most challenging of deep water projects.
Saipem's fleet of technologically advanced vessels also includes the Saipem 7000, which is equipped with a dynamic positioning system, has a 14,000-tonne lifting capacity, is capable of laying subsea pipelines in ultra-deep waters using the J-lay system and can handle a suspended load of up to 1,450 tonnes during pipelay operations. The fleet further comprises the Castoro Sei, a semi-submersible pipelay vessel capable of laying large diameter subsea pipelines, the Field Development Ship (FDS), which is a special purpose vessel used in the development of deep water fields, equipped with a dynamic positioning system, a 600-tonne lifting capacity crane and a vertical pipelaying system capable of operating in water depths of over 2,000 metres and the Saipem 3000, which is capable of laying flexible pipelines and installing umbilicals and mooring systems in deep waters and installing subsea structures of up to 2,200 tonnes.

Saipem is involved on an ongoing basis in the management and development of its fleet, carrying out constant maintenance and continuous upgrading and improvement of its assets in line with technological developments and client requests, with the aim of conserving its operating capacity and safety features in a continuously evolving market.

During the period, work was completed in Brazil for the development of a fabrication yard for subsea and floating facilities, as well as a logistics base on a 35-hectare area purchased in October 2011 located in the district of Guarujá. The area is situated strategically at about 350 km from the Santos Basin, the offshore Brazilian region where Pre-Salt fields have been discovered in ultra-deep water, and at 650 km from the Campos Basin, the other most important offshore basin in Brazil.
Saipem's work in the new yard will complement the services offered by the highly specialised ultra-deep water fleet that the Company has developed over the last few years and will also enable Saipem to meet the particularly stringent local content requirements imposed in Brazil in the hi-tech ultra-deep water development sector.

During the period, the Karimun fabrication yard in Indonesia continued construction work on various Group projects. Saipem also enjoys a strong position in the subsea market, thanks to its use of highly sophisticated technologies, such as subsea ROVs and specially equipped robots capable of carrying out complex deep-water pipeline operations.
Finally, the Company is also active in the Leased FPSO sector, with a fleet comprising the Cidade de Vitoria, and the Gimboa.

Market conditions

An improvement in the macroeconomic environment compared with the previous year notwithstanding, the signs are that 2014 will fall short of expectations in advanced countries and emerging markets alike, with growth in world GDP estimated once again at under 3%. In spite of this, the Brent crude price continues to remain above $100 per barrel, which is sufficiently high to allow the Oil Companies to confirm their levels of investment in offshore field development from the previous year. Expected spending in the Asia-Pacific region however, and in particular in Australia, has fallen, with significant cost escalations on projects currently underway causing delays on new project awards.

Meanwhile, the significant growth registered on the subsea developments market in recent years is expected to continue. After a period which saw a series of major projects undertaken in the North Sea area, which included Eni's Goliat project (currently at an advanced stage of development), West Africa and South America are now expected to see the segment's highest levels of activity. Work is in fact continuing in Nigeria on the development of the Usan field (Sinopec), in Angola on the PSVM (BP) and GiRRi fields (Total), and in Brazil on the Parque das Baleias and Marlim Sul fields (both Petrobras). For its complexity and size, the subsea development project for the Kaombo field in Angola is one of the year's most significant awards, while the end of the year is also expected to bring the award of the SURF package on the Gendalo/Gehem project in Indonesia. The significant levels of activity registered in the South Atlantic area continued during the first half of 2014, with sustained growth registered in deep water and ultra-deep water operations.

The small diameter pipe segment registered an overall increase in installed kilometres over the period. The Asia-Pacific area – at present experiencing high levels of activity, due in part to work taking place on a number of major projects, some of which are approaching their conclusion – registered however only limited growth, with many of the installations initially slated for 2014 not having yet been awarded. South America and West Africa, on the other hand, recorded the largest increase in terms of kilometres installed and this meant there was significant growth in the period in the ultra-deep waters segment, driven principally by projects situated in Brazil, such as Petrobras' Roncador and Iracema projects (currently under construction), which are typical of a market where the focus, increasingly, is on projects involving challenging conditions.

The large diameter segment is experiencing large amounts of activity in Latin America and Asia-Pacific, with the Ichthys Gas Export line (Inpex) among the longest installed in 2014.
Large diameter pipeline installations continue to be almost exclusively the preserve of shallow waters, although the numerous projects underway in Brazil and the South Stream pipeline are set to lead to a significant rise in kilometres installed in deep waters and ultra-deep waters. The Gulf of Mexico area, after the intense levels of activity registered in recent years, is experiencing a slight downturn.

The fixed platform installations sector is showing some signs of a slowdown, with volumes for the year projected to fall short of the number registered in 2013. The area most affected by this trend is the Asia-Pacific, which is seeing a significant contraction in activities, following the series of major projects completed in 2013.

Demand in the FPSO sector maintained the positive levels registered in the previous year. Five units have already been ordered this year, of which three are slated to operate in Angola alone (Kaombo 1 and 2, and East Hub). Expectations meanwhile are that the figures for the whole of 2014 will exceed the ten orders placed in 2013. In Brazil, in spite of the favourable expectations, activities are undergoing a slowdown, with a number of projects postponed by Petrobras. The situation is being exacerbated by delays on a large number of projects underway in the area, partly due to the inability of local capacity to meet the growing demand.

Meanwhile the FLNG market, having shown very favourable signs in recent years, is being affected by a series of constant delays in awards in all areas of the segment. 2014 has nevertheless seen the award of the Rotan FLNG project (Petronas), which brought the number of units under construction to four, while numerous other projects are currently either at a very advanced stage of conceptual development design or else awaiting approval.
This latter group includes Excelerate's Lavaca Bay project in the USA, as well as four in Australia, with Scarborough the most significant in terms of processing capacity.

New contracts

The most significant contracts awarded to the Group during the period were:

- the Kaombo project for Total in Angola, comprising engineering, procurement, installation and commissioning of two FPSO vessels, plus a seven-year contract for operation and maintenance services of the two vessels;
- for South Stream Transport BV, in Russia:
    - a contract for the installation design and the construction of the first line of the South Stream Offshore Pipeline, from Russia to Bulgaria across the Black Sea, plus the shallow water parts, the shore crossings, the landfall and the associated facilities for the four pipelines. The pipeline construction will be carried out by Saipem 7000;
    - a contract to provide supporting works relating to the construction of the second line of the South Stream Offshore Pipeline, including engineering, coordination of pipe storage yards, cable crossing preparation, and connecting the offshore pipeline to the landfall sections using the above-water tie-ins;
- for BP, in Azerbaijan, a T&I contract involving the transportation and installation of jackets, topsides and subsea production systems and subsea structures for stage 2 of the Shah Deniz field development project;
- for Petrobras in Brazil, the Lula Norte, Lula Sul and Lula Extremo Sul project, which encompasses the engineering, procurement, fabrication and installation of three offshore pipelines;
- for Eni, in Indonesia, an EPCI contract for a Floating Production Unit (FPU) for the Jangkrik Complex Project development. The scope of work includes engineering, procurement, fabrication of the FPU and the installation of a mooring system, as well as hook-up, commissioning and assistance to the start-up;
- for Eni E&P, in Italy, a T&I contract involving the transportation and installation of a platform and a subsea pipeline in the Mediterranean Sea;
- for Aker Solutions, in Congo, a contract for the fabrication of subsea structures, including suction anchors, for the Moho project.

Capital expenditure

Capital expenditure in the Offshore Engineering & Construction sector mainly related to the continuation of construction work on the new base in Brazi, class reinstatement works on the heavy lift vessel Saipem 3000 and to the maintenance and upgrading of the existing asset base.

Work performed

The biggest and most important projects underway or completed during the first half of 2014 were.

In Saudi Arabia, for Saudi Aramco:
- installation work is underway as part of the **Al Wasit Gas Program**, for the development of the Arabiyah and Hasbah offshore fields. The contract encompasses the engineering, procurement, construction and installation of 15 fixed platforms, an export pipeline, offshore lines, and subsea and control cables. Operations have begun under the same contract supplementing the scope of work with the engineering, procurement, transport, installation and commissioning of 2 trunklines in the Arabiyah and Hasbah fields;
- under the **Long Term Agreement**, for the engineering, procurement, construction, transport and installation of structures, platforms and pipelines, work was completed on the construction of two jackets, while work is underway on the installation of five pipelines and the two jackets, and on the construction and installation of three decks;
- work commenced on the **Marjan/Zuluf** contract encompassing the engineering, procurement, fabrication, transport and installation of new offshore facilities, including three platforms, three jackets, associated pipelines and subsea cables.

In Iraq, work continued for South Oil Co, on the project **Iraq Crude Oil Export Expansion - Phase 2**, within the framework of the expansion of the Basra Oil Terminal. The contract encompasses the engineering, procurement, construction and installation of a Central Metering and Manifold Platform (CMMP), along with associated facilities.

In the Far East:
- work continued for Husky Oil China Ltd in China on the **Liwan 3-1** project encompassing the engineering, procurement and installation of two pipelines, umbilicals, and the transport and installation of a subsea production system linking the wellheads to a processing platform;
- engineering and design work continued in Indonesia on the **Masela FLNG** project for Inpex Masela Ltd, which encompasses the Front-end Engineering and Design (FEED);
- works are ongoing for Eni in Indonesia on the **Jangkrik** EPCI project, which encompasses engineering, procurement, fabrication of an FPU and the installation of a mooring system as well as hook-up, commissioning and assistance to the start-up.

Engineering and logistical preparation work continued in Australia for INPEX on the **Ichthys LNG** project, which consists of the engineering, procurement, construction and installation of a subsea pipeline connecting the offshore central processing facility to the onshore processing facility in Darwin.

In West Africa:
- work was completed offshore Nigeria on the **Bonga North West** contract for Shell Nigeria Exploration and Production Co Ltd (SNEPCo). The contract encompassed the engineering, procurement, construction, installation and pre-commissioning services for pipe-in-pipe production flowlines, flowlines for injecting water into fields as well as related subsea production facilities;
- work is underway for Total Upstream Nigeria Ltd on the EPCI contract for the subsea development of the **Egina** field. The scope of work includes engineering, procurement, fabrication, installation and pre-commissioning of subsea oil production and gas export pipelines, flexible jumpers, and umbilicals;
- work is underway for MPNU (Mobil Producing Nigeria Unlimited) on the **Usari Idoho** project, encompassing the transportation and installation of a shallow water pipeline, which will connect the Idoho and Usari platforms;
- work continued for Cabinda Gulf Oil Co Ltd (CABGOC), in Angola, on the **Mafumeira 2** project comprising engineering, procurement, fabrication, installation and pre-commissioning of URF (umbilical, riser and flowline) facilities and export pipelines;
- work is underway for ExxonMobil, in Angola, on the **Kizomba Satellite Phase 2** project at the yards in Soyo and Ambriz. The scope of work includes engineering, procurement, fabrication and installation of production and water injection pipelines and flowlines, rigid jumpers and other related subsea structures;
- work continued for Total Exploration and Production on the **GirRI (Girassol Resources Initiatives)** contract, in Block 17 in Angola, which encompasses engineering, procurement, fabrication, installation and commissioning of changes to the topside of the pumping system on the FPSOs Girassol and Dalia;
- work is underway for Eni Congo, in Congo, on a contract encompassing the engineering, procurement, fabrication and transportation of the **Litchendjili** jacket, piles and related appurtenances;
- project management and commissioning work commenced for Total in Angola on the **Kaombo Field Development Project**, which comprises engineering, procurement and commissioning of two FPSO vessels;
- works are underway for Hyundai Heavy Industries on the **Hyundai Moho** contract for the fabrication of offshore structures in Congo. The scope of work encompasses the fabrication of the conductor pipes and of the mooring and tendon piles for a tension leg platform;
- for CABGOC, work has commenced on the third installation campaign of the **Congo River Crossing Pipeline** project, comprising engineering, procurement, fabrication and the installation of three subsea pipelines and subsea spools, as

well as trenching and crossing works. The project is being carried out off the coasts of Angola and the Democratic Republic of the Congo.

Work continued for Burullus Gas Co, in Egypt, on a contract encompassing the engineering, procurement, installation, pre-commissioning and commissioning support of subsea facilities in the **West Delta Deep Marine Concession**.

In the North Sea:
- work continued for Dong E&P in the Danish sector of the North Sea on the **Hejre** project, which encompasses engineering, procurement, construction and installation of two pipelines that will connect the Hejre field to the Hejre platform;
- final umbilical tie-in operations are currently underway for GDF Suez in the UK on the **Cygnus** phase 2 project, encompassing the installation of an infield flowline, an export pipeline and umbilicals in the Southern Gas Basin;
- work continued for Det Norske Oljeselskap ASA on a contract encompassing the transportation and installation of the **Ivar Aasen jacket** and the **topside**, in the Norwegian sector of the North Sea;
- work is underway for Talisman Energy Ltd on the **MonArb** project, encompassing the transportation and installation of a jacket, topside, bridge and flares;
- various structures were installed using the Saipem 7000 for ConocoPhillips (**Eldfisk**), and Statoil (**Lundin** and **Statoil decommissioning**).

In Russia:
- work is underway for Lukoil-Nizhnevolzhskneft in Russia on the **Filanovsky** contract for the engineering, procurement, fabrication and installation of an oil pipeline and a gas pipeline in a maximum water depth of 6 metres, along with related onshore pipelines connecting the riser block in the offshore field to the onshore shut-off valves. Work is also underway on the additional scope of work comprising the transport and installation of four platforms;
- work commenced for South Stream Transport BV on the contract for the **South Stream** project, which encompasses the installation design and construction of the first line of the South Stream Offshore Pipeline, from Russia to Bulgaria, across the Black Sea.

In Azerbaijan, in the framework of the **Under Water Operation** in Azerbaijan, subsea inspection, maintenance and repair works continued for BP Exploration (Caspian Sea) Ltd on BP offshore infrastructures in the Azeri offshore, including platforms installed by BP in previous years. Meanwhile, for AIOC, as part of the **Chirag Oil Project**, work was completed on the transportation and installation of the jacket and topside.

In Kazakhstan:
- as part of the programme for the development of the Kashagan field, logistical support work is underway for Agip KCO on the **Hook-Up and Commissioning** project, encompassing the hook-up and commissioning of offshore facilities. Work has been completed on the fabrication and completion of modules at the Kuryk yard;
- work continued for Teniz Burgylau Llp on the fabrication, outfitting and commissioning of a jack-up rig in consortium with **Keppel Kazakhstan Llp**;
- work is underway for Agip Kazakhstan North Caspian Operating Co NV on the contract for the **EP Clusters 2 and 3** project in the framework of the Kashagan field development in Kazakhstan. The contract includes engineering, procurement, fabrication, and transportation of three topside production manifold modules;
- work is underway for North Caspian Production Operations Co BV on the **Major Maintenance Services** project. The contract encompasses the provision of maintenance and services for Offshore (D island) and Onshore (OPF) facilities.

In addition, in Kazakhstan, for Agip KCO (consortium in which Eni, ExxonMobil, Shell, Total and KazMunaiGas hold shares of 16.81% each, with smaller stakes also held by CNPC and Inpex), Saipem undertook the **Trunkline and Production Flowlines** project in accordance with client specifications, completing the requested work in 2010. The project encompassed the engineering, procurement, coating, laying and commissioning of pipelines, fibre optic cables and umbilicals. After leakages were detected in a section of the onshore pipelines, the client asked Saipem to address the issue under the guarantee. However, Saipem, having received advice from qualified external legal consultants, does not consider itself obliged to perform these works, given that acceptance of the works performed was obtained in October 2010, meaning that the guarantee period expired in October 2011. Saipem has invited the client to investigate other potential areas of responsibility for the problems identified (e.g. management of the pipeline by the client after delivery, inadequate specifications provided by client; inadequate quality of the piping). At the current point in time, no dispute is underway.

In the Gulf of Mexico:
- work was completed for Discovery Producers Llc on the contract for the transport and installation of the gas export pipeline **Keathley Canyon Connector**;
- work has almost been completed for Enbridge Big Foot Oil Export Lateral on the **Big Foot** project, encompassing the engineering, procurement, construction, transportation and installation of a gas pipeline;
- work was completed for Chevron on the **Jack Saint Malo** project, which encompassed the transport and installation of an export pipeline connecting the floating platform Jack Saint Malo;
- work has almost been completed for William's Field Services - Gulf Coast company, LP on the **William's Gulfstar** project, encompassing the transportation and installation of a topside;
- for **Dragados**, in Mexico, work commenced on two T&I contracts for the transport and installation of two offshore platforms in Mexican waters in the Gulf of Mexico. The platforms will be installed using the float-over method, which has never been used before in the Gulf of Mexico;
- installation work on 3 decks and 1 platform commenced for **Permaducto SA de Cv** in the Golfo de Campeche.

In Brazil, for Petrobras:
- work continued on the **P55-SCR** contract, encompassing the engineering, procurement, transportation and offshore installation of flowlines and risers serving the semi-submersible platform P-55 to be installed in the Roncador field, in the Campos Basin, off the coast of the Rio de Janeiro state;
- work continued on the contract for the construction of the **Rota Cabiúnas** gas export trunkline, situated in the Santos Basin Pre-Salt Region. The development comprises the engineering and procurement of subsea equipment and the installation of a gas pipeline in a maximum water depth of 2,200 metres. The pipeline will connect the Central Gathering Manifold in the Lula field, in the Santos Basin, to the onshore Processing Plant of Cabiúnas, located in the Macaé district, in the State of Rio de Janeiro;
- work continued on the **Sapinhoà Norte and Cernambi Sul** project, encompassing the engineering, procurement, fabrication, installation and pre-commissioning of the SLWR (Steel Lazy Wave Riser) for the collection system at the Sapinhoà Norte field, and of the FSHR (Free Standing Hybrid Risers) for the gas export systems at the Sapinhoà Norte and Cernambi Sul fields. Preparatory work also continued on the **Sapinhoà Norte and Iracema Sul** project;
- work was almost completed in the Santos Basin on the **Lula NE Cernambi** contract for the engineering, procurement, construction and installation of a gas pipeline and related subsea equipment.

In Venezuela:
- work continued for Cardon IV on the **Perla EP** project encompassing the transport and installation of three platforms and three pipelines;
- work continued for PDVSA in Venezuela on the construction of the **Dragon - CIGMA** project involving the transportation and installation of the gas pipeline which will connect the Dragon gas platform to the CIGMA complex.

In Italy:
- work for **OLT Offshore LNG Toscana** to convert the gas carrier ship, Golar Frost, has almost been completed. The contract comprises the conversion of the gas carrier vessel provided by the client into a floating LNG regasification terminal, in addition to all offshore works necessary for installation and commissioning;
- work commenced for Eni E&P as part of its **2014 offshore campaign** on a T&I contract for the transportation and installation of a platform and a subsea pipeline in the Mediterranean Sea.

In the Leased FPSO segment, the following vessels carried out operations during the first six months of 2014:
- the **FPSO Cidade de Vitoria** carried out operations as part of an eleven-year contract with Petrobras on the second phase of development of the Golfinho field, situated off the coast of Brazil at a water depth of 1,400 metres;
- the **FPSO Gimboa** carried out operations on behalf of Sonangol P&P, under a six-year contract for the provision and operation of an FPSO unit for the development of the Gimboa field, located in Block 4/05 offshore Angola, at a water depth of 700 metres.

Offshore fleet at June 30, 2014

Saipem 7000	Self-propelled, semi-submersible, dynamically positioned crane and pipelay vessel capable of lifting structures of up to 14,000 tonnes and J-laying pipelines at depths of up to 3,000 metres.
Saipem FDS	Dynamically positioned vessel utilised for the development of deep water fields at depths of over 2,000 metres. Capable of launching 22” diameter pipes in J-lay configuration with a holding capacity of up to 550 tonnes (upgrade to 750 tonnes currently underway) and a lifting capacity of up to 600 tonnes.
Saipem FDS 2	Dynamically positioned vessel utilised for the development of deep water fields, capable of launching pipes with a maximum diameter of 36” in J-lay mode with a holding capacity of up to 2,000 tonnes. Also capable of operating in S-lay mode with a lifting capacity of up to 1,000 tonnes.
Castoro Sei	Semi-submersible pipelay vessel capable of laying large diameter pipe at depths of up to 1,000 metres.
Castoro Sette	Semi-submersible lay barge capable of laying large diameter pipe at depths of up to 1,000 metres.
Castorone	Self-propelled, dynamically positioned pipe-laying vessel operating in S-lay mode with a 120-metre long S-lay stern ramp composed of 3 articulated and adjustable stinger sections for shallow and deep water operation, a holding capacity of up to 750 tonnes (expandable to 1,000 tonnes), pipelay capability of up to 60”, onboard fabrication facilities for triple and double joints and large pipe storage capacity in cargo holds.
Castoro Otto	Derrick pipelay ship capable of laying pipes of up to 60” diameter and lifting structures weighing up to 2,200 tonnes.
Saipem 3000	Self-propelled, dynamically positioned derrick crane ship, capable of laying flexible pipes and umbilicals in deep waters and lifting structures of up to 2,200 tonnes.
Bar Protector	Dynamically positioned, multi-purpose support vessel used for deep water diving operations and offshore works.
Semac 1	Semi-submersible pipelay barge capable of laying large diameter pipe in deep waters.
Castoro II	Derrick lay barge capable of laying pipe of up to 60” diameter and lifting structures of up to 1,000 tonnes.
Castoro 10	Trench/pipelay barge capable of burying pipes of up to 60” diameter and of laying pipes in shallow waters.
Castoro 12	Pipelay barge capable of laying pipes of up to 40” diameter in ultra-shallow waters of a minimum depth of 1.4 metres.
S355	Derrick lay barge capable of laying pipe up to 42” diameter and lifting structures of up to 600 tonnes.
Crawler	Derrick lay barge capable of laying pipe up to 60” diameter and lifting structures of up to 540 tonnes.
Castoro 16	Post-trenching and back-filling barge for pipes of up to 40” diameter in ultra-shallow waters of a minimum depth of 1.4 metres.
Saibos 230	Derrick pipelay barge capable of laying pipe of up to 30” diameter, equipped with a mobile crane for piling, marine terminals and fixed platforms.
Ersai 1	Heavy lifting barge equipped with 2 crawler cranes, capable of carrying out installations whilst grounded on the seabed. The lifting capacities of the 2 crawler cranes are 300 and 1,800 tonnes, respectively.
Ersai 2	Work barge equipped with a fixed crane capable of lifting structures of up to 200 tonnes.
Ersai 3	Support barge with storage space, workshop and offices for 50 people.
Ersai 4	Support barge with workshop and offices for 150 people.
Ersai 400	Accommodation barge for up to 400 people, equipped with antigas shelter for H_2S leaks.
Castoro 9	Cargo barge.
Castoro XI	Heavy-duty cargo barge.
Castoro 14	Cargo barge.
Castoro 15	Cargo barge.
S42	Cargo barge, currently used for storing the J-lay tower of the Saipem 7000.
S43	Cargo barge.
S44	Launch cargo barge, for structures of up to 30,000 tonnes.
S45	Launch cargo barge, for structures of up to 20,000 tonnes.
S46	Cargo barge.
S47	Cargo barge.
S 600	Launch cargo barge, for structures of up to 30,000 tonnes.
FPSO - Cidade de Vitoria	FPSO unit with a production capacity of 100,000 barrels a day.
FPSO - Gimboa	FPSO unit with a production capacity of 60,000 barrels a day.

Onshore Engineering & Construction

General overview

The Saipem Group's Onshore Engineering & Construction expertise is focused on the execution of large projects with a high degree of complexity in terms of engineering, technology and operations, with a strong bias towards challenging projects in difficult environments and remote areas.

Saipem enjoys a worldwide leading position in the Onshore sector, providing a complete range of integrated basic and detailed engineering, procurement, project management and construction services, principally to the oil and gas, complex civil and marine infrastructure and environmental markets. The company places great emphasis on maximising local content during project execution phase in a large number of the areas in which it operates.

Market conditions

The Onshore E&C market registered an excellent level of investments in the first half of 2014, driven by forecast growth in world GDP (albeit slightly below expectations) and by relatively high oil prices. The growing demand for oil and petrochemical products has produced a dynamic fast-paced energy market, fuelled by a continual abundance of non-conventional gas and oil and by a spare production capacity that is gradually falling, due in part to a series of geopolitical factors.
Meanwhile, attempts in a number of countries to replicate the success achieved in North America with non-conventional energy sources is expected to bring new investments, particularly in the upstream segment. The potential for growth however in other geographical areas, such as China, is not comparable with that seen in the USA, where the existing infrastructure network, strong domestic demand and a helpful legislative framework represent a series of advantages that is without equal in the rest of the world. Indeed, conditions have been so conducive to growth as to persuade the USA and Canada to open up to energy exports.
Demand for gas on the Asia-Pacific market is on the up, and this has been attracting investments in new LNG facilities, particularly in Australia, although this latter country has been experiencing a marked slowdown in new project awards as the result of an escalation in construction costs.
Globally, half of the spending that took place in the period was made in the Middle East (Kuwait, Iraq, Saudi Arabia and Oman), in particular in the Refining segment, and in North America (USA and Canada). Other significant investments were registered in the CIS area (Russia, Turkmenistan and Azerbaijan) in the LNG, Petrochemical and Pipeline segments and in Europe (Turkey), which saw the award of a major pipeline construction contract. Major projects were also awarded in Asia-Pacific (China and India), South America (Peru and Brazil) and Central Africa (Cameroon).

The onshore E&C market is currently affected by a number of different factors, which include geopolitical conditions, as well as increasing project complexity. The geopolitical factors at play have included a gradual easing of tensions in a number of areas of the Middle East and North Africa. However, the re-emergence of conflict in Iraq as well as tensions between Russia and Ukraine have contributed to gas prices in Europe remaining high. Meanwhile, the increasing complexity of mega-projects may also be a factor in the slowdown in new contract awards.
Spending in the **Upstream** segment was comparable with the levels recorded over the same period of the previous year, thus confirming that a recovery is underway following the contraction seen in 2012. The Middle East once again underlined its strategic importance, with important project awards made in Iraq, United Arab Emirates and Oman, while the North African market also showed a certain degree of dynamism, with awards made in Algeria.
The Upstream segment continued to show good short to medium term growth potential, driven by ongoing gas and oil field discoveries and developments, although the need invest to maintain production levels in existing fields is becoming more and more pressing. In addition to new investments in the Middle East, significant award activities are expected in the Americas and a number of areas of Africa.
The **Pipelines** segment registered a good level of spending, driven by the award of contracts for the construction of a gas pipeline in Turkey (Tanap - Trans-Anatolia project) and for the Azerbaijani section of BP's Shah Deniz Stage 2 - South Caspian Pipeline Expansion project, with Saudi Arabia also seeing the award of a major gas pipeline construction project.
With the pipeline segment heavily driven by the abundance of available gas and, consequently, by the need to transport the gas from the production fields to the end user markets, recent years have seen projects to build new gas pipelines or to expand existing ones outnumbering oil pipeline projects. This trend is expected to continue in the short to medium term, particularly in countries opting to develop non-conventional fields, as this will require them to make investments to upgrade their distribution infrastructure.
In the short to medium term, projects are slated in all key geographical areas. North America (Canada and USA) is at the forefront in terms of spending, followed by other key areas such as the Middle East, Asia-Pacific and the CIS. Investments are also planned, however in Africa (North, Central and Southern), Europe and South America.
Investments in the **LNG** segment continue to be substantial, with volumes on the rise. The major LNG project planned for the Yamal peninsula in Russia has now entered the implementation phase. In North America, the USA and Canada confirmed their strategic role in the segment, with the award in the USA of two LNG construction contracts (one in Corpus Christi, Texas, by Cheniere, and the other in Hackberry, Louisiana, by Sempra Energy). Canada

meanwhile saw the award of the Kitimat LNG project, situated in Bish Cove, British Columbia.
Investments in North America are being driven by an abundance of gas from non-conventional fields, which is enabling natural gas to be produced at low cost. Henry Hub prices are currently much lower than gas prices on the rest of the world's markets, and with USA produced gas likely to remain affordable in the short to medium term, liquefaction terminal projects represent an increasingly attractive investment opportunity.
The key geographical areas in the segment, with new projects for the construction of liquefaction and regasification facilities currently planned, are Asia-Pacific (Papua New Guinea, Australia, Indonesia and China – the countries with the highest announced levels of spending), North, Central and Southern Africa, the CIS (Russia), and North America (USA and Canada). Meanwhile there may be potentially interesting developments in South America, the Middle East and – looking further forward – East Africa (Mozambique and Tanzania).
In the **Refining** segment there were important contract awards in a number of geographical areas. The Middle East however was where the biggest investments were located, with Kuwait topping the spending list through KNPCs' Clean Fuels Project 2020. Awards were also made in Iraq (Karbala refinery) and in Saudi Arabia (Jazan refinery). The Asia-Pacific area saw the award of a project to construct a CTL (Coal to Liquid) fuel plant in Ningdong in China's Ningxia province. EPC contracts were also awarded in Latin America (Talara refinery in Peru), Central Africa (Phase 2 of the Sonara refinery expansion project in Cameroon) and in North America (Edmonton in Canada).
Constantly growing demand for oil products is spurring investments in the segment. However, the increasingly strict environmental legislation in force, particularly in OECD countries, is requiring the refining industry to modernise continually with existing facilities forced to revamp constantly to achieve increased process efficiencies. The effect has been to encourage small and medium size investments, the closure of outdated refineries and the construction of new Mega Export Refineries in crude producing countries, particularly the Middle East.
The volume of investments forecast for the short to medium term remains considerable for all of the geographical areas monitored. The highest levels of spending are expected to be seen in the Asia-Pacific area, North and South America and the Middle East, although the other geographical areas continue to present opportunities.
Following a decline in 2013, spending in the **Petrochemical** segment reverted to the upwards trend that started in 2012, with important awards made in the Middle East (Saudi Arabia), North Africa (Egypt) and the CIS area (Turkmenistan).
Growth in demand for petrochemical products (ethylene and propylene), especially in the Asia-Pacific area and the Middle East, coupled with steadily rising plant utilisation rates is expected to stimulate spending in the refining segment, through either expansions and/or modernisations of existing facilities and the construction of new plants.
Forecasts for the short to medium term are good, with projects planned mainly in the Middle East, Asia-Pacific, North Africa, the CIS, and North and South America.
The **Fertiliser** segment saw the award of one contract in Brazil for an ammonia plant and one in Iraq for a fertiliser plant. With spending in the segment tending to be cyclical, forecast worldwide growth in demand over the short to medium term is expected to drive investments in the construction of new facilities despite modest volumes being registered during the first half of 2014.
Another characteristic of the Fertilisers market is expected to be the use of small and medium sized investments to fund expansions and modernisations of existing facilities.
New initiatives are planned in all of the areas monitored. In terms of investment volumes, Asia-Pacific, North and South America, the Middle East and Africa (North, Central and Southern) all present opportunities.
Finally, the rapid economic development occurring in the emerging countries is creating an important new market for large-scale civil and port **Infrastructures**, which Saipem is targeting, especially in strategic regions.

New contracts

The most significant contracts awarded to the Group during the period were:
- for Saudi Aramco, three EPC contracts in Saudi Arabia. The first two contracts relate to the new Jazan Refinery & Terminal project and encompass engineering, procurement, construction, pre-commissioning, assistance to commissioning and performance tests of the concerned facilities. The scope of work of the third contract includes detailed design, engineering, procurement, installation, commissioning and start up assistance for two pipelines;
- for CNRL, in Canada, three contracts for the development of the Hydrotreater Phase 3 as part of the Horizon Oil Sands Project, in the Athabasca region, encompassing engineering, procurement and construction of a combined Hydrotreating Unit, a Sour Water Concentrator Unit and a Sulphur Recovery Train Unit, along with the construction works of supporting units;
- for Saudi Aramco, an EPC contract encompassing the detailed design, engineering, procurement, installation, commissioning and start-up assistance for Sections 4 and 5 of the Shedgum-Yanbu' pipeline;
- for Eni Congo, a contract encompassing engineering, procurement, construction, transport, early gas production, pre-commissioning, commissioning and start-up of an onshore treatment facility. The facility will treat the feed stream from the

Litchendjili Offshore Platform located south of Pointe-Noire which, transported through a dedicated pipeline, will produce treated gas and stabilised condensate;
- for the Shah Deniz consortium, a contract encompassing the construction in Azerbaijan of a pipeline loop and associated above ground installations and the construction in Georgia of a second pipeline loop and associated above ground installations;
- for Versalis, in Italy, a contract for the construction of a fourth production line to operate alongside three existing lines, in addition to increasing production capacity and upgrading the plant's OSBL (outside battery limit) auxiliary systems.

Capital expenditure

Capital expenditure in the Onshore Engineering & Construction sector related principally to the purchase of equipment and to the maintenance of the existing asset base.

Work performed

The largest/most important projects underway or completed during the first half of 2014 were.

In Saudi Arabia:
- work continued for Saudi Aramco and Sumitomo Chemical, on the contract for the Naphtha and Aromatics Package of the **Rabigh II** project, which encompasses the engineering, procurement and construction of two processing units: a Naphtha Reformer Unit and an Aromatics Complex;
- work continued for Safco on the **Safco V** contract, which encompasses the engineering, procurement and construction of a urea production plant, together with associated utilities and off-site systems and interconnecting structures to existing plants;
- procurement and construction work was completed for the Emirate of Makkah Province on the **Stormwater Drainage Program - Package 8** project, encompassing the procurement, installation, construction and assistance during the commissioning of a new rainwater drainage system, serving the Northern side of the City of Jeddah.

In the United Arab Emirates:
- activities continued on the contract for Abu Dhabi Gas Development Co Ltd forming part of the development of the high sulphur content **Shah** sourgas field. The development project encompasses the treatment of 1 billion cubic feet a day of sourgas from the Shah field, the separation of the sulphur from the natural gas and the transportation of both to treatment facilities near Habshan and Ruwais in the northern part of the Emirate;
- work continued on a project for the Etihad Rail Co in Abu Dhabi encompassing the engineering and construction of a **railway line** linking the natural gas production fields of Shah and Habshan (located inland) to the Port of Ruwais.

In Kuwait, work continued for Kuwait Oil Co (KOC) on the **BS 171** contract, which encompasses the engineering, procurement, construction and commissioning of a new gas booster station consisting of two trains for gas compression and dehydration.

In Iraq:
- work is underway for Fluor Transworld Services Inc and Morning Star for General Services Llc on the **West Qurna** project. The contract comprises engineering, procurement, construction, pre-commissioning and commissioning of water treatment and conveyance infrastructure, a pipeline and a water injection system;
- work is underway for Basrah Gas Co (BGC) on the rehabilitation of two terminals (Marine and Storage) at Umm Qasr port in **Basrah** province;
- work continued on the **Zubair Gathering System** project for Morning Star for General Services Llc and ExxonMobil Iraq Ltd, which encompasses the construction of a gathering system, flowlines and interconnecting facilities, as well as the distribution node.

In Turkey, work started for Star Refinery AS on the **Aegean Refinery** project, encompassing the engineering, procurement and construction of a refinery.

In Algeria, for Sonatrach, work was completed on the projects **GK3 - lot 3**, **Hassi Messaoud**, **Menzel Ledjmet East**, and **LNG GL3Z Arzew**, while work continued to be carried out 'under guarantee'.

In Nigeria:
- work continued for Dangote Fertilizer Ltd on the **Dangote** project for a new ammonia and urea production complex to be realised in Edo State. The scope of work encompasses engineering, procurement and construction of two twin production streams and related utilities and off-site facilities;
- work continued for Exploration and Production Nigeria Ltd (TEPNG) on the **Northern Option Pipeline** project, comprising engineering, procurement, construction and commissioning of a pipeline that will connect Rumuji to Imo River;
- work continued for the Government of Rivers State on the contract for the engineering, procurement and construction of the first and second train of the **Independent Power Plant at Afam**;
- work is underway for Southern Swamp Associated Gas Solution (SSAGS) on the **Southern Swamp** contract, comprising engineering, procurement, construction and commissioning of compression facilities at four sites and of new gas central production facilities at one of the sites, which will treat the routed associated gas;
- work is underway for Shell Petroleum Development Co of Nigeria on the **Otumara-Saghara-Escravos Pipeline** contract. The contract encompasses the engineering, procurement, fabrication and commissioning of a network of pipelines in a swamp area, to connect the client's flowstations in the Otumara, Saghara and Escravos fields.

In Congo, work is underway for Eni Congo on the **Litchendjili** project, for the construction of an onshore treatment facility which will treat the feed stream from the Litchendjili Offshore Platform and separate the fluid into two main streams: the gas product (delivered to Centrale Electrique de Congo) and liquid hydrocarbons.

In Italy, work is underway for Rete Ferroviaria Italiana SpA (Ferrovie dello Stato Group) on the contract for the detailed engineering, project management and construction of a 39-km section of **high-speed railway** line and of an additional 12 km of interconnections with the existing conventional railway, along the Treviglio-Brescia section across the Milan, Bergamo and Brescia provinces, as well as all associated works, such as power lines, works to reduce road interference, road crossings and environmental mitigation.

In Poland, engineering work continued for Polskie LNG on the **Polskie** contract for a re-gasification terminal. The contract encompasses the engineering, procurement and construction of the regasification facilities, including two liquid gas storage tanks.

