

saipem



Annual Report 2010

MISSION

Pursuing the satisfaction of our clients in the energy industry, we tackle each challenge with safe, reliable and innovative solutions.

Our skilled and multi-local teams create sustainable growth for our company and the communities in which we operate

Our core values

Commitment to safety, integrity, openness, flexibility, integration, innovation, quality, competitiveness, teamwork, humility, internationalisation

Countries in which Saipem operates

EUROPE

Austria, Belgium, Croatia, Cyprus, Denmark, France, Germany, Italy, Luxembourg, Malta, Netherlands, Norway, Poland, Portugal, Principality of Monaco, Romania, Spain, Sweden, Switzerland, Turkey, United Kingdom

AMERICAS

Argentina, Bolivia, Brazil, Canada, Colombia, Dominican Republic, Ecuador, Mexico, Peru, Surinam, Trinidad & Tobago, United States, Venezuela

CIS

Azerbaijan, Kazakhstan, Russia, Turkmenistan, Ukraine

AFRICA

Algeria, Angola, Congo, Egypt, Equatorial Guinea, Gabon, Ivory Coast, Libya, Morocco, Nigeria, South Africa, Tunisia

MIDDLE EAST

Iraq, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates

FAR EAST AND OCEANIA

Australia, China, East Timor, India, Indonesia, Japan, Malaysia, Pakistan, Papua New Guinea, Singapore, South Korea, Taiwan, Thailand, Vietnam

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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/regulations.

The forward-looking statements given herein are not intended to provide legal, accounting, tax or investment advice and should not be relied upon in that regard. Nor are they intended to constitute an invitation to invest.

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Letter to the Shareholders

Dear Shareholders,

2010 saw an initial stabilisation of oil prices, followed by an upward swing driven by an economic recovery, particularly in Asia, and by social and political tensions in a number of important oil producing nations. Rising oil prices and anticipated price developments have made the development of non-conventional reserves an economically viable proposition and have led to a degree of recovery in investments in Canadian tar sands development projects.

In the gas sector, the exploitation of shale gas has caused a significant drop in prices on the U.S. market. Meanwhile, in Europe, relatively weak demand, coupled with the abundant supply of liquefied natural gas has led to the postponement of a number of planned pipeline construction projects. Investments in the oil industry during the year saw a divergence between the National Oil Companies, who increased their overall spending in 2010 compared with 2009 and the International Oil Companies, who on average invested the same as in the previous year. This created an uneven market situation for contractors, in which the Onshore sector – traditionally dominated by the National Oil Companies –

flourished, while the Offshore segment – where International Oil Companies tend to have a stronger presence – performed relatively weakly. Saipem was able to fully exploit the favourable conditions on the Onshore market, posting a 111% increase in new contract acquisitions compared with the previous year, but also managed to maintain steady order backlog levels in the Offshore sector despite the adverse conditions, as a result of a strong competitive position in frontier areas, which are traditionally less exposed to market cyclicality.

The Saipem share grew by 53.6% in 2010, benefiting from the record level of contract acquisitions and the prospect of further improvements in market conditions in the Oil Services Industry.

The results posted by Saipem in 2010 represented new records in terms of both volumes and profits and were achieved in spite of the impact of the unfavourable market conditions seen in 2009, thus confirming your Company's strong competitive position and operational efficiency.

Compared specifically with 2009, revenues rose by 8.4%, EBITDA by 15%, EBIT by 14.1% and adjusted net profit by

Saipem Board of Directors



from left to right:

Pierantonio Nebuloni Director, **Umberto Vergine** Director, **Hugh James O'Donnell** Managing Director for Business Support and Transversal Activities (Deputy CEO), **Anna Maria Artoni** Director, **Marco Mangiagalli** Chairman, **Pietro Franco Tali** Deputy Chairman and Chief Executive Officer (CEO), **Salvatore Sardo** Director, **Luca Anderlini** Director, **Ian Wybrew-Bond** Director.

13.1%. In terms of the individual business lines, in the Offshore sector, revenues rose by 3.3% and EBIT was in line with the previous year, with activities concentrated in West Africa, Kazakhstan and the North Sea. In the Onshore sector, revenues rose by 8.4% and EBIT by 27.6% as a result of the recommencement of work on the Manifa project and higher volumes in North and West Africa. In Offshore Drilling, revenues rose by 32.5% and EBIT by 34.4% due to higher fleet utilisation rates and new rigs commencing operations. In Onshore Drilling, revenues rose by 24.2% and EBIT by 32.2% due to new rigs commencing operations in South America and Congo and the refurbishment of two rigs in Kazakhstan owned by a client.

The level of operational efficiency achieved confirmed your Company's position at the top of its industry. With regard to safety, the LTIFR (Lost Time Injury Frequency Rate) was 0.4, compared with 0.48 in 2009, although the year unfortunately witnessed six fatal accidents. We must respond by making even greater efforts to ensure that all Saipem personnel maintain a high level of safety awareness. As illustrated in the Sustainability Report, Saipem is continuing to implement sustainability policies and initiatives in the communities in which it operates,

particularly in those where – at a time of great political and social upheaval – it is able to make a significant contribution to sustainable development through a local content strategy.

The year saw the continuation of the major investment programme launched in 2006, with an overall annual outlay of €1,545 million. During 2010, work continued in the Offshore sector on the construction and fitting out of a new pipelayer and a deepwater field development ship, the conversion of an oil tanker into an FPSO vessel and the development of a new fabrication yard in Indonesia. In Offshore Drilling, 2010 saw the completion of works on a new ultra-deepwater drillship and a jack-up and the continuation of the fitting out of two semi-submersible rigs. Finally, in Onshore Drilling construction work on three rigs continued.

Oil industry spending is expected to increase in 2011, underpinning expectations of improved market prospects for the oil services industry. Specifically, Onshore sector spending is expected to experience a continuation of the high levels of investment seen in 2010, while the Offshore sector spending is expected to increase. This should allow for a continued positive trend

in the Onshore market and a gradual recovery in the Offshore market, a sector that has remained weak over the last two years. In the Drilling sectors, good demand is expected to lead to a gradual recovery of both utilisation levels and daily rates.

As far as Saipem is concerned, the record level of the backlog, its size and quality, and the strong operating

performance of the industrial model, underpin expectations of again achieving record results. Investments for 2011 are expected to be around €1 billion and will be spent on completing the expansion of the Drilling fleet and further progress towards strengthening the Offshore asset base.

March 8, 2011

On behalf of the Board of Directors



The Chairman
Marco Mangiagalli



The Deputy Chairman and
Chief Executive Officer
Pietro Franco Tali

BOARD OF DIRECTORS

Chairman

Marco Mangiagalli

Deputy Chairman and Chief Executive Officer

Pietro Franco Tali

**Managing Director for Business Support
and Transversal Activities (Deputy CEO)**

Hugh James O'Donnell

Directors

Luca Anderlini

Anna Maria Artoni

Pierantonio Nebuloni

Salvatore Sardo

Umberto Vergine¹

Ian Wybrew-Bond

BOARD OF STATUTORY AUDITORS

Chairman

Fabio Venegoni

Statutory Auditors

Fabrizio Gardi

Adriano Propersi

Alternate Statutory Auditors

Giulio Gamba

Alberto De Nigro

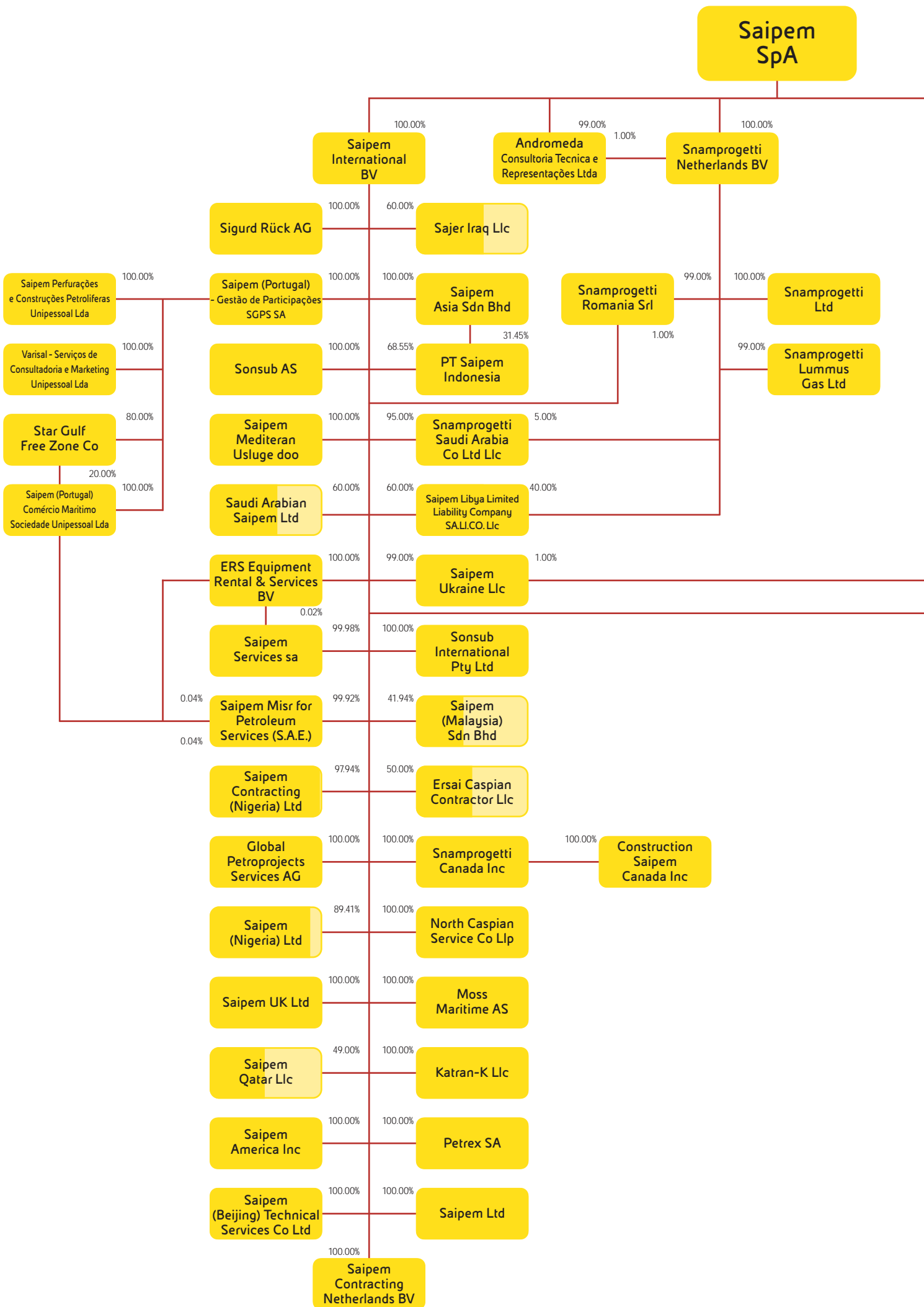
Independent Auditors

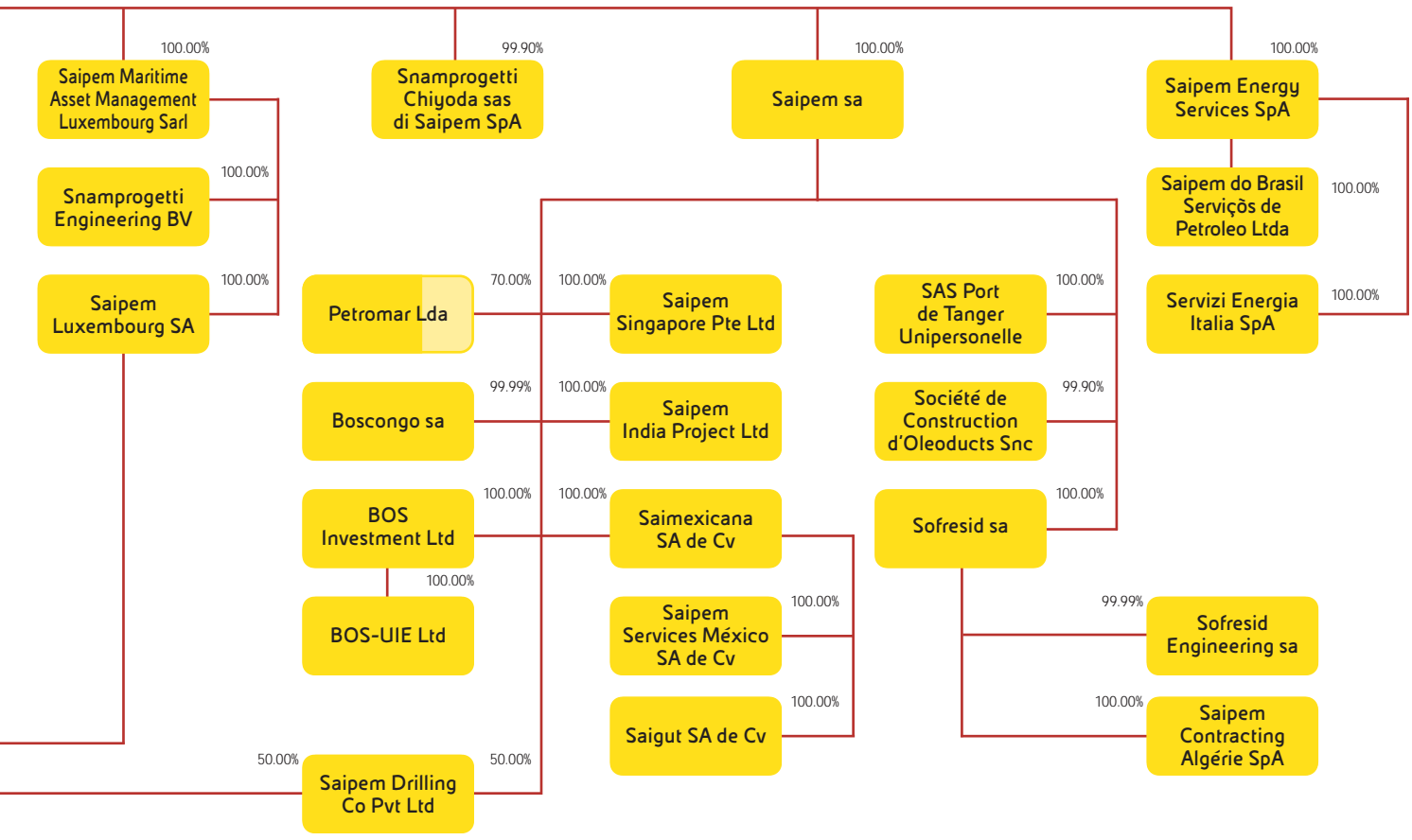
Reconta Ernst & Young SpA

(1) Coopted as Board Director during the meeting of the Board of Directors of October 27, 2010 to replace resigning Director Jacques Yves Léost.

Saipem Group structure

(subsidiaries)





The chart only shows Saipem subsidiaries



Directors' report

Saipem SpA share performance

On December 31, 2010, the trading price of Saipem's ordinary shares on the Milan Stock Exchange stood at € 36.90, representing a gain of 53.6% compared to the closing price of € 24.02 recorded at the end of 2009.

The expectations of an economic recovery which characterised the closing months of 2009 were further reinforced at the beginning of 2010 by the stabilisation of oil prices at levels seen as capable of sustaining an upturn in investments by oil companies. These conditions helped sustain demand for oil services and contributed to