In Canada:
- work was completed on the **Sunrise** EPC contract for Husky Oil, which encompassed the engineering, procurement and construction of the Central Processing Facilities, comprising two plants;
- works are underway for Canadian Natural Resources Ltd in the Athabasca region, in Alberta, Canada, on the engineering, procurement and construction of a Secondary Upgrader plant, under a contract included in the **Horizon Oil Sands - Hydrotreater Phase 2** project.

In Mexico:
- work continued for PEMEX on the **Tula and Salamanca** contract for the construction of two desulphurisation units and two amine regeneration units to be built at two of the client's refineries. The facilities will be built at the Miguel Hidalgo refinery, located 2,000 metres above sea level near the town of Tula and at the Antonio M. Amor refinery, located 1,700 metres above sea level near the town of Salamanca;
- work is underway for Transcanada (Transportadora de Gas Natural Norte-Noroeste) on the **El Encino** project, comprising engineering, procurement and construction of a pipeline from El Encino (Chihuahua State) to Topolobampo (Sinaloa State). The project includes two compressor stations and three metering stations.

In Suriname, for Staatsolie, work has almost been completed on the contract encompassing engineering, procurement, fabrication and construction for the expansion of the **Tout Lui Faut** refinery, located south of the capital Paramaribo.

In Australia:
- work has almost been completed for Gladstone LNG Operations Pty Ltd in Australia on the **Gladstone LNG** contract involving the engineering, procurement and construction of a gas pipeline connecting the Bowen and Surat fields to the Gladstone State Development Area (GSDA) near the city of Gladstone, Queensland, where an LNG liquefaction and export plant is due to be built;
- on the **Gorgon LNG** jetty and marine structures project for Chevron, construction of the jetty has almost been completed, while construction work on the associated marine structures is continuing. The scope of work consists of the engineering, procurement, fabrication, construction and commissioning of the LNG jetty and marine structures for the new Chevron Gorgon LNG plant on Barrow Island, 70 kilometres off the Pilbara coast of Western Australia.

Offshore Drilling

General overview

At June 30, 2014, the Saipem offshore drilling fleet consisted of seventeen vessels, divided as follows: seven deep-water units for operations at depths in excess of 1,000 metres (the drillships Saipem 10000 and Saipem 12000 and the semi-submersible drilling rigs Scarabeo 5, Scarabeo 6, Scarabeo 7, Scarabeo 8 and Scarabeo 9), two for mid water operations at depths of up to 1,000 metres (the semi-submersible drilling rigs Scarabeo 3 and Scarabeo 4), two high specification jack-ups for operations at depths of up to 375 feet (Perro Negro 7 and Perro Negro 8), five standard jack-ups for activities at depths up to 300 feet (Perro Negro 2, Perro Negro 3, Perro Negro 4, Perro Negro 5 and Ocean Spur) and one barge tender rig (TAD). All units are the property of Saipem, with the exception of the jack-up Ocean Spur, which is on lease from third parties. The fleet also includes other minor units operating mainly offshore Peru. In the first half of 2014, Saipem's offshore drilling fleet operated in the Norwegian sector of the North Sea and the Barents Sea, in the Mediterranean Sea, the Red Sea, the Persian Gulf, offshore Mozambique, in West Africa and offshore Ecuador and Peru.

Market conditions

During the first half of 2014, the offshore drilling market, which up until the previous year had on the whole registered growth, began to show signs of a possible change in conditions. While spending by oil companies remained generally stable compared with 2013 figures, day rates for drilling contractors in the floaters segment and to a lesser degree the jack-ups segment registered a downward trend in the first six months of the year.
Utilisation rates for the period meanwhile were very high and close to 100% for newer, more advanced rigs such as the high spec jack-ups and ultra-deep water floaters. Rates for other types of rig (standard jack-ups and mid-deep water floaters) were down, however, particularly on the main regional markets. Since the typical contractual durations for this type of rig are shorter on average, this constitutes further evidence of a possible change in market conditions.
New offshore drilling rig construction levels remained strong. At June 30, 2014, 145 rigs were under construction, of which 92 were jack-ups, 18 semi-submersibles and 35 drillships. 120 of the 145 were scheduled for delivery by year end 2015. 35 of the total had already secured contracts, while the remaining 110 will in the short to medium term contribute to a significant increase in the global drilling services fleet.
Overall, the offshore drilling market registered significant levels of activity, pending, as noted above, a possible structural change which may present the principal international drilling contractors with further opportunities for growth.

New contracts

The most significant contracts awarded to the Group during the period were:
- a one year extension of the charter by IEOC of the semi-submersible Scarabeo 4 for operations in Egypt;
- the exercise of the option for a one year extension of the charter by Saudi Aramco of the jack-up Perro Negro 7 for operations in Saudi Arabia.

Capital expenditure

The principal investments made during the period were for maintenance and class reinstatement works on the semi-submersible Scarabeo 7. In addition, further work was carried out to ensure compliance with international regulations and to meet client requirements.

Work performed

In the first half of 2014, Saipem's offshore units drilled 70 wells totalling 104,461 metres.

The fleet was deployed as follows:
- deep-water units: the drillship **Saipem 12000** continued to operate in Angola for Total, while the drillship **Saipem 10000** operated under a long-term contract with Eni, first in Nigeria, then in Mozambique; the semi-submersible rig **Scarabeo 9** operated in Angola on a long-term contract with Eni; the semi-submersible rig **Scarabeo 8** having completed the installation of the equipment required by the client in January returned to work in the Norwegian sector of the Barents Sea for Eni Norge; the semi-submersible rig **Scarabeo 7** underwent planned maintenance and class reinstatement work in South Africa; the semi-submersible rig **Scarabeo 6** operated in Egypt for Burullus; the semi-submersible rig **Scarabeo 5** continued to operate in the Norwegian sector of the North Sea for Statoil;
- mid-water units: the semi-submersible rig **Scarabeo 4** continued activities in Egypt on a contract for International Egyptian Oil Co (IEOC); the semi-submersible rig **Scarabeo 3** operated in Nigeria for Addax;
- high specification jack-ups: the **Perro Negro 8** continued to work in Italy for Eni's Exploration & Production Division; the **Perro Negro 7** continued operations for Saudi Aramco offshore Saudi Arabia;
- standard jack-ups: the **Perro Negro 3** and **Perro Negro 2** continued operations in the United Arab Emirates for NDC, while the **Perro Negro 5** continued work for Saudi Aramco in Saudi

Arabia; the **Perro Negro 4** continued to operate in the Red Sea for Petrobel; the **Ocean Spur**, which is operated by Saipem and owned by third parties, continued operations in Ecuador for Petroamazonas;
- other activities: in Congo, the tender assisted drilling unit **TAD** continued work for Eni Congo SA, while operation of the Loango-Zatchi platforms proceeded; offshore Peru, work was carried out for Pacific Offshore Energy and Savia.

Utilisation of vessels

Vessel utilisation in the first half of 2014 was as follows:

Vessel	**Days under contract**
Semi-submersible platform Scarabeo 3	180 [1]
Semi-submersible platform Scarabeo 4	181
Semi-submersible platform Scarabeo 5	172 [1]
Semi-submersible platform Scarabeo 6	181
Semi-submersible platform Scarabeo 7	- [1]
Semi-submersible platform Scarabeo 8	175 [1]
Semi-submersible platform Scarabeo 9	162 [1]
Drillship Saipem 10000	181
Drillship Saipem 12000	181
Jack-up Perro Negro 2	175 [1]
Jack-up Perro Negro 3	181
Jack-up Perro Negro 4	181
Jack-up Perro Negro 5	181
Jack-up Perro Negro 7	179 [1]
Jack-up Perro Negro 8	181
Tender Assisted Drilling Unit	178 [1]
Ocean Spur	181

(1) For the remaining days (to 181) the vessel underwent class reinstatement and maintenance works as a result of technical issues.

Onshore Drilling

General overview

The size of Saipem's onshore drilling rig fleet increased to 108 during the first half of 2014. Of these, 97 are owned by Saipem, while 8 are owned by third parties but operated by Saipem.
The areas of operations were South America (Peru, Bolivia, Colombia, Ecuador, Chile and Venezuela), Saudi Arabia, the Caspian region (Kazakhstan), Africa (Congo, Morocco and Mauritania), Europe (Italy and Ukraine) and Turkey.

Market conditions

The first half of 2014 saw spending by oil companies increase yet further compared with 2013, confirming that, overall, the Onshore Drilling segment is currently flourishing.
In the USA, growth in domestic production levels was once again very high, with levels of activity higher than those recorded in the previous year. This upward trend was observed on both the oil and – above all – gas markets (where the shale gas market especially reported gains), with activity on this latter market driven by the target of beginning LNG exports starting from 2016.
Meanwhile growth in levels of activity was also registered on the international market on which Saipem operates, building on the already high levels seen in 2013. While Europe, Africa and Asia-Pacific confirmed the positive levels registered in 2013, Latin America and the Middle East posted another half of significant growth. In Latin America, Peru alone underwent a slowdown compared with 2013, but this was more than offset by growth levels recorded in emerging market Argentina, where growth was driven in particular by the shale gas market. In the Middle East, Kuwait commenced implementation of a programme of development initiatives that is expected to produce substantial results in the short to medium term, while the figures posted by Saudi Arabia provided confirmation that the market in the country is experiencing a phase of growth and consolidated its position as the number one market in the segment.

New contracts

The most significant contracts awarded to the Group during the first half of 2014 were:
- for Saudi Aramco, the exercise of the option for a one year extension of the charter for operations in Saudi Arabia for three rigs already operating in the country plus the award of a five year contract for a further three rigs;
- contracts of varying durations and with various clients for drilling operations in South America.

The backlog of orders at June 30, 2014 includes the impact of the cancellation by Shell of orders relating to the charter of an onshore drilling rig in Ukraine.

Capital expenditure

The main investments made during the period related to work to ready rigs for operations in Saudi Arabia under existing long-term contracts. In addition, upgrading and integration works were carried out to maintain the operational efficiency of the fleet and to meet client requests.

Work performed

206 wells were drilled during the period totalling approximately 422,263 metres drilled.

In South America, Saipem operated in a number of countries: in **Peru**, work was carried out for various clients (including Petrobras, Pluspetrol, Gran Tierra, Perenco, Savia and Interoil) deploying eighteen company-owned rigs and operating six rigs owned by clients or third parties; in **Bolivia**, four rigs were deployed for YPFB Andina, Pluspetrol and Repsol; in **Chile**, work continued for ENAP deploying one rig; in **Colombia**, work continued for various clients, including Equion, Canacol, and Schlumberger, involving the deployment of seven rigs; in **Ecuador**, three company-owned rigs and one third party rig were deployed for various clients, including Agip Oil and Petroamazonas; finally, in **Venezuela**, work continued for PDVSA involving the deployment of twenty eight rigs.
In **Saudi Arabia**, Saipem deployed twenty rigs, continuing operations for Saudi Aramco under existing contracts.
In the Caspian region, Saipem operated in **Kazakhstan** for various clients, such as KPO, Agip KCO, and Zhaikmunai, using 4 of its own rigs and 3 supplied by a partner. In **Turkmenistan**, mobilisation of a rig due to operate for Burren/RWE starting from the next period was completed.
In North Africa, Saipem operated for Longreach and Repsol, in **Morocco** and **Mauritania**, respectively, deploying one rig in each country. Operations were completed during the period and the rigs were mobilised to other locations.
In West Africa, Saipem continued operations in the **Congo** on behalf of Eni Congo SA using one of its own rigs and operating 1 rig owned by the client.
Operations in **Italy** saw the deployment of one rig which performed work for Total in the Tempa Rossa area.
In **Ukraine**, Saipem deployed one rig to complete operations for

Shell and carried out rig transfer operations to Saudi Arabia for work on an existing long-term contract.
In **Turkey**, Saipem continued operations for Shell, deploying one rig.

Utilisation of rigs

Average utilisation of rigs was 95.8% (96% in 2013). At June 30, 2014, company-owned rigs amounted to 97, located as follows: 28 in Venezuela, 22 in Saudi Arabia, 18 in Peru, 7 in Colombia, 4 in Kazakhstan, 4 in Bolivia, 3 in Ecuador, 1 in Tunisia, 1 in Turkmenistan, 2 in Chile, 1 in Congo, 2 in Italy, 1 in Mauritania, 1 in Turkey, 1 in Morocco and 1 in Ukraine. In addition, 6 third-party rigs were deployed in Peru, 1 in Congo and 1 in Ecuador.

Financial and economic results

As previously stated, revenues and associated profit levels, particularly in the Engineering & Construction sectors, and, to a lesser extent, in the Drilling sector, are not consistent over time, as they are influenced not only by market performance but also by climatic conditions and individual project schedules. Consequently, the results from any one particular fiscal period can vary significantly, thereby precluding a direct comparison with the same period in other fiscal years or extrapolation of figures from a single quarter to the entire year.
As a result of the introduction of the new IFRS 10 and IFRS 11 accounting standards, the rules for consolidating Saipem Group investments have been redefined. IFRS 11 requires investments in joint ventures to be accounted for using the equity method, from January 1, 2014. Previously, these shareholdings were consolidated using the proportional method. Operating data for the Group is presented here using the new consolidation rules. Prior period data has been adjusted for comparative purposes. For further details, see 'Effects of restatement: Financial Statements'.
As announced in the press release of February 11, 2014 and in accordance with the effects arising from the decision to apply IAS 8.42 to the 2012 Financial Statements comparative figures, the restated Saipem income statement for the first half of 2013 includes revenues of €245 million that were previously booked in 2012.

Results of operations

Saipem Group - Income statement

Year 2013	Year 2013 restated	(€ million)	First half 2013	First half 2013 restated	First half 2014	% Ch.
12,256	**11,841**	**Net sales from operations**	**5,186**	**5,246**	**5,966**	**13.7**
8	7	Other revenues and income	3	3	4	
(9,073)	(8,711)	Purchases, services and other costs	(4,175)	(4,024)	(4,118)	
(2,320)	(2,270)	Payroll and related costs	(1,123)	(1,099)	(1,197)	
871	**867**	**Gross operating profit (EBITDA)**	**(109)**	**126**	**655**	..
(724)	(710)	Depreciation and amortisation	(359)	(351)	(362)	
147	**157**	**Operating result (EBIT)**	**(468)**	**(225)**	**293**	..
(190)	(189)	Net finance expense	(92)	(91)	(110)	
13	2	Net income from investments	8	9	17	
(30)	**(30)**	**Result before income taxes**	**(552)**	**(307)**	**200**	..
(106)	(106)	Income taxes	(15)	(15)	(64)	
(136)	**(136)**	**Result before minority interest**	**(567)**	**(322)**	**136**	..
(23)	(23)	Net profit attributable to minority interest	(8)	(8)	-	
(159)	**(159)**	**Net result**	**(575)**	**(330)**	**136**	..

Net sales from operations for the first half of 2014 amounted to €5,966 million, representing an increase of 13.7% compared to the same period of 2013.
EBITDA amounted to €655 million. Depreciation and amortisation of tangible and intangible assets amounted to €362 million, representing an increase over the figure for the same period of 2013 due to full-scale operations on the pipelayer Castorone and at the Edmonton base in Canada during the period.
EBIT for the period was €293 million. The largest variations are analysed in detail in the subsequent sections describing the performance of the various business units.
Net finance expense increased by €19 million compared with the first half of 2013, mainly due to the increase in average net borrowings.
Net income from investments for the period amounted to €17 million. The increase compared with the first half of 2013 was due to the sale of the investment in Offshore Design Engineering Ltd and the increase in the share of profits of investments measured using the equity method.
The **result before income taxes** amounted to €200 million.
Income taxes amounted to €64 million. The increase compared to the first half of 2013 was principally due to an increase in taxable income.
Net result for the period amounted to €136 million.

Operating result and costs by function

Year 2013	Year 2013 restated	(€ million)	First half 2013	First half 2013 restated	First half 2014	% Ch.
12,256	**11,841**	**Net sales from operations**	**5,186**	**5,246**	**5,966**	**13.7**
(11,584)	(11,169)	Production costs	(5,400)	(5,220)	(5,435)	
(163)	(162)	Idle costs	(81)	(81)	(61)	
(145)	(142)	Selling expenses	(68)	(67)	(70)	
(14)	(14)	Research and development costs	(7)	(7)	(5)	
(15)	(14)	Other operating income (expenses)	(8)	(8)	(8)	
(188)	(183)	General and administrative expenses	(90)	(88)	(94)	
147	**157**	**Operating result (EBIT)**	**(468)**	**(225)**	**293**	..

In the first half of 2014, the Saipem Group reported **net sales from operations** of €5,966 million, representing an increase of €720 million compared to the same period of the previous year.
Production costs (which include direct costs of sales and depreciation of vessels and equipment) amounted to €5,435 million, representing an increase of €215 million over the first half of 2013.
Idle costs fell by €20 million.
Selling expenses of €70 million were in line with the figure recorded for the same period of 2013. Research and development costs expensed as operating costs decreased by €2 million.
General and administrative expenses amounted to €94 million, representing an increase of €6 million.
The breakdown by business sector is as follows:

Offshore Engineering & Construction

Year 2013	Year 2013 restated	(€ million)	First half 2013	First half 2013 restated	First half 2014
5,256	5,146	Net sales from operations	2,210	2,166	3,184
(4,888)	(4,772)	Cost of sales	(2,177)	(2,138)	(2,857)
368	374	EBITDA	33	28	327
(293)	(283)	Depreciation and amortisation	(140)	(135)	(147)
75	91	Operating result (EBIT)	(107)	(107)	180

Revenues for the first half of 2014 amounted to €3,184 million, representing a 47% increase compared to the same period of 2013, due mainly to higher volumes recorded in West Africa, Central and South America and the Middle East.
The increase of €719 million in the cost of sales compared with the first period of 2013 reflected the higher volumes registered.
Depreciation and amortisation rose by €12 million compared to the first six months of 2013, mainly due to full-scale operations during the reporting period on the new pipelayer Castorone.
Operating profit (EBIT) for the first half of 2014 amounted to €180 million, equal to 5.7% of revenues, versus -€107 million in the first half of 2013. The EBITDA margin stood at 10.3%, compared with 1.3% in the same period of 2013.
The deconsolidation of joint ventures reflected in results at June 30, 2014 had a negative impact of €99 million on revenues and €6 million on operating profit. This was principally related to activities in Angola (which had a negative impact of €44 million on revenues and no impact on the operating result in the same period of 2013).

Onshore Engineering & Construction

Year 2013	Year 2013 (1) restated	(€ million)	First half 2013	First half 2013 (1) restated	First half 2014
5,076	4,797	Net sales from operations	2,001	2,118	1,890
(5,445)	(5,174)	Cost of sales	(2,579)	(2,455)	(1,952)
(369)	(377)	EBITDA	(578)	(337)	100
(31)	(27)	Depreciation and amortisation	(17)	(14)	(19)
(400)	(404)	Operating result (EBIT)	(595)	(351)	(81)

(1) In addition to the effect of the deconsolidation of the joint ventures due to application of the new accounting standards, the figure also includes €245 million in revenues and margins relating to the restatement deriving from the application of IAS 8.42.

Revenues for the first six months of 2014 amounted to €1,890 million, representing a 10.8% decrease compared to the same period of 2013. This was mainly attributable to lower volumes recorded in the Middle East and North Africa, which were in part offset by higher volumes registered in West Africa and South America.
The cost of sales, which amounted to €1,952 million, also decreased compared with the same period of the previous year. Depreciation and amortisation amounted to €19 million.
This represented an increase of €5 million compared with the first half of 2013 that was due to full-scale operations at the base in Edmonton, Canada.
The operating result (EBIT) for the first half of 2014 amounted to -€81 million, compared to -€351 million in the first half of 2013. The result was related principally to a number of new operating projects in the initial phases of implementation which were unable to absorb the indirect costs incurred by the Business Unit.
The deconsolidation of joint ventures reflected in results at June 30, 2014 had a negative impact of €25 million on revenues and a negative impact of €2 million on operating profit. This was principally related to activities in Turkey (which had a negative impact of €128 million on revenues and a €1 million impact on operating profit in the same period of 2013).

Offshore Drilling

Year 2013	(€ million)	First half 2013	First half 2014
1,177	Net sales from operations	608	556
(539)	Cost of sales	(285)	(278)
638	EBITDA	323	278
(259)	Depreciation and amortisation	(131)	(123)
379	Operating result (EBIT)	192	155

Revenues for the first half of 2014 amounted to €556 million, down 8.6% on the same period of 2013, mainly due to decreased activity by the semi-submersible platforms Scarabeo 7 and Scarabeo 9, which underwent preparation works during the period.
The cost of sales of €278 million was almost in line with the figure for the same period of 2013, as the result of the maintenance shutdown on the semi-submersible Scarabeo 7, while depreciation and amortisation fell by €8 million.
The operating result (EBIT) for the first half of 2014 amounted to €155 million, compared to €192 million in the first half of 2013, while the margin on revenues fell from 31.6% to 27.9%.
The EBITDA margin stood at 50%, down three percentage points on the figure of 53.1% registered in the same period of the previous year.

Onshore Drilling

Year 2013	Year 2013 restated	(€ million)	First half 2013	First half 2013 restated	First half 2014
747	721	Net sales from operations	367	354	336
(513)	(489)	Cost of sales	(254)	(242)	(224)
234	232	EBITDA	113	112	112
(141)	(141)	Depreciation and amortisation	(71)	(71)	(73)
93	91	Operating result (EBIT)	42	41	39

Revenues for the first six months of 2014 amounted to €336 million, representing a 5.1% decrease compared to the same period 2013, due mainly to decreased activity in Algeria.
The cost of sales decreased by 7.4% compared with the first six months of the previous year in line with the fall in revenues.
Depreciation and amortisation of €73 million was in line with the figure for the same period of 2013.
EBIT for the first half of 2014 amounted to €39 million, versus €41 million in the first half of 2013, with a margin on revenues of 11.6%.
Meanwhile, the EBITDA margin stood at 33.3%, compared with 31.6% in the first half of 2013.
The deconsolidation of joint ventures reflected in results at June 30, 2014 had a negative impact of €13 million on revenues and a negative impact of €1 million on operating profit. This was principally related to activities in Kazakhstan (which had a negative impact of €13 million on revenues and a €1 million impact on operating profit in the same period of 2013).
In addition, the rigs owned by the joint company SaiPar have not been included in the list of rigs deployed in operations during the period due to the deconsolidation of the company in question.

Balance sheet and financial position

Saipem Group - Reclassified consolidated balance sheet [1]

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 that helps investors to assess Saipem's capital structure and to analyse its sources of funds and investments in fixed assets and working capital.

June 30, 2013	June 30, 2013 restated	(€ million)	Dec. 31, 2013	Dec. 31, 2013 restated	June 30, 2014
8,389	8,323	Net tangible assets	7,972	7,912	7,910
756	755	Net intangible assets	758	758	759
9,145	**9,078**		**8,730**	**8,670**	**8,669**
4,126	*4,066*	*- Offshore Engineering & Construction*	*3,849*	*3,793*	*3,804*
579	*572*	*- Onshore Engineering & Construction*	*589*	*585*	*590*
3,482	*3,482*	*- Offshore Drilling*	*3,351*	*3,351*	*3,332*
958	*958*	*- Onshore Drilling*	*941*	*941*	*943*
123	172	Investments	126	158	169
9,268	**9,250**	**Non-current assets**	**8,856**	**8,828**	**8,838**
103	**194**	**Net current assets**	**828**	**895**	**1,308**
(263)	(251)	Employee termination indemnities	(233)	(219)	(221)
9,108	**9,193**	**Capital employed, net**	**9,451**	**9,504**	**9,925**
4,418	4,418	Shareholders' equity	4,652	4,652	4,773
120	120	Minority interest	92	92	48
4,570	4,655	Net debt	4,707	4,760	5,104
9,108	**9,193**	**Funding**	**9,451**	**9,504**	**9,925**
1.01	**1.03**	**Leverage (net borrowings/shareholders' equity including minority interest)**	**0.99**	**1.00**	**1.06**
441,410,900	441,410,900	No. shares issued and outstanding	441,410,900	441,410,900	441,410,900

(1) See 'Reconciliation of reclassified balance sheet, income statement and cash flow statement to statutory schemes' on page 59.

Management uses the reclassified consolidated balance sheet to calculate key ratios such as the Return On Average Capital Employed (ROACE) and leverage (used to indicate the robustness of a company's capital structure).

Non-current assets at June 30, 2014 stood at €8,838 million, an increase of €10 million compared to December 31, 2013. This increase was due to capital expenditure of €331 million, the positive change in investments accounted for using the equity method of €13 million, depreciation and amortisation of €362 million, disposals of €3 million and the positive effect deriving from the translation of financial statements in foreign currencies and other changes of €31 million.

Net current assets increased by €413 million, from positive €895 million at December 31, 2013 to positive €1,308 million at June 30, 2014.

The **provision for employee benefits** amounted to €221 million, representing an increase of €2 million compared with December 31, 2013.

As a result of the above, **net capital employed** increased by €421 million, reaching €9,925 million at June 30, 2014, compared with €9,504 million at December 31, 2013.

Shareholders' equity, including minority interest, increased by €77 million, to €4,821 million at June 30, 2014, compared with €4,744 million at December 31, 2013. This increase reflected the positive effect of the net result for the period of €136 million, dividend distribution of €44 million, the negative effect of changes in the fair value of exchange rate and commodity hedging instruments of €31 million and the negative effect on equity of translation into euro of financial statements expressed in foreign currencies and other variations amounting to €16 million.

The increase in net capital employed, which was greater than the increase in shareholders' equity, led to an increase of €344 million in net borrowings, from €4,760 million at December 31, 2013, to €5,104 million at June 30, 2014.

Analysis of net borrowings

June 30, 2013	June 30, 2013 restated	(€ million)	Dec. 31, 2013	Dec. 31, 2013 restated	June 30, 2014
(1)	(1)	Financing receivables due after one year	(1)	(1)	(1)
241	241	Payables to banks due after one year	200	200	-
3,971	3,971	Payables to other financial institutions due after one year	2,659	2,659	3,125
4,211	**4,211**	**Net medium/long-term debt**	**2,858**	**2,858**	**3,124**
(1,527)	(1,443)	Accounts c/o bank, post and Group finance companies	(1,348)	(1,295)	(1,393)
-	-	Available-for-sale securities	(26)	(26)	-
(6)	(5)	Cash and cash on hand	(4)	(4)	(8)
(75)	(75)	Financing receivables due within one year	(30)	(30)	(55)
179	179	Payables to banks due within one year	192	192	465
1,788	1,788	Payables to other financial institutions due within one year	3,065	3,065	2,971
359	**444**	**Net short-term debt**	**1,849**	**1,902**	**1,980**
4,570	**4,655**	**Net debt**	**4,707**	**4,760**	**5,104**

The fair value of derivative assets (liabilities) is detailed in Note 7 'Other current assets' and Note 18 'Other current liabilities'.

A breakdown by currency of gross debt, amounting to €6,561 million, is provided in Note 14 'Short-term debt' and Note 19 'Long-term debt and current portion of long-term debt'.

Statement of comprehensive income

(€ million)	First half 2013	2013 restated	2014
Net profit (loss) for the period	**(567)**	**(322)**	**136**
Other comprehensive income:			
- change in the fair value of cash flow hedges (*)	(112)	(112)	(48)
- exchange rate differences arising from the translation into euro of financial statements currencies other than the euro	(21)	(21)	19
- share of other comprehensive income of investments accounted for using the equity method	-	-	(1)
- income tax relating to components of other comprehensive income	16	16	17
Total other comprehensive income, net of taxation	**(117)**	**(117)**	**(13)**
Total comprehensive income (loss) for the period	**(684)**	**(439)**	**123**
Attributable to:			
- Saipem Group	(693)	(448)	123
- minority interest	9	9	-

(*) The change in the fair value of cash flow hedges relates almost exclusively to transactions with the parent company Eni.

Shareholders' equity including minority interest

(€ million)	
Shareholders' equity including minority interest at December 31, 2013	**4,744**
Total comprehensive income for the period	136
Dividend distribution	(44)
Sale of treasury shares	-
Other changes	(15)
Total changes	**77**
Shareholders' equity including minority interest at June 30, 2014	**4,821**
Attributable to:	
- Saipem Group	4,773
- minority interest	48

Reclassified cash flow statement [(1)]

Saipem's reclassified cash flows statement derives from the statutory cash flow statement. It enables investors to understand the link existing between changes in cash and cash equivalents (deriving from the statutory cash flow statement) and in net borrowings (deriving from the reclassified cash flows statement) that occurred between the beginning and the end of the period. The measure enabling such a link is represented by the free cash flow, which is the cash in excess of capital expenditure requirements. Starting from free cash flow it is possible to determine either: (i) changes in cash and cash equivalents for the period by adding/deducting cash flows relating to financing debts/receivables (issuance/repayment of debt and receivables related to financing activities), shareholders' equity (dividends paid, net repurchase of treasury shares, capital issuance) and the effect of changes in consolidation and of exchange differences, or (ii) changes in net borrowings for the year by adding/deducting cash flows relating to shareholders' equity and the effect of changes in consolidation and of exchange rate differences.

Year	Year		First half		
2013	2013 restated	(€ million)	2013	2013 restated	2014
(159)	(159)	Net profit (loss) for the period	(575)	(330)	136
23	23	Minority interest	8	8	-
		Adjustments to reconcile cash generated from operating profit before changes in working capital:			
664	660	Depreciation, amortisation and other non-monetary items	351	341	338
(34)	(34)	Net (gains) losses on disposal and write-off of assets	1	1	(3)
250	254	Dividends, interests and income taxes	92	87	145
744	**744**	**Net cash generated from operating profit before changes in working capital**	**(123)**	**107**	**616**
202	218	Changes in working capital related to operations	865	621	(382)
(520)	(510)	Dividends received, income taxes paid, interest paid and received	(243)	(229)	(184)
426	**452**	**Net cash flow from operations**	**499**	**499**	**50**
(908)	(902)	Capital expenditure	(492)	(490)	(329)
-	(7)	Investments and purchase of consolidated subsidiaries and businesses	-	(7)	(2)
380	380	Disposals	42	42	7
-	-	Other cash flow related to capital expenditures, investments and disposals	-	-	-
(102)	**(77)**	**Free cash flow**	**49**	**44**	**(274)**
23	23	Borrowings (repayment) of debt related to financing activities	5	(4)	1
525	525	Changes in short and long-term financial debt	502	502	414
-	-	Sale of treasury shares	-	-	-
(374)	(374)	Cash flow from capital and reserves	(337)	(337)	(44)
(45)	(42)	Effect of changes in consolidation and exchange differences	(11)	(10)	5
27	**55**	**NET CASH FLOW FOR THE PERIOD**	**208**	**195**	**102**
(102)	**(77)**	**Free cash flow**	**49**	**44**	**(274)**
-	-	Sale of treasury shares	-	-	-
(374)	(374)	Cash flow from capital and reserves	(337)	(337)	(44)
47	50	Exchange differences on net borrowings and other changes	(4)	(3)	(26)
(429)	**(401)**	**CHANGE IN NET BORROWINGS**	**(292)**	**(296)**	**(344)**

(1) See 'Reconciliation of reclassified balance sheet, income statement and cash flow statement to statutory schemes' on page 59.

Net cash flow from operations (€50 million) only partially funded capital expenditures, generating a negative free cash flow of €274 million.

Cash flow from capital and reserves, which amounted to a negative €44 million, related mainly to the payment of dividends by **ER SAI Caspian Contractor Llc**. The effect of exchange differences on net borrowings and other changes produced a net negative effect of €26 million.

As a result, **net borrowings** increased by €344 million.

In particular:

Net cash generated from operating profit before changes in working capital of €616 million related to:

- net profit for the period of €136 million;
- depreciation, amortisation and impairment of tangible and intangible assets of €362 million, the change in the provision for employee benefits (€2 million), net of the net share of profit and loss of equity-accounted investments of €13 million and other changes of €13 million;

- net gains on disposals of business activities, which had an impact of €3 million;
- net finance expense of €81 million and income taxes of €64 million.

The negative change in working capital related to operations of €382 million was due to financial flows of projects underway.

Dividends received, income taxes paid, interest paid and received during the first half of 2014 of €184 million were mainly related to taxes paid and refunded and to the purchase and sale of tax credits.

Capital expenditure in the first half of 2014 amounted to €329 million. Details of investments by sector are as follows: Offshore Engineering & Construction (€135 million), Offshore Drilling (€105 million), Onshore Drilling (€69 million) and Onshore Engineering & Construction (€20 million). Additional information concerning capital expenditure during the first half of 2014 can be found in the 'Operating Review' section.
Investments in consolidated entities and businesses amounted to €2 million.

Cash flow generated by disposals amounted to €7 million.

Summary of the effects of restatement: financial statements

The table below shows the effect on the balance sheet at December 31, 2013 and on the income statement for the first and second quarters and the first half of 2013 of the restatement carried out as a result of the entry into force of new accounting standards IFRS 10 and IFRS 11 and the application of IAS 8.42.

Reclassified consolidated balance sheet

June 30, 2013	Impact of restatement	June 30, 2013 restated	(€ million)	Dec. 31, 2013	Impact of restatement	Dec. 31, 2013 restated
8,389	(66)	8,323	Net tangible assets	7,972	(60)	7,912
756	(1)	755	Intangible assets	758	-	758
123	49	172	Investments	126	32	158
9,268	**(18)**	**9,250**	**Non-current assets**	**8,856**	**(28)**	**8,828**
103	**91**	**194**	**Net current assets**	**828**	**67**	**895**
(263)	12	(251)	Employee termination indemnities	(233)	14	(219)
9,108	**85**	**9,193**	**Capital employed, net**	**9,451**	**53**	**9,504**
4,418	-	4,418	Shareholders' equity	4,652	-	4,652
120	-	120	Minority interest	92	-	92
4,570	85	4,655	Net debt	4,707	53	4,760
9,108	**85**	**9,193**	**Funding**	**9,451**	**53**	**9,504**
1.01		**1.03**	**Leverage (net borrowings/shareholders' equity including minority interest)**	**0.99**		**1.00**
441,410,900			Shares issued and outstanding			441,410,900

Consolidated income statement reclassified by nature of expenses

Year 2013	Impact	Year 2013 restated	(€ million)	First half 2013	Impact	First half 2013 restated
12,256	**(415)**	**11,841**	**Net sales from operations**	**5,186**	**60**	**5,246**
8	(1)	7	Other income and revenues	3	-	3
(9,073)	362	(8,711)	Purchases, services and other costs	(4,175)	151	(4,024)
(2,320)	50	(2,270)	Payroll and related costs	(1,123)	24	(1,099)
871	**(4)**	**867**	**EBITDA**	**(109)**	**235**	**126**
(724)	14	(710)	Depreciation, amortisation and impairment	(359)	8	(351)
147	**10**	**157**	**Operating result (EBIT)**	**(468)**	**243**	**(225)**
(190)	1	(189)	Net finance expense	(92)	1	(91)
13	(11)	2	Net income from investments	8	1	9
(30)	**-**	**(30)**	**Result before income taxes**	**(552)**	**245**	**(307)**
(106)	-	(106)	Income taxes	(15)	-	(15)
(136)	**-**	**(136)**	**Result before minority interest**	**(567)**	**245**	**(322)**
(23)	-	(23)	Net profit attributable to minority interest	(8)	-	(8)
(159)	**-**	**(159)**	**Net result**	**(575)**	**245**	**(330)**

Reclassified cash flow statement

Year 2013	Impact	Year 2013 restated	(€ million)	First half 2013	Impact	First half 2013 restated
(159)	-	(159)	Net profit (loss) for the period	(575)	245	(330)
23	-	23	Minority interest	8	-	8
			Adjustments to reconcile cash generated from operating profit before changes in working capital:			
664	(4)	660	Depreciation, amortisation and other non-monetary items	351	(10)	341
(34)	-	(34)	Net (gains) losses on disposal and write-off of assets	1	-	1
250	4	254	Dividends, interests and income taxes	92	(5)	87
744	**-**	**744**	**Net cash generated from operating profit before changes in working capital**	**(123)**	**230**	**107**
202	16	218	Changes in working capital related to operations	865	(244)	621
(520)	10	(510)	Dividends received, income taxes paid, interest paid and received	(243)	14	(229)
426	**26**	**452**	**Net cash flow from operations**	**499**	**-**	**499**
(908)	6	(902)	Capital expenditure	(492)	2	(490)
-	(7)	(7)	Investments and purchase of consolidated subsidiaries and businesses	-	(7)	(7)
380	-	380	Disposals	42	-	42
-	-	-	Other cash flow related to capital expenditures, investments and disposals	-	-	-
(102)	**25**	**(77)**	**Free cash flow**	**49**	**(5)**	**44**
23	-	23	Borrowings (repayment) of debt related to financing activities	5	(9)	(4)
525	-	525	Changes in short and long-term financial debt	502	-	502
-	-	-	Sale of treasury shares	-	-	-
(374)	-	(374)	Cash flow from capital and reserves	(337)	-	(337)
(45)	3	(42)	Effect of changes in consolidation and exchange differences	(11)	1	(10)
27	**28**	**55**	**Net cash flow for the period**	**208**	**(13)**	**195**
(102)	**25**	**(77)**	**Free cash flow**	**49**	**(5)**	**44**
-	-	-	Sale of treasury shares	-	-	-
(374)	-	(374)	Cash flow from capital and reserves	(337)	-	(337)
47	3	50	Exchange differences on net borrowings and other changes	(4)	1	(3)
(429)	**28**	**(401)**	**Change in net borrowings**	**(292)**	**(4)**	**(296)**

Key profit and financial indicators

Return On Average Capital Employed (ROACE)

Return On Average Capital Employed is calculated as the ratio between adjusted net profit before minority interest, plus net finance charges on net borrowings less the related tax effect and net average capital employed. The tax rate applied on finance charges is 27.5%, as per the applicable tax legislation.