a strong performance by the oil services sector generally and the Saipem share in particular during the whole of the first quarter. The share, having fallen to its lowest point of the period of € 23.08 between the end of January and the beginning of February, in fact subsequently began to climb to almost € 30 in mid-April – its highest price since May 2008, i.e. since before the financial crisis. The tragic accident that occurred on April 20, 2010 in the waters of the Gulf of Mexico, which led to the sinking of a drilling rig owned and operated by the American company Transocean, raised numerous doubts and concerns with regard to both the risks involved in drilling deepwater hydrocarbon fields and the ability of the oil industry to

exploit them in an effective manner and, in addition to the impact caused by the accident, the Oil & Gas sector was also hit by the sovereign debt crisis triggered by the crises in Greece and Ireland, which affected the stock markets during the second and third quarters, and also indirectly affected the Saipem share. However, the easing up of the pressure on Eurozone markets and the economic stimulus packages introduced in the final part of the year enabled the stock markets to recover part of the lost ground. The Saipem share, thanks in part to the acquisition of a large number of important new contracts and the release of results that exceeded expectations, grew steadily throughout the final quarter of 2010, reaching a new record high to € 37.27 and closing the year at just below € 37.

During the year, the Saipem share outperformed the FTSE/MIB index by more than 63%, posting the second best performance of the index's constituents. The company ranked 9th on the index in terms of market capitalisation, with a figure of € 16.3 billion, compared with € 10.6 billion in 2009.

With regard to share liquidity, shares traded in 2010 totalled approximately 745 million, representing a decrease compared with the figure of approximately 875 million registered in 2009.

Stock exchange data and indices		Dec. 31, 2006	Dec. 31, 2007	Dec. 31, 2008	Dec. 31, 2009	Dec. 31, 2010
Share capital	(€)	441,410,900	441,410,900	441,410,900	441,410,900	441,410,900
Ordinary shares		441,251,799	441,251,800	441,262,713	441,265,604	441,270,452
Savings shares		159,101	159,100	148,187	145,296	140,448
Market capitalisation	(€ million)	8,699	12,051	5,262	10,603	16,288
Gross dividend per share:						
- ordinary shares	(€)	0.29	0.44	0.55	0.55	0.63 ⁽¹⁾
- savings shares	(€)	0.32	0.47	0.58	0.58	0.66 ⁽¹⁾
Price/earning ratio per share: ⁽²⁾						
- ordinary shares		22.65	13.77	5.75	14.48	19.30
- savings shares		22.55	14.38	8.12	14.48	19.09
Price/cash flow ratio per share: ⁽²⁾						
- ordinary shares		14.17	10.42	4.15	9.05	11.97
- savings shares		14.11	10.88	5.86	9.05	11.84
Price/adjusted earning ratio per share:						
- ordinary shares		22.65	20.74	7.26	14.48	19.67
- savings shares		22.55	21.65	10.25	14.48	19.46
Price/adjusted cash flow ratio per share:						
- ordinary shares		14.17	13.98	4.88	9.05	12.11
- savings shares		14.11	14.59	6.89	9.05	11.98

(1) To be approved by the Shareholders' Meeting to be held on April 30 or May 4, 2011, at first and second call, respectively.

(2) Figures pertain to the consolidated financial statements.

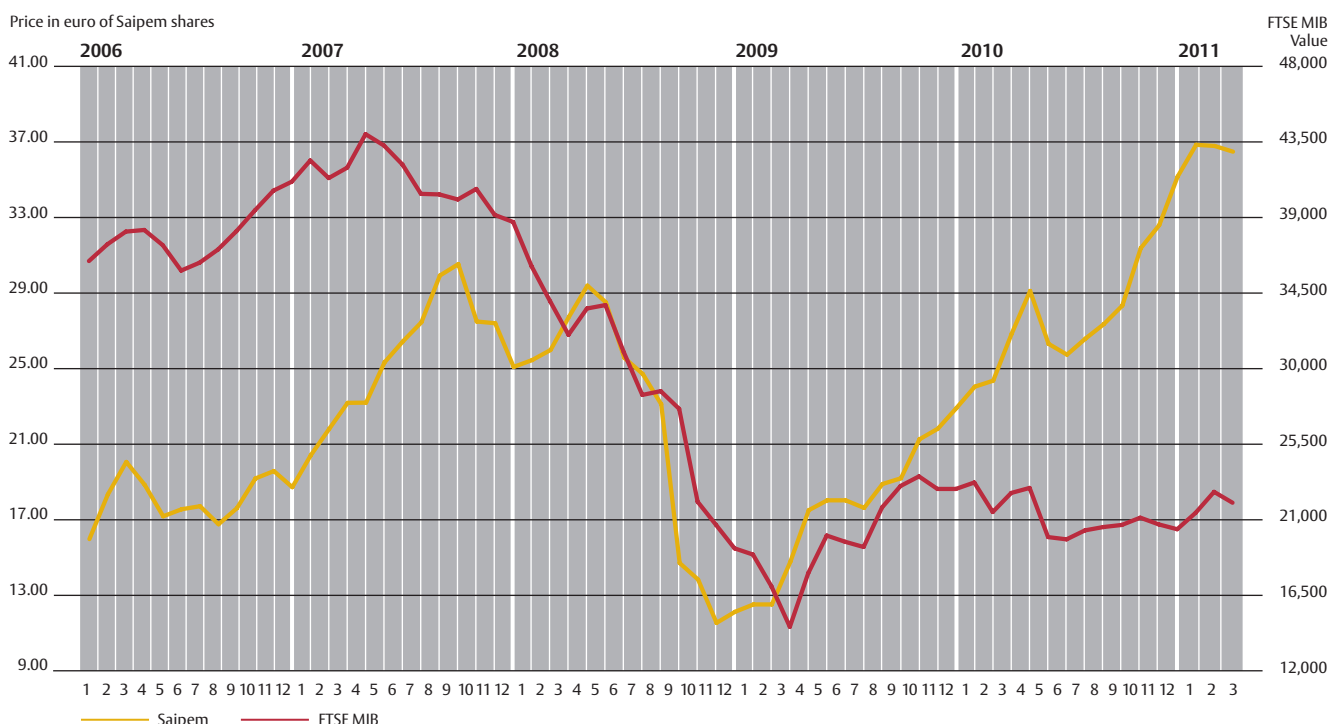
The average number of shares traded daily totalled just under 3 million (3.5 million in 2009), while the value of shares traded amounted to €20.6 billion, representing an increase by 36% compared with 2009 (€15 billion).

On May 27, 2010, a dividend of €0.55 per ordinary share was distributed to shareholders, which was in line with the dividend paid out in the previous year.

The price of the savings shares, which are convertible at par with ordinary shares, and are of a limited number (140,448 at December 31, 2010), rose by 52% from €24.02 at year end 2009 to €36.5 at year end 2010. The dividend distributed on savings shares was €0.58 per share, which was also in line with the dividend paid out in the previous year.

Share prices on the Milan Stock Exchange	(€)	2006	2007	2008	2009	2010
Ordinary shares:						
- maximum		21.14	31.56	30.44	24.23	37.27
- minimum		13.79	18.32	10.29	10.78	23.08
- average		17.85	24.72	23.19	17.51	28.16
- year-end		19.71	27.30	11.92	24.02	36.90
Savings shares:						
- maximum		21.50	41.50	30.05	24.02	37.00
- minimum		14.42	19.10	16.82	14.85	23.00
- average		18.24	26.97	26.43	18.54	29.80
- year-end		19.62	28.50	16.82	24.02	36.50

Saipem and FTSE MIB - Average monthly prices January 2006-March 2011



Glossary

FINANCIAL TERMS

Adjusted net profit: net profit adjusted to exclude inventory gains/losses and special items.

EBIT: Earnings Before Interest and Tax (operating profit).

EBITDA: Earnings Before Interest, Taxes, Depreciation and Amortization (gross operating profit).

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 IASB. The denomination International Financial Reporting Standards (IFRS) has been adopted by IASB and applies to 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.

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.

OPERATIONAL TERMS

Buckle detection: system that utilises electromagnetic waves during pipelaying to signal collapse of or deformations to pipeline laid.

Bundles: bundles of cables.

Carbon Capture and Storage: technology which enables allows 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 the carbon dioxide emissions into the atmosphere.

Commissioning: series of processes and procedures undertaken in order to start operations of a gas pipeline, associated plants and equipment.