Return On Average Operating Capital

To calculate the Return On Average Operating Capital, the average capital employed is netted of investments in progress that did not contribute to net profit for the period, which amounted to €261 million at December 31, 2013, €238 million for the twelve-month period ended June 30, 2013 and €295 million for the twelve-month period ended June 30, 2014.

		Dec. 31, 2013	June 30, 2013	June 30, 2014
Adjusted net profit	(€ million)	(136)	(98)	322
Exclusion of finance costs on borrowings (net of tax effect)	(€ million)	137	118	151
Unlevered adjusted net profit	(€ million)	1	20	473
Capital employed, net:	(€ million)			
- at the beginning of the period		9,884	8,873	9,193
- at the end of the period		9,504	9,193	9,925
Average capital employed, net	(€ million)	9,694	9,033	9,559
Adjusted ROACE	(%)	**0.01**	**0.2**	**4.9**
Return On Average Operating Capital	(%)	**0.01**	**0.2**	**5.1**

Net borrowings and leverage

Saipem management uses leverage ratios to assess the soundness and efficiency of the Group's capital structure in terms of an optimal mix between net borrowings and shareholders' equity, and to carry out benchmark analyses against industry standards. Leverage is a measure of a company's level of indebtedness, calculated as the ratio between net borrowings and shareholders' equity, including minority interest.

	June 30, 2013	June 30, 2013 restated	June 30, 2014
Leverage	1.01	1.03	1.06

Sustainability

Saipem operates a complex network of activities, each of which is expected to contribute to ensuring balanced and sustainable development in the communities and geographical areas in which the Company operates in order to improve competitiveness and help maintain a long-term license to operate. For this reason, it is of primary importance for Saipem to be able to build and maintain strong relations with all of its stakeholders, engaging and involving them and endeavouring to fully understand their needs and their expectations.
The Sustainability Committee, which exercises a sustainability strategy setting role and is chaired by the CEO, Umberto Vergine, meets on a regular basis to discuss the results of the Sustainability Report and the Company's sustainability strategy.
In May 2014, all senior managers were invited to take part in an online survey concerning the issue of Integrity. The aim was to measure the level of awareness regarding the issue and Saipem's procedures and initiatives and to identify potential areas of improvement. The level of response of 94% was well above the maximum MBO target level of 80%. A second target for 2014 regards the number of audits conducted on vendors as part of a campaign to evaluate Saipem's supply chain in relation to social responsibility issues. Achievement levels of minimum 12, medium 18 and maximum 24 have been set. Three audits were conducted during the first half of the year. The maximum achievement level is expected to be reached by the end of the second half of 2014.

Measuring value creation in local communities

Increasing the level of local content is one of the key elements of Saipem's sustainability strategy. The Company actively pursues the objective of promoting sustainable development and creating wealth and well-being by maximising the number of local employees and suppliers and by contributing to developing their capabilities and know-how.
From 2009 onwards, Saipem has used a model developed in-house known as SELCE (Saipem Externalities Local Content Evaluation) which is designed to help it measure the positive impacts of its operations on local economies and communities. SELCE can be used to analyse and estimate the value (i.e. its direct, indirect and induced effects in terms of economic growth, employment and development of human capital) created in a given context.
The model has been used in Kazakhstan, Angola, Peru, Algeria, Nigeria, Indonesia, France, Australia and Saudi Arabia and is currently being applied on the Egina project in Nigeria. During the second half of 2014, the model will be employed in a number of other locations.

Sustainability reporting

For the third year running, in accordance with Global Reporting Initiative guidelines (the most widely used international sustainability reporting framework), Saipem has published two documents: 'Sustainability Performance 2013', published as an addendum to the 2013 Annual Report and 'Saipem Sustainability 2013'.
'Sustainability Performance 2013' provides information on operations, as well as on Key Performance Indicators related to the principal aspects of company sustainability policy (health, safety, environment, people, vendors and local communities).
The information presented in the report thus complements the financial and operating data contained in the annual report proper, with the aim of providing a broad and comprehensive overview of the Company's annual results.
The second document published, 'Saipem Sustainability 2013', aims to describe the commitments undertaken, initiatives concluded and the results obtained by Saipem in relation to themes considered material by its stakeholders.
'Saipem Sustainability 2013' covers the following principle areas: local development and the promotion of local content, skills and personnel management, including the promotion of health and safety, business opportunities and business integrity, supply chains, human rights and working conditions. The document also contains numerous country focuses which testify to the concrete realisation of sustainability strategies at operating sites.
Both documents have been audited by Reconta Ernst & Young, and are available as interactive documents on the Company website.
In addition, Saipem's Kazakhstan based joint venture, Ersai Llc, is in the process of completing its own Sustainability Report, which details the company's sustainability performance in 2013.
Once approved, the document will be made available on the sustainability section of the Saipem website at www.saipem.com/sustainability.
The period also saw Saipem publish the Country Reports for Indonesia and Abu Dhabi, while during the second half of the year, the France and Saudi Arabia Country Reports are due to be finalised.
The project and country-specific documentation published by Saipem is aimed in particular at local stakeholders and describes initiatives underway, best practices adopted and results achieved in terms of sustainability.

Local Community initiatives

Local community sustainability initiatives during the first half of 2014 continued in the areas in which Saipem operates, in accordance with the 2014 plan.

Here, details are provided on the most significant activities undertaken in the period.
In Kazakhstan, Ersai Llc is implementing its annual sustainability plan, which focuses specifically on the community of the nearby village of Kuryk, on the coast of the Caspian Sea. The company is carrying out two projects in the village in collaboration with the Eurasia Foundation of Central Asia. The first aims to stimulate entrepreneurial and business activity, while the objective of the second is to improve the local education system.
Saipem Azerbaijan Branch is once again implementing an internship programme for young graduates designed to develop new technical competencies and increase employment opportunities.
Boscongo, the Saipem operating company in Congo and Saipem Contracting Nigeria Ltd are both moving ahead with their malaria prevention programmes with the aim of improving the health of the local population and local employees.
Also moving in the same direction is Brazil-based operating company Saipem do Brasil who, in partnership with SENAI, the National Service for Industrial Training, is currently implementing the second year of an apprenticeship scheme which aims to provide students with technical training through a combination of practical experience and class-room based lessons.
The company is collaborating with SEBRAE (Brazilian Service of Support for Micro and Small Enterprises) to provide support and training to local vendors in order to help them increase their earning capacity and their ability to create local employment opportunities.
Finally, in Peru, Venezuela and Colombia, local company Petrex has been particularly active in developing initiatives such as workshops and campaigns designed to promote a culture of safety among employees and their families. In Colombia, the company is also involved in initiatives to develop the entrepreneurial and technical know-how of local vendors.

Research and development

Research and development activities have been organised into thematic areas which directly coincide with the activities of the Business Units, in order to ensure a clearer alignment with their strategies and with the aim of further contributing to the successful transfer of the fruits of Saipem's R&D efforts to the business areas.

The Offshore E&C Business Unit will focus its development efforts primarily on Subsea (SURF, Subsea Processing and Field Surveillance activities) and export lines and trunklines, in addition to material technologies and other cross-cutting themes. Significant results were achieved during the reporting period in the SURF (Subsea, Umbilicals, Risers and Flowlines) segment, where the innovative solutions developed over recent years have begun to come to fruition, bringing with them the prospect of new opportunities to be exploited on the subsea field development market.

In terms of deep and ultra-deep water applications, work continued on intervention downlines. The aim of these developments is to define new solutions for deployment in the commissioning and intervention phase of projects, with the aim of ensuring mechanical integrity and safer operability. An extensive testing campaign was launched with the goal of achieving better characterisation of the dynamic behaviour of intervention downlines and assuring proper specification when required on projects.

Studies also went on during the period for a J-lay installation method adapted to plastic lined pipes. Tests performed together with an industrial partner have produced promising results; a next test phase of development is due to begin during the second half of this year to complete qualification of the technology for industrialisation.

Further progress was made during the period in relation to active heating with pipe in pipe, where the objectives is to develop and qualify a technology compliant with J-lay installation. Following a first exercise run at the end of 2013, the design has been extensively worked out to produce a simple and reliable solution for cable connections and temperature monitoring at offshore weld locations, enabling Saipem to offer a competitive solution suitable for deployment on its installation vessels. Demonstration tests are currently under preparation.

In the deep water segment, further progress was made during the reporting period on the development of a series of innovative subsea processing systems in partnership with a number of leading oil companies. The Joint Industry Project (JIP), which is based on the patented 'Multipipe' gas/liquid gravity separation system, can count on the financial support of a number of oil majors. The project encompasses the definition of an entire subsea station for two cases of application, as well as the evaluation of the design maturity of all of the station's individual components, particularly from the point of view of construction. The JIP has been completed, demonstrating that the system is mature for a project application. After the completion of the JIP, additional evaluations were conducted on specific scenarios involving maintenance of the separator using service vessels of very limited lifting capacities.
A new patent application was filed in relation to a modular 'Multipipe separator' suitable for use with light intervention vessels with limited capacities, which retains its capacity to handle large flowrates.

Following completion of the first qualification tests programme in 2013 on the 'Spoolsep' liquid/liquid gravity separation system, a second qualification step has been launched to run another set of tests by the end of 2014. The aim of this new campaign is to improve the geometry and performance of the system.

Work also continued during the period together with an industrial partner on the design of subsea seawater treatment solutions. SPRINGS®, the result of the joint efforts of Total, Saipem and Veolia is designed for the subsea removal of sulphates present in seawater. A pilot unit was installed in June on a FPU in Congo and immersed at a depth of more than 500 metres to test the performance of the concept under real conditions.

In the ultra-deep water pipe laying sector, studies on the application of new high pulling capacity fiber systems continued, with innovative new methods being developed and a test plan for an experiment in scale of the pulling elements currently under definition.

Development activities for the Anti Flooding Tool (AFT) system, which prevents pipe flooding during the pipe laying phase, earlier this year were handed over to a commercial project, which will oversee the industrialisation and the first field applications of the technology. Construction and testing of the subsystems continued during the first half of 2014, while integration and validation tests were commenced.

Other activities aimed at reducing the risk in 'S' laying operations were handed over to the business units. Following the success of last year's tests, the new instrument for remotely measuring the internal ovality of pipelines moved on to the industrial application stage, where the aim is to validate it on operational projects in 'S' and 'J' lay modes. Meanwhile, the new device enabling quick disconnection of equipment operating on the pipe in the firing line in the event of uncontrolled movement of the pipe was tested successfully on sandblasting machines. A design review is currently in progress on release devices for electrical power and signal cables connected to 'heat and coat' clamps.

In the field of subsea pipeline trenching, the experiments at sea of new techniques for transplanting the aquatic plant Posidonia continued, confirming the positive results already obtained.
Work also continued to develop technology for measuring the burial depth and levelling of trenched pipelines. These activities were also transferred over to the business units during the reporting period.

Meanwhile, also during the first half of the year, a campaign was planned for the experimental validation of a new highly productive welding process for offshore pipelines.

The technology for field joint coating 'M1' was transferred as of the beginning of the year on to a commercial project with the aim of achieving a first industrial application. The new coating system for welded joints developed and tested in recent years has now reached the industrial application stage; programmes for the qualification of equipment have also been commenced.

In the field of submarine pipeline repair operations, the campaign to extend the repair system for use in hydrogen sulphide-rich marine environments – which is also now in the industrial application stage – continued.
Studies are ongoing on a new connector for pipelines capable of transporting acid products, with a patent application being filed during the period for one specific solution.

The focus of the Floaters Business Unit will primarily be on high-end technological solutions, such as FLNG and floaters for harsh/Arctic conditions. Technology development activities in the floating production facilities segment remained focused during the period on the creation of innovative solutions for floating liquefaction facilities (FLNG) with the objective of achieving more efficient and safer gas production under what are increasingly challenging conditions. Work was also carried out with the aim of providing direct support to FLNG projects. This included the qualification of a tandem LNG offloading system using floating flexible hoses in collaboration with an industrial partner, a classification society and one of the leading operators in the Oil&Gas sector.

The Drilling Business Unit meanwhile will concentrate on the adoption of new drilling techniques and rigs for harsh conditions. Alongside the definition of methods and equipment for the Managed Pressure Drilling market, the technology programme is focused primarily on developing designs for drilling rigs suited to Arctic conditions that take into consideration naval and drilling aspects, as well as the results of an operability analysis.

The Onshore E&C Business Unit will mainly focus on proprietary licensed process technologies and new solutions to increase the value proposition to clients, principally in the energy efficiency and environment fields. Process development activities focused on the achievement of continuous improvements in the environmental compatibility of proprietary fertiliser production technology 'Snamprogetti™ Urea', which to date has been licensed to 130 units world-wide. While activities aimed at reducing environmental impact ('Urea Zero Emission') proceeded, innovative new internals for the urea synthesis reactor have been designed, constructed and installed in an industrial plant, which are expected to increase reaction yield. As soon as the expected performance has been confirmed, these internals will become the standard for new-built plants and may also be retrofit in existing units during planned shutdowns.

In the field of energy efficiency, studies were completed on the production of hydro-electric power in petrochemical or fertiliser plants. Two real cases were considered – a plant with a water fall of about 100 metres and a second one with no water falls, but a piezometric tower about 16 metres in height. In both cases, production of electric power is feasible without greenhouse gas emissions at relatively low cost. The results of the study will allow Saipem to offer its clients a wide range of options which, for a slightly higher capital expenditure, will generate cost savings during operation and offer higher sustainability.

In the environmental area, a software platform for the evaluation of ecological risks has been realised and implemented.
The software can be used to record values for Lines Of Evidence (LOEs), as well as from a range of different types of analysis, such as eco-toxicological tests, biomarkers, biotic indexes, etc., and to integrate and analyse multiple weighted LOEs to assess overall ecological risk.

Quality, Health, Safety and Environment

Quality

September 2013 saw the roll out of the 'Bring quality to the next level' programme, which involved the launch of five workstreams whose first phase was completed in March 2014. The streams involved the following activities:
- Cost of Non Quality: aimed at defining the categories of failure that generate Costs of Non Quality and establishing calculation methodologies for estimating the impact of these costs for Saipem SpA;
- Saipem Knowledge Management: implementation at Saipem SpA of a knowledge sharing network (K-Hub) for use by all Company personnel;
- Top Management Critical Metrics - Drilling: design of a new process for setting and monitoring indicators for the drilling business;
- Quality Built in Process - Supply Chain: analysis of recurring quality issues in the supply chain process and definition of areas of improvement;
- Quality Built in Process - Third party fabrication subcontracts: mapping of the fabrication process, identifying areas for attention and defining improvement actions.

In the light of the results achieved in the first phase of the initiative, in March and April 2014 an internal task force was assigned to roll-out activities for each workstream. The task forces were composed of personnel from the various Saipem departments, deployed on a job rotation basis and coordinated by a dedicated Project Director.
The status of the five workstreams as at June 30, 2014 was as follows:
- Cost of Non Quality: the process, governance model, tools and training packages for performing Cost of Non Quality calculations over the lifecycle of Saipem SpA projects have all been defined;
- Saipem Knowledge Management (K-Hub): the K-Hub network has been launched and is operational;
- Top Management Critical Metrics - Drilling: the indicators defined during the first phase have been extended to the offshore fleet and onshore rigs;
- Quality Built in Process - Supply Chain: initiatives designed to define a system for the qualification of inspectors and for evaluating and recording their performance, an interface model for managing orders involving the use of a 'focal point' with the aim of optimising communications, new processes for the notification of non-conformities emerging during the post order phase needing to be closed out during the construction phase, a method for detecting and mitigating the risk associated with the selection of qualified vendors that have received negative performance evaluations, an enhanced method for recording and managing vendor feedback, the extension and review of the content of Inspection Data Sheets, the integration of non-conformity reports issued at vendor workshops and construction sites within a single database, and the definition of a methodology to ensure requirements/specifications to be attached to purchase orders are continually updated up until orders are placed;
- Quality Built in Process - Third party fabrication subcontracts: definition of a contract template for third party yards.

Following the issue of the Management System Guideline regarding the Company's regulatory system in December 2013, which introduced new governance rules for the system of regulatory documentation and technical standards, the CEO, together with the Human Resources department managers and the Quality function sponsored the launch of a project entitled 'Regulatory System Improvement'.
The project, which is managed by a team of dedicated personnel, has the aims of aligning Company documentation with the new architecture and organisational/operational model.

Finally, the first half of the year also saw the continuation of the following activities:
- issue of corporate standards and technical instructions with the aim of ensuring uniformity and integration of quality assurance and quality control at the business lines;
- measurement of customer satisfaction;
- implementation of the reporting system launched in 2013 for quality activities at branches/subsidiaries;
- initiatives to raise awareness of Managing Directors/Branch Managers with regard to the new governance rules and their impact on subsidiaries and branches, including with regard to new initiatives being implemented;
- review of KPIs for all processes;
- creation of a new framework for certification of Saipem's governance model;
- completion of standardised Quality Control Plans for Onshore and Offshore E&C projects;
- installation at fabrication sites/yards of new quality and mechanical completion certificate management system;
- preparation of NDT phased array procedures for use at Boscongo, Petromar and Star yards;
- development of innovative ultrasound-based welding monitoring methodology for use on Total projects and currently being rolled out at Boscongo yard;
- issue of dedicated criteria for the maintenance and testing of BOP systems used on drilling projects.

Safety

The Total Recordable Incident Frequency Rate for the first half of 2014 (up to mid-June) was 1.06.

The period saw the continuation of activities and initiatives designed to maintain high workplace health and safety standards. These included:

- training regarding the operational, psychological and behavioural aspects of emergency situations for all personnel (pursuant to an Italian State-Regions Agreement), as well as for dedicated company emergency personnel;
- campaign to promote the life-saving rules developed by the OGP (International association of Oil&Gas Producers). The period also saw the completion of materials designed to support the launch and delivery of the campaign within the Saipem Group, which is scheduled to take place over the coming months;
- the campaign 'Keep Your Hands Safe', designed to prevent injuries to hands, which was launched during the second half of 2013 at sites operated by Saipem SA;
- the period also saw the ongoing delivery to personnel at all of the business units, both in Italy and abroad, of all phases of the LiHS programme (Leadership in Health and Safety), with a special focus on newly acquired projects.

Environment

Numerous activities and environmental initiatives were pursued during the period, including:

- organisation of a 'Print Less Day' to mark World Environmental Day on June 5, 2014. The same day also saw Saipem take part in the 'Energy Day' organised by Eni, where it presented its initiatives to increase energy efficiency and reduce consumption and also illustrated the energy-saving technological solutions the Company is making available to its clients;
- the implementation of energy efficiency analyses for a number of offices (in accordance with ISO 50001:2001 'Energy Management Systems'), for an offshore vessel and for an onshore drilling rig, with the aim of identifying efficient methods for reducing consumption and increasing efficiency;
- consolidation of the Company's new environmental communication tools, including the environmental magazine 'eNews', which illustrates the principle environmental initiatives occurring within Saipem, 'Breaking eNews', which covers global initiatives and lessons learned, and 'Italian eNews', which provides updates regarding environmental legislation for sites in Italy.

Health

With regard to health-related issues, the period saw Saipem continue with its normal activities and promote a series of new initiatives.

- 2,400 preventive medical check-ups were carried out for Italian and international personnel; 377 people required further examination and 4 were alcohol and drug tested.
- The diffusion of the 'Pre-Travel Counselling' programme for all personnel due to work abroad continued during the period. 540 employees received training, including updates based on international health alerts.
- The drive to raise vaccine awareness, especially in relation to mandatory and strongly recommended vaccines, proceeded throughout the period for Italian and foreign destinations, while the agreement signed with the local health authority in San Donato Milanese for yellow fever vaccination also continued.
- The 'Sì Viaggiare' international travellers' handbook application, which was already available in Apple and Windows 8 versions, was completed for the Android platform.
- The period also saw ongoing work under agreements with a variety of medical facilities and hospitals on a wide range of issues. These included the partnerships with the IRCCS Policlinico di San Donato Milanese for health promotion initiatives, with the CIRM (Centro Internazionale Radio Medico) for the provision of radio medical advice to employees working on board Saipem's offshore fleet and with Milan's Sacco hospital for infectious disease testing of employees returning from work abroad all continued. The Company also participated in the 'WHP' (World Health Promotion) programme organised in collaboration with the local health authority and the Lombardy Regional Authority.
- Saipem also organised specific events to coincide with a number of international awareness days celebrated by the World Health Organisation.

Human resources

Human resources management

During the first half of 2014, the Human Resources Management department continued with work aimed at defining and implementing measures designed to optimise the Company's internal cost structure and to align employment and expatriation contractual practices and tools with developments in national and international legislation.

The review of Company documentation dealing with the key processes controlled by the Human Resources department also continued during the period, with the aim of reflecting external developments (i.e. in national and international laws and regulations), as well as internal changes such as the comprehensive review that has taken place of the Company's organisational structure.

As part of the drive to improve HR management tools and processes, work is nearing completion on the development of Visa System, an integrated information system due to be rolled out at the Group's Italian offices, designed to allow enhanced monitoring of all the processes and procedures associated with the entry of personnel into Italy from abroad, as well as to optimise costs and increase process efficiency.

Following the introduction of the web-based management tool HR Management Portal, the development and improvement initiatives continued, with the period seeing an extension of the portal's scope of application to encompass the analysis and monitoring of key legislative and administrative aspects.
In relation to the same issues, early 2014 also saw work focused on developing IT management tools for international assignments.

The activities carried out in the period in relation to the development of integrated information systems also saw the completion of work on the Human Resources Management Portal laying down the groundwork, going forward, for the roll out of an additional dashboard designed to monitor absenteeism.

Another important initiative completed during the period was the overseas tax recovery process, aimed at increasing cost efficiency, which was concluded in February-March. Finally, the period brought the definition of new savings targets for 2014, which aim to reduce costs associated with areas such as holiday, overtime and business trips.

Industrial Relations

Given the global nature of the environment in which Saipem operates today, which encompasses a wide range of diverse socio-economic, political, industrial and legislative situations and conditions, the management of industrial relations requires maximum care and attention.
The Company's industrial relations model has thus for many years now focused on ensuring the harmonisation and optimal management of relations with trade unions, employers' associations, institutions and public bodies in line with Company policies.
With a view to further reinforcing this participatory model of industrial relations, the Company and the trade union organisations entered into discussions during the first half of 2014 to establish an industrial relations protocol that recognises the centrality of communication, negotiation and dialogue.
The reporting period also saw a number of other important instances of discussion and dialogue, among which the Meeting in May 2014 at which Saipem top management presented the General and National Secretaries of the Energy and Oil sector trade unions with its Business Plan and outlook for 2014-2017.
Despite the critical situation issues that marked 2013, the Company and the trade unions were together able to reach an agreement with regard to the participation bonus, which established the amounts to be paid out based on 2013 results.
Both parties also underlined their commitment to defining a new framework for calculating the participation bonus for the period 2014-2017.
As in the previous year, the first half of 2014 saw the continuation of the drive to achieve greater efficiency and alignment of management processes in cooperation with trade unions representatives at all Italian sites. For the first time, the agreements were also signed by the trade union representatives for the workers at the Arbatax yard.

The overseas industrial relations function continued during the period to provide Human Resources departments at overseas sites with support in relation to their principal interactions with trade unions, in accordance with the function's steering and support role.
The period's significant events in this connection included the signing of a collective labour agreement for the workers employed in the Guarujá yard with a new trade union organisation.
Meanwhile, three new collective agreements were signed in Mexico for specific professional categories employed at the Company's offices in the Federal District of Mexico City.
In addition, support was provided to the Human Resources department in Australia with the definition of agreements with trade union organisations from the energy and maritime sectors in relation to the Ichthys project.
Finally, the Overseas Industrial Relations function is currently engaged in a review of the relevant conditions and its negotiations strategy in view of the forthcoming renewal of three important collective labour agreements for the energy and construction sector in Nigeria.

Development, Organisation, Compensation and Senior Management Administration

Following the changes which saw the Engineering and Construction and Drilling Business Units integrated under the control of the Chief Operating Officer, the first half of 2014 brought the introduction of a new organisational structure designed to enable Saipem to capture the opportunities offered by the market, and to improve company performance and profitability. The new structure involved:

- the creation of a central function with a cross-cutting remit responsible for defining integrated, optimised commercial strategies and guidelines at client/country level and for managing the bid formulation process from a global perspective;
- the creation of four Business Units equipped with the resources required to achieve the expected operating and economic results in terms of project acquisition and implementation;
- the bolstering of the regional oversight role performed by the Regional Managers in order to ensure integrated business promotion at local level, uniform representation of the Company in relations with stakeholders and optimisation of competencies, structures and assets.

Meanwhile, the following changes were made within the staff and support business functions:

- rationalisation of the Chief Compliance and Financial Officer's department;
- redefinition of the organisational structure of the Procurement, Contract and Industrial Risk Management function.

Work also continued to align the organisational structures of subsidiaries and branches with the Saipem organisational model and specifically with the model adopted by the business units.

The following measures were taken with a view to achieving continuous improvement of corporate governance and the system of internal controls and risk management:

- the introduction of a new system of powers and delegations at all Saipem subsidiaries and branches;
- the launch of a review of the Boards of Directors and Compliance Committees of all Saipem subsidiaries;
- the launch of a review of the Company regulatory system with the twin aims of rationalising and simplifying the system for greater usability and effectiveness and securing increased ownership by individual Process Owners with regard to Saipem value chain targets. As part of this drive i.e. towards fostering and consolidating a culture of Responsible Leadership, a training and information programme was launched which aims to establish an integrity model designed to become a distinctive feature of Saipem culture and identity.

In addition, as part of the drive towards the improvement of Company processes, the following initiatives were carried out:

- launch of initiatives aimed at rationalising and optimising the operating/organisational model used for fabrication management;
- definition of an organisational model for the new company Knowledge Management system, with the aim of ensuring more effective capture and dissemination of experience and know-how.

Saipem continues to recognise the strategic value of human resources development as a fundamental element for ensuring an effective definition of its workforce in qualitative terms and works to ensure that the development of internal resources is based on processes that are closely linked to the Company's business needs. As part of its human resources development approach, efforts continued during the period to update, consolidate, simplify and integrate the Company's development tools in line with the People Strategy and the Employee Value Proposition.

Year 2013	Year 2013 restated	(units)	First half Average workforce 2013	Average workforce 2013 restated	Average workforce 2014
15,857	15,091	Offshore Engineering & Construction	15,712	15,037	15,774
19,148	18,549	Onshore Engineering & Construction	18,344	17,594	20,425
2,724	2,724	Offshore Drilling	2,743	2,743	2,671
7,706	7,564	Onshore Drilling	7,641	7,502	7,764
2,039	2,036	Staff positions	2,016	2,013	1,895
47,474	**45,964**	**Total**	**46,456**	**44,889**	**48,529**
7,475	7,475	Italian personnel	7,448	7,448	7,498
39,999	38,489	Other nationalities	39,008	37,441	41,031
47,474	**45,964**	**Total**	**46,456**	**44,889**	**48,529**
6,600	6,600	Italian personnel under open-ended contract	6,557	6,557	6,722
875	875	Italian personnel under fixed-term contract	891	891	776
7,475	**7,475**	**Total**	**7,448**	**7,448**	**7,498**

Dec. 31, 2013	Dec. 31, 2013 restated	(units)	June 30, 2013	June 30, 2013 restated	June 30, 2014
7,690	7,659	Number of engineers	7,663	7,635	7,798
48,607	47,224	Number of employees	47,927	46,339	49,497

Specifically, the period saw the global roll out of a new performance management model, whose key points include placing greater emphasis on individuals' professional skills and competencies.
As part of the introduction of the new model, a new skills mapping, monitoring and development process was rolled out for the Construction, Fabrication, Technical and Project Management professional families, which aims to provide a more accurate structured appraisal of skills in relation to individuals' current roles and potential future roles through a review of the relevant company career paths.
Following on from the success of the initiatives conducted in the wake of the employee engagement analysis held in Italy and France, the reporting period saw Saipem SA run a second edition of the 'Share and Shape' project, whose aim is to secure a more direct level of engagement on the part of the company's less senior employees with regard to the formulation of improvement proposals to top management.

The Saipem Compensation Policy, as described in the Company's Remuneration Report, was once again set, pursuant to the governance model adopted by the Company and the recommendations included in the Corporate Governance Code, with the aim of attracting, motivating and retaining highly skilled professional and managerial resources and aligning the interests of management with the primary objective of value creation for the shareholders in the medium-long term.
The 2014 Remuneration Report was prepared in compliance with Article 123-*ter* of Legislative Decree No. 58/1998 and Article 84-*quater* of the Consob Issuers Regulation and taking into account recent legislative developments – in particular the requirements set down by Article 84-*ter* of Law No. 98 of August 9, 2013 concerning the remuneration of Executive Directors of companies controlled directly or indirectly by Public Authorities. In this regard, the Board of Directors ascertained that the Company is exempt from the requirement to present a proposal for the remuneration of its Executive Directors, since – having already brought in a reduction of the CEO's remuneration on December 5, 2012 that was greater than the reduction required by law – it falls within the ambit of the circumstances regulated by paragraph 5-*sexies* of Article 84-*ter*. The Saipem Board of Directors approved the 2014 Remuneration Report on March 14, 2014, while the Company's shareholders voted in favour of the report at their Meeting on May 6, 2014.
Since, based on relevant Company targets and management's 2013 performance, the minimum threshold triggering a pay-out of the annual monetary incentive plan for senior managers was not reached, no individual monetary incentives were paid out.
New targets for senior managers for 2014 have been defined. The targets relate to the company's results in terms of EBIT, orders acquired, net financial position, sustainability and integrity, and also include targets set on the basis of the strategic plan and individual behavioural targets.
A new Long-Term Monetary Incentive Plan has also been introduced in order to provide the company with a tool to motivate and retain critical management resources. The objectives of the plan are to increase participation in the Company's business risk, obtaining improvements in the Company's performance and creating maximum long-term value for shareholders. The Plan was approved by the Saipem Board of Director on March 14, 2014, while the Company's shareholders voted in favour of its adoption at their Meeting on May 6, 2014. The Plan introduces two new performance indicators, both of which are measured over a three-year period:
- Total Shareholder Return, which is an indicator of the company's ability to generate a return for its shareholders, as measured against a peer group;
- ROACE, which is an indicator of the return on employed capital measured against the annual budget.

Finally, the benchmark peer group was updated and is now composed of the following companies: Technip, JGC, Subsea 7, Transocean, Petrofac, and Samsung Engineering.

During the period, the Senior Manager Administration department developed and launched a work plan for the regulation of its key administrative and management processes, as part of the department's remit of direct centralised management of the senior management population. The plan, which aims to improve monitoring and controls over the processes, saw the launch during the period of a review of company policies focusing on generating groupwide savings, re-defining authorisation processes, aligning/standardising global practises and recovering direct governance over key critical operating processes, in relation in particular to expatriation methodologies and policies, assignments and business trips, and the use of credit cards with central payment.
Meanwhile in Italy, the period saw the launch of a drive to reduce unused annual leave holiday, with the aim of encouraging a correct, balanced use of leave as well as to generate savings for the Company.

In order to ensure it can constantly maintain the levels of excellence the market expects of it, Saipem's selection activities are oriented towards identifying personnel offering extensive, relevant professional experience and capabilities. With a view to developing and fostering such capabilities, which it can often be difficult to source on the labour market, Saipem is continuing to invest in employer branding exercises and initiatives aimed at the Italian's top secondary level technical schools and universities. May 2014 in fact saw the conclusion of the second edition of the postgraduate master's programme in 'Safety and Environmental Management in the Oil&Gas Industry', which is organised in collaboration with the University of Bologna and Eni Corporate University. Meanwhile, activities on the 'Synergy' project, which the Company launched in partnership with the technical schools 'A. Volta' in Lodi and 'E. Fermi' in Lecce also continued during the period.
To boost the effectiveness of the recruitment process and the Company's corporate branding and image building activities, the global recruitment portal is currently being revamped and updated, while the use of e-recruitment technology is becoming increasingly widespread.
In keeping with the drivers defined as part of the Company's People Strategy concerning the promotion and dissemination of

integrated, transparent tools for effective personnel management, the reporting period saw the conclusion of the implementation in Italy of the new training management software application 'Peoplearning'.
Peoplearning application has been designed with a strong focus on the people using it, who each have their own blend of individual skills and capabilities and their own personal career paths within the Company and the communications campaign for the new application reflected this, focusing on three key features:

- transparency and the shared responsibility of the actors involved in the training process;
- perfect integration with the personnel appraisal, development and management processes;
- the simple, easy-to-use reports, which are also distributed to employees' managers.

In line with the key elements of the Employee Value Proposition, the training projects and initiatives implemented during the first half of the year were targeted at achieving greater leverage of the Company's technical resources and at developing skills characterised by high levels of specialisation.
Pursuant to relevant Legal Compliance requirements, the Company continued with its drive to ensure the dissemination of the Internal Control Model at all hierarchical levels both in Italy and abroad, with e-learning courses being organised in connection with Legislative Decree No. 231/2001. Training initiatives for the members of the Compliance Committee of subsidiaries also continued during the period, as did those for Employers, Safety Managers, Safety Supervisors and Officers regarding safety legislation introduced under Legislative Decree No. 81/2008.
The first half of the year also saw training provided to Managing Directors of overseas companies.
In the same vein, members of the management boards attended the workshop 'Working in the Board' over the period.

Information technology

Information, Communication, Technologies

The change initiatives implemented on the Company's information management systems in the first half of the year were limited to consolidation of the significant results already obtained in previous years in terms of both applications and infrastructure, in line with the cost containment objectives set by management.
In terms of applications, the period saw the final releases under the long-term change programme, which has affected numerous systems including SAP R/3, e-Procurement, Business Intelligence, HR system and Workload Management. These initiatives were accompanied by a broad range of business support initiatives, underlining the Company's firm commitment to its strategy of work process digitalisation.
The complex roll out of SAP R/3 at Saipem do Brasil was completed and the system has been operational since January 2014. Meanwhile the roll out of the inventory management application SAP Material Ledger, which has been coordinated to include Spectec's asset maintenance management system AMOS, is scheduled to be completed during the year at all of the main Group companies.
Saipem's new e-Procurement system, based on SAP SRM module 7.0, which was rolled out in July 2013, reached full maturity during the period.
The new Business Intelligence initiatives saw developments and releases of new dashboards for Procurement, HR, WMS, as well as in the Offshore E&C and Drilling business areas.
In the HR area, the OSA (One Step Ahead) project being developed in partnership with Oracle Corp relating to the Peoplesoft HCM application continued. Following the work on the Recruitment systems for Saipem SpA and the cloud solution developed for training processes (Peoplearning), work was carried out during the reporting period on the Talent Management module, while the roll out of the Saipem-developed international payroll solution continued with success.
Development and maintenance of the payroll software, as well as related HR management activities have been offshored to Saipem India Projects Ltd in Chennai, producing significant cost savings.
The roll out of the workload management system which currently provides coverage of all operating areas in terms of business demand and HR capacity, corresponding to a total of over 30,000 resources managed, was completed during the reporting period, together with the release of the dashboard for top and middle management.

Business support development initiatives carried out during the period focused on the adoption of innovative tools targeted at increasing the efficiency and quality of engineering design and construction activities and on a review of the support offered to the Company's business processes by existing applications.
This second area of intervention, which has been called Project Information Management, is an improvement initiative that the ICT function is carrying out for the Engineering, Project Management and Quality functions which aims to identify areas in which improvements in efficiency can be targeted.
Through partnerships with major suppliers of software solutions, the Saipem ICT function is continuing with its strategy of favouring the adoption, where possible, of standard platforms enhanced on the basis of a continuous dialogue between the suppliers' development centres and Saipem experts. The adoption of new modelling tool Intergraph SmartPlant 3D and the development of new processes for automated drawing generation and for checking engineering data quality and consistency were successfully completed. Additional business support initiatives were carried out during the period to support site operations, with the porting of a new application for managing piping spools and the related technical documentation.
The period also saw the deployment of a new construction management suite called Cosmo, which features site activity planning integrated with Oracle Primavera, functionalities for job accounting and the development of pre-commissioning and commissioning plans, plus a new quality system.

As regards IT infrastructure, the period saw the completion of work on the final sites included in the WIE – Windows Infrastructure Evolution – project, which is designed to enable the Company to take advantage of the benefits deriving from the functionalities offered by the new Microsoft products and to lay the groundwork for future releases of these products.
In addition to the project activities outlined above, the first half of the year also saw work continue on the ICT function's presence in Chennai, India (operational since 2013), where a number of infrastructure activities have been offshored, laying the foundations for a future internationalisation of the Saipem Group's infrastructure management services. As of July 2014, the Group in fact will benefit from 24x7 first level support for international servers and local networks.

Governance, compliance and security processes were carried out according to schedule, with work continuing on new ICT initiatives regarding the definition of application profiles for the Company's principal software applications and automatic role assignment to users via the adoption of the CA RCM role and user management module. This approach was combined with a cutting-edge use of IT security technologies and is designed to mitigate the security risks associated with data processing by the Company information systems.
Another significant security-related development was the completion of the roll out of advanced credential management systems, which involved the adoption of the Oracle FastLogon system, which enables users to access the principal Company applications on a Single Sign-On basis.