Concrete coating: subsea pipelines are coated with reinforced concrete so as to ballast and protect them from damage and corrosion.

Conventional waters: depth 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 work equipment is located: process plant and equipment, accommodation modules and drilling units.

Decommissioning: undertaken in order to end operations of a gas

pipeline, associated plant and equipment. It 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: depths of over 500 metres.

Downstream: the term downstream relates to all those 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.

Dynamically 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): type of contract typical of the Onshore construction sector, comprising the provision of engineering services, procurement of materials and construction. The term 'turnkey' indicates that the system is delivered to the client ready for operations, i.e. already commissioned.

EPIC (Engineering, Procurement, Installation, Construction): 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 multipurpose 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 required investment to be made.

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 onsite or ship it elsewhere.

FLNG (Floating Liquefied Natural Gas): floating unit used for the treatment, liquefaction and storage of gas which is subsequently transferred on to 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. It then proceeds to de-ballast and lower the module into place. 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):** floating terminal in which liquefied natural gas is stored and then regasified before being transported by pipeline.
- 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 free 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.
- LNG:** Liquefied Natural Gas is 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 equates to 1,500 cubic metres of gas.
- Local Content Policy:** policy whereby a company develops local skills/capabilities, transfers its technical and managerial know-how and enhances the local labour market and businesses through its own business activities.
- LPG:** Liquefied Petroleum Gases. Produced in refineries through the fractionation of crude oil and subsequent processes, liquid petroleum gases exist in a gaseous state at ambient temperatures and atmospheric pressure, but change 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):** an LTI is 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 subsea:** subsea gas/liquid gravity separation system using a series of small diameter vertical separators operating in parallel (for deepwater application).
- National Oil Companies:** State-owned/controlled companies engaged in various sectors of the oil industry.
- 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 section 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 internally clean, descale and survey a pipeline.
- 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 two coaxial pipes, used to transport hot fluids (oil & 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 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):** 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:** comprises pipeline cleaning out and drying.
- Pre-drilling template:** support structure for a drilling platform.
- Pre-Travel Counselling:** health 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 and 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, molds and dust mites may be contributing factors.
- S-laying:** method of pipelaying that utilises the elastic properties afforded by steel, making the pipe configuration resemble the letter 'S', with one end on the seabed and the other under tension onboard 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:** ratio between production and production capacity, i.e. the quantity of oil in excess of demand.
- Spool:** connection between a subsea pipeline and the platform riser, or between the terminations of two pipelines.
- 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:** a 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 two offshore units in a line via aerial, floating or subsea lines (unlike side-by-side offloading, where the two 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 and 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 infrastructure.
- 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.
- Topside:** portion of platform above the jacket.
- 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:** the term upstream relates 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



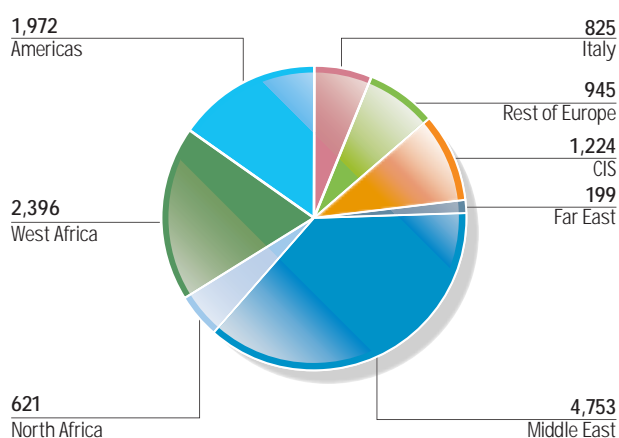
New contracts and backlog

Saipem Group - New contracts awarded as at December 31,

	(€ million)		2009		2010	
	Amount	%	Amount	%	Amount	%
Saipem SpA	4,045	41	5,581	43		
Group Companies	5,872	59	7,354	57		
Total	9,917	100	12,935	100		
Offshore	5,089	51	4,600	36		
Onshore	3,665	37	7,744	60		
Offshore Drilling	585	6	326	2		
Onshore Drilling	578	6	265	2		
Total	9,917	100	12,935	100		
Italy	2,081	21	825	6		
Abroad	7,836	79	12,110	94		
Total	9,917	100	12,935	100		
Eni Group	3,147	32	962	7		
Third Parties	6,770	68	11,973	93		
Total	9,917	100	12,935	100		

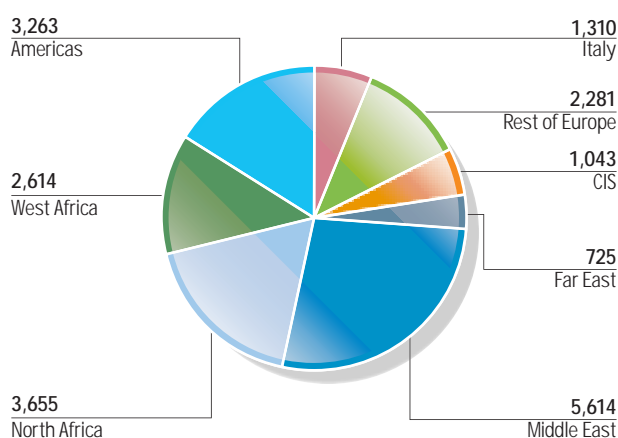
New contracts by geographical area

(€ million)



Backlog by geographical area

(€ million)



New contracts awarded to the Saipem Group in 2010 amounted to €12,935 million (€9,917 million in 2009).

36% of all contracts awarded were in the Offshore sector, 60% in the Onshore sector, and 2% each in both the Onshore Drilling sector and the Offshore Drilling sector.

New contracts to be carried out abroad made up 94% and contracts awarded by Eni Group companies 7% of the overall figure. Orders awarded to the Parent Company Saipem SpA amounted to 43% of the overall total.

The backlog of the Saipem Group as at December 31, 2010 stood at a record level of €20,505 million.

The breakdown of the backlog by sector is as follows: 27% in the Offshore sector, 52% in the Onshore sector, 16% in Offshore Drilling and 5% in the Onshore Drilling sector.

94% of orders were on behalf of overseas clients, while orders from Eni Group companies represented 16% of the overall backlog. The Parent Company Saipem SpA accounted for 55% of the total order backlog.

Saipem Group - Backlog as at December 31,	(€ million)		2009		2010	
	Amount	%	Amount	%	Amount	%
Saipem SpA	9,574	51	11,242	55		
Group companies	9,156	49	9,263	45		
Total	18,730	100	20,505	100		
Offshore	5,430	29	5,544	27		
Onshore	8,035	43	10,543	52		
Offshore Drilling	3,778	20	3,354	16		
Onshore Drilling	1,487	8	1,064	5		
Total	18,730	100	20,505	100		
Italy	1,341	7	1,310	6		
Abroad	17,389	93	19,195	94		
Total	18,730	100	20,505	100		
Eni Group	4,103	22	3,349	16		
Third Parties	14,627	78	17,156	84		
Total	18,730	100	20,505	100		

Capital expenditure

Capital expenditure in 2010 amounted to €1,545 million (€1,615 million in 2009) and mainly related to:

- €713 million in the Offshore sector relating mainly to the construction and fitting out of a new pipelayer and a deepwater field development ship, the conversion of an oil tanker into an FPSO vessel, the development of a new fabrication yard in Indonesia, and maintenance and upgrading of the existing asset base;
- €25 million in the Onshore sector for maintenance and upgrading of the existing asset base;
- €553 million in the Offshore Drilling sector relating mainly to completion works on a new ultra-deepwater drillship, the purchase of a jack-up currently under construction and final investments in the same, the fitting out of two semi-submersible rigs and maintenance and upgrading of the existing asset base;
- €254 million in the Onshore Drilling sector relating mainly to the construction of three rigs (one of which commenced operations during 2010 while another was mobilised for the start of operations) and to upgrading of the existing asset base.

The following table provides a breakdown of capital expenditure in 2010:

Capital expenditure	(€ million)	2009	2010
Saipem SpA		192	230
Other Group companies		1,423	1,315
Total		1,615	1,545
Offshore		697	713
Onshore		28	25
Offshore Drilling		690	553
Onshore Drilling		200	254
Total		1,615	1,545

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

Offshore



General overview

The Saipem Group possesses a strong, technologically advanced and highly-versatile fleet and world class engineering and project management expertise.

These unique capabilities and competences, together with a long-standing presence in strategic frontier markets represent an industrial model that is particularly well suited to EPIC (Engineering, Procurement, Installation and Construction) projects.

The Group boasts a fleet of semi-submersible vessels equipped with state-of-the-art technologies, including the Saipem 7000, equipped with a dynamic positioning system, 14,000-tonne lifting capacity and capability to lay subsea pipelines in ultra-deep waters using the 'J-lay' system, which can handle a suspended load of up to 1,450 tonnes during pipelay operations. Other vessels include the Castoro Sei, capable of laying large diameter subsea pipelines, the Field Development Ship (FDS), 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 up to 2,000 metres, and the Saipem 3000, 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 also enjoys a strong position in the subsea market, thanks to its use of highly sophisticated technologies, such as subsea ROVs (Remotely Operated Vehicles) and specially-equipped robots capable of carrying out complex deep-water pipeline operations.

Finally, Saipem is also active in the Leased FPSO sector, with a

fleet comprising the Cidade de Vitoria and the Gimboa, as well as the FPSO Aquila, which is currently under construction.

Market conditions

Following the global financial crisis of the previous two years, the Offshore sector experienced a modest recovery in 2010 with conditions emerging for more robust growth in 2011. During the year, oil prices settled at between 70-90 \$/barrel – levels at which oil production is sustainable in almost all of the world's oil production areas – and a large number of investment projects were either resumed or expanded on the basis of expectations that oil prices will remain high. With costs for offshore oil services rising only slightly, conditions for investment during the year were positive.

For the subsea installation sector, 2010 was a year of transition, in which the deep water segment – particularly in West Africa – continued to perform poorly. Meanwhile, prospects in the SURF segment (Subsea, Umbilical, Riser and Flowline), where Saipem is currently engaged on the Usan, Kizomba and Bonga projects, remain positive, with a significant upturn in new contract awards expected in 2011.

In the Gulf of Mexico, the incident at the Macondo well had a significant impact in terms of postponed and lost offshore production compared with investment plans. As a result, oil production in the area is expected to drop by more than 10% in 2011.

On the other hand, sustained activity was seen during the year in the shallow water sector, driven in particular by the demand for subsea tiebacks in mature areas such as the North Sea.

2010 also saw the announcement of the merger between two of Saipem's biggest competitors in the SURF sector - Acergy and Subsea 7, which was completed at the beginning of 2011.

The fixed platform market registered a considerable level of growth in 2010, with the most dynamic areas being Asia-Pacific and Africa and in particular Thailand, Malaysia and Indonesia, and West Africa. The largest increase was recorded in the smaller structures segment (i.e. with a topside weighing less than 1,000 tonnes).

2010 witnessed a global recovery in levels of activity in the large diameter pipeline sector, following a particularly slow 2009. The laying of the first pipeline on the Nord Stream project, which started in April, is proceeding in accordance with schedule.

In the FPSO sector, installation volumes were affected by the 2008-2009 crisis and remained low worldwide, with the exception of Brazil.

There was an upturn on the other hand in new contract awards that was driven by the Brazilian market, where important contracts were assigned by Petrobras for the development of the pre-salt area in Tupi. Levels of business also showed a recovery in the Asia-Pacific and North Sea areas, where the redeployment of upgraded FPSOs is becoming increasingly widespread. As a result, the backlog of orders for the entire FPSO sector rose to 35 floating platforms, of which 17 are new and 18 are conversions, thus bucking a downward trend that had been prevalent since 2007.

Market concentration increased during 2010 as a result of the merger between BW Offshore and Prosafe Production, which created the second biggest company in the sector in terms of fleet size. In addition, National Oilwell Varco acquired Advanced Production and Loading – the market leader in the production of turret mooring systems – from BW Offshore.