Risk management

Saipem implements and maintains an adequate system of internal controls and risk management, composed of instruments, organisational structures and Company regulations designed to safeguard Company assets and to ensure the effectiveness and efficiency of Company processes, reliable financial reporting, and compliance with all laws and regulations, the Articles of Association and Company procedures. The structure of the internal control system of Saipem, which constitutes an integral part of the Organisational and Management Model of the Company, which assigns specific roles to the Company's management bodies, compliance committees, control bodies, Company management and all personnel, is based on the principles contained in the Code of Ethics and the Corporate Governance Code, taking into account the applicable legislation, the CoSO report and national and international best practices.
Additional information on the internal control system and risk management, including details concerning its architecture, instruments and design, as well as the roles, responsibilities and duties of its key actors, is contained in the Corporate Governance Report and Shareholding Structure document.
The main industrial risks that Saipem faces and is actively monitoring and managing are the following:
(i) the market risk deriving from exposure to fluctuations in interest rates and exchange rates between the euro and the other currencies used by the company and the risk deriving from exposure to commodity price volatility;
(ii) the credit risk deriving from the possible default of a counterparty;
(iii) the liquidity risk deriving from the risk that the sources of funding required to meet the Group's short-term financial obligations may not be available;
(iv) the HSE risk associated with the potential occurrence of accidents, malfunctions, or failures with injury to persons and damage to the environment and impacts on operating and financial results;
(v) the country risk;
(vi) the project risk associated with the executions phase of engineering and construction contracts undertaken by the Onshore Construction, Offshore Construction and Asset Business Units.

Financial risks are managed in accordance with guidelines defined by the Parent Company, with the objective of aligning and coordinating Group companies' policies on financial risks.

Market risk

Market risk is the possibility that changes in currency exchange rates, interest rates or commodity prices will adversely affect the value of the Group's financial assets, liabilities or expected future cash flows. Saipem actively manages market risk in accordance with the above-mentioned guidelines and with procedures that provide a centralised model of conducting finance, treasury and risk management operations based on the Group Treasury Structures.

Exchange rate risk

Exchange rate risk derives from the fact that Saipem's operations are conducted in currencies other than the euro and that revenues and costs from a significant portion of projects implemented are denominated and settled in non-euro currencies. This impacts on:
- individual profits, which may be significantly affected by exchange rate fluctuations on specific transactions arising from the time lag existing between the execution of a given transaction and the definition of the relevant contractual terms (economic risk) and by the conversion of foreign currency-denominated trade and financial payables and receivables (transaction risk);
- the Group's reported results and shareholders equity, as financial statements of subsidiaries denominated in currencies other than the euro are translated from their functional currency into euro.

The Saipem Group's foreign exchange risk management policy is to minimise economic and transactional exposures arising from foreign currency movements. Saipem does not undertake any hedging activity for risks deriving from the translation of foreign currency denominated profits or assets and liabilities of subsidiaries that prepare financial statements in a currency other than the euro.
Saipem uses a number of different types of derivative contract to reduce economic and transaction exposure, such as currency swaps, forwards and options. Such derivatives are evaluated by the Corporate Finance Unit of Eni SpA at fair value on the basis of market standard evaluation and market prices provided by specialised sources. Planning, coordination and management of this activity at Group level is the responsibility of the Saipem Treasury Department, which closely monitors the correlation between derivatives and their underlying flows as well as ensuring their correct accounting representation in compliance with the International Financial Reporting Standards (IFRS).
An exchange rate sensitivity analysis was performed for those currencies other than euro for which exchange risk exposure in the first half of 2014 was highest in order to calculate the effect on the income statement and shareholders' equity of hypothetical positive and negative variations of 10% in the exchange rates.
The analysis was performed for all relevant financial assets and liabilities denominated in the currencies considered and regarded in particular the following items:

- exchange rate derivatives;
- trade and other receivables;
- trade and other payables;
- cash and cash equivalents;
- short and long-term financial liabilities.

For exchange rate derivatives, the sensitivity analysis on fair value was conducted by comparing the conditions underlying the forward price fixed in the contract (i.e. spot exchange rate and interest rate) with spot rates and interest rate curves corresponding to the relevant contractual maturity dates, on the basis of year-end exchange rates subjected to hypothetical positive and negative changes of 10%, with the resulting effects weighted on the basis of the notional amounts.
The analysis did not examine the effect of exchange rate fluctuations on the measurement of work in progress because work in progress does not constitute a financial asset under IAS 32. Moreover, the analysis regards exposure to exchange rate risk in accordance with IFRS 7 and therefore does not consider the effects of the conversion of financial statements of consolidated companies with functional currencies other than the euro.
A positive variation in exchange rates between the foreign currencies examined and the euro (i.e. depreciation of the euro against the other currencies) would have produced an overall effect on pre-tax profit of -€123 million (-€2 million at December 31, 2013) and an overall effect on shareholders' equity, before related tax effects, of -€440 million (-€270 million at December 31, 2013).
A negative variation in exchange rates between the foreign currencies examined and the euro (i.e. appreciation of the euro against the other currencies) would have produced an overall effect on pre-tax profit of €123 million (€8 million at December 31, 2013) and an overall effect on shareholders' equity, before related tax effects, of €447 million (€275 million at December 31, 2013).
The increases/decreases with respect to the previous year are essentially due to the currency exchange rates on the two reference dates and to variations in the assets and liabilities exposed to exchange rate fluctuations.

Interest rate risk

Interest rate fluctuations affect the market value of the Company's financial assets and liabilities and its net finance expenses. The purpose of risk management is to reduce interest rate risk to a minimum in pursuit of the financial structuring objectives set and approved by management.

When entering into long-term financing agreements with variable rates, the Treasury Department of the Saipem Group assesses their compliance with objectives and, where necessary, uses Interest Rate Swaps (IRS) to manage the risk exposure arising from interest rate fluctuations. Planning, coordination and management of this activity at Group level is the responsibility of the Saipem Treasury Department, which closely monitors the correlation between derivatives and their underlying flows, as well as ensuring their correct accounting representation in compliance with the International Financial Reporting Standards (IFRS). Such derivatives are evaluated by the Corporate Finance Unit of Eni SpA at fair value on the basis of market standard evaluation and market prices provided by specialised sources. To measure sensitivity to interest rate risk, a sensitivity analysis was performed. The analysis calculated the effect on the income statement and shareholders' equity of hypothetical positive and negative variations of 10% in interest rates.
The analysis was performed for all relevant financial assets and liabilities exposed to interest rate fluctuations and regarded in particular the following items:

- cash and cash equivalents;
- short and long-term financial liabilities.

For interest rate derivatives, the sensitivity analysis on fair value was conducted by comparing the interest rate conditions (fixed and variable rate) underlying the contract and used to calculate future interest rate differentials with discount curves for variable interest rates on the basis of period end interest rates subjected to hypothetical positive and negative changes of 10%, with the resulting changes weighted on the basis of the notional amounts.
For cash and cash equivalents, the analysis used the average balance for the year and the average rate of return for the year, while for short and long-term financial liabilities, the average exposure for the year and average interest rate for the year were considered.
A positive variation in interest rates would have produced an overall effect on pre-tax profit of -€5 million (-€10 million at December 31, 2013) and an overall effect on shareholders' equity, before related tax effects of -€5 million (-€10 million at December 31, 2013). A negative variation in interest rates would have produced an overall effect on pre-tax profit of €5 million (€10 million at December 31, 2013) and an overall effect on shareholders' equity, before related tax effects of €5 million (€10 million at December 31, 2013).
The increases/decreases with respect to the previous year are essentially due to the interest rates on the two reference dates and to variations in the assets and liabilities exposed to interest rate fluctuations.

Commodity price risk

Saipem's results are affected by changes in the prices of oil products (fuel oil, lubricants, bunker oil, etc.) and raw materials, since they represent associated costs in the running of vessels, offices and yards and the implementation of projects and investments.
In order to reduce its commodity risk, in addition to adopting solutions at a commercial level, Saipem also trades over the counter derivatives (swap and bullet swaps in particular) whose underlying commodities are oil products (mainly gasoil and naphtha) through Eni Trading & Shipping (ETS) on the organised markets of ICE and NYMEX where the relevant physical commodity market is well correlated to the financial market and is price efficient.
As regards commodity price risk management, derivative instruments on commodities are entered into by Saipem to hedge underlying contractual commitments. Hedge transactions may

also be entered into in relation to future underlying contractual commitments, provided these are highly probable.
Such derivatives are evaluated at fair value by the Treasury Department of Eni SpA on the basis of market standard evaluation models and market prices provided by specialised sources.
With regard to commodity risk hedging instruments, a 10% positive variation in the underlying rates would have produced no significant effect on pre-tax profit and an overall effect on shareholders' equity, before related tax effects, of €1 million (€2 million at December 31, 2013). A 10% negative variation in the underlying rates would have produced no significant effect on pre-tax profit and an overall effect on shareholders' equity, before related tax effects, of -€1 million (-€2 million at December 31, 2013).
The increase (decrease) with respect to the previous year is essentially due to the differences between the prices used in calculating the fair value of the instrument at the two reference dates.

Credit risk

Credit risk represents Saipem's exposure to potential losses in the event of non-performance by a counterparty. With regard to counterparty risk in commercial contracts, credit management is the responsibility of the business units and of specific corporate finance and administration functions operating on the basis of standard business partner evaluation and credit worthiness procedures. For counterparty financial risk deriving from the investment of surplus liquidity, from positions in derivative contracts and from physical commodities contracts with financial counterparties, Group companies adopt guidelines defined by the Treasury Department of Saipem in compliance with the centralised treasury model of Eni.
The critical situation that has developed on the financial markets has led to additional preventative measures being adopted to avoid the concentration of risk and assets. This situation has also required the setting of limits and conditions for operations involving derivative instruments.
The Company did not have any significant cases of non-performance by counterparties.
As at June 30, 2014, Saipem had limited concentrations of credit risk, which are deemed non-critical.

Liquidity risk

Liquidity risk is the risk that suitable sources of funding for the Group may not be available (funding liquidity risk), or that the Group is unable to sell its assets on the market place (asset liquidity risk), making it unable to meet its short-term finance requirements and settle obligations. Such a situation would negatively impact the Group's results as it would result in the company incurring higher borrowing expenses to meet its obligations or under the worst of conditions the inability of the Company to continue as a going concern. As part of its financial planning process, Saipem manages liquidity risk by targeting a capital structure that guarantees a level of liquidity adequate for the Groups' needs, optimising the opportunity cost of maintaining liquidity reserves and achieving an optimal profile in terms of maturity and composition of debt in accordance with business objectives and prescribed limits.
At present, in spite of the current market conditions, Saipem believes it has access to sufficient funding and borrowing facilities to meet currently foreseeable requirements, thanks to a use of credit lines that is both flexible and targeted to meet business needs.
The liquidity management policies used have the objective of ensuring both adequate funding to meet short-term requirements and obligations and a sufficient level of operating flexibility to fund Saipem's development plans, while maintaining an adequate finance structure in terms of debt composition and maturity.
As of June 30, 2014, Saipem maintained unused borrowing facilities of €1,778 million. In addition, Eni SpA provides lines of credit to Saipem SpA under Eni Group centralised treasury arrangements. These facilities were under interest rates that reflected market conditions. Fees charged for unused facilities were not significant.
The following tables show total contractual payments (including interest payments) and maturities on financial debt and payments and due dates for trade and other payables.

Finance debt

	Maturity					
(€ million)	**2015 (*)**	**2016**	**2017**	**2018**	**After**	**Total**
Long-term debt	2,157	568	488	428	1,526	5,167
Short-term debt	1,394	-	-	-	-	1,394
Fair value of derivative instruments	89	-	-	-	-	89
	3,640	**568**	**488**	**428**	**1,526**	**6,650**
Interest on debt	170	89	75	51	25	410

(*) Includes the second half of 2014.

Trade and other payables

	Maturity			
(€ million)	2015 (*)	2016-2018	After	Total
Trade payables	2,728	-	-	2,728
Other payables and advances	2,405	-	-	2,405

(*) Includes the second half of 2014.

Outstanding contractual obligations

In addition to the financial and trade debt recorded in the balance sheet, the Saipem Group has contractual obligations relating to non-cancellable operating leases whose performance will entail payments being made in future years. The following table shows undiscounted payments due in future years in relation to outstanding contractual obligations.

	Maturity					
(€ million)	2015 (*)	2016	2017	2018	After	Total
Non-cancellable operating leases	114	71	85	57	257	584

(*) Includes the second half of 2014.

The operating leases mainly relate to office buildings, long-term time charters and land.
The table below summarises Saipem's capital expenditure commitments for property, plant and equipment and capital projects for which procurement contracts will normally have been entered into.

	Maturity	
(€ million)	2014	2015
Committed on major projects	24	2
Committed on other investments	128	12
Total	**152**	**14**

HSE (Health, Safety & Environment) risk

Saipem's business activities conducted both in and outside Italy are subject to a broad range of national legislation and regulations, including laws implementing international protocols and conventions relating to specific sectors of activity.
Saipem is fully committed to a process of continuous improvement of its safety, health, and environmental performance, to minimising the impact of its operations and to ensuring compliance with all applicable legislation.
An ongoing process of risk identification, evaluation and mitigation is at the heart of HSE management operations in all phases of activity and for all business units. This process is implemented through the adoption of effective management procedures and systems designed to suit the specific characteristics of each activity and the sites in which they take place and with a view to achieving the continuous improvement of plant and processes.
The Saipem HSE organisational model establishes varying levels of responsibility, starting from the persons closest to the risk sources, who are best positioned to assess the potential impact of risks and to ensure adequate preventive measures are put in place. In addition, HSE departments perform a governance, coordination, support and control role and issue and update guidelines, procedures and best practices designed to ensure continuous improvement.
In recent years, as a result of Law No. 121/2011, environmental offences have joined health and safety offences as one of the underlying offences that could result in corporate liability under Legislative Decree No. 231/2001. In response to this development, Saipem has put in place an action plan involving a multidisciplinary team with the aim of ensuring that the Company's HSE model is adequate to prevent environmental crime. This effort has included the updating of the Company's HSE document system.
In addition, campaigns to raise awareness on health, safety and environmental issues are frequently launched at work sites.
In recent years, these have included the 'Leadership in Health and Safety', 'Choose Life' and 'Working at Height' campaigns.
Saipem has always invested heavily in HSE training and continues to work to promote and facilitate training, not just at a theoretical level, but also in terms of effective practical training experiences, particularly on the most key important HSE issues.
All HSE initiatives and management of HSE issues are subjected to periodic audits conducted by independent bodies, who verify that the quality of the Company's HSE management is in compliance with international standards ISO 14001 (Environment) and OHSAS 18001 (Health and Safety). Both Saipem Spa as well as a number of other Group companies have achieved this certification.
HSE monitoring is also carried out either directly or indirectly on contractor companies.

Country risk

Substantial portions of Saipem's operations are performed in countries outside the EU and North America, certain of which may be politically, socially or economically less stable. Developments in the political framework, economic crisis, internal social unrest and conflicts with other countries can compromise temporarily or permanently Saipem's ability to operate cost efficiently in such countries and may require specific measures (where possible in compliance with Saipem corporate policy) to be taken at an organisational or management level in order to enable the continuation of activities underway in conditions that differ from those originally anticipated. If Saipem's ability to operate is temporarily compromised, demobilisation is planned according to criteria designed to guarantee the protection of Company assets that remain on-site and to minimise the business interruption by employing solutions that accelerate and reduce the cost of business recovery once favourable conditions have returned.
The measures outlined above may be costly and have an impact on expected results. Further risks associated with activities in such countries are: (i) lack of well-established and reliable legal systems and uncertainties surrounding enforcement of contractual rights; (ii) unfavourable developments in laws and regulations and unilateral contract changes, leading to reductions in the value of Saipem's assets, forced sales and expropriations; (iii) restrictions on construction, drilling, imports and exports; (iv) tax increases; (v) civil and social unrest leading to sabotage, attacks, violence and similar incidents. Such events are predictable only to a very limited extent and may occur and develop at any time, causing a materially adverse impact on Saipem's financial position and results.
Saipem regularly monitors political, social and economic risk in countries in which it operates or intends to invest, drawing on reports on principal project risks and related trends prepared in accordance with Corporate Risk Management Policy and Risk Management procedures and Standards and Security reports prepared in accordance with the Corporate Security Policy and Guidelines on Security Activities.
Legislative Decree No. 81/2008 (the Consolidated Act on health and safety at the workplace) provides a basis for a new model of risk assessment in which security risks may be accounted for via their inclusion among the 'particular risks' referred to in Article 28 of the decree, which states that 'the assessment pursuant to Article 17, paragraph 1, letter a) [...] shall take into account all risks to the health and safety of workers, including those for groups of workers who are exposed to particular risks...'.
To manage the specific security risks to which it is exposed in the countries where it operates, Saipem has adopted a security model based on the criteria of prevention, precaution, protection, information, promotion and participation, with the aim of protecting the safety of employees, contractors and the public, as well as the integrity of assets and brand reputation.
The Company's security function has implemented a comprehensive security management system, which constitutes an organisational, legal and procedural tool for minimising and managing the consequences of security related events.
The system is designed for the management of risks deriving from unlawful acts committed by physical or juridical persons which may expose the company and its assets, people and image to potential damage.
This is made possible by synergies between the security functions and the units in charge of the Company's maritime certification and logistics bases.
In its role as a Contractor, Saipem thus applies the highest standards of security, facilitating the conduction of its business activities in all contractual phases, from the bid phase through to project execution, by ensuring that all operations can be carried out in conditions of security for all its personnel and assets.

Specific project risks

The main objectives of the Industrial Risk Management function are to:
- promote the use of the Risk Management methodology for tenders and in the execution phase of projects managed by Business Units as well as on the Company's principal investment projects;
- assure periodic reporting to management on principal project risks and on trends observed, aggregated by Business Unit and at global level. Implement project portfolio analyses in order to support management decisions and provide an understanding of the external macro risk factors on projects that may impact on Company results so that Management can intervene by deploying the appropriate risk management tools of avoidance, mitigation, transfer and acceptance;
- assure the spread of a risk management culture within Saipem with a view to achieving structured management of risk and opportunity during business activities and contributing also to improved management of contingencies;
- provide advice, support and guidelines to the Business Units and projects in identifying and evaluating risks and opportunities and in all activities related to the implementation of mitigation and improvement measures for risk management and the optimisation of opportunities, respectively;
- define, develop and update tools and methods for collecting and organising lessons learned and making them available to projects;
- ensure adequate training and the necessary support to commercial and project management teams;
- ensure that Corporate Guidelines, Procedures and Standards are constantly updated in accordance with international Standards and Codes of Practice, promoting full compliance and correct application within Saipem and its subsidiaries;
- contribute to promoting the observance of the Golden Rules and Silver Guidelines, the tool for regulating risk assumption through which Saipem assigns management the responsibility for the decision to assume significant risks.

The Standards and Procedures in force at Saipem are in line with the principal international risk management standards.

Insurance

The Corporate Insurance function, in close cooperation with top management, defines annual Saipem Group guidelines for insurance coverage against the risk of damage to property, third party liability, as well as risks related to the performance of contracts.

An Insurance Programme is defined on the basis of the guidelines, which identifies specific excess and maximum limit coverage for each type of risk based on an analysis that takes into account claim statistics for recent years, industry statistics and conditions offered by the international insurance market.

The Saipem insurance programme is structured in such a way as to appropriately transfer risks deriving from operations to the insurance market, in particular the risks associated with the management of the fleet, equipment and other assets, including third party liability risks and risks deriving from the performance of contracts awarded by its clients.

Given the coverage that is offered by the insurance market and the changing circumstances on the energy market in which Saipem operates, it is not possible to guarantee that all circumstances and events will be adequately covered by the insurance programme. Equally, due to the volatility of the insurance market, it cannot be guaranteed that it will be possible in the future to reasonably maintain adequate insurance coverage at the current rates, terms and conditions.

Within the Saipem Insurance Programme, a distinction can be made between insurance cover for Group assets ('Corporate insurance policies') and the insurance cover connected with project execution.

Corporate insurance policies

The Corporate insurance programme is structured with an initial band of risk that is self-insured through a captive reinsurance company, with amounts in excess covered by a catastrophic insurance programme taken out on the insurance market.

The catastrophic insurance programme is composed of policies that cover damage to property, and maritime and non-maritime third party liability. Cover can be broken down as follows:

Damage to property

- 'Fleet Insurance' policy: covers the entire fleet against events that cause partial or total damage to vessels.
- 'Equipment' policy: covers all onshore and offshore equipment, for example site equipment, onshore drilling rigs, subsea Remote Operating Vehicles (ROV), etc.
- 'Transport' policy: covers transport, handling and storage of assets and equipment by land, sea or air.
- 'Buildings and Sites' policy: covers owned or rented buildings, offices, storage facilities and shipyards.
- 'Other minor risks' policy: covers minor risks such as theft and employee dishonesty.

Third-party liability

- 'Protection & Indemnity' ('P&I') policy: ship owners' liability cover through a P&I Club that is part of the International Group of P&I Clubs for events occurring during transit and for events occurring during offshore drilling and construction operations.
- 'Comprehensive General Liability' policy: covers all other types of general and third party liability claims arising from Saipem's industrial activities and supplements the specific P&I coverage.
- 'Employer's Liability' and 'Personal Accident' policies: these cover employer liability and employee accident risks respectively on the basis of the specific regulations in force in each country where the Group operates.

A key tool in the management of Saipem's insurable risks is the captive reinsurance company Sigurd Rück AG, set up and operational since 2008, which covers the initial part of risk. Sigurd Rück AG in turn carries out risk mitigation by re-insuring its portfolio on primary securities markets.

Project execution insurance policies

For all contracts awarded, specific project insurance coverage must be taken out. Generally, the contractual responsibility for such insurance lies with the client.

Where the responsibility lies with the contractor, Saipem takes out insurance that will cover all risks connected with the project for its entire duration.

Usually it takes out 'Builders' All Risks' insurance, which covers the scope of work of the contract, i.e. damage to the works under construction, as well as to equipment, products and materials required for its construction and third party liability for all works to be performed by the Group during all phases of project execution (engineering, transportation, construction, assembly, testing) including the contractual guarantee period.

The high insurance premiums and excesses on such policies are an incentive to Saipem in its efforts to achieve the continuous improvement of its prevention and protection processes in terms of quality, health, safety and environmental impact.

Additional information

Purchase of treasury shares

At June 30, 2014, the share capital amounted to €441,410,900. On the same day, the number of shares in circulation was 439,471,068. No treasury shares were purchased on the market during the period.

Consob Regulation on Markets

Article 36 of Consob Regulation on Markets: conditions for the listing of shares of companies with control over companies established and regulated under the law of non-EU countries

With regard to the regulations setting out conditions for the listing of shares of companies with control over companies established and regulated under the law of non-EU countries that are deemed to be of material significance in relation to the consolidated financial statements, the Company discloses that at June 30, 2014, the following eighteen Saipem subsidiaries fell within the scope of application of the regulation in question:

- Saipem Australia Pty Ltd;
- Petrex SA;
- Snamprogetti Saudi Arabia Co Ltd Llc;
- Saipem Contracting (Nigeria) Ltd;
- PT Saipem Indonesia;
- ER SAI Caspian Contractor Llc;
- Saipem Misr for Petroleum Services (S.A.E.);
- Saipem (Nigeria) Ltd;
- Saudi Arabian Saipem Ltd;
- Global Petroprojects Services AG;
- Saipem America Inc;
- Saipem Asia Sdn Bhd;
- Saipem do Brasil Serviçōs de Petroleo Ltda;
- Saipem Contracting Algérie SpA;
- Saipem Canada Inc;
- Saipem Offshore Norway AS;
- Saipem Drilling Norway AS;
- Sajer Iraq Llc.

Under the 2014 compliance plan, a system of internal control designed to ensure full compliance with the provisions of Article 36 will be implemented at the following companies:

- Saimexicana SA de Cv.

Article 37 of Consob Regulation on Markets: conditions preventing the admission to trading on an Italian regulated market of the shares of subsidiaries subject to management and coordination by another company

Pursuant to the requirements set out in paragraph 9 of Article 2.6.2. of the Rules of the Markets organised and managed by Borsa Italiana SpA, the Board of Directors in its meeting of March 14, 2014, ascertained that the company satisfied the conditions set out in paragraph 1 of Article 37 of Consob Regulation on Markets for the admission to trading on an Italian regulated market of the shares of subsidiaries subject to management and coordination by another company.

The Board of Directors meeting on March 14, 2014 verified that the composition of the Board itself, as appointed by the Shareholders' Meeting of May 4, 2011, and of its internal Committees, was in accordance with letter d), paragraph 1 of Article 37, finding that, as required, the Board was composed of a majority of independent directors and that the Committees (the Compensation and Nomination Committee and the Audit and Risk Committee) were composed exclusively of independent directors.

Following the appointment of the Board of Directors by the Shareholders' Meeting on May 6, 2014, the new Board of Directors also verified on May 9, 2014 that the composition of the Board was in accordance with letter d), paragraph 1 of Article 37 of the Consob Regulation on Markets. It found that the Board was, as required, made up of a majority of independent directors.
The Board of Statutory Auditors in turn verified the correct application of the criteria adopted by the Board of Directors.

In appointing the members of the Compensation and Nomination Committee on May 26, 2014, the Board of Directors verified that said committees were composed exclusively of independent directors in accordance with the provisions set out in letter d), paragraph 1 of Article 37 of the Consob Regulation on Markets.

Disclosure of transactions with related parties

Transactions with related parties entered into by Saipem and identified by IAS 24 concern mainly the exchange of goods, the supply of services, and the provision and utilisation of financial resources, including entering into derivative contracts. All such transactions are an integral part of ordinary day-to-day business and are carried out on an arm's length basis (i.e. at conditions which would be applied between independent parties) and in the interest of Group companies.
Directors, general managers and senior managers with strategic responsibilities must declare, every 6 months, any transactions they enter into with Saipem SpA or its subsidiaries, directly or through a third party, in accordance with the provisions of IAS 24.
The amounts of trade, financial or other operations with related parties are provided in Note 44 to the condensed consolidated interim financial statements.

Transactions with the parent company and companies subject to Saipem's direction and coordination

Saipem is subject to the direction and coordination of Eni SpA. Transactions with Eni SpA and with entities subject to its direction and coordination constitute transactions with related parties and are commented on in Note 44 'Transactions with related parties' in the notes to the condensed consolidated interim financial statements.

Events subsequent to period end

New contracts

In July 2013, Saipem was awarded new contracts with a total value of approximately €1,000 million.
In Brazil, Saipem has been awarded by Petrobras a four-year extension to the Cidade de Vitoria FPSO lease contract at Petrobras' Golfinho Field, in Brazil's Espirito Santo Basin, as well as a contract for modification and upgrading of the leased FPSO vessel. The Cidade de Vitoria FPSO, owned and operated by Saipem, has been under a lease and operation contract to Petrobras since 2005. The contract has now been extended by four years, until 2022. The works will increase the produced water treatment capacity and allow the connection of two additional gas wells with a high level of condensates by the first quarter of 2016. The Saipem Execution Centre in France is responsible for the upgrade work, while pre-fabrication and installation of the topside will be done in Brazil.
In Angola, Saipem has been awarded by Sonangol P&P a two-year extension of the Gimboa FPSO lease and operation contract. The Gimboa FPSO is owned and operated by Saipem, and has been under a lease and operation contract in Block 4/05 since 2006. The contract is extended to the first quarter of 2017.
Saipem has signed a contract with Eni Muara Bakau BV for the utilisation of the Scarabeo 7, which will drill a minimum of 12 wells offshore Indonesia. The project is expected to be completed in the first quarter of 2017.
In West Africa, the contract for the Scarabeo 3 has been extended to March 2015. NDC has extended the contract for the jack-up rig Perro Negro 2, which is carrying out operations in the Arabian Gulf, for a further 24 months, starting from January 2015.
In Ecuador, EP Petroamazonas has extended the charter of the jack-up rig Ocean Spur, which is operated but not owned by Saipem, by 10 months until the end of the first quarter of 2015.
In the onshore drilling segment, Saipem has been awarded new contracts worth approximately $310 million by a number of different clients. The contracts are for the charter of a total of 31 drilling rigs in South America: 21 in Venezuela, 7 in Peru, 2 in Colombia and one in Ecuador. The contracts have varying terms, ranging from three months to two years, and start at different times during 2014.

Outlook

For the current year, Saipem has revised the guidance presented at the end of 2013. Revenues, previously projected to be between €12.5 and €13.6 billion, have now been set at approximately €13 billion. The EBIT range, previously estimated at between €600 and €750 million, has been revised into a narrower range of €600 to €700 million, while net profit, previously projected to be between €280 and €380 million, is now expected to be between €280 and €330 million.
The EBIT and net profit targets were affected by a number of situations which emerged during the second quarter: the delay in the start of new projects, the postponement by Statoil of works to be performed by Scarabeo 5 from October 2014 to January 2015, and the protracted maintenance downtime of Scarabeo 7. These new situations compounded the impact of the operational problem on the P55 project disclosed in April. The guidance, previously based on the 'management view', was also affected by the impact of the new financial standards IFRS 10 and IFRS 11, which sets out new requirements for the consolidation of joint ventures.
The efficient execution of low margin legacy contracts, which are expected to account for approximately €2.7 billion for the remainder of the year, remains an important factor in achieving the year's guidance.
Capital expenditure guidance remains unchanged at €750 million.
With regard to net debt, Saipem revised the previous 2014 guidance from €4.2 billion to a range of between €4.2 and €4.5 billion, in view of the uncertainty around the timing of payments to be received following the successful conclusion of negotiations on low-margin contracts in the second quarter. However, Saipem is confident of an improvement in working capital from the current levels.
In the medium-term, as low-margin legacy contracts are completed and replaced by profitable contracts, Saipem can expect a return to a normal E&C business with margins in line with the historical average.
In particular, in Offshore E&C Saipem expects to achieve revenues between €6 and €7 billion; average EBIT margins of Offshore E&C business are expected to be between 10% and 20%; for Floaters, the results of which are included in the Offshore E&C Business Unit, average margins should be just below 10%. Therefore, the average margin for the Business Unit will depend on the proportion in the contribution of these different types of operations. In the Onshore E&C sector, Saipem expects to attain annual revenues of between €3.5 and €4.5 billion, with EBIT of around 5%.
Furthermore, in the medium-term, the Drilling sector is expected to perform in line with recent years thanks to the long term contracts in place.
Capital expenditure on investments, focused on the maintenance and upgrading of our fleet and investment in new equipment for specific projects, is expected to remain steady at €750 million.
Finally, on the basis of these targets, net financial debt is expected to decrease progressively to reach €2 billion by the end of 2017.

Non-GAAP measures

Some of the performance indicators used in the 'Directors' Report' are not included in the IFRS (i.e. they are what are known as non-GAAP measures).
Non-GAAP measures are disclosed to enhance the user's understanding of the Group's performance and are not intended to be considered as a substitute for IFRS measures.
The non-GAAP measures used in the 'Operating and Financial Review' are as follows:

- cash flow: the sum of net profit plus depreciation and amortisation;
- capital expenditure: calculated by excluding investments in equity interests from total investments;
- EBITDA: a useful measure for evaluating the operating performance of the Group as a whole and of the individual sectors of activity, in addition to operating profit. EBITDA is an intermediate measure, which is calculated by adding depreciation and amortisation to operating profit;
- non-current assets: the sum of net tangible assets, net intangible assets and investments;
- net current assets: includes working capital and provisions for contingencies;
- net capital employed: the sum of non-current assets, working capital and the provision for employee benefits;
- funding: the sum of shareholders' equity, minority interest and net borrowings.

Secondary offices

The Company discloses pursuant to Article 2428 of the Italian Civil Code that it has a secondary office in Cortemaggiore (PC), Via Enrico Mattei, 20.

Reconciliation of reclassified balance sheet and cash flow statement to statutory schemes

Reclassified balance sheet

(€ million)	Dec. 31, 2013 restated		June 30, 2014	
Reclassified balance sheet items (where not stated otherwise, items comply with statutory scheme)	Partial amounts from reclassified scheme	Amount from reclassified scheme	Partial amounts from reclassified scheme	Amount from reclassified scheme
A) Net tangible assets		7,912		7,910
Note 8 - Property, plant and equipment	*7,912*		*7,910*	
B) Net intangible assets		758		759
Note 9 - Intangible assets	*758*		*759*	
C) Investments		158		169
Note 10 - Investments accounted for with the equity method	*166*		*174*	
Reclassified from E) - provision for losses of investments	*(8)*		*(5)*	
D) Working capital		1,091		1,477
Note 3 - Trade and other receivables	*3,240*		*2,967*	
Reclassified to I) - financing receivables not related to operations	*(30)*		*(55)*	
Note 4 - Inventories	*2,277*		*3,141*	
Note 5 - Current tax assets	*267*		*249*	
Note 6 - Other current tax assets	*278*		*271*	
Note 7 - Other current assets	*376*		*214*	
Note 11 - Other financial assets	*1*		*1*	
Reclassified to I) - financing receivables not related to operations	*(1)*		*(1)*	
Note 12 - Deferred tax assets	*126*		*139*	
Note 13 - Other non-current assets	*151*		*138*	
Note 15 - Trade and other payables	*(5,129)*		*(5,133)*	
Note 16 - Income tax payables	*(137)*		*(116)*	
Note 17 - Other tax payables	*(130)*		*(169)*	
Note 18 - Other current liabilities	*(117)*		*(143)*	
Note 22 - Deferred tax liabilities	*(81)*		*(26)*	
Note 23 - Other non-current liabilities	*(2)*		*-*	
E) Provisions for contingencies		(196)		(169)
Note 20 - Provisions for contingencies	*(204)*		*(174)*	
Reclassified to C) - provision for losses of investments	*8*		*5*	
F) Employee termination indemnities		(219)		(221)
Note 21 - Provisions for employee benefits	*(219)*		*(221)*	
CAPITAL EMPLOYED, NET		**9,504**		**9,925**
G) Shareholders' equity		4,652		4,773
Note 25 - Saipem shareholders' equity	*4,652*		*4,773*	
H) Minority interest		92		48
Note 24 - Minority interest	*92*		*48*	
I) Net debt		4,760		5,104
Note 1 - Cash and cash equivalents	*(1,299)*		*(1,401)*	
Note 2 - Other financial assets held for trading or available for sale	*(26)*		*-*	
Note 14 - Short-term debt	*1,899*		*1,394*	
Note 19 - Long-term debt	*2,859*		*3,125*	
Note 19 - Current portion of long-term debt	*1,358*		*2,042*	
Reclassified from D) - financing receivables not related to operations (Note 2)	*(30)*		*(55)*	
Reclassified from D) - financing receivables not related to operations (Note 10)	*(1)*		*(1)*	
FUNDING		**9,504**		**9,925**

Reclassified income statement

The only items of the reclassified income statement which differ from the statutory scheme are those stated hereafter:

- other income and revenues (€8 million) relating to compensation for damages (€2 million), gains on disposals of assets (€1 million) and reimbursements for services that are not part of core operations (€5 million), which are indicated in the statutory scheme under 'Other finance income (expense)', were recognised in the reclassified income statement as a reduction in the related costs;
- 'finance income' (€333 million), 'finance expenses' (-€373 million) and 'derivative financial instruments' (-€70 million), which are indicated separately under the statutory scheme, are stated under the item 'finance (expense) income' (-€110 million) in the reclassified income statement.

All other items are unchanged.

Reclassified cash flow statement

The only items of the reclassified cash flow statement which differ from the statutory scheme are those stated hereafter:

- the items 'depreciation and amortisation' (€362 million), 'change in the provision for employee benefits' (-€2 million), 'other changes' (€13 million) and 'effect of accounting using the equity method' (-€13 million), indicated separately and included in cash generated from operating profit in the statutory scheme, are shown net under the item 'depreciation/amortisation and other non-monetary items' (€338 million);
- the items 'income taxes' (€64 million), 'interest expense' (€83 million) and 'interest income' (-€2 million), indicated separately and included in cash generated from operating profit in the statutory scheme, are shown net under the item 'dividends, interests and taxes' (€145 million);
- the items regarding changes in 'other assets and liabilities' (€95 million), 'provisions for contingencies' (-€27 million), 'inventories' (-€835 million), 'trade receivables' (€419 million) and 'trade payables' (-€34 million), indicated separately and included in cash generated from operating profit in the statutory scheme, are shown net under the item 'changes in working capital related to operations' (-€382 million);
- the items 'interest received' (€1 million), 'dividends received' (€1 million), 'income taxes paid net of refunds of tax credits' (-€108 million) and 'interest paid' (-€78 million), indicated separately and included in cash generated from operating profit in the statutory scheme, are shown net under the item 'dividends received, income taxes paid and interest paid and received' (-€184 million);
- the items relating to investments in 'intangible assets' (-€5 million) and 'tangible assets' (-€324 million), indicated separately and included in the cash flow used in investing activities in the statutory scheme, are shown net under the item 'capital expenditure' (-€329 million);
- the items relating to disposals of 'securities' (€26 million), investments in 'financing receivables' (-€39 million), disposals of 'financing receivables' (€14 million) and disposals of 'investments' (€7 million), indicated separately and included in cash flow used in investing activities in the statutory scheme, are shown under the item 'borrowings (repayment) of debt related to financing activities' (€7 million);
- the items 'proceeds from long-term debt' (€504 million), 'repayments of long-term debt' (-€207 million) and 'increase (decrease) in short-term debt' (€117 million), indicated separately and included in net cash used in financing activities in the statutory scheme, are shown net under the item 'changes in short and long-term financial debt' (€414 million).

All other items are as per the statutory scheme.

Condensed consolidated interim financial statements

Financial statements

Balance sheet

(€ million)

Jan. 1, 2013 restated			Dec. 31, 2013 restated [1]		June 30, 2014	
Total		Note	Total	*of which with related parties*	Total	*of which with related parties*
	ASSETS					
	Current assets					
1,244	Cash and cash equivalents	(No. 1)	1,299	715	1,401	760
-	Other financial assets held for trading or available for sale	(No. 2)	26		-	
3,209	Trade and other receivables	(No. 3)	3,240	851	2,967	831
2,316	Inventories	(No. 4)	2,277		3,141	
230	Current tax assets	(No. 5)	267		249	
268	Other current tax assets	(No. 6)	278		271	
381	Other current assets	(No. 7)	376	227	214	68
7,648	**Total current assets**		**7,763**		**8,243**	
	Non-current assets					
8,183	Property, plant and equipment	(No. 8)	7,912		7,910	
755	Intangible assets	(No. 9)	758		759	
173	Investments accounted for using the equity method	(No. 10)	166		174	
1	Other financial assets	(No. 11)	1		1	
91	Deferred tax assets	(No. 12)	126		139	
173	Other non-current assets	(No. 13)	151	2	138	3
9,376	**Total non-current assets**		**9,114**		**9,121**	
17,024	**TOTAL ASSETS**		**16,877**		**17,364**	
	LIABILITIES AND SHAREHOLDERS' EQUITY					
	Current liabilities					
1,740	Short-term debt	(No. 14)	1,899	1,698	1,394	1,108
400	Current portion of long-term debt	(No. 19)	1,358	1,357	2,042	1,841
4,822	Trade and other payables	(No. 15)	5,129	428	5,133	280
237	Income tax payable	(No. 16)	137		116	
125	Other current tax liabilities	(No. 17)	130		169	
90	Other current liabilities	(No. 18)	117	114	143	96
7,414	**Total current liabilities**		**8,770**		**8,997**	
	Non-current liabilities					
3,543	Long-term debt	(No. 19)	2,859	2,659	3,125	3,125
177	Provisions for contingencies	(No. 20)	204		174	
242	Provisions for employee benefits	(No. 21)	219		221	
121	Deferred tax liabilities	(No. 22)	81		26	
2	Other non-current liabilities	(No. 23)	-		-	
4,085	**Total non-current liabilities**		**3,363**		**3,546**	
11,499	**TOTAL LIABILITIES**		**12,133**		**12,543**	
	SHAREHOLDERS' EQUITY					
148	Minority interest	(No. 24)	92		48	
5,377	Saipem shareholders' equity:	(No. 25)	4,652		4,773	
441	- share capital	(No. 26)	441		441	
55	- share premium reserve	(No. 27)	55		55	
86	- other reserves	(No. 28)	75		68	
3,934	- retained earnings		4,283		4,116	
904	- net profit (loss) for the period		(159)		136	
(43)	- treasury shares	(No. 29)	(43)		(43)	
5,525	**Total shareholders' equity**		**4,744**		**4,821**	
17,024	**TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY**		**16,877**		**17,364**	

(1) For a breakdown of the effects of restatement, see 'Restatement of comparative data' in the Notes to the condensed consolidated interim financial statements.

Income statement

(€ million)		First half 2013 restated [1]		First half 2014	
	Note	Total	*of which with related parties*	Total	*of which with related parties*
REVENUES					
Net sales from operations	(No. 32)	5,246	1,017	5,966	968
Other income and revenues	(No. 33)	3	-	12	8
Total revenues		**5,249**		**5,978**	
Operating expenses					
Purchases, services and other costs	(No. 34)	(4,023)	(124)	(4,126)	(154)
Payroll and related costs	(No. 35)	(1,099)		(1,197)	
Depreciation, amortisation and impairment	(No. 36)	(351)		(362)	
Other operating income (expense)	(No. 37)	(1)	(1)	-	-
OPERATING RESULT		**(225)**		**293**	
Finance income (expense)					
Finance income		227	3	333	-
Finance expense		(238)	(61)	(373)	(67)
Derivative financial instruments		(80)	(80)	(70)	(71)
Total finance income (expense)	(No. 38)	**(91)**		**(110)**	
Income (expense) from investments					
Share of profit of equity-accounted investments		9		13	
Other income (expense) from investments		-		4	
Total income (expense) from investments	(No. 39)	**9**		**17**	
RESULT BEFORE INCOME TAXES		**(307)**		**200**	
Income taxes	(No. 40)	(15)		(64)	
NET RESULT		**(322)**		**136**	
Attributable to:					
- Saipem		(330)		136	
- minority interest	(No. 41)	8		-	
Earnings (loss) per share attributable to Saipem (€ per share)					
Basic earnings (loss) per share	(No. 42)	(0.751)		0.310	
Diluted earnings (loss) per share	(No. 42)	(0.750)		0.309	

(1) For a breakdown of the effects of restatement, see 'Restatement of comparative data' in the Notes to the condensed consolidated interim financial statements.

Statement of comprehensive income

(€ million)	First half 2013 restated [1]	First half 2014
Net profit (loss) for the period	**(322)**	**136**
Other items of comprehensive income		
Items that will not be reclassified subsequently to profit or loss		
Remeasurements of defined benefit plans for employees	-	-
Income tax relating to items that will not be reclassified	-	-
Items that may be reclassified subsequently to profit or loss		
Change in the fair value of cash flow hedges [2]	(112)	(48)
Exchange rate differences arising from the translation into euro of financial statements currencies other than the euro	(21)	19
Share of other comprehensive income of investments accounted for using the equity method	-	(1)
Income tax relating to items that may be reclassified	16	17
Total other items of comprehensive income net of taxation	**(117)**	**(13)**
Total comprehensive income (loss) for the period	**(439)**	**123**
Attributable to:		
- Saipem Group	(448)	123
- minority interest	9	-

(1) For a breakdown of the effects of restatement, see 'Restatement of comparative data' in the Notes to the condensed consolidated interim financial statements.
(2) The change in the fair value of cash flow hedges relates almost exclusively to transactions with the parent company Eni.

Statement of changes in shareholders' equity

(€ million)	Saipem shareholders' equity													
	Share capital	Share premium reserve	Other reserves	Legal reserve	Reserve for treasury shares	Cash flow hedge reserve, net of tax	Cumulative currency translation differences	Employee defined benefits reserve, net of tax	Retained earnings	Net profit (loss) for the period	Treasury shares	Total	Minority interest	Total shareholders' equity
Balance at December 31, 2012 restated	**441**	**55**	**7**	**88**	**-**	**47**	**(43)**	**(13)**	**3,934**	**659**	**(43)**	**5,132**	**148**	**5,280**
Net profit (loss) for the first half of 2013	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(330)**	**-**	**(330)**	**8**	**(322)**
Other items of comprehensive income														
Items that may be reclassified subsequently to profit or loss														
Change in the fair value of cash flow hedging derivatives, net of tax	-	-	-	-	-	(96)	-	-	-	-	-	(96)	-	(96)
Currency translation differences of financial statements currencies other than euro	-	-	-	-	-	-	(22)	-	-	-	-	(22)	1	(21)
Total comprehensive income (loss) for the first half of 2013	**-**	**-**	**-**	**-**	**-**	**(96)**	**(22)**	**-**	**-**	**(330)**	**-**	**(448)**	**9**	**(439)**
Transactions with shareholders														
Dividend distribution for the first half of 2013	-	-	-	-	-	-	-	-	-	(299)	-	(299)	(38)	(337)
Retained earnings	-	-	-	-	-	-	-	-	360	(360)	-	-	-	-
Contribution from minority interest Snamprogetti Engineering & Contracting Co Ltd	-	-	-	-	-	-	-	-	-	-	-	-	1	1
Other changes in shareholders' equity														
Other changes	-	-	-	-	-	1	-	-	(1)	-	-	-	-	-
Transactions with companies under common control	-	-	-	-	-	-	-	-	33	-	-	33	-	33
Total	**-**	**-**	**-**	**-**	**-**	**1**	**-**	**-**	**392**	**(659)**	**-**	**(266)**	**(37)**	**(303)**
Balance at June 30, 2013	**441**	**55**	**7**	**88**	**-**	**(48)**	**(65)**	**(13)**	**4,326**	**(330)**	**(43)**	**4,418**	**120**	**4,538**
Net profit for the second half of 2013	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**171**	**-**	**171**	**15**	**186**
Other items of comprehensive income														
Items that will not be reclassified subsequently to profit or loss														
Remeasurements of defined benefit plans for employees, net of tax	-	-	-	-	-	-	-	11	-	-	-	11	-	11
Share of other comprehensive income of investments accounted for using the equity method relating to remeasurements of defined benefit plans for employees, net of tax	-	-	-	-	-	-	-	(2)	-	-	-	(2)	-	(2)
Items that may be reclassified subsequently to profit or loss														
Change in the fair value of cash flow hedging derivatives, net of tax	-	-	-	-	-	133	-	-	-	-	-	133	-	133
Currency translation differences of financial statements currencies other than euro	-	-	-	-	-	-	(35)	(1)	(33)	-	-	(69)	(5)	(74)
Total comprehensive income (loss) for the second half of 2013	**-**	**-**	**-**	**-**	**-**	**133**	**(35)**	**8**	**(33)**	**171**	**-**	**244**	**10**	**254**
Transactions with shareholders														
Dividend distribution in the second half of 2013	-	-	-	-	-	-	-	-	-	-	-	-	(38)	(38)
Other changes in shareholders' equity														
Other changes	-	-	-	-	-	-	-	-	(14)	-	-	(14)	-	(14)
Transactions with companies under common control	-	-	-	-	-	-	-	-	4	-	-	4	-	4
Total	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(10)**	**-**	**-**	**(10)**	**(38)**	**(48)**
Balance at December 31, 2013	**441**	**55**	**7**	**88**	**-**	**85**	**(100)**	**(5)**	**4,283**	**(159)**	**(43)**	**4,652**	**92**	**4,744**

cont'd Statement of changes in shareholders' equity

(€ million)	Saipem shareholders' equity													
	Share capital	Share premium reserve	Other reserves	Legal reserve	Reserve for treasury shares	Cash flow hedge reserve, net of tax	Cumulative currency translation differences	Employee defined benefits reserve, net of tax	Retained earnings	Net profit (loss) for the period	Treasury shares	Total	Minority interest	Total shareholders' equity
Balance at December 31, 2013	**441**	**55**	**7**	**88**	**-**	**85**	**(100)**	**(5)**	**4,283**	**(159)**	**(43)**	**4,652**	**92**	**4,744**
Net profit (loss) for the first half of 2014	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**136**	**-**	**136**	**-**	**136**
Other items of comprehensive income														
Items that will not be reclassified subsequently to profit or loss														
Remeasurements of defined benefit plans for employees, net of tax	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Items that may be reclassified subsequently to profit or loss														
Change in the fair value of cash flow hedging derivatives, net of tax	-	-	-	-	-	(31)	-	-	-	-	-	(31)	-	(31)
Currency translation differences of financial statements currencies other than euro	-	-	-	-	-	-	25	-	(6)	-	-	19	-	19
Share of other comprehensive income of investments accounted for using the equity method relating to remeasurements of defined benefit plans for employees, net of tax	-	-	-	-	-	-	-	-	(1)	-	-	(1)	-	(1)
Total comprehensive income (loss) for the first half of 2014	**-**	**-**	**-**	**-**	**-**	**(31)**	**25**	**-**	**(7)**	**136**	**-**	**123**	**-**	**123**
Transactions with shareholders														
Dividend distribution for the first half of 2014	-	-	-	-	-	-	-	-	-	-	-	-	(44)	(44)
Retained earnings	-	-	-	-	-	-	-	-	(159)	159	-	-	-	-
Other changes in shareholders' equity														
Other changes	-	-	-	-	-	-	(1)	-	(1)	-	-	(2)	-	(2)
Transactions with companies under common control	-	-	-	-	-	-		-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**(1)**	**-**	**(160)**	**159**	**-**	**(2)**	**(44)**	**(46)**
Balance at June 30, 2014	**441**	**55**	**7**	**88**	**-**	**54**	**(76)**	**(5)**	**4,116**	**136**	**(43)**	**4,773**	**48**	**4,821**

Cash flow statement

(€ million)	Note	First half 2013 restated [1]	First half 2014
Net profit (loss) for the period		(330)	136
Minority interest		8	
Adjustments to reconcile net profit to net cash flow from operations:			
- depreciation and amortisation	(No. 36)	351	362
- net impairment of tangible and intangible assets	(No. 36)	-	
- share of profit (loss) of equity-accounted investments	(No. 39)	(9)	(13)
- net (gains) losses on disposal of assets		1	(3)
- interest income		(2)	(2)
- interest expense		74	83
- income taxes	(No. 40)	15	64
- other changes		(9)	(13)
Changes in working capital:			
- inventories		(102)	(835)
- trade receivables		15	419
- trade payables		(253)	(34)
- provisions for contingencies		70	(27)
- other assets and liabilities		891	95
Cash flow from working capital		*720*	*232*
Change in the provision for employee benefits		8	2
Dividends received		1	1
Interest received		3	1
Interest paid		(71)	(78)
Income taxes paid net of refunds of tax credits		(162)	(108)
Net cash provided by operating activities		**499**	**50**
of which with related parties	(No. 44)	*1,001*	*556*
Investing activities:			
- tangible assets	(No. 8)	(484)	(324)
- intangible assets	(No. 9)	(6)	(5)
- investments	(No. 10)	(7)	(2)
- consolidated subsidiaries and businesses		-	
- financing receivables		(15)	(39)
Cash flow used in investing activities		*(512)*	*(370)*
Disposals:			
- tangible assets		-	-
- consolidated subsidiaries and businesses		42	-
- investments		-	7
- financing receivables		11	14
- securities		-	26
Cash flows from disposals		*53*	*47*
Net cash used in investing activities [2]		**(459)**	**(323)**
of which with related parties	(No. 44)	-	-

cont'd Cash flow statement

(€ million)	Note	First half 2013 restated [1]		First half 2014	
Proceeds from long-term debt		1,115		504	
Repayments of long-term debt		(495)		(207)	
Increase (decrease) in short-term debt		(118)		117	
		502		**414**	
Dividend distribution		(337)		(44)	
Sale of treasury shares		-		-	
Net cash from financing activities		**165**		**370**	
of which with related parties	(No. 44)		*485*		*360*
Effect of changes in consolidation		-		-	
Effect of exchange rate changes and other changes on cash and cash equivalents		(10)		5	
Net cash flow for the period		**195**		**102**	
Cash and cash equivalents - beginning of period	(No. 1)	**1,243**		**1,299**	
Cash and cash equivalents - end of period	(No. 1)	**1,438**		**1,401**	

(1) For a breakdown of the effects of restatement, see 'Restatement of comparative data' in the Notes to the condensed consolidated interim financial statements.
(2) Net cash used in investing activities included investments in certain financial assets to absorb temporary surpluses of cash or as part of our ordinary management of financing activities. Due to their nature and the fact that they are very liquid, these financial assets are netted against finance debt in determining net borrowings. For the definition of net borrowings, see the 'Financial and economic results' section of the 'Operating and Financial Review'.
The cash flows of these investments were as follows:

(€ million)	First half 2013 restated	First half 2014
Financing investments:		
- financing receivables	(14)	(39)
	(14)	**(39)**
Disposal of financing investments:		
- securities		26
- financing receivables	10	14
	10	**40**
Net cash flows (used in) from investments/disposals related to financing activities	**(4)**	**1**

Notes to the condensed consolidated interim financial statements

Basis of presentation

The condensed consolidated interim financial statements have been prepared in accordance with IAS 34 'Interim Financial Reporting'. The structure of the financial statements is the same as that used in the annual report.
The condensed consolidated interim financial statements have been prepared in accordance with the same principles of consolidation and evaluation criteria described in the annual report, with the exception of the International Accounting Standards that came into effect as of January 1, 2014, as illustrated in the 'Recent accounting principles' section of the Annual Report 2013.
Of these, the provisions of IFRS 10 'Consolidated Financial Statements' (IFRS 10), IFRS 11 'Joint Arrangements' (IFRS 11) and the revised version of IAS 28 'Investments in Associates and Joint Ventures', which are summarised briefly below[1], were applicable to this 2014 interim consolidated report.
IFRS 10 establishes a single control model that applies to all entities, including structured entities. According to the new definition, an investor controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.
The provisions of IFRS 11 regard the recognition of all types of joint arrangement, which investors are required to classify as joint operations or joint ventures based on their contractual rights and obligations. Specifically, (i) a joint operation is a joint arrangement whereby the parties have rights to the assets, and obligations for the liabilities, relating to the arrangement, while (ii) a joint venture is a joint arrangement whereby the parties have rights to the net assets of the arrangement.
The presence of a structured entity does not necessarily entail the classification of an arrangement as joint venture. However, a joint arrangement that is not structured through a separate vehicle can only be classified as a joint operation.
In accordance with the provisions of IFRS 11, joint ventures are recognised using the equity method. Parties to a joint operation, whether or not the arrangement is structured through a separate vehicle, are required to account for the assets, liabilities, revenues and expenses related to that operation on the basis of their rights and obligations, regardless of the ownership interest held. After initial recognition, the assets, liabilities, revenues and expenses relating to a joint operation are accounted for in accordance with the applicable accounting standards.
The revised version of IAS 28 establishes that: (i) if an investment in an associate becomes an investment in a joint venture (or vice versa), the entity continues to apply the equity method and does not remeasure the retained interest at fair value; and (ii) in a sale plan of a portion of an investment in an associate or a joint venture, only the portion of the investment to be disposed shall be classified as held for sale. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale shall be accounted for using the equity method until disposal of the portion that is classified as held for sale takes place. After the disposal takes place, the retained interest is accounted for using the applicable measurement criteria.
Current income taxes are determined on the basis of estimated taxable income at the balance sheet date. Current income tax assets and liabilities are measured at the amount expected to be paid to/recovered from the tax authorities, using tax laws that have been enacted or substantively enacted by the end of the reporting period and tax rates estimated on an annual basis.
Consolidated companies, non-consolidated subsidiaries, jointly-controlled entities and associates are indicated in the section 'Scope of consolidation', which constitutes an integral part of these notes. The same section contains a list detailing the changes that occurred in the scope of consolidation during the period. The condensed consolidated interim financial statements as of June 30, 2014, approved by Saipem's Board of Directors on July 29, 2014, were subjected to a limited review by the independent auditor Reconta Ernst & Young SpA.
A limited review is substantially less in scope than an audit performed in accordance with generally accepted auditing standards.
Amounts stated in financial statements and the notes thereto are in millions of euros.

Foreign currency translation

Financial statements of foreign companies having a functional currency other than euro are converted into euro applying: (i) closing exchange rates for assets and liabilities; (ii) historical exchange rates for equity accounts; and (iii) the average rates for the period to the income statement (source: Bank of Italy).
Cumulative exchange rate differences resulting from this translation are recognised in shareholders' equity under the caption 'Cumulative currency translation differences' for the portion relating to the Group's share and under 'Minority interest' for the portion related to minority shareholders. Cumulative exchange differences are charged to the income statement when an investment is fully disposed of or when the investment ceases to qualify as a controlled company. In the event of a partial disposal that does not result in the loss of control, the portion of exchange differences relating to the interest sold is recognised under minority interest in equity. The financial statements translated into euros are those denominated in the functional currency, i.e. the local currency or the currency in which most financial transactions and assets and liabilities are denominated.

(1) As indicated in the 'Recent accounting principles' section of the Annual Report 2013, as of January 1, 2014, the following provisions also became applicable: (i) the provisions of IFRS 12 'Disclosure of Interests in Other Entities'; (ii) the amendments to IAS 32 'Financial Instruments: Offsetting Financial Assets and Financial Liabilities', to IAS 36 'Recoverable Amount Disclosures for Non-Financial Assets', and to IAS 39 'Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting'. The provisions of IFRS 12 are not applicable to interim periods. The application of IAS 32, 36 and 39 did not have any significant impact.

The exchange rates that have been applied for the translation of financial statements in foreign currencies are as follows:

Currency	Exchange rate at Dec. 31, 2013	Exchange rate at June 30, 2014	2014 average exchange rate
US Dollar	1.3791	1.3658	1.37035
British Pound Sterling	0.8337	0.8015	0.821344
Algerian Dinar	107.787	108.335	107.523
Angolan Kwanza	134.616	133.274	133.816
Argentine Peso	8.98914	11.1068	10.7293
Australian Dollar	1.5423	1.4537	1.4989
Brazilian Real	3.2576	3.0002	3.14987
Canadian Dollar	1.4671	1.4589	1.50288
Croatian Kuna	7.6265	7.576	7.62468
Egyptian Pound	9.58716	9.77228	9.62222
Indian Rupee	85.366	82.2023	83.2889
Indonesian Rupee	16,764.8	16,248.2	16,058.3
Malaysian Ringgit	4.5221	4.3856	4.47712
Nigerian Naira	220.886	222.541	222.871
Norwegian Kroner	8.363	8.4035	8.27655
Peruvian New Sol	3.85865	3.81248	3.83776
Qatari Riyal	5.02187	4.97292	4.98962
Romanian New Leu	4.471	4.383	4.46428
Russian Rouble	45.3246	46.3779	47.9924
Saudi Arabian Riyal	5.17242	5.12237	5.1394
Singapore Dollar	1.7414	1.7047	1.72792
Swiss Franc	1.2276	1.2156	1.22145
UAE Dirham	5.06539	5.03326	5.01636

Use of accounting estimates

The preparation of financial statements and interim reports in accordance with generally accepted accounting standards requires management to make accounting estimates based on complex or subjective judgements, past experience and assumptions deemed reasonable and realistic based on the information available at the time. The use of these estimates and assumptions affects the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of income and expenses during the reporting period. Actual results may differ from these estimates given the uncertainty surrounding the assumptions and conditions upon which the estimates are based.
Accounting estimates are a critical factor in the preparation of consolidated financial statements and interim reports because they require management to make a large number of subjective judgements, assumptions and estimates regarding matters that are inherently uncertain. Changes in the conditions underlying such judgements, assumptions and estimates may have a significant effect on future results.
For a description of the accounting estimates used see the Annual Report 2013.

Changes to accounting criteria

The provisions of IFRS 10, IFRS 11 and IAS 28, which were approved with European Commission Regulation No. 1254/2012 dated December 11, 2012, are applied retrospectively to the opening values of the balance sheet at January 1, 2013 and the economic data for 2013.
The effects of the application of IFRS 11 on the balance sheet are shown in the section ‘Restatement of comparative data’.
The adoption of IFRS 10 and the revised version of IAS 28 did not have any significant impact.

Recent accounting principles

With regard to recent accounting principles, in addition to the information provided in the annual report, during the first half of 2014, the IASB issued the following accounting, amendments and interpretations, which have not yet been endorsed by the European Union.

On May 6, 2014, the IASB issued an amendment to IFRS 11 'Accounting for Acquisitions of Interests in Joint Operations' ('amendment to IFRS 11'), which establishes the accounting treatment to be applied for acquisitions of initial interests in joint operations or the acquisition of additional interests in the same joint operation (without changing the status of joint operation), in circumstances in which the activity of the joint operation constitutes a business as defined in IFRS 3. Under the amendment, the interest acquired in the joint operation is recognised in accordance with the applicable provisions for business combinations, which include but are not limited to: (i) measuring identifiable assets and liabilities at fair value, other than items for which exceptions are given in other IFRSs; (ii) recognising acquisition-related costs as expenses in the periods in which the costs are incurred and the services are received; (iii) recognising deferred tax assets and deferred tax liabilities that arise from the initial recognition of assets or liabilities, except for deferred tax liabilities that arise from the initial recognition of goodwill; (iv) recognising the excess of the consideration transferred over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed, if any, as goodwill; and (v) testing for impairment a cash-generating unit to which goodwill has been allocated at least annually, and whenever there is an indication that the unit may be impaired. The amendement to IFRS 11 is applicable for annual periods beginning on or after January 1, 2016.

On May 12, 2014, IASB issued amendments to IAS 16 and IAS 38 'Clarification of Acceptable Methods of Depreciation and Amortisation', which clarified that revenue-based methods of depreciation and amortisation are not considered to be appropriate manifestations of consumption. However, the IASB has also indicated that this presumption of inappropriateness can be overcome in the limited circumstances: (i) in which an entity's rights over its use of an intangible asset are linked to the achievement of a specific revenue threshold; or (ii) when it can be demonstrated that revenue and the consumption of economic benefits of the intangible asset are highly correlated. The amendments shall be applied for annual periods beginning on or after January 1, 2016.

On May 28, 2014, the IASB issued IFRS 15 'Revenue from Contracts with Customers' (IFRS 15), which sets out requirements regarding the timing and the amount of recognition of revenues arising from contracts with customers (including construction contracts). IFRS 15 requires revenue recognition to be based on the following five steps: (i) identify the contract with the customer; (ii) identify the performance obligations in the contract (promises in a contract to transfer goods or services to a customer); (iii) determine the transaction price; (iv) allocate the transaction price to each performance obligation on the bases of the relative stand alone selling price of each good or service promised in the contract; and (v) recognise revenue when the entity satisfies a performance obligation. IFRS 15 also requires entities to include additional disclosures in their financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with customers. IFRS 15 provisions shall be applied for annual periods beginning on or after January 1, 2017.

On July 24, 2014, the IASB completed its project to revise its accounting standard for financial instruments, publishing the final version of IFRS 9 'Financial Instruments' (IFRS 9). The new provisions: (i) change the classification and measurement model for financial assets; (ii) introduce a new impairment model for financial assets that addresses expected credit losses; and (iii) brings in new hedge accounting requirements. The provisions of IFRS 9 are applicable for annual periods beginning on or after January 1, 2018.

Saipem is currently reviewing these new standards to determine their likely impact on the Group's results if adopted.

Scope of consolidation at June 30, 2014

The Group's scope of consolidation has been reviewed in the light of the application of the new accounting standards IFRS 10 'Consolidated Financial Statements' and IFRS 11 'Joint Arrangements'.

As a result of the review, the consolidation method has changed for some Group companies.

Parent company

Company	Registered office	Currency	Share capital	Shareholders	% held	% Saipem's consolidation	Method of consolidation or accounting principle (*)
Saipem SpA	San Donato Milanese	EUR	441,410,900	Eni SpA Saipem SpA Third parties	42.91 0.44 56.65		

Subsidiaries

Italy

Company	Registered office	Currency	Share capital	Shareholders	% held	% Saipem's consolidation	Method of consolidation or accounting principle (*)
Denuke Scarl	San Donato Milanese	EUR	10,000	Saipem SpA Third parties	55.00 45.00	55.00	F.C.
Servizi Energia Italia SpA	San Donato Milanese	EUR	291,000	Saipem SpA	100.00	100.00	F.C.
Smacemex Scarl	San Donato Milanese	EUR	10,000	Saipem SpA Third parties	60.00 40.00	60.00	F.C.
Snamprogetti Chiyoda sas di Saipem SpA	San Donato Milanese	EUR	10,000	Saipem SpA Third parties	99.90 0.10	99.90	F.C.

Outside Italy

Company	Registered office	Currency	Share capital	Shareholders	% held	% Saipem's consolidation	Method of consolidation or accounting principle (*)
Andromeda Consultoria Tecnica e Representações Ltda	Rio de Janeiro (Brazil)	BRL	5,494,210	Saipem SpA Snamprogetti Netherlands BV	99.00 1.00	100.00	F.C.
Boscongo SA	Pointe-Noire (Congo)	XAF	1,597,805,000	Saipem SA Third parties	99.99 0.01	100.00	F.C.
Construction Saipem Canada Inc	Montreal - Quebec (Canada)	CAD	1,000	Saipem Canada Inc	100.00	100.00	F.C.
ER SAI Caspian Contractor Llc	Almaty (Kazakhstan)	KZT	1,105,930,000	Saipem International BV Third parties	50.00 50.00	50.00	F.C.
ERSAI Marine Llc	Almaty (Kazakhstan)	KZT	1,000,000	ER SAI Caspian Contractor Llc	100.00	50.00	F.C.
ERS - Equipment Rental & Services BV	Amsterdam (Netherland)	EUR	90,760	Saipem International BV	100.00	100.00	F.C.
Global Petroprojects Services AG	Zurich (Switzerland)	CHF	5,000,000	Saipem International BV	100.00	100.00	F.C.
Moss Maritime AS	Lysaker (Norway)	NOK	40,000,000	Saipem International BV	100.00	100.00	F.C.
Moss Maritime Inc	Houston (USA)	USD	145,000	Moss Maritime AS	100.00	100.00	F.C.
North Caspian Service Co	Almaty (Kazakhstan)	KZT	1,910,000,000	Saipem International BV	100.00	100.00	F.C.
Petrex SA	Iquitos (Peru)	PEN	762,729,045	Saipem International BV	100.00	100.00	F.C.
Professional Training Center Llc	Karakiyan District, Mangistau Oblast (Kazakhstan)	KZT	1,000,000	ER SAI Caspian Contractor Llc	100.00	50.00	F.C.

(*) F.C. = full consolidation, W.I. = working interest (consolidated on the basis of the interest in the investee, measured in terms of investor's contractual rights and obligations), E.M. = equity method, Co. = cost method

Company	Registered office	Currency	Share capital	Shareholders	% held	% Saipem's consolidation	Method of consolidation or accounting principle (*)
PT Saipem Indonesia	Jakarta (Indonesia)	USD	152,778,100	Saipem International BV Saipem Asia Sdn Bhd	68.55 31.45	100.00	F.C.
SAGIO - Companhia Angolana de Gestão de Instalaçao Offshore Ltda	Luanda (Angola)	AOA	1,600,000	Saipem International BV Third parties	60.00 40.00	60.00	E.M.
Saigut SA de Cv	Delegacion Cuauhtemoc (Mexico)	MXN	90,050,000	Saimexicana SA de Cv	100.00	100.00	F.C.
SAIMEP Lda	Maputo (Mozambique)	MZN	10,000,000	Saipem SA Saipem International BV	99.98 0.02	100.00	F.C.
Saimexicana SA de Cv	Delegacion Cuauhtemoc (Mexico)	MXN	1,528,188,000	Saipem SA	100.00	100.00	F.C.
Saipem (Beijing) Technical Services Co Ltd	Beijing (China)	USD	1,750,000	Saipem International BV	100.00	100.00	F.C.
Saipem (Malaysia) Sdn Bhd	Kuala Lumpur (Malaysia)	MYR	1,033,500	Saipem International BV Third parties	41.94 58.06	100.00	F.C.
Saipem (Nigeria) Ltd	Lagos (Nigeria)	NGN	259,200,000	Saipem International BV Third parties	89.41 10.59	89.41	F.C.
Saipem (Portugal) Comércio Marítimo, Sociedade Unipessoal Lda	Caniçal (Portugal)	EUR	299,278,738	Saipem International BV	100.00	100.00	F.C.
Saipem America Inc	Wilmington (USA)	USD	50,000,000	Saipem International BV	100.00	100.00	F.C.
Saipem Argentina de Perforaciones, Montajes y Proyectos Sociedad Anónima, Minera, Industrial, Comercial y Financiera (**) (***)	Buenos Aires (Argentina)	ARS	1,805,300	Saipem International BV Third parties	99.90 0.10	99.90	E.M.
Saipem Asia Sdn Bhd	Kuala Lumpur (Malaysia)	MYR	8,116,500	Saipem International BV	100.00	100.00	F.C.
Saipem Australia Pty Ltd	West Perth (Australia)	AUD	10,661,000	Saipem International BV	100.00	100.00	F.C.
Saipem Canada Inc	Montreal (Canada)	CAD	100,100	Saipem International BV	100.00	100.00	F.C.
Saipem Contracting (Nigeria) Ltd	Lagos (Nigeria)	NGN	827,000,000	Saipem International BV Third parties	97.94 2.06	97.94	F.C.
Saipem Contracting Algérie SpA	Algeri (Algeria)	DZD	1,556,435,000	Sofresid SA	100.00	100.00	F.C.
Saipem Contracting Netherlands BV	Amsterdam (Netherlands)	EUR	20,000	Saipem International BV	100.00	100.00	F.C.
Saipem do Brasil Serviçõs de Petroleo Ltda	Rio de Janeiro (Brazil)	BRL	698,696,299	Saipem International BV	100.00	100.00	F.C.
Saipem Drilling Co Private Ltd	Mumbai (India)	INR	50,273,400	Saipem International BV Saipem SA	49.73 50.27	100.00	F.C.
Saipem Drilling Norway AS	Sola (Norway)	NOK	100,000	Saipem International BV	100.00	100.00	F.C.
Saipem East Africa Ltd	Kampala (Uganda)	UGX	50,000,000	Saipem International BV Third parties	51.00 49.00	51.00	E.M.
Saipem India Project Ltd	Chennai (India)	INR	407,000,000	Saipem SA	100.00	100.00	F.C.
Saipem Ingenieria Y Construcciones SLU	Madrid (Spain)	EUR	80,000	Saipem International BV	100.00	100.00	F.C.
Saipem International BV	Amsterdam (Netherlands)	EUR	172,444,000	Saipem SpA	100.00	100.00	F.C.
Saipem Libya LLC - SA.LI.CO. Llc	Tripoli (Libya)	LYD	10,000,000	Saipem International BV Snamprogetti Netherlands BV	60.00 40.00	100.00	F.C.
Saipem Ltd	Kingston upon Thames Surrey (United Kingdom)	EUR	7,500,000	Saipem International BV	100.00	100.00	F.C.
Saipem Luxembourg SA	Luxembourg (Luxembourg)	EUR	31,002	Saipem Maritime Asset Management Luxembourg Sàrl Saipem (Portugal) Comércio Marítimo, Sociedade Unipessoal Lda	99.99 0.01	100.00	F.C.

(*) F.C. = full consolidation, W.I. = working interest (consolidated on the basis of the interest in the investee, measured in terms of investor's contractual rights and obligations), E.M. = equity method, Co. = cost method
(**) In liquidation.
(***) Inactive throughout the period.

Company	Registered office	Currency	Share capital	Shareholders	% held	% Saipem's consolidation	Method of consolidation or accounting principle (*)
Saipem Maritime Asset Management Luxembourg Sàrl	Luxembourg (Luxembourg)	USD	378,000	Saipem SpA	100.00	100.00	F.C.
Saipem Misr for Petroleum Services (S.A.E.)	Port Said (Egypt)	EUR	2,000,000	Saipem International BV ERS - Equipment Rental & Services BV Saipem (Portugal) Comércio Marítimo, Sociedade Unipessoal Lda	99.92 0.04 0.04	100.00	F.C.
Saipem Norge AS	Sola (Norway)	NOK	100,000	Saipem International BV	100.00	100.00	F.C.
Saipem Offshore Norway AS	Sola (Norway)	NOK	120,000	Saipem SpA	100.00	100.00	F.C.
Saipem SA	Montigny le Bretonneux (France)	EUR	26,488,695	Saipem SpA	100.00	100.00	F.C.
Saipem Services México SA de Cv	Delegacion Cuauhtemoc (Mexico)	MXN	50,000	Saimexicana SA de Cv	100.00	100.00	F.C.
Saipem Services SA (**)	Brussels (Belgium)	EUR	61,500	Saipem International BV ERS - Equipment Rental & Services BV	99.98 0.02	100.00	F.C.
Saipem Singapore Pte Ltd	Singapore (Singapore)	SGD	28,890,000	Saipem SA	100.00	100.00	F.C.
Saipem UK Ltd (**)	London (United Kingdom)	GBP	9,705	Saipem International BV	100.00	100.00	F.C.
Saipem Ukraine Llc	Kiev (Ukraine)	EUR	106,061	Saipem International BV Saipem Luxembourg SA	99.00 1.00	100.00	F.C.
Sajer Iraq for Petroleum Services, Trading, General Contracting & Transport Llc	Baghdad (Iraq)	IQD	300,000,000	Saipem International BV Third parties	60.00 40.00	60.00	F.C.
Saudi Arabian Saipem Ltd	Al-Khobar (Saudi Arabia)	SAR	5,000,000	Saipem International BV Third parties	60.00 40.00	100.00	F.C.
Sigurd Rück AG	Zurich (Switzerland)	CHF	25,000,000	Saipem International BV	100.00	100.00	F.C.
Snamprogetti Engineering & Contracting Co Ltd	Al-Khobar (Saudi Arabia)	SAR	10,000,000	Snamprogetti Netherlands BV Third parties	70.00 30.00	70.00	F.C.
Snamprogetti Engineering BV	Amsterdam (Netherlands)	EUR	18,151	Saipem Maritime Asset Management Luxembourg Sàrl	100.00	100.00	F.C.
Snamprogetti Ltd (**)	London (United Kingdom)	GBP	9,900	Snamprogetti Netherlands BV	100.00	100.00	F.C.
Snamprogetti Lummus Gas Ltd	Sliema (Malta)	EUR	50,000	Snamprogetti Netherlands BV Third parties	99.00 1.00	99.00	F.C.
Snamprogetti Netherlands BV	Amsterdam (Netherlands)	EUR	92,117,340	Saipem SpA	100.00	100.00	F.C.
Snamprogetti Romania Srl	Bucharest (Romania)	RON	5,034,100	Snamprogetti Netherlands BV Saipem International BV	99.00 1.00	100.00	F.C.
Snamprogetti Saudi Arabia Co Ltd Llc	Al-Khobar (Saudi Arabia)	SAR	10,000,000	Saipem International BV Snamprogetti Netherlands BV	95.00 5.00	100.00	F.C.
Sofresid Engineering SA	Montigny le Bretonneux (France)	EUR	1,267,143	Sofresid SA Third parties	99.99 0.01	100.00	F.C.
Sofresid SA	Montigny le Bretonneux (France)	EUR	8,253,840	Saipem SA	100.00	100.00	F.C.
Sonsub International Pty Ltd	Sydney (Australia)	AUD	13,157,570	Saipem International BV	100.00	100.00	F.C.