In the LNG sector, Saipem submitted a FEED bid to Petrobras for a new FLNG unit in Brazil, in competition with other consortia, while in the regasification sector, Saipem continued with the construction of the FSRU Livorno, which will be the world's first offshore terminal.

New contracts

The most significant contracts awarded to the Group during 2010 were:

- for Agip KCO, in Kazakhstan, an extension of the Kashagan Trunklines contract for the installation of the pipeline system connecting the offshore production facilities for the experimental phase of development on the Kashagan field located in the Kazakh waters of the Caspian Sea. The contract encompasses the engineering, procurement, fabrication and installation of the production and service pipelines, umbilicals and power and fibre optic cables;
- for Agip KCO, in Kazakhstan, the extension, covering 2010 and 2011, of the Kashagan Piles and Flares contract for the

installation of the offshore facilities system relating to the experimental phase of the Kashagan field development programme. The contract encompasses the fabrication, assembly, transport and installation of the flares and of the piles supporting the offshore structures, as well as the installation of 14 modular barges;

- for Petrobras, the EPIC contract for the P55-SCR project, 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 Rio de Janeiro state in Brazil;
- for Nord Stream AG, additional work as part of the contract for laying the twin gas pipelines. The contract extension relates to rock placement, dredging and backfilling and testing and pre-commissioning activities;
- for Mobil Producing Nigeria Unlimited, in Nigeria, the contract for the Critical Crude Pipeline Replacement project, which comprises the fabrication, transportation, installation and testing of the replacement of 6 pipelines connecting 6 platforms in an offshore field, including shore approach and bridges;
- for Snam Rete Gas, a contract for the installation of a new onshore gas import system from the FRSU (Floating Storage Re-gasification Unit) to be installed off the coast of Livorno, Italy;
- for Amberjack Pipeline Llc (partnership between Chevron Pipe Line Co and Shell Pipeline Co LP), a contract encompassing the transportation and installation of the Walker Ridge export pipeline in the Gulf of Mexico;
- for UTE ACS Cobra Castor, the Offshore Construction Gas Pipeline contract in Spain, which comprises the installation of an offshore pipeline connecting mainland Spain to the WHP platform (well head platform);
- for ConocoPhillips Petroleum Co UK Ltd, the Jasmine contract, which encompasses the engineering, project management, transportation and offshore installation of three platforms and related interconnection structures in the UK;
- for ConocoPhillips Petroleum Skandinavia AS, the Greater Ekofisk contract, which encompasses the engineering, project management, transportation and offshore installation of two platforms and related interconnection structures in Norway.

Capital expenditure

The most significant investments in this sector included:

- the continuation of investment in a new pipelayer, CastorOne, equipped with dynamic positioning, designed for laying large diameter pipes in arctic conditions/deep waters;
- the continuation of investments for the construction of the new Saipem FDS 2 deepwater field development ship;
- the continuation of the conversion of an oil tanker into an FPSO vessel;
- the continuation of investments for the construction of a new fabrication yard in Indonesia;
- upgrading and integration works on the fleet's main vessels.

Work performed

Activities carried out in 2010 consisted of the laying of approximately 1,365 km of pipelines and the installation of 46,606 tonnes of plant and equipment.

The main projects were as follows.

In the Mediterranean Sea:

- work was completed on the EPIC **Sequoia** project in Egypt for Burullus Gas Co, which encompassed engineering, procurement, installation and commissioning of the subsea development system for the Sequoia field and of a new gas export pipeline;
- work was completed on the **Maamoura** project, for Eni Tunisia BV, as part of an EPIC contract which encompassed project management, engineering, procurement, fabrication and installation of a platform and the laying of two pipelines;
- work was completed on the **Baraka** project for Eni Tunisia BV, as part of an EPIC contract which encompassed project management, engineering, procurement, fabrication and installation of a platform;
- laying and trenching of the two sections of the gas pipeline was completed on the project for Snam Rete Gas for the installation of a new onshore gas import system from the FRSU (Floating Storage Re-gasification Unit) to be installed off the coast of Livorno, Italy;
- on the **Castor** project for UTE ACS Cobra Castor in Spain, installation activities were completed on the wellhead platform and engineering work began in relation to the additional scope of work, which involves the installation of a pipeline;
- in the Northern Adriatic, various facilities were installed as part of 2010 offshore works relating to the **Framework Agreement** signed with InAgip doo and Eni Exploration & Production.

In Saudi Arabia, under the **Long Term Agreement** with Saudi Aramco for the engineering, procurement, fabrication, transport and installation of structures, platforms and pipelines, construction works on platforms are being completed. The year also saw the installation of a number of pipelines, flowlines and a part of the platforms.

In the Far East:

- works are ongoing for ExxonMobil on the contract for the **PNG LNG EPC2** offshore pipeline project in Papua New Guinea. The scope of work consists of the engineering, transportation and installation of a gas sealine connecting the Omati River landfall point on the southern coast of Papua New Guinea to the onshore point located near the capital Port Moresby, on the southeastern coast of the country, where a new LNG plant will be located;
- work is underway for Premier Oil Natuna Sea BV on the EPIC **Gajah Baru** project in the West Natuna Sea offshore Indonesia, which encompasses engineering, procurement and installation of two platforms, a bridge connecting the platforms and a subsea gas export pipeline. One of the platforms will be installed using the float-over method.
- work was completed on the **Premier Oil Block 12 Development**,

for PTSC, in Vietnam, which comprised the engineering, project management, transport and installation of a platform, five pipelines and an umbilical.