(*) F.C. = full consolidation, W.I. = working interest (consolidated on the basis of the interest in the investee, measured in terms of investor's contractual rights and obligations), E.M. = equity method, Co. = cost method
(**) In liquidation.

Joint operation

Outside Italy

Company	Registered office	Currency	Share capital	Shareholders	% held	% Saipem's consolidation	Method of consolidation or accounting principle (*)
02 PEARL Snc	Montigny le Bretonneux (France)	EUR	1,000	Saipem SA Third parties	50.00 50.00	50.00	W.I.
Saipon Snc	Montigny le Bretonneux (France)	EUR	20,000	Saipem SA Third parties	60.00 40.00	60.00	W.I.
SPF - TKP Omifpro Snc	Paris (France)	EUR	50,000	Saipem SA Third parties	50.00 50.00	50.00	W.I.

Joint venture

Italy

Company	Registered office	Currency	Share capital	Shareholders	% held	% Saipem's consolidation	Method of consolidation or accounting principle (*)
Consorzio F.S.B.	Venezia - Marghera	EUR	15,000	Saipem SpA Third parties	28.00 72.00	28.00	Co.
Consorzio Sapro	San Giovanni Teatino	EUR	10,329	Saipem SpA Third parties	51.00 49.00	51.00	Co.
PLNG 9 Snc di Chiyoda Corp e Servizi Energia Italia SpA (**)	San Donato Milanese	EUR	1,000	Servizi Energia Italia SpA Third parties	50.00 50.00	50.00	E.M.

Outside Italy

Company	Registered office	Currency	Share capital	Shareholders	% held	% Saipem's consolidation	Method of consolidation or accounting principle (*)
Barber Moss Ship Management AS	Lysaker (Norway)	NOK	1,000,000	Moss Maritime AS Third parties	50.00 50.00	50.00	E.M.
CCS Netherlands BV (***)	Amsterdam (Netherlands)	EUR	300,000	Saipem International BV Third parties	33.33 66.67	33.33	E.M.
Charville - Consultores e Serviços Lda	Funchal (Portugal)	EUR	5,000	Saipem International BV Third parties	50.00 50.00	50.00	E.M.
CMS&A WII	Doha (Qatar)	QAR	500,000	Snamprogetti Netherlands BV Third parties	20.00 80.00	50.00	E.M.
CSC Japan Godo Kaisha (***)	Yokohama (Japan)	JPY	3,000,000	CCS Netherlands BV	100.00	33.33	E.M.
CSC Western Australia Pty Ltd (***)	Perth (Australia)	AUD	30,000	CCS Netherlands BV	100.00	33.33	E.M.
CSFLNG Netherlands BV	Amsterdam (Netherlands)	EUR	600,000	Saipem SA Third parties	50.00 50.00	50.00	E.M.
FPSO Mystras (Nigeria) Ltd (***)	Victoria Island - Lagos (Nigeria)	NGN	15,000,000	FPSO Mystras - Produção de Petròleo Lda	100.00	50.00	E.M.
FPSO Mystras - Produção de Petròleo Lda	Funchal (Portugal)	EUR	50,000	Saipem International BV Third parties	50.00 50.00	50.00	E.M.
Hazira Cryogenic Engineering & Construction Management Private Ltd	Mumbai (India)	INR	500,000	Saipem SA Third parties	55.00 45.00	55.00	E.M.

(*) F.C. = full consolidation, W.I. = working interest (consolidated on the basis of the interest in the investee, measured in terms of investor's contractual rights and obligations), E.M. = equity method, Co. = cost method
(**) In liquidation.
(***) Inactive throughout the period.

Company	Registered office	Currency	Share capital	Shareholders	% held	% Saipem's consolidation	Method of consolidation or accounting principle (*)
Mangrove Gas Netherlands BV	Amsterdam (Netherlands)	EUR	2,000,000	Saipem International BV Third parties	50.00 50.00	50.00	E.M.
Petromar Lda	Luanda (Angola)	USD	357,143	Saipem SA Third parties	70.00 30.00	70.00	E.M.
RPCO Enterprises Ltd (**)	Nicosia (Cyprus)	EUR	17,100	Snamprogetti Netherlands BV Third parties	50.00 50.00	50.00	E.M.
Saidel Ltd	Victoria Island - Lagos (Nigeria)	NGN	236,650,000	Saipem International BV Third parties	49.00 51.00	49.00	E.M.
Saipar Drilling Co BV	Amsterdam (Netherlands)	EUR	20,000	Saipem International BV Third parties	50.00 50.00	50.00	E.M.
Sairus Llc	Krasnodar (Russian Federation)	RUB	83,603,800	Saipem International BV Third parties	50.00 50.00	50.00	E.M.
Société pour la Réalisation du Port de Tanger Méditerranée	Anjra (Morocco)	EUR	33,000	Saipem SA Third parties	33.33 66.67	33.33	E.M.
Southern Gas Constructors Ltd	Lagos (Nigeria)	NGN	10,000,000	Saipem International BV Third parties	50.00 50.00	50.00	E.M.
Sud-Soyo Urban Development Lda (***)	Soyo (Angola)	AOA	20,000,000	Saipem SA Third parties	49.00 51.00	49.00	E.M.
Tchad Cameroon Maintenance BV	Rotterdam (Netherlands)	EUR	18,000	Saipem SA Third parties	40.00 60.00	40.00	E.M.
TMBYS SAS	Guyancourt (France)	EUR	30,000	Saipem SA Third parties	33.33 66.67	33.33	E.M.
TSGI Mühendislik İnşaat Ltd Şirketi	Istanbul (Turkey)	TRY	600,000	Saipem Ingenieria Y Construcciones SLU Third parties	30.00 70.00	33.33	E.M.

Associated companies

Italy

Company	Registered office	Currency	Share capital	Shareholders	% held	% Saipem's consolidation	Method of consolidation or accounting principle (*)
ASG Scarl	San Donato Milanese	EUR	50,864	Saipem SpA Third parties	55.41 44.59	55.41	E.M.
CEPAV (Consorzio Eni per l'Alta Velocità) Uno	San Donato Milanese	EUR	51,646	Saipem SpA Third parties	50.36 49.64	50.36	E.M.
CEPAV (Consorzio Eni per l'Alta Velocità) Due	San Donato Milanese	EUR	51,646	Saipem SpA Third parties	52.00 48.00	52.00	E.M.
Modena Scarl (**)	San Donato Milanese	EUR	400,000	Saipem SpA Third parties	59.33 40.67	59.33	E.M.
Rodano Consortile Scarl	San Donato Milanese	EUR	250,000	Saipem SpA Third parties	53.57 46.43	53.57	E.M.
Rosetti Marino SpA	Ravenna	EUR	4,000,000	Saipem SA Third parties	20.00 80.00	20.00	E.M.

(*) F.C. = full consolidation, W.I. = working interest (consolidated on the basis of the interest in the investee, measured in terms of investor's contractual rights and obligations), E.M. = equity method, Co. = cost method
(**) In liquidation.
(***) Inactive throughout the period.

Outside Italy

Company	Registered office	Currency	Share capital	Shareholders	% held	% Saipem's consolidation	Method of consolidation or accounting principle (*)
Fertilizantes Nitrogenados de Oriente CEC	Caracas (Venezuela)	VEB	9,667,827,216	Snamprogetti Netherlands BV Third parties	20.00 80.00	20.00	E.M.
Fertilizantes Nitrogenados de Oriente SA	Caracas (Venezuela)	VEB	286,549	Snamprogetti Netherlands BV Third parties	20.00 80.00	20.00	E.M.
KWANDA Suporte Logistico Lda	Luanda (Angola)	AOA	25,510,204	Saipem SA Third parties	40.00 60.00	40.00	E.M.
LNG - Serviços e Gestao de Projectos Lda	Funchal (Portugal)	EUR	5,000	Snamprogetti Netherlands BV Third parties	25.00 75.00	25.00	E.M.
Sabella SAS	Quimper (France)	EUR	1,200,000	Sofresid Engineering SA Third parties	35.09 64.91	35.09	E.M.
Saipem Taqa Al Rushaid Fabricators Co Ltd	Dammam (Saudi Arabia)	SAR	40,000,000	Saipem International BV Third parties	40.00 60.00	40.00	E.M.
Tecnoprojecto Internacional Projectos e Realizações Industriais SA	Porto Salvo - Concelho de Oeiras (Portugal)	EUR	700,000	Saipem SA Third parties	42.50 57.50	42.50	E.M.
T.C.P.I. Angola Tecnoprojecto Internacional SA	Luanda (Angola)	AOA	9,000,000	Petromar Lda Third parties	35.00 65.00	24.50	E.M.
TSKJ II - Construções Internacionais, Sociedade Unipessoal, Lda	Funchal (Portugal)	EUR	5,000	TSKJ - Serviços de Engenharia Lda	100.00	25.00	E.M.
TSKJ - Nigeria Ltd	Lagos (Nigeria)	NGN	50,000,000	TSKJ II - Construções Internacionais, Sociedade Unipessoal, Lda	100.00	25.00	E.M.
TSKJ - Serviçoes de Engenharia Lda	Funchal (Portugal)	EUR	5,000	Snamprogetti Netherlands BV Third parties	25.00 75.00	25.00	E.M.

The Saipem Group comprises 111 companies: 63 are consolidated using the full consolidation method, 3 using the proportionate consolidation method, 43 using the equity method and 2 using the cost method.

At June 30, 2014, the companies of Saipem SpA can be broken down as follows:

	Subsidiaries			Joint operations			Associates and Joint Ventures		
	Italy	Outside Italy	Total	Italy	Outside Italy	Total	Italy	Outside Italy	Total
Subsidiaries/Joint operations and their participating interests	**4**	**59**	**63**	**-**	**3**	**3**	**-**	**-**	**-**
Companies consolidated using the full consolidation method	4	59	63	-	-	-	-	-	-
Companies consolidated using the working interest method	-	-	-	-	3	3	-	-	-
Participating interests held by consolidated companies (1)	**-**	**3**	**3**	**-**	**-**	**-**	**-**	**-**	**-**
Accounted for using the equity method	-	3	3	-	-	-	7	33	40
Accounted for using the cost method	-	-	-	-	-	-	2	-	2
Total companies	**4**	**62**	**66**	**-**	**3**	**3**	**9**	**33**	**42**

(1) The participating interests held by controlled companies accounted for using the equity method and the cost method concern insignificant subsidiaries and subsidiaries whose consolidation does not produce significant effects.

(*) F.C. = full consolidation, W.I. = working interest (consolidated on the basis of the interest in the investee, measured in terms of investor's contractual rights and obligations), E.M. = equity method, Co. = cost method

Changes in the scope of consolidation

The application of the provisions of new accounting standards IFRS 10 'Consolidated Financial Statements' and IFRS 11 'Joint Arrangements' has led to changes in the Group's scope of consolidation. Adoption of IFRS 11 in particular has caused the following companies, which were previously consolidated proportionally, to be consolidated using the equity method:

- CEPAV (Consorzio Eni per l'Alta Velocità) Uno;
- Saipar Drilling Co BV;
- Rodano Scarl;
- Modena Scarl;
- ASG Scarl;
- CMS&A WII;
- RPCO Enterprises Ltd;
- FPSO Mystras - Produção de Petròleo Lda;
- Sairus Llc;
- Offshore Design Engineering Ltd;
- Petromar Lda;
- Société pour la Réalisation du Port de Tanger Méditerranée;
- Mangrove Gas Netherlands BV;
- Southern Gas Constructors Ltd;
- Charville - Consultores e Serviços Lda;
- TMBYS SAS;
- TSGI Mühendislik İnşaat Ltd Şirketi;
- CSFLNG Netherlands BV.

There were no significant changes in the scope of consolidation during the first six months of 2014 with respect to the consolidated financial statements at December 31, 2013. Changes are shown by order of occurrence.

New incorporations, disposals, liquidations, mergers and changes to the consolidation method:

- **Consorzio Libya Green Way**, previously accounted for using the equity method, was removed from the Register of Companies;
- **Offshore Design Engineering Ltd**, along with its subsidiary, **Ode North Africa Llc**, previously accounted for using the equity method, was sold to third parties;
- **Saipem Mediteran Usluge Doo**, consolidated using the full consolidation method, was removed from the Register of Companies;
- **Smacemex Scarl**, with registered offices in Italy, was incorporated and consolidated using the full consolidation method.

Changes of company names or transfers of holdings between Group companies not affecting the scope of consolidation:

- **CSC Netherlands BV**, accounted for using the equity method, changed its name to **CCS Netherlands BV**.

Restatement of comparative data

Changes in accounting standards - IFRS 11

As indicated in the 'Basis of presentation' section, the application of IFRS 11 impacts on the consolidation criteria used by the Saipem Group for most of its jointly-controlled entities, which will be classified as joint ventures and as such be accounted for using the equity method rather than, as was previously the case, using the proportional method.

The effects of application of IFRS 11 on the balance sheet as of January 1, 2013 and December 31, 2013 are shown below.

Consob Proceedings 1612/2013

As reported in its Annual Report 2013, Saipem applied international accounting standard IAS 8, paragraph 42, after Italian stock market regulator Consob issued observations regarding the accounting period in which the Company booked estimate revisions relating to certain contracts in progress at December 31, 2012.

The increase in the 2013 net result has been reflected in the consolidated income statement for the six month period ended June 30, 2013 provided for comparative purposes.

Summary of effects of restatement

The table below shows the effects of the application of IFRS 11 on the balance sheet at January 1, 2013 and December 31, 2013.

(€ million)	Published	IFRS 11	Restated
January 1, 2013			
Current assets	**7,806**	**(158)**	**7,648**
of which Cash and cash equivalents	1,325	(81)	1,244
of which Trade and other receivables	3,252	(43)	3,209
Non-current assets	**9,398**	**(22)**	**9,376**
of which Property, plant and equipment	8,254	(71)	8,183
of which Investments accounted for using the equity method	116	57	173
Current liabilities	**7,594**	**(180)**	**7,414**
of which Trade and other payables	4,982	(160)	4,822
Non-current liabilities	**4,085**	**-**	**4,085**
of which Provision for employee benefits	255	(13)	242
Saipem Group Shareholders' equity	**5,525**	**-**	**5,525**
December 31, 2013			
Current assets	**7,901**	**(138)**	**7,763**
of which Cash and cash equivalents	1,352	(53)	1,299
of which Trade and other receivables	3,286	(46)	3,240
Non-current assets	**9,142**	**(28)**	**9,114**
of which Property, plant and equipment	7,972	(60)	7,912
of which Investments accounted for using the equity method	126	40	166
Current liabilities	**8,926**	**(156)**	**8,770**
of which Trade and other payables	5,280	(151)	5,129
Non-current liabilities	**3,373**	**(10)**	**3,363**
of which Provision for employee benefits	233	(14)	219
Saipem Group Shareholders' equity	**4,744**	**-**	**4,744**

The table below shows the effects of the application of IFRS 11 on the comparative income statement and cash flows for the six months ended June 30, 2013.

(€ million)	First half 2013 published	Restatement IFRS 11	Restatement IAS 8	First half 2013 restated
REVENUES				
Net sales from operations	5,186	(185)	245	5,246
Other revenues and income	3	-	-	3
Total revenues	**5,189**	**(185)**	**245**	**5,249**
Operating expenses				
Purchases, services and other costs	(4,174)	151	-	(4,023)
Payroll and related costs	(1,123)	24	-	(1,099)
Depreciation, amortisation and impairment	(359)	8	-	(351)
Other operating income (expense)	(1)	-	-	(1)
OPERATING RESULT	**(468)**	**(2)**	**245**	**(225)**
Finance income (expense)				
Finance income	234	(7)	-	227
Finance expense	(246)	8	-	(238)
Derivative financial instruments	(80)	-	-	(80)
Total finance income (expense)	**(92)**	**1**	**-**	**(91)**
Income (expense) from investments				
Share of profit of equity-accounted investments	8	1	-	9
Other income (expense) from investments	-	-	-	-
Total income (expense) from investments	**8**	**1**	**-**	**9**
RESULT BEFORE INCOME TAXES	**(552)**	**-**	**245**	**(307)**
Income taxes	(15)	-	-	(15)
NET RESULT	**(567)**	**-**	**245**	**(322)**
Attributable to:				
- Saipem	(575)	-	245	(330)
- minority interest	8	-	-	8
Earnings (loss) per share attributable to Saipem (€ per share)				
Basic earnings (loss) per share	(1.31)	-	-	(0.751)
Diluted earnings (loss) per share	(1.31)	-	-	(0.750)
Net cash provided by operating activities	499	-	-	499
Net cash used in investing activities	(445)	(14)	-	(459)
Net cash from financing activities	165	-	-	165
Effect of exchange rate differences and other changes on cash and cash equivalents	(11)	1	-	(10)
Net cash flow for the period	208	(13)	-	195

The explanatory notes that follow contain a comparison of the financial statements at June 30, 2014 with the restated data.

Current assets

1 Cash and cash equivalents

Cash and cash equivalents amounted to €1,401 million, an increase of €102 million compared with December 31, 2013 (€1,299 million).

Cash and equivalents at period end, 40% of which are denominated in euro, 36% in US dollars and 24% in other currencies, received an average interest rate of 0.23%. €760 million thereof (€715 million at December 31, 2013) are on deposit at Eni Group financial companies. Cash and cash equivalents included cash and cash on hand of €8 million (€4 million at December 31, 2013).

Funds in two current accounts held by the subsidiary Saipem Contracting Algérie SpA (equivalent to €80 million at June 30, 2014) have been temporarily frozen since February 2010 in connection with an investigation being conducted into third parties. There was no change in the amount frozen with respect to the situation reported at December 31, 2013.

The breakdown of cash and cash equivalents of Saipem and other Group companies at June 30, 2014 by geographical area (based on the country of domicile of the relevant company) was as follows:

(€ million)	Dec. 31, 2013	June 30, 2014
Italy	116	63
Rest of Europe	887	966
CIS	79	12
Middle East	79	92
Far East	17	43
North Africa	90	89
West Africa and rest of Africa	5	14
Americas	26	122
Total	**1,299**	**1,401**

For details on amounts relating to projects under execution in Algeria, see Note 48 'Additional information: Algeria' on page 113.

2 Other financial assets held for trading or available for sale

At June 30, 2014, there were no other financial assets held for trading or available for sale (€26 million at December 31, 2013). The US dollar-denominated bonds previously recognised under this item were sold during the period.

3 Trade and other receivables

Trade and other receivables of €2,967 million (€3,240 million at December 31, 2013) were as follows:

(€ million)	Dec. 31, 2013	June 30, 2014
Trade receivables	2,829	2,430
Financing receivables for operating purposes	2	2
Financing receivables for non-operating purposes	30	55
Prepayments for services	262	331
Other receivables	117	149
Total	**3,240**	**2,967**

Receivables are stated net of the provision for impairment losses of €130 million.

(€ million)	Dec. 31, 2013	Additions	Deductions	Currency translation differences	Other changes	June 30, 2014
Trade receivables	117	3	(11)	-	-	109
Other	21	-	-	-	-	21
Total	**138**	**3**	**(11)**	**-**	**-**	**130**

Trade receivables amounted to €2,430 million, representing a decrease of €399 million versus December 31, 2013 relating to collections during the period.

At June 30, 2014, Saipem had non-recourse non-notification factoring agreements relating to trade receivables, including not past due receivables, amounting to €438 million (€234 million at December 31, 2013). Saipem is responsible for managing the collection of the assigned receivables and for transferring the sums collected to the factor.
Trade receivables included retention amounts guaranteeing contract work in progress of €221 million (€212 million at December 31, 2013), of which €58 million was due within one year and €163 million due after one year.
Financing receivables for operating purposes of €2 million (€2 million at December 31, 2013) are mainly related to the receivable held by Saipem SpA from Serfactoring SpA.
Financing receivables for non-operating purposes of €55 million (€30 million at December 31, 2013) are principally related to the receivable held by Saipem America Inc from Eni Finance USA Inc for a financial loan (€29 million) and the deposit paid by Snamprogetti Netherlands BV in relation to the TSKJ matter (€25 million - see the 'Legal proceedings' section for full details).
Other receivables of €149 million consisted of the following:

(€ million)	Dec. 31, 2013	June 30, 2014
Receivables from:		
- insurance companies	7	5
- employees	32	41
Guarantee deposits	10	10
Other	68	93
Total	**117**	**149**

Trade receivables and other receivables from related parties amounted to €831 million (€851 million at December 31, 2013) and are detailed in Note 44 'Transactions with related parties'.
The fair value of trade and other receivables did not differ significantly from their carrying amount due to the short period of time elapsed between their date of origination and their due date.
For details on amounts relating to projects under execution in Algeria, see Note 48 'Additional information: Algeria' on page 113.

4 Inventories

Inventories of €3,141 million (€2,277 million at December 31, 2013) were as follows:

(€ million)	Dec. 31, 2013	June 30, 2014
Raw and auxiliary materials and consumables	507	506
Contract work-in-progress	1,770	2,635
Total	**2,277**	**3,141**

Inventories are stated net of a valuation allowance of €11 million.

(€ million)	Dec. 31, 2013	Additions	Deductions	Other changes	June 30, 2014
Inventories valuation allowance	8	5	(2)	-	11
	8	**5**	**(2)**	**-**	**11**

Contract work-in-progress relates to timing differences between actual project progress and the achievement of contractual invoicing milestones, and to the recognition of additional contract revenues deemed probable and reasonably estimated.
The change in contract work-in-progress was mainly due to contract terms and conditions that led milestone approval to be delayed and to the continuation of negotiations for additional work.
Information on construction contracts accounted for in accordance with IAS 11 is provided in Note 43 'Segment information, geographical information and construction contracts'.
For details on amounts relating to projects under execution in Algeria, see Note 48 'Additional information: Algeria' on page 113.

5 Current tax assets

Current tax assets of €249 million (€267 million at December 31, 2013) were as follows:

(€ million)	Dec. 31, 2013	June 30, 2014
Italian tax authorities	132	137
Foreign tax authorities	135	112
Total	**267**	**249**

6 Other current tax assets

Other current tax assets of €271 million (€278 million at December 31, 2013) were as follows:

(€ million)	Dec. 31, 2013	June 30, 2014
Italian tax authorities	94	56
Foreign tax authorities	184	215
Total	**278**	**271**

7 Other current assets

Other current assets of €214 million (€376 million at December 31, 2013) were as follows:

(€ million)	Dec. 31, 2013	June 30, 2014
Fair value of hedging derivatives	167	54
Fair value of non-hedging derivatives	51	15
Other assets	158	145
Total	**376**	**214**

At June 30, 2014, derivative instruments had a positive fair value of €69 million (€218 million at December 31, 2013).
The fair value of derivative instruments was determined using valuation models commonly used in the financial sector and based on period-end market data (exchange and interest rates).
The fair value of forward contracts (forward outrights and currency swaps) was determined by comparing the net present value at contractual conditions of forward contracts outstanding at June 30, 2014, with their present value recalculated at period-end market conditions. The model used is the Net Present Value model, which is based on the forward contract exchange rate, the period-end exchange rate and the respective forward interest rate curves.

The table below shows the assets considered in the calculation of the fair value of derivative contracts, broken down by type.

	Assets Dec. 31, 2013			Assets June 30, 2014		
	Fair value	Commitments		Fair value	Commitments	
(€ million)		purchase	sale		purchase	sale
1) Derivative contracts qualified for hedge accounting:						
- forward currency contracts (Spot component)						
. purchase	5			37		
. sale	183			15		
Total	188			52		
- forward currency contracts (Forward component)						
. purchase	-			2		
. sale	(22)			-		
Total	(22)	361	5,211	2	2,667	1,898
- forward commodity contracts (Forward component)						
. purchase	1			-		
Total	1	10		-	11	
Total derivative contracts qualified for hedge accounting	**167**	**371**	**5,211**	**54**	**2,678**	**1,898**
2) Derivative contracts not qualified for hedge accounting:						
- forward currency contracts (Spot component)						
. purchase	8			7		
. sale	48			6		
Total	56			13		
- forward currency contracts (Forward component)						
. purchase	(1)			2		
. sale	(4)			-		
Total	(5)	389	1,956	2	556	493
- forward commodity contracts (Forward component)						
. sale	-			-		
Total	-			-		
Total derivative contracts not qualified for hedge accounting	**51**	**389**	**1,956**	**15**	**556**	**493**
Total	**218**	**760**	**7,167**	**69**	**3,234**	**2,391**

Cash flow hedge transactions related to forward purchase and sale transactions (forward outrights and currency swaps).
The cash flows and the income statement impact of hedged highly probably forecast transactions at June 30, 2014 are expected to occur up until 2015.
During the first half of 2014, there were no significant cases of hedged items being no longer considered highly probable.
The positive fair value of derivatives qualified for hedge accounting at June 30, 2014 totalled €54 million (€167 million at December 31, 2013). The spot component of these derivatives of €52 million (€188 million at December 31, 2013) was deferred in a hedging reserve in equity (€45 million; €171 million at December 31, 2013) and recorded as finance income and expense (€7 million; €17 million at December 31, 2013), while the forward component, which was not designated as a hedging instrument, was recognised as finance income and expense (€2 million; €22 million at December 31, 2013).
The negative fair value of derivatives qualified for hedge accounting at June 30, 2014, analysed in Note 18 'Other current liabilities' was €56 million (€72 million at December 31, 2013). The spot component of these derivatives of €59 million was deferred in a hedging reserve in equity (€51 million; €68 million at December 31, 2013) and recorded as finance income and expense (€8 million; €10 million at December 31, 2013). The forward component was recognised as finance income and expense (€3 million; €6 million at December 31, 2013).
During the period, operating revenues and expenses were adjusted by a net positive amount of €44 million to reflect the effects of hedging.
Other assets at June 30, 2014 amounted to €145 million, representing a decrease of €13 million compared with December 31, 2013, and consisted mainly of prepayments.
Other assets from related parties are shown in Note 44 'Transactions with related parties'.

Non-current assets

8 Property, plant and equipment

Property, plant and equipment amounted to €7,910 million (€7,912 million at December 31, 2013) and consisted of the following:

(€ million)	Gross value at Dec. 31, 2013	Accumulated depreciation and impairment at Dec. 31, 2013	Net value at Dec. 31, 2013	Capital expenditure	Depreciation	Impairment	Disposals	Currency translation differences	Other changes	Final net value at June 30, 2014	Final gross value at June 30, 2014	Accumulated depreciation and impairment at June 30, 2014
Property, plant and equipment	12,756	4,844	7,912	324	(358)	-	(2)	34	-	7,910	13,109	5,199
Total	**12,756**	**4,844**	**7,912**	**324**	**(358)**	**-**	**(2)**	**34**	**-**	**7,910**	**13,109**	**5,199**

Capital expenditure in the first half of 2014 amounted to €324 million (€490 million in the first half of 2013) and mainly related to:
- €132 million in the Offshore Engineering & Construction sector, relating mainly to the continuation of construction work on the new base in Brazil and the maintenance and upgrading of the existing asset base;
- €19 million in the Onshore Engineering & Construction sector, relating to the purchase of equipment and the maintenance of existing assets;
- €105 million in the Offshore Drilling sector, relating mainly to class reinstatement works for the semi-submersible rig Scarabeo 7, in addition to the maintenance and upgrading of the existing asset base;
- €68 million in the Onshore Drilling sector, relating to upgrading work on rigs due to begin operations in Saudi Arabia, in addition to the upgrading of the existing asset base.

No finance expenses were capitalised during the year.
Exchange rate differences due to the translation of financial statements prepared in currencies other than the euro, amounting to €34 million, mainly related to companies whose functional currency is the US dollar.
Fully depreciated property, plant and equipment that is still in use mainly consisted of project-specific equipment which has been fully depreciated over the life of the project.
During the first half of the year, no government grants were recorded as a decrease of the carrying value of property, plant and equipment.
At June 30, 2014, all property, plant and equipment was free from pledges, mortgages and any other obligations.
The total commitment on current items of capital expenditure at June 30, 2014 amounted to €166 million (€121 million at December 31, 2013), as indicated in the 'Risk management' section of the 'Operating and Financial Review'.

Finance leases

Saipem currently has no finance leases.

9 Intangible assets

Intangible assets amounted to €759 million (€758 million at December 31, 2013) and were as follows:

(€ million)	Gross value at Dec. 31, 2013	Accumulated amrtisation and impairment at Dec. 31, 2013	Net value at Dec. 31, 2013	Capital expenditure	Amortisation	Impairment	Reversals	Disposals	Exchange differences	Other changes	Final net value at June 30, 2014	Final gross value at June 30, 2014	Accumulated amrtisation and impairment at June 30, 2014
Intangible assets with finite useful lives	176	147	29	5	(4)	-	-	-	-	-	30	181	151
Other intangible assets with indefinite useful lives	729	-	729	-	-	-	-	-	-	-	729	729	-
Total	**905**	**147**	**758**	**5**	**(4)**	**-**	**-**	**-**	**-**	**-**	**759**	**910**	**151**

Goodwill of €729 million related to the difference between the purchase price, including transaction costs, and the net assets of Saipem SA (€689 million), Sofresid SA (€21 million) and the Moss Maritime Group (€14 million) at the date control was obtained.
For impairment purposes, goodwill has been allocated to the following cash-generating units:

(€ million)	June 30, 2014
Offshore E&C	415
Onshore E&C	314
Total	**729**

The current business outlook shows that the Company remains on course to meet its objective of achieving a steady recovery in the profitability of the E&C business, as the result of the gradual completion of low-margin contracts acquired prior to 2013 and the contribution of higher margin projects acquired subsequently through the adoption of a more selective commercial policy. Although no impairment indicators were present, management opted to measure the value in use of the cash generating units, in order to check the recoverability of their carrying amounts, including allocated goodwill. Value in use was calculated on the basis of profits and cash flows forecast in the Company's 2014-2017 business plan, which were adjusted to reflect the latest information regarding the expected results for 2014. The other key assumptions used to estimate cash flows of the CGUs – i.e. the discount rate and perpetuity growth rate – remained unchanged from the annual report at December 31, 2013, at 7.6% and 2%, respectively.
The impairment testing carried out showed that there were no impairment losses. The tests, which were carried out during the six-month period ending June 30, 2014, showed that the recoverable amounts of the Offshore E&C and Onshore E&C cash generating units exceeded their carrying amounts, including the allocated goodwill, by a significant amount which was not lower than the amount indicated in the 2013 annual report.

10 Investments accounted for using the equity method

Investments accounted for using the equity method of €174 million (€166 million at December 31, 2013) were as follows:

(€ million)	Opening net value	Acquisitions and subscriptions	Sale and redemption	Share of profit of equity-accounted investments	Share of loss of equity-accounted investments	Deduction for dividends	Change in the scope of consolidation	Currency translation differences	Movement in reserves	Other changes	Closing net value	Provision for impairment
Dec. 31, 2013												
Investments in Joint Venture and associates	172	1	-	19	(19)	(2)	-	(3)	(2)	-	166	-
Total	**172**	**1**	**-**	**19**	**(19)**	**(2)**	**-**	**(3)**	**(2)**	**-**	**166**	**-**
June 30, 2014												
Investments in Joint Venture and associates	166	2	(3)	13	(1)	(1)	-	1	(1)	(2)	174	-
Total	**166**	**2**	**(3)**	**13**	**(1)**	**(1)**	**-**	**1**	**(1)**	**(2)**	**174**	**-**

Investments in subsidiaries, jointly controlled and associates are analysed in the section 'Scope of consolidation at June 30, 2014'.
The share of profit of investments accounted for using the equity method of €13 million related mainly to profits recorded by Petromar Lda (€4 million), KWANDA Suporte Logistico Lda (€4 million) and TMBYS SAS (€3 million), as well as to profits of other companies accounted for using the equity method (€2 million).
The share of losses of investments accounted for using the equity method of €1 million related mainly to the results registered for the period by Tecnoprojecto Internacional Projectos e Realizações Industriais SA and Sabella SAS.

Deductions for dividends of €1 million related mainly to RPCO Enterprises Ltd.
Sales and redemptions (€3 million) related to the sale to third parties of Offshore Design Engineering Ltd.
The other changes of €2 million related to the transfer to equity of the provision for losses of Southern Gas Constructors Ltd.
The net carrying value of investments accounted for using the equity method related to the following companies:

(€ million)	Group interest (%)	Net value at Dec. 31, 2013	Net value at June 30, 2014
Fertilizantes Nitrogenados de Oriente CEC	20.00	68	68
Rosetti Marino SpA	20.00	32	31
Petromar Lda	70.00	22	27
Other		44	48
Total associates		**166**	**174**

A provision for losses of investments accounted for using the equity method is recorded under the provisions for contingencies. At period end, the provision amounted to €5 million (€8 million at December 31, 2013).
In October 2010, the Venezuelan company, Fertilizantes Nitrogenados de Oriente CEC, was the subject of an expropriation order. Venezuelan law provides a procedure for the definition of fair compensation through negotiation. In 2013, Snamprogetti Netherlands BV reached an agreement with its Venezuelan counterparty, providing for the payment of compensation for the expropriation of the investment in Fertinitro. In view of this agreement, we believe that it is correct to maintain the investment at its current carrying amount.

11 Other financial assets

At June 30, 2014, other long-term financial assets amounted to €1 million (€1 million at December 31, 2013) and related to financing receivables held for non-operating purposes by Sofresid SA.

12 Deferred tax assets

Deferred tax assets of €139 million (€126 million at December 31, 2013) are shown net of offsettable deferred tax liabilities.

(€ million)	Dec. 31, 2013	Additions (Deductions)	Currency translation differences	Other changes	June 30, 2014
Deferred tax assets	126	26	2	(15)	139
Total	**126**	**26**	**2**	**(15)**	**139**

'Other changes', which amounted to negative €15 million, included: (i) offsetting of deferred tax assets against deferred tax liabilities at individual entity level (negative €32 million); (ii) the positive tax effects (€10 million) of fair value changes of derivatives designated as cash flow hedges reported in equity; and (iii) other changes (positive €7 million).
A breakdown of deferred tax assets is provided in Note 22 'Deferred tax liabilities'.
Taxes are shown in Note 40 'Income taxes'.

13 Other non-current assets

Other non-current assets of €138 million (€151 million at December 31, 2013) were as follows:

(€ million)	Dec. 31, 2013	June 30, 2014
Other receivables	14	14
Other non-current assets	137	124
Total	**151**	**138**

Other non-current assets mainly related to prepayments.

Current liabilities

14 Short-term debt

Short-term debt of €1,394 million (€1,899 million at December 31, 2013) consisted of the following:

(€ million)	Dec. 31, 2013	June 30, 2014
Banks	191	264
Other financial institutions	1,708	1,130
Total	**1,899**	**1,394**

Short-term debt decreased by €505 million.

The current portion of long-term debt, amounting to €2,042 million (€1,358 million at December 31, 2013), is detailed in Note 19 'Long-term debt and current portion of long-term debt'.

The breakdown of short-term debt by issuing institution, currency and average interest rate was as follows:

(€ million)

		Dec. 31, 2013			June 30, 2014		
			Interest rate %			Interest rate %	
Issuing institution	Currency	Amount	from	to	Amount	from	to
Eni SpA	Euro	1,148	3.315	3.315	264	3.315	3.315
Serfactoring SpA	Euro	14	-	-	1	-	-
Eni Finance International SA	Euro	5	0.851	2.351	5	0.735	2.235
Eni Finance International SA	US Dollar	493	0.818	2.318	652	0.805	2.305
Eni Finance International SA	Australian Dollar	38	3.150	3.150	110	3.150	3.150
Eni Finance International SA	Other	-	-	-	76	variable	
Third parties	US Dollar	10	0.818	1.568	22	0.805	1.555
Third parties	Euro	-	-	-	2	1.100	1.100
Third parties	Other	191	variable		262	variable	
Total		**1,899**			**1,394**		

At June 30, 2014, Saipem had unused lines of credit amounting to €1,778 million (€1,858 million at December 31, 2013). Commission fees on unused lines of credit were not significant.

At June 30, 2014, there was no unfulfillment of terms and conditions or violation of agreements in relation to financing contracts.

Short-term debt to related parties is shown in Note 44 'Transactions with related parties'.

15 Trade and other payables

Trade and other payables of €5,133 million (€5,129 million at December 31, 2013) consisted of the following:

(€ million)	Dec. 31, 2013	June 30, 2014
Trade payables	2,744	2,728
Deferred income and advances	2,064	1,962
Other payables	321	443
Total	**5,129**	**5,133**

Trade payables amounted to €2,728 million, representing a decrease of €16 million compared with December 31, 2013.

Deferred income and advances of €1,962 million (€2,064 million at December 31, 2013), consisted mainly of adjustments to revenues from long-term contracts of €1,225 million (€1,231 million at December 31, 2013) made on the basis of amounts contractually earned in accordance with the accruals concept and advances on contract work-in-progress received by Saipem SpA and a number of foreign subsidiaries of €737 million (€833 million at December 31, 2013).

Trade payables to related parties amounted to €280 million (€428 million at December 31, 2013) and are shown in Note 44 'Transactions with related parties'.

Other payables of €443 million were as follows:

(€ million)	Dec. 31, 2013	June 30, 2014
Payables to:		
- employees	155	245
- national insurance/social security contributions	63	48
- insurance companies	8	10
- consultants and professionals	3	1
Other payables	92	139
Total	**321**	**443**

Other payables to related parties are shown in Note 44 'Transactions with related parties'.
The fair value of trade and other payables did not differ significantly from their carrying amount due to the short period of time elapsed between their date of origination and their due date.
For details on amounts relating to projects under execution in Algeria, see Note 48 'Additional information: Algeria' on page 113.

16 Income tax payables

Income tax payables of €116 million (€137 million at December 31, 2013) were as follows:

(€ million)	Dec. 31, 2013	June 30, 2014
Italian tax authorities	1	5
Foreign tax authorities	136	111
Total	**137**	**116**

17 Other current tax liabilities

Other current tax liabilities amounted to €169 million (€130 million at December 31, 2013) and were as follows:

(€ million)	Dec. 31, 2013	June 30, 2014
Italian tax authorities	12	-
Foreign tax authorities	118	169
Total	**130**	**169**

18 Other current liabilities

Other current liabilities amounted to €143 million (€117 million at December 31, 2013) and were as follows:

(€ million)	Dec. 31, 2013	June 30, 2014
Fair value of hedging derivatives	72	56
Fair value of non-hedging derivatives	43	33
Other liabilities	2	54
Total	**117**	**143**

At June 30, 2014, derivative instruments had a negative fair value of €89 million (€115 million at December 31, 2013).

The following table shows the positive and negative fair values of derivative contracts at June 30, 2014.

(€ million)	Dec. 31, 2013	June 30, 2014
Positive fair value of derivative contracts	218	69
Negative fair value of derivative contracts	(115)	(89)
Total	**103**	**(20)**

The fair value of derivative instruments was determined using valuation models commonly used in the financial sector and based on period-end market data (exchange and interest rates).
The fair value of forward contracts (forward outrights and currency swaps) was determined by comparing the net present value at contractual conditions of forward contracts outstanding at June 30, 2014, with their present value recalculated at period-end market conditions. The model used is the Net Present Value model, which is based on the forward contract exchange rate, the period-end exchange rate and the respective forward interest rate curves.
The liabilities considered in the calculation of the fair value of derivative contracts, broken down by type, are as follows:

	Liabilities Dec. 31, 2013			Liabilities June 30, 2014		
	Fair value	Commitments		Fair value	Commitments	
(€ million)		purchase	sale		purchase	sale
1) Derivative contracts qualified for hedge accounting:						
- forward currency contracts (Spot component)						
. purchase	77			9		
. sale	1			50		
Total	78			59		
- forward currency contracts (Forward component)						
. purchase	(6)			-		
. sale	-			(3)		
Total	(6)	1,921	19	(3)	590	4,562
- forward commodity contracts (Forward component)						
. purchase	-			-		
Total	-	2	-	-	3	-
Total derivative contracts qualified for hedge accounting	**72**	**1,923**	**19**	**56**	**593**	**4,562**
2) Derivative contracts not qualified for hedge accounting:						
- forward currency contracts (Spot component)						
. purchase	44			7		
. sale	3			24		
Total	47			31		
- forward currency contracts (Forward component)						
. purchase	(4)			1		
. sale	-			1		
Total	(4)	1,812	264	2	1,130	2,056
- forward commodity contracts (Forward component)						
. purchase	-			-		
. sale	-			-		
Total	-			-		
Total derivative contracts not qualified for hedge accounting	**43**	**1,812**	**264**	**33**	**1,130**	**2,056**
Total	**115**	**3,735**	**283**	**89**	**1,723**	**6,618**

For a comprehensive analysis of the fair value of hedging derivatives, see Note 7 'Other current assets'.
Other liabilities amounted to €54 million (€2 million at December 31, 2013).
Other liabilities to related parties are shown in Note 44 'Transactions with related parties'.

Non-current liabilities

19 Long-term debt and current portion of long-term debt

Long-term debt, including the current portion of long-term debt, amounted to €5,167 million (€4,217 million at December 31, 2013) and was as follows:

	Dec. 31, 2013			June 30, 2014		
(€ million)	Current portion	Long-term portion	Total	Current portion	Long-term portion	Total
Banks	1	200	201	201	-	201
Other financial institutions	1,357	2,659	4,016	1,841	3,125	4,966
Total	**1,358**	**2,859**	**4,217**	**2,042**	**3,125**	**5,167**

The long-term portion of long-term debt is shown below by year of maturity:

(€ million)

Type	Maturity range	2015	2016	2017	2018	After	Total
Banks	2015	-	-	-	-	-	-
Other financial institutions	2015-2024	115	568	488	428	1,526	3,125
Total		**115**	**568**	**488**	**428**	**1,526**	**3,125**

The long-term portion of long-term debt amounted to €3,125 million, up €266 million against December 31, 2013 (€2,859 million).
The following table breaks down long-term debt, inclusive of the current portion, by issuing entity and currency and also shows maturities and average interest rates:

(€ million)

			Dec. 31, 2013			June 30, 2014		
				Interest rate %			Interest rate %	
Issuing institution	Currency	Maturity	Amount	from	to	Amount	from	to
Eni SpA	Euro	2014-2017	1,083	2.269	4.950	2,123	1.100	4.950
Eni Finance International SA	Euro	2014-2024	2,273	1.351	5.970	2,123	1.235	2.385
Eni Finance International SA	US Dollar	2014-2016	660	0.918	5.100	720	0.705	5.100
Third parties	Euro	2014-2015	201	3.315	3.315	201	3.315	3.315
Total			**4,217**			**5,167**		

There was no debt secured by mortgages or liens on fixed assets of consolidated companies or by pledges on securities.
The fair value of long-term debt, including the current portion of long-term debt, amounted to €5,486 million (€4,491 million at December 31, 2013) and was calculated by discounting the expected future cash flows at the following rates:

(%)	2013	2014
Euro	0.31-2.23	0.28-0.74
US Dollar	0.25-0.67	0.23-0.56

The difference between the fair value of long-term debt and its nominal value was mainly due to a debt of €675 million expiring in 2018.
Long-term debt to related parties is shown in Note 44 ‘Transactions with related parties’.

The following table shows net borrowings as indicated in the section 'Financial and economic results' included in the 'Operating and Financial Review':

	Dec. 31, 2013			June 30, 2014		
(€ million)	Current	Non-current	Total	Current	Non-current	Total
A. Cash and cash equivalents	1,299	-	1,299	1,401	-	1,401
B. Available-for-sale securities	26	-	26	-	-	-
C. Liquidity (A+B)	**1,325**	**-**	**1,325**	**1,401**	**-**	**1,401**
D. Financing receivables	**30**	**-**	**30**	**55**	**-**	**55**
E. Short-term bank debt	191	-	191	264	-	264
F. Long-term bank debt	1	200	201	201	-	201
G. Short-term related party debt	1,698	-	1,698	1,108	-	1,108
H. Long-term related party debt	1,357	2,659	4,016	1,841	3,125	4,966
I. Other short-term debt	10	-	10	22	-	22
L. Other long-term debt	-	-	-	-	-	-
M. Total borrowings (E+F+G+H+I+L)	**3,257**	**2,859**	**6,116**	**3,436**	**3,125**	**6,561**
N. Net financial position pursuant to Consob communication No. DEM/6064293/2006 (M-C-D)	**1,902**	**2,859**	**4,761**	**1,980**	**3,125**	**5,105**
O. Non-current financing receivables	**-**	**1**	**1**	**-**	**1**	**1**
P. Net borrowings (N-O)	**1,902**	**2,858**	**4,760**	**1,980**	**3,124**	**5,104**

Net borrowings do not include the fair value of derivative contracts included in Note 7 'Other current assets' and Note 18 'Other current liabilities'.
Cash and cash equivalents included €80 million deposited in accounts that are temporarily frozen, as indicated in Note 1 'Cash and cash equivalents'.

20 Provisions for contingencies

Provisions for contingencies of €174 million (€204 million at December 31, 2013) consisted of the following:

(€ million)	Opening balance	Additions	Deductions	Other changes	Closing balance
Dec. 31, 2013					
Provisions for taxes	44	2	(3)	12	55
Provisions for contractual penalties and disputes	28	3	(15)	(2)	14
Provisions for losses of investments	17	-	(2)	(7)	8
Other	88	89	(47)	(3)	127
Total	**177**	**94**	**(67)**	**-**	**204**
June 30, 2014					
Provisions for taxes	55	-	(2)	1	54
Provisions for contractual penalties and disputes	14	2	(1)	1	16
Provisions for losses of investments	8	-	(1)	(2)	5
Other	127	16	(44)	-	99
Total	**204**	**18**	**(48)**	**-**	**174**

The **provisions for taxes** amounted to €54 million related principally to disputes with foreign tax authorities that are either ongoing or potential, taking into account the results of recent assessments.
The **provisions for contractual penalties and disputes** amounted to €16 million and consisted of provisions set aside by Saipem SpA and a number of foreign subsidiaries in relation to ongoing disputes.
The **provisions for losses of investments** amounted to €5 million and related to provisions for losses of investments that exceed their carrying amount. The provision related mainly to amounts set aside in connection with the investment held in the company Southern Gas Constructor Ltd by Saipem International BV.

Other provisions stood at €99 million and principally consisted of an estimate of expected losses on long-term contracts in the Offshore and Onshore Engineering & Construction sectors. The decrease of €28 million was due principally to the use of provisions for losses previously set aside on projects nearing completion.
With respect to the foregoing liabilities, Saipem does not reasonably expect any material additional losses beyond those amounts accrued above.
For details on amounts relating to projects under execution in Algeria, see Note 48 'Additional information: Algeria' on page 113.

21 Provisions for employee benefits

Provisions for employee benefits at June 30, 2014 amounted to €221 million (€219 million at December 31, 2013).

22 Deferred tax liabilities

Deferred tax liabilities of €26 million (€81 million at December 31, 2013) are shown net of offsettable deferred tax assets of €298 million.

(€ million)	Dec. 31, 2013	Additions (Deductions)	Currency translation differences	Other changes	June 30, 2014
Deferred tax liabilities	81	(14)	1	(42)	26
Total	**81**	**(14)**	**1**	**(42)**	**26**

The item 'Other changes', which amounted to negative €42 million, included: (i) offsetting of deferred tax assets against deferred tax liabilities at individual entity level (negative €32 million); (ii) the negative tax effects (€7 million) of fair value changes of derivatives designated as cash flow hedges reported in equity; and (iii) other changes (negative €3 million).
Net deferred tax liabilities consisted of the following:

(€ million)	Dec. 31, 2013	June 30, 2014
Deferred tax liabilities	(346)	(324)
Deferred tax assets available for offset	265	298
	(81)	**(26)**
Deferred tax assets not available for offset	126	139
Net deferred tax assets (liabilities)	**45**	**113**

Tax losses

Tax losses amounted to €1,225 million (€1,031 million at December 31, 2013) of which a considerable part can be carried forward without limit. Tax recovery corresponds to a tax rate of 27.5% for Italian companies and to an average tax rate of 26.7% for foreign companies.
Tax losses related mainly to foreign companies and can be used in the following periods:

(€ million)	Italian companies	Foreign companies
2014	-	-
2015	-	-
2016	-	26
2017	-	31
2018	-	21
After 2018	-	393
Without limit	123	631
Total	**123**	**1,102**

23 Other non-current liabilities

At June 30, 2014, no other non-current liabilities were registered.

Shareholders' equity

24 Minority interest

Minority interest at June 30, 2014 amounted to €48 million (€92 million at December 31, 2013) and mainly related to ER SAI Caspian Contractor Llc (€38 million).

25 Saipem's shareholders' equity

Saipem's shareholders' equity at June 30, 2014 amounted to €4,773 million and was as follows:

(€ million)	Dec. 31, 2013	June 30, 2014
Share capital	441	441
Share premium reserve	55	55
Legal reserve	88	88
Cash flow hedge reserve	85	54
Cumulative currency translation differences	(100)	(76)
Employee defined benefits reserve	(5)	(5)
Other	7	7
Retained earnings	4,283	4,116
Net result for the period	(159)	136
Treasury shares	(43)	(43)
Total	**4,652**	**4,773**

Saipem's shareholders' equity at June 30, 2014 included distributable reserves of €4,348 million (€4,273 million at December 31, 2013), some of which are subject to taxation upon distribution. A deferred tax liability has been recorded in relation to the share of reserves that may potentially be distributed (€99 million).

26 Share capital

At June 30, 2014, the share capital of Saipem SpA, fully paid-up, amounted to €441 million, corresponding to 441,410,900 shares with a nominal value of €1 each, of which 441,300,104 are ordinary shares and 110,796 savings shares.
On May 6, 2014, the Annual Shareholders' Meeting resolved to forego the distribution of a dividend for ordinary shares and to distribute a dividend for savings shares amounting to 5% of the nominal value, i.e. €0.05 per share.

27 Share premium reserve

The share premium reserve amounted to €55 million at June 30, 2014 and was unchanged from December 31, 2013.

28 Other reserves

At June 30, 2014, 'Other reserves' amounted to positive €68 million (€75 million at December 31, 2013) and consisted of the following items.

Legal reserve

At June 30, 2014, the legal reserve stood at €88 million. This represents the portion of profits, accrued as per Article 2430 of the Italian Civil Code, that cannot be distributed as dividends. The reserve remained unchanged, having reached a fifth of share capital.

Cash flow hedge reserve

The cash flow hedge reserve showed a positive balance at year end of €54 million (positive €85 million at December 31, 2013) which related to the fair value of the spot component of foreign exchange risk hedges and commodity hedges at June 30, 2014.
The cash flow hedge reserve is shown net of tax effects of €8 million (€25 million at December 31, 2013).

Cumulative currency translation differences

This reserve amounted to negative €76 million (negative €100 million at December 31, 2013) and related to exchange rate differences arising from the translation into euro of financial statements denominated in functional currencies other than euro (mainly the US dollar).

Employee defined benefits reserve

This reserve is used to recognise remeasurements of employee defined benefit plans. At June 30, 2014, it had a negative balance of €5 million and was thus unchanged from December 31, 2013.
The reserve is shown net of tax effects of €6 million.

Other

This item amounted to €7 million and was unchanged from December 31, 2013. It relates to the allocation of part of 2009 net profit, pursuant to Article 2426, 8-*bis* of the Italian Civil Code and also comprises the revaluation reserve set up by Saipem SpA in previous years, amounting to €2 million.

29 Treasury shares

Saipem SpA holds treasury shares to the value of €43 million (€43 million at December 31, 2013), consisting of 1,939,832 (1,939,832 at December 31, 2013) with a nominal value of €1 each.
Treasury shares are allocated under the 2002-2008 stock option plans. Operations involving treasury shares during the period were as follows:

	Number of shares	Average cost (€)	Total cost (€ million)	Share capital (%)
Treasury shares purchased				
2003 (from May 2)	2,125,000	6.058	13	0.48
2004	1,395,000	7.044	10	0.32
2005	3,284,589	10.700	35	0.74
2006	1,919,355	18.950	36	0.43
2007	848,700	25.950	22	0.19
2008	2,245,300	25.836	58	0.51
Total	**11,817,944**	**14.745**	**174**	**2.67**
Less treasury shares allocated:				
- without consideration, as stock grants	1,616,400			
- against payment, as stock options	8,261,712			
Treasury shares held at June 30, 2014	**1,939,832**			

At June 30, 2014, there were 232,425 stock options outstanding for the purchase of Company shares.
Further information on stock option plans is provided in Note 35 'Payroll and related costs'.

30 Additional information

Supplement to cash flow statement

(€ million)	First half 2013
Analysis of disposals of consolidated entities and businesses	
Current assets	-
Non-current assets	2
Net liquidity (net borrowings)	-
Current and non-current liabilities	-
Net effect of disposals	**2**
Fair value of interest after control has ceased	-
Gain on disposals	40
Minority interest	-
Total sale price	**42**
less:	
Cash and cash equivalents	-
Cash flows from disposals	**42**

No financial flows connected with investments or disposals were registered during the first half of 2014. Disposals in the first half of 2013 related to the sale of a division of Saipem Ltd to Eni Engineering E&P Ltd.

31 Guarantees, commitments and risks

Guarantees

Guarantees amounted to €7,398 million (€7,307 million at December 31, 2013).

	Dec. 31, 2013			June 30, 2014		
(€ million)	Unsecured	Other guarantees	Total	Unsecured	Other guarantees	Total
Joint ventures and associates	624	522	1,146	289	181	470
Consolidated companies	258	2,736	2,994	318	2,456	2,774
Own	-	3,167	3,167	140	4,014	4,154
Total	**882**	**6,425**	**7,307**	**747**	**6,651**	**7,398**

Other guarantees issued for consolidated companies amounted to €2,456 million (€2,736 million at December 31, 2013) and related to independent guarantees given to third parties relating mainly to bid bonds and performance bonds.
Guarantees issued to/through related parties amounted to €5,342 million (€6,484 million at December 31, 2013) and are detailed in Note 44 'Transactions with related parties'.
For details on amounts relating to projects under execution in Algeria, see Note 48 'Additional information: Algeria' on page 113.

Commitments

Saipem SpA has provided commitments towards customers and/or other beneficiaries (financial and insurance institutions, export credit agencies) relating to the fulfilment of contractual obligations entered into by itself and/or by its subsidiaries or associated companies in the event of non-performance and payment of any damages arising from non-performance.
These commitments guarantee contracts whose overall value amounted to €38,829 million (€31,525 million at December 31, 2013), including both work already performed and the relevant portion of the backlog of orders at June 30, 2014.

Risk management

The main risks that the Company is facing and actively monitoring and managing are described in the 'Risk management' section included in the 'Operating and Financial Review'.

FAIR VALUE MEASUREMENT

Below, financial assets and liabilities measured at fair value in the balance sheet are classified using the 'fair value hierarchy' based on the significance of the inputs used in the measurement process. The fair value hierarchy consists of the following three levels:

a) Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
b) Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
c) Level 3: inputs for assets or liabilities that are not based on observable market data.

Financial instruments measured at fair value at June 30, 2014 are classified as follows:

	June 30, 2014			
(€ million)	Level 1	Level 2	Level 3	Total
Held for trading financial assets (liabilities):				
- non-hedging derivatives	-	(18)	-	(18)
Net hedging derivative assets (liabilities)	-	(2)	-	(2)
Total	**-**	**(20)**	**-**	**(20)**

There was no movement between Levels 1 and 2 during the first half of 2014.

Legal proceedings

Saipem is involved in civil and administrative proceedings and legal actions connected with the ordinary course of its business. Provisions for legal risks are made on the basis of information currently available, including information acquired by external consultants providing the Company with legal support. Information available to the Company for the purposes of risk assessment regarding criminal proceedings is by its very nature incomplete due to the principle of pre-trial secrecy. A brief summary of the ongoing criminal proceedings and most important disputes is provided below.

TSKJ Consortium - Investigations by the US, Italian and other overseas Authorities

Snamprogetti Netherlands BV hold a 25% interest in the TSKJ Consortium of companies. The remaining interests are held in equal shares of 25% by Halliburton/KBR, Technip and JGC. From 1994, the TSKJ Consortium was involved in the construction of natural gas liquefaction facilities at Bonny Island, Nigeria.

Snamprogetti SpA, the parent company of Snamprogetti Netherlands BV, was a direct subsidiary of Eni SpA until February 2006, when an agreement was entered into for the sale of Snamprogetti SpA to Saipem SpA. Snamprogetti SpA was merged into Saipem SpA as of October 1, 2008. As part of the sale of Snamprogetti SpA, Eni agreed to indemnify Saipem for costs and potential losses resulting from the investigations into the TSKJ matter, including in connection with its subsidiaries.

Various judicial authorities, including the Milan Public Prosecutor's office, have carried out investigations into alleged improper payments made by the TSKJ Consortium to certain Nigerian public officials. The proceedings in both the USA and Nigeria have been resolved through settlements.

The proceedings in Italy: the investigation regards events dating back to 1994 and also concerns the period subsequent to the introduction of Legislative Decree No. 231 of June 8, 2001 regarding the administrative responsibility of companies. The proceedings brought by the Milan Public Prosecutor against Eni SpA and Saipem SpA related to administrative responsibility under Legislative Decree No. 231 of 2001 arising from offences of international corruption allegedly committed by former managers of Snamprogetti.

The Milan Public Prosecutor requested the application of precautionary measures pursuant to Legislative Decree No. 231/2001 consisting in Eni and Saipem being debarred from activities involving – directly or indirectly – any agreement with the Nigerian National Petroleum Corp and its subsidiaries, claiming the ineffectiveness and inadequacy and violation of the organisational, management and control model adopted to prevent the commission of the alleged offences by persons subject to direction and supervision.

On November 17, 2009, the Judge for the Preliminary Investigation rejected the request for precautionary measures of disqualification filed by the Milan Public Prosecutor, which subsequently appealed against this decision. On February 9, 2010, the Court of Appeal, exercising the function of judicial review court, handed down its ruling, which dismissed as unfounded the appeal of the Milan Public Prosecutor and upheld the decision of the Judge for the Preliminary Investigation. On September 30, 2010, an appeal against this decision filed by the Milan Public Prosecutor was upheld by the Court of Cassation, which ruled that the request for precautionary measures was also admissible pursuant to Law No. 231/2001 in cases of alleged international corruption. The Milan Public Prosecutor's office subsequently withdrew its request for precautionary measures against Eni and Saipem following the payment by Snamprogetti Netherlands BV of a deposit of €24,530,580, which was also on behalf of Saipem SpA.

The accusations regarded alleged acts of corruption in Nigeria committed until and after July 31, 2004, with the aggravating circumstance of Snamprogetti SpA's having allegedly obtained significant financial gain (indicated as being not less than US $65 million).

On December 3, 2010, Saipem's defence counsel received notice of the scheduling of a preliminary hearing, accompanied by a request for committal to trial. On January 26, 2011, at the conclusion of the hearings, the Judge for the Preliminary Hearing ordered Saipem SpA (as the legal entity incorporating Snamprogetti SpA) and five former Snamprogetti SpA employees to stand trial.

In February 2012, following a request made by the defence, the Court dismissed the charges against the physical persons under investigation, ruling that the charges had expired under the statute of limitations. The Court also ordered a separate trial for the continuation of proceedings against the legal person of Saipem only, scheduling a series of hearings.

On July 11, 2013, once the pre-trial and the trial hearings had been declared closed and the parties had presented their conclusions, the Court of Milan sentenced Saipem SpA to pay a total fine of €600,000 and ordered the confiscation of the deposit of €24,530,580 posted by Snamprogetti Netherlands BV.
Saipem's involvement in the investigation into the activity of the TSKJ Consortium in Nigeria during the period 1994-2004 is due solely to the fact that in 2006 Saipem SpA acquired Snamprogetti SpA, the parent company of Snamprogetti Netherlands BV, which holds a 25% stake in the TSKJ Consortium.
The decision taken by the Court of Milan has no financial impact on Saipem since Eni SpA, at the time of the sale of Snamprogetti SpA to Saipem, undertook to indemnify Saipem for costs and losses sustained in connection with the TSKJ matter.
On September 17, 2013, the Court of Milan made the reasons for its verdict known, ahead of the October 9 deadline. Saipem has lodged an appeal against the first instance ruling.

Algeria

On February 4, 2011, the Milan Public Prosecutor's office, through Eni, requested the transmission of documentation pursuant to Article 248 of the Italian Code of Criminal Procedure, relating to the activities of Saipem Group companies in Algeria in connection with an allegation of international corruption. The crime of 'international corruption' specified in the request is one of the offences punishable under Legislative Decree No. 231 of June 8, 2001 in connection with the direct responsibility of collective entities for crimes committed by their own employees.
The collection of documentation was commenced in prompt compliance with the request, and on February 16, 2011, Saipem filed the material requested.
On November 22, 2012, Saipem received a notification of inquiry from the Milan Public Prosecutor's office related to unlawful administrative acts arising from the crime of international corruption pursuant to Article 25, paragraphs 2 and 3 of Legislative Decree No. 231/2001, together with a request to provide documentation regarding a number of contracts connected with activities in Algeria.
This request was followed by notification of a seizure order on November 30, 2012, two further requests for documentation on December 18, 2012 and February 25, 2013 and the issue of a search warrant on January 16, 2013.
On February 7, 2013, a further search, which included offices belonging to Eni SpA, was conducted to obtain additional documentation relating to intermediary agreements and subcontracts entered into by Saipem in connection with its Algerian projects.
The subject of the investigations are allegations of corruption which, according to the Milan Public Prosecutor, occurred up until March 2010 in relation to a number of contracts the Company was awarded in Algeria.
Persons subject to investigation include a current employee and several former employees of the Company, including the former Deputy Chairman and CEO and the former Chief Operating Officer of the Engineering & Construction Business Unit. The Company collaborated fully with the Prosecutor's Office on every occasion and rapidly implemented decisive managerial and administrative restructuring measures, irrespective of any liability that might result from the investigations.
In agreement with its Internal Control Bodies and the Compliance Committee, and having duly informed the Prosecutor's Office, Saipem performed its own checks on the contracts that are subject to investigation, and to this end appointed an external legal firm. On July 17, 2013, the Board of Directors analysed the conclusions reached by the external consultants following an internal investigation carried out in relation to a number of brokerage contracts and subcontracts regarding projects in Algeria. The internal investigation was based on the examination of documents and interviews of personnel from the Company and other companies in the Group, excluding those who, to the best knowledge of the Company, were directly involved in the criminal investigation, so as not to interfere with the investigative activities of the Prosecutor. The Board, confirming its full cooperation with the investigative authorities, decided to convey the findings of the external consultants to the Milan Public Prosecutor, for assessment and appropriate action within the wider context of the ongoing investigation. The consultants reported to the Board: (i) that they found no evidence of payments to Algerian public officials through the intermediary agreements or subcontracts examined; and (ii) that they found violations, deemed detrimental to the interests of the Company, of internal rules and procedures in force at that time in relation to the approval and management of intermediary agreements and subcontracts examined and a number of activities in Algeria.
The Board has decided to initiate legal action against certain former employees and suppliers in order to protect the interests of the Company, reserving the right to take any further action necessary should additional information emerge.
On June 14, 2013, the Saipem SpA legal counsel received notification of a first request submitted by the Milan Public Prosecutor's office for an extension to the Preliminary Investigations of at least six months. Notification of a second request for an extension of a further six months was received on January 8, 2014, while a third request for an extension of an additional six months was received on July 23, 2014.
Meanwhile, at the request of the US Department of Justice ('DoJ'), Saipem SpA entered into a 'tolling agreement' which extended by 6 months the limitation period applicable to any possible violations of federal laws of the United States in relation to previous activities of Saipem and its subsidiaries. The tolling agreement, which has been renewed until November 2014, does not constitute an admission by Saipem SpA of having committed any unlawful act, nor does it imply any recognition on the Company's part of United States jurisdiction in relation to any investigation or proceedings. Saipem therefore intends to offer its complete cooperation in relation to investigations by the DoJ, which on April 10, 2014 made a request for documentation relating to past activities of the Saipem Group in Algeria, to which Saipem is currently in the process of responding.
We also note that investigations commenced in 2010 into the activities of third parties are still underway in Algeria in relation to which a number of Saipem Contracting Algérie SpA's current accounts in local currency were frozen. Some of these bank accounts were subsequently unfrozen, although two in Algerian Dinar, containing in total the equivalent of €79,601,035 (calculated at the exchange rate prevailing on June 30, 2014) remain frozen.
The two bank accounts in question relate to the MLE and GK3 pipeline projects. The frozen MLE bank account is no longer used for MLE project payments, while the GK3 bank account is still being used to receive contractual payments in Algerian Dinars due in relation to the project. The outstanding payments amount to an approximate equivalent of €13,770,819 (calculated at the exchange rate prevailing on June 30, 2014).

In 2012, Saipem Contracting Algérie SpA received formal notice of the referral to the Chambre d'accusation at the Court of Algiers of an investigation underway into the company regarding allegations that the company took advantage of the authority or influence of representatives of a government-owned industrial and trading company in order to inflate prices in relation to contracts awarded by that company.
At the beginning of 2013, the 'Chambre d'accusation' ordered Saipem Contracting Algérie SpA to stand trial and further ordered that the aforementioned bank accounts remain frozen.
In March 2013, the legal representative of Saipem Contracting Algérie SpA was summoned to appear at the Court of Algiers, where he received verbal notification from the investigating judge of an investigation underway 'into Saipem for charges pursuant to Article 25a, 32 and 53 of Anti-Corruption Law No. 01/2006'. The investigating judge also requested documentation (articles of association) and other information concerning Saipem Contracting Algérie SpA, Saipem SpA and Saipem SA.
In April 2013, a hearing was held before the Algerian Supreme Court which rejected a request to unfreeze the above-mentioned bank accounts that had been made by Saipem Contracting Algérie SpA in 2010. A further appeal brought by Saipem for the unfreezing of the accounts is currently pending before the Supreme Court. A date for the appeal hearing has not yet been fixed.
The investigations in Algeria are currently ongoing.

Kuwait

On June 21, 2011, an order requested by the Milan Public Prosecutor was served on Saipem for the search of the office of a Saipem employee. The order was issued in connection with alleged crimes committed by said employee together with third parties related to the award of tenders by Saipem SpA to third party companies for a project in Kuwait.
In connection with the same matter, the Public Prosecutor also served a notice of indictment upon Saipem SpA pursuant to Italian Legislative Decree No. 231/2001. In this regard, the Company believes that its position will be successfully cleared, since it is the injured party in respect of the illicit conduct under investigation.
Having consulted its lawyers, and in agreement with the Compliance Committee and the Internal Control Bodies, Saipem, through its Internal Audit function, and also using an external consulting company, promptly undertook an internal audit of the project under investigation.
As a precautionary measure, and in compliance with the applicable employment contract, Saipem suspended the employee under investigation while awaiting further developments.
The audit carried out did not produce any significant findings in relation to the Saipem SpA employee in question or any evidence of criminal activity. The suspension was therefore lifted and the employee assigned to other duties.
The Public Prosecutor ordered the release of the documents seized from the employee in relation to the matter.
On March 2, 2012, Saipem SpA was served a request to extend the preliminary investigations filed by the Public Prosecutor.
As of such date, the Company has received no further notifications, nor has there been any further news or evidence of any developments in the investigations.

EniPower - Enquiries by the Judiciary

As part of the inquiries commenced by the Milan Public Prosecutor (criminal proceedings 2460/2003 R.G.N.R. pending at the Milan Public Prosecutor's office) into contracts awarded by EniPower to various companies, Snamprogetti SpA (now Saipem SpA as engineering and procurement services contractor), together with other parties, were served a notice informing them that they were under investigation pursuant to Article 25 of Legislative Decree No. 231/2001. Preliminary investigations ended in August 2007, with a favourable outcome for Snamprogetti SpA, which was not included among the parties still under investigation for whom committals for trial were requested.
Snamprogetti subsequently brought proceedings against the physical and legal persons implicated in transactions relating to the Company and reached settlements with a number of parties that requested the application of settlement procedures. Following the conclusion of the preliminary hearing, criminal proceedings continued against former employees of the above companies, as well as against employees and managers of a number of their suppliers, pursuant to Legislative Decree No. 231/2001. Eni SpA, EniPower SpA and Snamprogetti SpA presented themselves as plaintiffs in the preliminary hearing. The preliminary hearing related to the main proceeding concluded on April 27, 2009. The Judge for the preliminary hearing requested that all parties that did not request the application of plea agreements stand trial, with the exception of a number of parties for whom the statute of limitations applied.
In the hearing of March 2, 2010, the Court confirmed the admission as plaintiffs of Eni SpA, EniPower SpA and Saipem SpA against the defendants under the provisions of Legislative Decree No. 231/2001. The defendants of the other companies involved were also sued. The examination of the witnesses was completed and the parties presented their conclusions. Subsequently, at the hearing of September 20, 2011, sentence was passed which included several convictions and acquittals for numerous physical and legal defendants, the latter being deemed responsible for unlawful administrative acts, with fines being imposed and value confiscation for significant sums ordered. The Court also rejected the admission as plaintiffs against the parties accused of unlawful administrative acts pursuant to Legislative Decree No. 231/2001.
On December 19, 2011 the grounds for the ruling were filed with the office of the clerk of the Court.
The convicted parties promptly filed an appeal against the above sentence. On October 24, 2013, the Milan Court of Appeal essentially confirmed the first instance ruling, which it modified only partially in relation to a number of physical persons, against whom it dismissed the charges, ruling that they had expired under the statute of limitations.

Fos Cavaou

Arbitration proceedings are currently pending before the International Chamber of Commerce in Paris ('Paris ICC') between the client Société du Terminal Méthanier de Fos Cavaou ('STMFC', now Fosmax LNG) and the contractor STS (a French 'société en participation' made up of Saipem SA (50%), Tecnimont SpA (49%) and Sofregaz SA (1%)) in connection with the Fos Cavaou ('FOS') project for the construction of a regasification terminal.
On July 11, 2011, the parties signed a mediation memorandum pursuant to the rules of Conciliation and Arbitration of the Paris ICC. With Fosmax LNG refusing to extend the deadline, the mediation procedure ended on December 31, 2011, with no agreement having been reached.
On January 24, 2012, the secretariat of the International Arbitration Court of the Paris ICC notified STS of the commencement of arbitration proceedings as requested by Fosmax LNG. The brief filed by Fosmax LNG in support of its request for arbitration included a demand for payment of approximately €264 million for damages allegedly suffered, penalties for delays and costs for the completion of works ('mise en régie'). Of the total sum demanded, approximately €142 million is for loss of profit, an item excluded from the contract except for cases of wilful misconduct or gross negligence. STS is of the opinion that no acts of gross negligence or wilful misconduct capable of rendering the contractual limitation of liability inapplicable, as Fosmax LNG alleges, have been committed.
STS has filed its defence brief, including a counterclaim for damages due to the excessive interference of Fosmax LNG in works execution and as payment for extra works not recognised by the client (reserving the right to quantify the amount of such extra works at a later stage in proceedings). On October 19, 2012, Fosmax LNG lodged a 'Mémoire en demande'. Against this, STS lodged its own 'Mémoire en défense' on January 28, 2013, in which it filed a counterclaim for €338 million.
The final hearing was held on April 1, 2014, while the award is expected to be issued at the end of 2014.

Arbitration on Menzel Ledjmet Est project, Algeria

On December 23, 2013, Saipem filed a request for arbitration with the International Chamber of Commerce in Paris ('Paris ICC') in connection with the contract entered into on March 22, 2009, by Saipem SpA and Saipem Contracting Algérie SpA (collectively, 'Saipem') on the one hand and Société Nationale pour la Recherche, la Production, le Transport, la Transformation et la Commercialisation des Hydrocarbures SpA ('Sonatrach') and First Calgary Petroleums LP (collectively, the 'Client') on the other, for the engineering, procurement and construction of a natural gas gathering and treatment plant and related export pipelines in the Menzel Ledjmet Est field in Algeria. The Client was notified of the request on January 8, 2014.
In its request for arbitration, Saipem has asked the arbitral tribunal to grant: (i) an extension of 14.5 months to the contractual term; and (ii) Saipem's right to receive approximately €580 million (less the €145.8 million already paid by First Calgary Petroleums LP) relating to an increase in the contract price for the extension of the contract terms, variation orders, unpaid invoices past due and spare parts, as well as a sum yet to be quantified for having completed the works in advance of the contractually agreed term.
Both Sonatrach and First Calgary Petroleums LP (this latter wholly owned by the Eni Group since 2008) have appointed their arbitrator and, on March 28, 2014, filed their respective Answers to the Request for Arbitration.
The president of the arbitral tribunal was appointed on May 26, 2014.

Arbitration proceedings regarding LPG project in Algeria

On March 14, 2014, Saipem filed a request for arbitration with the International Chamber of Commerce in Paris in connection with the contract for the construction of the LDHP ZCINA plant for the 'extraction des liquides des gaz associés Hassi Messaoud et séparation d'huile' (LDHP ZCINA unit for extraction of liquids from associated gas from the Hassi Messaoud field and oil-gas separation), which was entered into on November 12, 2008 between on the one hand Sonatrach and on the other Saipem SA and Saipem Contracting Algérie SpA (collectively 'Saipem').
In its request, Saipem asked the Arbitration Panel to order Sonatrach to pay the equivalent of circa €171.1 million for additional costs incurred as contractor during the execution of the project in relation to variation orders, time extensions, force majeure, non-payment or late payment of invoices and related interest.
Sonatrach, in its answer to the request, which it filed on June 10, 2014, denied all liability and asserted a counterclaim requesting that Saipem be ordered to pay penalties for delays amounting to USD 70.8 million.
Both parties have appointed their arbitrators, while the President of the Arbitral Tribunal is currently being appointed.

Revenues

The following is a summary of the main components of revenues. The most significant variations are analysed in the 'Financial and economic results' section of the 'Operating and Financial Review'.

32 Net sales from operations

Net sales from operations were as follows:

(€ million)	First half 2013	First half 2014
Net sales from operations	5,182	5,128
Change in contract work-in-progress	64	838
Total	**5,246**	**5,966**

Net sales by geographical area were as follows:

(€ million)	First half 2013	First half 2014
Italy	193	292
Rest of Europe	420	473
CIS	663	392
Middle East	1,269	1,246
Far East	576	570
North Africa	228	275
West Africa and rest of Africa	928	1,130
Americas	969	1,588
Total	**5,246**	**5,966**

The change in contract work-in-progress was mainly due to contract terms and conditions that led milestone approval to be delayed and to the continuation of negotiations for additional work.
Information required by IAS 11 is provided by business sector in Note 43 'Segment information, geographical information and construction contracts'.
Requests for additional payments deriving from a change in the scope of the work are included in the total amount of revenues when it is probable that the client will approve the variation and the relevant amount. Other claims deriving, for example, from additional costs incurred for reasons attributable to the client are included in the total amount of revenues when it is probable that the counterparty will accept them. At June 30, 2014, revenues pertaining to the first half of 2014 for additional payments currently under negotiation totalled €457 million, while the cumulative amount of additional payments based on project progress at June 30, 2014 totalled €1,198 million.
Revenues from related parties amounted to €968 million (€1,017 million in the first half of 2013) and are shown in Note 44 'Transactions with related parties'.

33 Other income and revenues

Other income and revenues were as follows:

(€ million)	First half 2013	First half 2014
Indemnities	-	2
Other income	3	10
Total	**3**	**12**

Operating expenses

The following is a summary of the main components of operating expenses. The most significant variations are analysed in the 'Financial and economic results' section of the 'Operating and Financial Review'.

34 Purchases, services and other costs

Purchases, services and other costs included the following:

(€ million)	First half 2013	First half 2014
Production costs - raw, ancillary and consumable materials and goods	1,071	1,172
Production costs - services	2,475	2,367
Operating leases and other	413	608
Net provisions for contingencies	70	(27)
Other expenses	35	15
less:		
- capitalised direct costs associated with self-constructed tangible assets	(3)	(7)
- changes in inventories of raw, ancillary and consumable materials and goods	(38)	(2)
Total	**4,023**	**4,126**

The variation in 'Production costs - raw, ancillary and consumable materials and goods' was related to work on projects underway during the period.
Costs for services included agency fees of €1 million (€2 million in the first half of 2013).
Provisions for contingencies are detailed in Note 20 'Provisions for contingencies'.
Purchases, services and other costs to related parties amounted to €154 million (€124 million in the first half of 2013) and are shown in Note 44 'Transactions with related parties'.

35 Payroll and related costs

Payroll and related costs were as follows:

(€ million)	First half 2013	First half 2014
Wages and salaries	1,109	1,204
less:		
- capitalised direct costs associated with self-constructed tangible assets	(10)	(7)
Total	**1,099**	**1,197**

The increase in payroll costs is related to the increase in the average workforce for the period as analysed on page 46 of the 'Operating and Financial Review'.

Stock-based compensation plans for Saipem senior managers

Saipem discontinued its managerial incentive program involving the assignment of stock options to senior managers of Saipem SpA and its subsidiaries in 2009. Neither the general plan conditions nor the other information provided in the consolidated financial statements at December 31, 2013 underwent any significant changes during the period.

STOCK OPTIONS

The following table shows changes in the stock option plans:

	2013			2014		
(€ thousand)	Number of shares	Average strike price	Market price [a]	Number of shares	Average strike price	Market price [a]
Options as of January 1	**397,485**	**23.980**	**11,646**	**259,500**	**25.979**	**4,038**
New options granted	-	-	-	-	-	-
(Options exercised during the period)	(56,650)	13.787	1,034	-	-	-
(Options expiring during the period)	(81,335)	-	1,484	(27,075)	-	533
Options outstanding as of June 30	**259,500**	**25.979**	**4,038**	**232,425**	**26.440**	**4,579**
Of which: exercisable at June 30	**259,500**	**25.979**	**4,038**	**232,425**	**26.440**	**4,579**

(a) The market price relating to new options granted, options exercised in the period and options expiring during the period corresponds to the average market value. The market price of shares underlying options outstanding at the beginning and end of the period is the price recorded at January 1 and June 30.

At June 30, 2014, 232,425 options had been assigned for the purchase of the same amount of ordinary shares of Saipem SpA with a nominal value of €1 each. The options related to the following plans:

	Number of shares	**Strike price** (€)	**Average remaining life** (months)	**Fair value (€) for assignees resident in Italy**	**Fair value (€) for assignees resident in France**
2007 plan	34,850	26.521	1	8.8966	9.5320
2008 plan	197,575	25.872	4.7	8.2186	8.7734
Total	**232,425**				

Average number of employees

The average number of employees, by category, for all consolidated companies was as follows:

(number)	**First half 2013**	**First half 2014**
Senior managers	423	414
Junior managers	4,666	4,732
White collars	20,748	21,508
Blue collars	18,718	21,546
Seamen	334	329
Total	**44,889**	**48,529**

The average number of employees was calculated as the arithmetic mean of the number of employees at the beginning and end of the period. The average number of senior managers included managers employed and operating in foreign countries whose position was comparable to senior manager status.

36 Depreciation, amortisation and impairment

Depreciation, amortisation and impairment are detailed below:

(€ million)	First half 2013	First half 2014
Depreciation and amortisation:		
- tangible assets	347	358
- intangible assets	4	4
	351	**362**
Impairment:		
- tangible assets	-	-
- intangible assets	-	-
Total	**351**	**362**

37 Other operating income and expenses

The income statement effects of the change in fair value of derivatives that do not meet the formal requirements to qualify as hedging instruments under IFRS are recognised in 'Other operating income and expenses'.
No value was registered for this item for the first half of 2014 (expenses of €1 million in the first half of 2013).

38 Finance income (expense)

Finance income (expense) was as follows:

(€ million)	First half 2013	First half 2014
Finance income (expense)		
Finance income	227	333
Finance expense	(238)	(373)
	(11)	**(40)**
Derivative financial instruments	(80)	(70)
Total	**(91)**	**(110)**

Net finance income and expense was as follows:

(€ million)	First half 2013	First half 2014
Exchange gains (losses)	**59**	**56**
Exchange gains	215	331
Exchange losses	(156)	(275)
Finance income (expense) related to net borrowings	**(67)**	**(93)**
Interest and other income from Group financial companies	-	-
Interest from banks and other financial institutions	12	2
Interest and other expense due to Group financial companies	(61)	(67)
Interest and other expense due to banks and other financial institutions	(18)	(28)
Other finance income (expense)	**(3)**	**(3)**
Other finance income from third parties	-	-
Finance income (expense) on defined benefit plans	(3)	(3)
Total finance income (expense)	**(11)**	**(40)**

Gains (losses) on derivatives consisted of the following:

(€ million)	First half 2013	First half 2014
Exchange rate derivatives	(80)	(70)
Interest rate derivatives	-	-
Total	**(80)**	**(70)**

Net expenses from derivatives of €70 million (expenses of €80 million in the first half of 2013) mainly related to the recognition in income of the change in fair value of derivatives that do not qualify for hedge accounting under IFRS and the recognition of the forward component of derivatives that qualify for hedge accounting.
Finance income (expense) with related parties are shown in Note 44 'Transactions with related parties'.

39 Income (expense) from investments

Effect of accounting using the equity method

The share of profit (loss) of investments accounted for using the equity method and other income (expense) from investments were as follows:

(€ million)	First half 2013	First half 2014
Share of profit of investments accounted for using the equity method	10	13
Share of loss of investments accounted for using the equity method	-	(1)
Net additions to (deductions from) the provisions for losses of investments accounted for using the equity method	(1)	1
Total	**9**	**13**

The share of profit (losses) of investments accounted for using the equity method is commented in Note 10 'Investments accounted for using the equity method'.

Other income (expense) from investments

A net gain of €4 million was registered during the period in relation to the sale to third parties of the company Offshore Design Engineering Ltd.

40 Income taxes

Income taxes consisted of the following:

(€ million)	First half 2013	First half 2014
Current taxes:		
- Italian subsidiaries	36	19
- foreign subsidiaries	81	84
Net deferred taxes:		
- Italian subsidiaries	(76)	(36)
- foreign subsidiaries	(26)	(3)
Total	**15**	**64**

(€ million)	First half 2013	First half 2014
Income taxes recognised in consolidated income statement	15	64
Income taxes recognised in statement of comprehensive income	(16)	(17)
Tax on total comprehensive income	**(1)**	**47**

41 Minority interest

No share of profit relating to minority interests was registered during the period (€8 million in the first half of 2013).

42 Earnings per share

Basic earnings per ordinary share are calculated by dividing net profit for the period attributable to Saipem's shareholders by the weighted average of ordinary shares outstanding during the period, excluding treasury shares.

The number of shares outstanding used for the calculation of the basic earnings per share was 439,359,038 and 439,315,903 in 2014 and 2013, respectively.

Diluted earnings per share are calculated by dividing net profit for the period attributable to Saipem's shareholders by the weighted average of fully-diluted shares issued and outstanding during the period with the exception of treasury shares and including the number of shares that could potentially be issued. At June 30, 2014, shares that could potentially be issued only regarded shares granted under stock option plans. The average number of shares outstanding used for the calculation of diluted earnings for 2014 and 2013 was 439,702,259 and 439,806,523, respectively. Reconciliation of the average number of shares used for the calculation of basic and diluted earnings per share is as follows:

		June 30, 2013	June 30, 2014
Average number of shares used for the calculation of the basic earnings per share		**439,315,903**	**439,359,038**
Number of potential shares following stock option plans		377,335	232,425
Number of savings shares convertible into ordinary shares		113,285	110,796
Average number of shares used for the calculation of the diluted earnings per share		**439,806,523**	**439,702,259**
Saipem's net profit (loss)	(€ million)	(330)	136
Basic earnings (loss) per share	(€ per share)	(0.751)	0.310
Diluted earnings (loss) per share	(€ per share)	(0.750)	0.309

43 Segment information, geographical information and construction contracts

Segment information

(€ million)	Offshore E&C	Onshore E&C	Offshore Drilling	Onshore Drilling	Unallocated	Total
First half 2013						
Net sales from operations	2,773	2,305	779	416	-	6,273
less: intra-group sales	607	187	171	62	-	1,027
Net sales to customers	**2,166**	**2,118**	**608**	**354**	**-**	**5,246**
Operating result	(107)	(351)	192	41	-	(225)
Depreciation, amortisation and impairment	135	14	131	71	-	351
Net income from investments	8	1	-	-	-	9
Capital expenditure	212	88	64	126	-	490
Property, plant and equipment	4,066	572	3,482	958	-	9,078
Investments	97	73	-	2	-	172
Current assets	2,328	2,132	584	494	2,015	7,553
Current liabilities	2,829	2,236	283	167	2,295	7,810
Provisions for contingencies	73	108	1	8	50	240
First half 2014						
Net sales from operations	3,990	2,331	747	420	-	7,488
less: intra-group sales	806	441	191	84	-	1,522
Net sales to customers	**3,184**	**1,890**	**556**	**336**	**-**	**5,966**
Operating result	180	(81)	155	39	-	293
Depreciation, amortisation and impairment	147	19	123	73	-	362
Net income from investments	12	5	-	-	-	17
Capital expenditure	135	20	105	69	-	329
Property, plant and equipment	3,804	590	3,332	943	-	8,669
Investments	83	82	-	4	-	169
Current assets	2,696	2,554	579	491	1,923	8,243
Current liabilities	3,089	1,688	293	156	3,771	8,997
Provisions for contingencies	47	57	1	2	62	169

Geographical information

Since Saipem's business involves the deployment of a fleet on a number of different projects over a single year, it is difficult to allocate assets to a specific geographic area. As a result, certain assets have been deemed not directly attributable.
The unallocated part of tangible and intangible assets and capital expenditure related to vessels and their related equipment and goodwill.
The unallocated part of current assets pertained to inventories related to vessels.
A breakdown of revenues by geographical area is provided in Note 32 'Net sales from operations'.

(€ million)	Italy	Rest of Europe	CIS	Rest of Asia	North Africa	West Africa	Americas	Unallocated	Total
First half 2013									
Capital expenditure	9	7	5	118	1	8	141	201	490
Tangible and intangible assets	356	28	357	702	31	327	881	6,396	9,078
Identifiable assets (current)	279	1,376	686	1,967	497	878	1,016	854	7,553
First half 2014									
Capital expenditure	8	4	6	46	1	7	65	192	329
Tangible and intangible assets	102	36	315	716	17	304	951	6,228	8,669
Identifiable assets (current)	249	1,416	491	2,321	501	763	1,666	836	8,243

Current assets were allocated by geographical area using the following criteria: (i) cash and cash equivalents and financing receivables were allocated on the basis of the country in which individual company bank accounts were held; (ii) inventory was allocated on the basis of the country in which onshore storage facilities were situated (i.e. excluding inventory in storage facilities situated on vessels); and (iii) trade receivables and other assets were allocated to the geographical area to which the related project belonged.
Non-current assets were allocated on the basis of the country in which the asset operates, except for offshore drilling and construction vessels, which were included under 'Unallocated'.

Construction contracts

Construction contracts were accounted for in accordance with IAS 11.

(€ million)	First half 2013	First half 2014
Construction contracts - assets	1,712	2,635
Construction contracts - liabilities	(1,041)	(1,289)
Construction contracts - net	**671**	**1,346**
Costs and margins (completion percentage)	6,378	6,464
Progress billings	(5,626)	(5,137)
Change in provision for future losses	(81)	19
Construction contracts - net	**671**	**1,346**

44 Transactions with related parties

Saipem SpA is a subsidiary of Eni SpA. Transactions with related parties entered into by Saipem SpA and/or companies within the scope of consolidation concern mainly the supply of services, the exchange of goods, the provision and utilisation of financial resources, including entering into derivative contracts with other Eni SpA subsidiaries, associated and jointly controlled companies and with a number of entities owned or controlled by the State. These transactions are an integral part of the ordinary course of its business and are carried out on an arm's length basis, i.e. at conditions which would be applied between willing and independent parties. All transactions were carried out for the mutual benefit of the Saipem companies involved.
Pursuant to disclosure requirements covered under Consob Regulation No. 17221 of March 12, 2010, the following transactions with related parties were carried out in the first half of 2014:

- on February 18, 2014, Saipem SpA entered into a 5-year, €300 million, medium/long-term bullet loan agreement at a fixed rate of 2.5% with Eni SpA;
- on March 31, 2014, Saipem SpA and Versalis SpA signed a contract for the construction of a new EPDM rubber production line and the upgrading of existing lines at the Versalis plant in Ferrara, Italy, worth €206 million;
- on April 16, 2014, Saipem SA and Sofresid SA (respectively direct and indirect subsidiaries of Saipem SpA) entered into currency hedges with a total notional amount of approximately €2,437 million with Eni SpA. The transactions were necessary to mitigate the foreign currency fluctuation risk (and its impact on expected project earnings) associated with an important project to be undertaken in Angola awarded to the company by Total Exploration and Production Angola;
- on June 30, 2014, Saipem SpA entered into a 5-year, €750 million, medium/long-term bullet loan agreement at a fixed rate of 3.6% with Eni SpA. Signing the agreement enabled the simultaneous prepayment of short-term loans for the same amount;
- on June 30, 2014, Saipem SpA entered into a 5-year agreement with Eni SpA for a €650 million medium to long-term revolving line of credit, carrying a variable rate of interest based on EURIBOR and facility usage. The signing of the agreement enabled the simultaneous prepayment of medium to long-term loans for the same amount.

The tables below show the value of transactions of a trade, financial or other nature entered into with related parties; the comparative data provided includes the effects of the application of IFRS 11. The analysis by company is based on the principle of relevance in relation to the total amount of transactions. Transactions not itemised because they are immaterial are aggregated under the following captions:

- Eni subsidiaries;
- Eni associated and jointly controlled;
- other related parties.

Trade and other transactions

Trade and other transactions as of December 31, 2013 and for the six-month period ended June 30, 2013 were as follows:

(€ million)

	Dec. 31, 2013			First half 2013			
				Costs		Revenues	
Name	Receivables	Payables	Guarantees	Goods	Services (1)	Goods and services	Other
Unconsolidated subsidiaries							
SAGIO - Companhia Angolana de Gestão de Instalaçao Offshore Lda	-	2	-	-	1	-	-
Others (for transactions not exceeding €500 thousand)	1	-	-	-	-	-	-
Total unconsolidated subsidiaries	**1**	**2**	**-**	**-**	**1**	**-**	**-**
Associated and jointly controlled companies							
ASG Scarl	-	4	-	-	1	-	-
CEPAV (Consorzio Eni per l'Alta Velocità) Due	78	165	150	-	29	71	-
CEPAV (Consorzio Eni per l'Alta Velocità) Uno	38	16	951	-	3	15	-
Charville - Consultores e Servicos, Lda	1	-	-	-	-	1	-
KWANDA Suporte Logistico Lda	55	5	-	-	1	4	-
Modena Scarl	-	-	-	-	1	-	-
Petromar Lda	69	7	43	-	5	30	-
PLNG 9 Snc di Chiyoda Corp e Servizi Energia Italia SpA	2	-	-	-	-	3	-
Rodano Consortile Scarl	-	1	-	-	-	-	-
Sabella SAS	1	-	-	-	-	-	-
Saidel Ltd	-	-	-	-	7	4	-
Saipem Taqa Al Rushaid Fabricators Co Ltd	5	15	-	-	23	-	-
Société pour la Réalisation du Port de Tanger Méditerranée	3	-	-	-	-	-	-
Southern Gas Constructors Ltd	1	-	-	-	-	2	-
TMBYS SAS	2	-	-	-	-	4	-
Others (for transactions not exceeding €500 thousand)	2	1	1	-	-	-	-
Total associated and jointly controlled companies	**257**	**214**	**1,145**	**-**	**70**	**134**	**-**
Eni consolidated subsidiaries							
Eni SpA	1	10	5,339	1	8	-	-
Eni SpA Exploration & Production Division	58	5	-	-	-	71	-
Eni SpA Gas & Power Division	1	1	-	-	1	-	-
Eni SpA Refining & Marketing Division	28	2	-	2	-	18	-
Agip Energy & Natural Resources (Nigeria) Ltd	2	-	-	-	-	-	-
Agip Karachaganak BV	1	-	-	-	-	-	-
Burren Energy (Services) Ltd	6	-	-	-	-	4	-
Eni Adfin SpA	-	-	-	-	2	-	-
Eni Angola SpA	73	-	-	-	-	70	-
Eni Canada Holding Ltd	52	-	-	-	-	6	-
Eni Congo SA	101	43	-	-	1	50	-
Eni Corporate University SpA	-	4	-	-	3	-	-
Eni Ghana Exploration & Production Ltd	-	-	-	-	-	18	-
Eni Insurance Ltd	3	7	-	-	11	7	-
Eni Iraq BV	2	-	-	-	-	-	-
Eni Lasmo PLC	8	-	-	-	-	-	-
Eni Mediterranea Idrocarburi SpA	-	-	-	-	-	1	-
Eni Muara Bakau BV	2	-	-	-	-	-	-
Eni Norge AS	69	-	-	-	-	83	-
EniPower SpA	4	-	-	-	-	3	-
EniServizi SpA	1	27	-	-	21	-	-
Eni Trading & Shipping SpA	-	-	-	-	(1)	-	-
Hindustan Oil Exploration Co Ltd	1	-	-	-	-	-	-
Naoc - Nigerian Agip Oil Co Ltd	4	-	-	-	-	-	-
Nigerian Agip Exploration Ltd	33	-	-	-	-	-	-
Raffineria di Gela SpA	5	-	-	-	-	2	-
Serfactoring SpA	2	33	-	-	-	-	-
Syndial SpA	10	-	-	-	-	5	-
Versalis SpA	22	-	-	-	-	10	-
Others (for transactions not exceeding €500 thousand)	2	1	-	-	1	1	-
Total Eni consolidated subsidiaries	**491**	**133**	**5,339**	**3**	**47**	**349**	**-**

(€ million)

	Dec. 31, 2013			First half 2013			
				Costs		Revenues	
Name	Receivables	Payables	Guarantees	Goods	Services (1)	Goods and services	Other
Unconsolidated Eni subsidiaries							
Agip Kazakhstan North Caspian Operating Co NV	47	17	-	-	-	321	-
Eni Togo BV	2	-	-	-	-	42	-
Total Eni subsidiaries	**540**	**150**	**5,339**	**3**	**47**	**712**	**-**
Eni associated and jointly controlled companies							
InAgip Doo	3	1	-	-	-	-	-
Eni East Africa SpA	-	-	-	-	-	68	-
Petrobel Belayim Petroleum Co	20	-	-	-	-	14	-
Others (for transactions not exceeding €500 thousand)	5	-	-	-	-	3	-
Total Eni associated and jointly controlled companies	**28**	**1**	**-**	**-**	**-**	**85**	**-**
Total Eni companies	**568**	**151**	**5,339**	**3**	**47**	**797**	**-**
Entities controlled or owned by the State	**25**	**61**	**-**	**-**	**3**	**86**	**-**
Pension funds: FOPDIRE	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total transactions with related parties	**851**	**428**	**6,484**	**3**	**121**	**1,017**	**-**
Overall total	**3,240**	**5,129**	**7,307**	**1,071**	**2,923**	**5,246**	**3**
Incidence (%)	**26.27**	**8.34**	**88.74**	**0.28**	**4.14**	**19.39**	**-**

(1) The item 'Services' includes costs for services, costs for the use of third-party assets and other costs.

Trade transactions as at and for the six-month period ended June 30, 2014 were as follows:

(€ million)

	June 30, 2014			First half 2014			
				Costs		Revenues	
Name	Receivables	Payables	Guarantees	Goods	Services (1)	Goods and services	Other
Unconsolidated subsidiaries							
SAGIO - Companhia Angolana de Gestão de Instalaçao Offshore Lda	-	2	-	-	1	-	-
Others (for transactions not exceeding €500 thousand)	1	-	-	-	-	-	-
Total unconsolidated subsidiaries	**1**	**2**	**-**	**-**	**1**	**-**	**-**
Associates and jointly controlled companies							
ASG Scarl	-	3	-	-	-	-	-
CEPAV (Consorzio Eni per l'Alta Velocità) Due	100	89	150	-	68	69	-
CEPAV (Consorzio Eni per l'Alta Velocità) Uno	32	11	285	-	-	1	-
CSFLNG Netherlands BV	3	-	-	-	-	7	-
Gruppo Rosetti Marino SpA	-	-	-	-	1	-	-
KWANDA Suporte Logistico Lda	58	8	-	-	4	4	-
Petromar Lda	87	7	36	-	1	31	-
PLNG 9 Snc di Chiyoda Corp e Servizi Energia Italia SpA	2	-	-	-	-	-	-
Sabella SAS	1	-	-	-	-	-	-
Saidel Ltd	-	1	-	-	-	-	-
Saipem Taqa Al Rushaid Fabricators Co Ltd	7	13	-	-	17	3	-
Société pour la Réalisation du Port de Tanger Méditerranée	3	-	-	-	-	-	-
TMBYS SAS	2	-	-	-	-	5	-
Others (for transactions not exceeding €500 thousand)	3	1	-	-	1	2	-
Total associated and jointly controlled companies	**298**	**133**	**471**	**-**	**92**	**122**	**-**
Eni consolidated subsidiaries							
Eni SpA	4	11	4,871	-	8	-	-
Eni SpA Exploration & Production Division	71	5	-	-	-	92	-
Eni SpA Gas & Power Division	1	1	-	-	1	-	-
Eni SpA Refining & Marketing Division	13	-	-	1	-	13	-

(€ million)

	June 30, 2014			First half 2014			
				Costs		Revenues	
Name	Receivables	Payables	Guarantees	Goods	Services [1]	Goods and services	Other
Agip Energy & Natural Resources (Nigeria) Ltd	2	-	-	-	-	-	-
Agip Karachaganak BV	1	-	-	-	-	1	-
Agip Oil Ecuador BV	1	-	-	-	-	1	-
Banque Eni SA	-	-	-	-	1	-	-
Eni Adfin SpA	-	2	-	-	2	-	-
Eni Angola SpA	28	-	-	-	-	62	-
Eni Canada Holding Ltd	53	-	-	-	-	-	-
Eni Congo SA	62	34	-	-	-	96	-
Eni Corporate University SpA	-	3	-	-	3	-	-
Eni Finance International SA	-	1	-	-	-	-	-
Eni Finance USA Inc	29	-	-	-	-	-	-
Eni Insurance Ltd	11	11	-	-	13	-	8
Eni Lasmo PLC	3	-	-	-	-	3	-
Eni Mediterranea Idrocarburi SpA	-	-	-	-	-	1	-
Eni Muara Bakau BV	-	27	-	-	-	3	-
Eni Norge AS	54	4	-	-	-	85	-
EniPower SpA	2	-	-	-	-	1	-
EniServizi SpA	-	19	-	-	24	1	-
Floaters SpA	3	-	-	-	-	3	-
Hindustan Oil Exploration Co Ltd	1	-	-	-	-	-	-
Naoc - Nigerian Agip Oil Co Ltd	4	-	-	-	-	-	-
Nigerian Agip Exploration Ltd	1	-	-	-	-	11	-
Raffineria di Gela SpA	3	-	-	-	-	3	-
Serfactoring SpA	2	15	-	-	1	-	-
Syndial SpA	10	-	-	-	-	5	-
Versalis SpA	40	-	-	-	-	27	-
Others (for transactions not exceeding €500 thousand)	1	-	-	-	-	1	-
Total Eni consolidated subsidiaries	**400**	**133**	**4,871**	**1**	**53**	**409**	**8**
Unconsolidated Eni subsidiaries							
Agip Kazakhstan North Caspian Operating Co NV	54	8	-	-	-	84	-
Total Eni subsidiaries	**454**	**141**	**4,871**	**1**	**53**	**493**	**8**
Eni associated and jointly controlled companies							
Eni East Africa SpA	24	-	-	-	-	59	-
Mellitah Oil & Gas BV	11	-	-	-	-	(1)	-
Petrobel Belayim Petroleum Co	26	-	-	-	-	42	-
South Stream Transport BV	-	-	-	-	-	230	-
Others (for transactions not exceeding €500 thousand)	1	-	-	-	-	4	-
Total Eni associated and jointly controlled companies	**62**	**-**	**-**	**-**	**-**	**334**	**-**
Total Eni companies	**516**	**141**	**4,871**	**1**	**53**	**827**	**8**
Companies controlled or owned by the State	**16**	**4**	**-**	**-**	**6**	**19**	**-**
Pension funds: FOPDIRE	**-**	**-**	**-**	**-**	**1**	**-**	**-**
Total transactions with related parties	**831**	**280**	**5,342**	**1**	**153**	**968**	**8**
Overall total	**2,967**	**5,133**	**7,398**	**1,172**	**2,990**	**5,966**	**12**
Incidence (%)	**28.01**	**5.45**	**72.21**	**0.09**	**5.08** [2]	**16.23**	**66.67**

(1) The item 'Services' includes costs for services, costs for the use of third-party assets and other costs.
(2) Incidence is calculated net of pension funds.

The figures shown in the tables refer to Note 3 ‘Trade and other receivables’, Note 15 ‘Trade and other payables’, Note 31 ‘Guarantees, commitments and risks’, Note 32 ‘Net sales from operations’, Note 33 ‘Other income and revenues’ and Note 34 ‘Purchases, services and other costs’.
The Saipem Group provides services to Eni Group companies in all sectors in which it operates, both in Italy and abroad. Existing relations with entities controlled or owned by the State are mainly in relation to the Snam Group.
Other transactions consisted of the following:

	Dec. 31, 2013		June 30, 2014	
(€ million)	Other receivables	Other payables	Other receivables	Other payables
Eni SpA	219	108	66	81
Banque Eni SA	7	6	2	7
CEPAV (Consorzio Eni per l’Alta Velocità) Uno	3	-	3	-
Eni Insurance Ltd	-	-	-	8
Total transactions with related parties	**229**	**114**	**71**	**96**
Overall total	**527**	**117**	**352**	**143**
Incidence (%)	**43.45**	**97.44**	**20.17**	**67.13**

Financial transactions

Financial transactions as of December 31, 2013 and for the six-month period ended June 30, 2013 were as follows:

(€ million)

	Dec. 31, 2013		First half 2013		
Name	Payables [(1)]	Commitments	Expenses	Income	Derivatives
Eni SpA	2,231	11,457	(28)	-	(90)
Banque Eni SA	-	393	-	-	10
CEPAV (Consorzio Eni per l’Alta Velocità) Uno	-	-	-	3	-
Eni Finance International SA	3,469	-	(32)	-	-
Eni Trading & Shipping SpA	-	-	-	-	(1)
Serfactoring SpA	14	-	(1)	-	-
Total transactions with related parties	**5,714**	**11,850**	**(61)**	**3**	**(81)**

(1) Shown on the balance sheet under ‘Short-term debt’ (€1,698 million), ‘Long-term debt’ (€2,659 million) and ‘Current portion of long-term debt’ (€1,357 million).

Financial transactions as of and for the six-month period ended June 30, 2014 were as follows:

(€ million)

	June 30, 2014		First half 2014		
Name	Payables [(1)]	Commitments	Expenses	Income	Derivatives
Eni SpA	2,387	13,513	(34)	-	(62)
Banque Eni SA	-	386	-	-	(9)
Eni Finance International SA	3,686	-	(32)	-	-
Serfactoring SpA	1	-	(1)	-	-
Total transactions with related parties	**6,074**	**13,899**	**(67)**	**-**	**(71)**

(1) Shown on the balance sheet under ‘Short-term debt’ (€1,108 million), ‘Long-term debt’ (€3,125 million) and ‘Current portion of long-term debt’ (€1,841 million).

Financial transactions also included transactions with Eni Trading & Shipping SpA which are included in the income statement under the item ‘Other operating income (expense)’.
As the result of a special agreement between Saipem and the Eni Corporate Finance Unit, Eni SpA provides financial services to the Italian companies of the Saipem Group, consisting of loans, deposits and financial instruments for the hedging of foreign exchange and interest rate risks.
The incidence of financial transactions and positions with related parties was as follows:

	Dec. 31, 2013			June 30, 2014		
(€ million)	Total	Related parties	Incidence (%)	Total	Related parties	Incidence (%)
Short-term debt	1,899	1,698	89.42	1,394	1,108	79.48
Long-term debt (including current portion)	4,217	4,016	95.23	5,167	4,966	96.11

	First half 2013			First half 2014		
(€ million)	Total	Related parties	Incidence (%)	Total	Related parties	Incidence (%)
Finance income	227	3	1.32	333	-	-
Finance expense	(238)	(61)	25.63	(373)	(67)	17.96
Derivative financial instruments	(80)	(80)	100.00	(70)	(71)	101.43
Other operating income (expense)	(1)	(1)	100.00	-	-	-

The main cash flows with related parties were as follows:

(€ million)	June 30, 2013	June 30, 2014
Revenues and other income	1,017	976
Costs and other expenses	(124)	(154)
Finance income (expenses) and derivatives	(139)	(138)
Change in trade receivables and payables	247	(128)
Net cash flow from operations	**1,001**	**556**
Change in financial (payables) receivables	485	360
Net cash from financing activities	**485**	**360**
Total cash flows with related parties	**1,486**	**916**

The incidence of cash flows with related parties was as follows:

	June 30, 2013			June 30, 2014		
(€ million)	Total	Related parties	Incidence (%)	Total	Related parties	Incidence (%)
Net cash flow from operations	499	1,001	200.60	50	556	1,112.00
Net cash used in investing activities	(459)	-	-	(323)	-	-
Net cash flow from financing activities (*)	502	485	96.61	414	360	86.96

(*) Net cash flow from financing activities does not include dividends distributed or net purchase of treasury shares.

Information regarding companies consolidated using the working interest method

The table below contains information regarding jointly controlled entities consolidated using the working interest method as at June 30, 2014:

(€ million)	June 30, 2013	June 30, 2014
Net capital employed	(90)	(61)
Total assets	100	62
Total current assets	100	62
Total non-current assets	-	-
Total liabilities	98	61
Total current liabilities	97	61
Total non-current liabilities	1	-
Total revenues	2	1
Total operating expenses	-	(1)
Operating profit	2	-
Net profit (loss) for the period	2	-

45 Significant non-recurring events and operations

No significant non-recurring events or operations took place in the first half of 2014 or in the first half of 2013.

46 Atypical or unusual transactions

In the first half of 2013 and 2014, there were no atypical and/or unusual operations.

47 Events subsequent to period end

Information on subsequent events is provided in the section 'Events subsequent to period end' of the 'Operating and Financial Review'.

48 Additional information Algeria

Further to the disclosures provided in the Algeria paragraph of the 'Legal proceedings' section, we note the following additional information with regard to projects under execution in Algeria as at June 30, 2014:

- funds in two current accounts (ref. Note 1) (equivalent to €80 million) are currently temporarily frozen;
- trade receivables (ref. Note 3) totalled €197 million, of which receivables past due, but not impaired, amounting to €196 million (€22 million from 1 to 3 months past due, €75 million from 3 to 6 months past due, €23 million from 6 to 12 months past due and €76 million more than one year past due);
- work-in-progress (ref. Note 4) on projects under execution amounted to €151 million;
- deferred income and advance payments (ref. Note 15) totalled €117 million and €2 million, respectively;
- other payables (ref. Note 15) totalled €20 million;
- provisions for future losses (ref. Note 20) for projects under execution amounted to €6 million;
- guarantees (ref. Note 31) on projects under execution totalled €685 million.

Certification of the Condensed Consolidated Interim Financial Statements pursuant to Article 81-*ter* of Consob Resolution No. 11971 of May 14, 1999 and subsequent amendments

1. The undersigned Umberto Vergine and Alberto Chiarini in their capacity as CEO and manager responsible for the preparation of financial reports of Saipem SpA, respectively, pursuant to Article 154-*bis*, paragraphs 3 and 4 of Legislative Decree No. 58 of February 24, 1998, certify that the internal controls over financial reporting in place for the preparation of the condensed consolidated interim financial statements and during the period covered by the report, were:
- adequate to the company structure, and
- effectively applied during the process of preparation of the report.

2. Internal controls over financial reporting in place for the preparation of the condensed consolidated interim financial statements as of June 30, 2014 have been defined and the evaluation of their effectiveness has been assessed based on principles and methodologies adopted by Saipem in accordance with the Internal Control - Integrated Framework Model issued by the Committee of Sponsoring Organizations of the Treadway Commission, which represents an internationally-accepted framework for the internal control system.

3. The undersigned officers also certify that:

3.1 the condensed consolidated interim financial statements:

a) were prepared in accordance with the evaluation and measurement criteria issued by the International Accounting Standards Board (IASB) and adopted by the European Commission according to the procedure set forth in Article 6 of the European Regulation (CE) No. 1606/2002 of the European Parliament and European Council of July 19, 2002;

b) correspond to the Company's evidence and accounting books and entries;

c) fairly represent the financial, results of operations and cash flows of the parent company and the Group consolidated companies as of and for the period presented in this report;

3.2 the interim operating and financial review includes a reliable analysis of the material events occurring during the first half of 2014 and their impact on the condensed consolidated interim financial statements, as well as a description of the main risks and uncertainties for the second half of the year. The interim operating and financial review also contains a reliable analysis of the disclosure on significant related-party transactions.

July 29, 2014

Umberto Vergine	Alberto Chiarini
CEO	Chief Financial Officer and Compliance Officer

Independent Auditors' Report

Building a better working world

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Auditors' review report on the interim condensed consolidated financial statements (Translation from the original Italian text)

To the Shareholders of
Saipem S.p.A.

1. We have reviewed the condensed consolidated interim financial statements of Saipem S.p.A. and its subsidiaries (Saipem Group) as of June 30, 2014, comprising the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity and cash flow statement and the related explanatory notes. Saipem S.p.A.'s Directors are responsible for the preparation of the condensed consolidated interim financial statements in conformity with the International Financial Reporting Standards applicable to interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to issue this review report based on our review.

2. We conducted our review in accordance with review standards recommended by Consob (the Italian Stock Exchange Regulatory Agency) in its Resolution no. 10867 of July 31, 1997. Our review consisted mainly of obtaining information on the accounts included in the condensed consolidated interim financial statements and the consistency of the accounting principles applied, through discussions with management, and of applying analytical procedures to the financial data presented in these consolidated financial statements. Our review did not include the application of audit procedures such as tests of compliance and substantive procedures on assets and liabilities and was substantially less in scope than an audit conducted in accordance with generally accepted auditing standards. Accordingly, we do not express an audit opinion on the condensed consolidated interim financial statements as we expressed on the annual consolidated financial statements.

   The condensed consolidated interim financial statements present, for comparative purposes, the financial data of the prior year, the financial data of the corresponding period of the prior year and the balance sheet as of January 1, 2013. As disclosed in the explanatory note "Restatement of comparative data", the Directors restated some financial data previously presented related to the prior year, to the corresponding period of the prior year and to the balance sheet as of January 1, 2013 which derives from the consolidated financial statements as of December 31, 2012, on which we issued our reports on April 8, 2014, on August 5, 2013 and on April 3, 2013, respectively. We have examined the methods adopted to restate the comparative financial data and the related disclosures for the purpose of issuing this review report.

3. Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial statements of Saipem Group as of June 30, 2014 are not prepared, in all material respects, in conformity with the International Financial Reporting Standards applicable to interim financial reporting (IAS 34) as adopted by the European Union.

Milan, July 31, 2014

Reconta Ernst & Young S.p.A.
Signed by: Pietro Carena, Partner

This report has been translated into the English language solely for the convenience of international readers

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saipem

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Publications
Bilancio al 31 dicembre (in Italian)
Annual Report (in English)

Interim Consolidated Report as of June 30
(in Italian and English)

Saipem Sustainability (in English)

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www.saipem.com

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