In West Africa:

- work was completed on the **Block 17** EPIC contract in Angola, for Total Exploration & Production Angola, which involves exporting gas from Block 17 for injection into two depleted oil reservoirs located offshore Angola. The contract comprised the engineering, procurement, fabrication, transportation and installation of a new gas injection platform;
- work was completed on the EPIC-type **Olowi** project for CNR International (Olowi), for the development of the Olowi field in Gabon, which comprised engineering, procurement, construction and installation of three wellhead towers, three platforms and associated umbilicals;
- work was completed on the **SCP (Single Central Platform)** contract for Total Exploration & Production Angola, which encompassed the construction and commissioning of a platform in Block 2 in Angola;
- work was completed on the EPIC-type **Libondo Platform** project for Total Exploration & Production Congo, in Congo, which encompassed engineering, procurement, construction and installation of two subsea pipelines, two subsea cables and the installation of a platform;
- work is underway for Esso Exploration Angola (Block 15) Ltd on the **Kizomba Satellites Epc3 Tiebacks** project, involving the Kizomba Satellites fields in Block 15 offshore Angola. The scope of work comprises engineering, construction, transport and installation of tiebacks, umbilicals, risers and subsea systems connecting the Mavacola and Clochas fields to the existing Kizomba A and B FPSOs;
- activities continued on the EPIC type **Usan** project for Elf Petroleum Nigeria (Total), relating to the subsea development of the Usan deepwater field, located approximately 160 km south of Port Harcourt in Nigeria. The contract encompasses the engineering, procurement, fabrication, installation and assistance to commissioning and start-up for subsea umbilicals, flowlines and risers connecting the 42 subsea wells to the FPSO system, as well as the construction of the oil loading terminal, consisting of an offloading buoy and two offloading lines, and part of the FPSO anchoring system;
- offshore works continued on the EPIC-type **FARM** project for Cabinda Gulf Oil Co Ltd, in Angola, which comprises the construction of 10 flare stacks and modifications to the gas combustion and discharge systems on 14 platforms in Block O, which is located off the coast of Cabinda province;
- engineering and procurement activities commenced offshore Nigeria on the **Bonga North West** contract for Shell Nigeria Exploration and Production Co Ltd (SNEPCo). The contract encompasses engineering, procurement, fabrication, installation and pre-commissioning services for production pipe-in-pipe flowlines, water injection flowlines as well as related production facilities.

In the Baltic Sea, pipelaying started on the **Nord Stream** project for Nord Stream AG. The contract involves the laying of a gas pipeline

composed of two parallel pipes that will link Vyborg in Russia with Greifswald in Germany, as well as dredging, backfilling, testing and pre-commissioning activities.

In the North Sea:

- the **Buzzard Enhancement** project for Nexen Petroleum UK was completed. The project encompassed the installation of a jacket, piles and a bridge in British waters;
- installation work was completed on the **Valhall** project for Statoil Hydro Petroleum AS, which comprised the transportation and installation of five interconnecting bridges and two wellhead towers for the Valhall field in Norway;
- various structures were installed for Statoil in the Norwegian sector;
- preparatory work for the 2011 installation campaign was started in connection with contracts for BP (**Claire Ridge, Andrew and Oselvar**) and Shell (**Ormen Lange**).

In Azerbaijan, for BP Exploration (Caspian Sea) Ltd, subsea inspection, maintenance and repair works continued on BP offshore infrastructure in the Azeri offshore, including platforms installed in previous years. Meanwhile, for AIOC, as part of the **Chirag Oil Project**, work was completed on two separate contracts which comprised the construction and installation of a template, while engineering work began on two new work scopes encompassing the construction of the jacket and transportation and installation of the jacket and topsides.

In Kazakhstan, for Agip KCO, as part of the programme for the development of the Kashagan field:

- offshore pipelaying operations were completed in relation to the previous work scope and engineering and procurement

activities began in connection with the extension of the **Trunkline and Production Flowlines** project, which comprises engineering, procurement, laying and commissioning of pipelines, fibre optic cables and umbilicals;

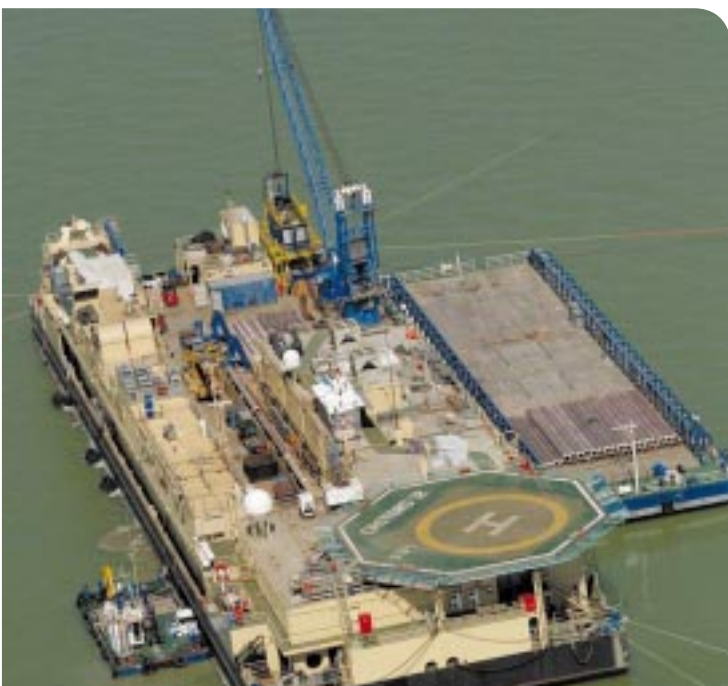
- work is underway on the extension of the contract for the **Piles and Flares** project, which encompasses the installation of modular barges, a flare, a number of piperacks, a connecting bridge and various other structures currently under construction in Kuryk;
- activities continued on the **Hook Up and Commissioning** project, encompassing the hook-up and commissioning of offshore facilities and pre-fabrication and completion of modules at the Kuryk yard.

In South America:

- work was completed on the **Mexilhao** contract for Companhia Mexilhao do Brasil, in Brazil. The contract comprised the transport and installation of a jacket, mooring piles and topsides for the PMXL-1 platform, for the Mexilhao field development in the Santos basin, approximately 140 km off the coast of the state of San Paulo;
- installation work was carried out on the **Uruguá-Mexilhao Pipeline** contract for Petrobras, in the Santos basin off the coast of Brazil. The contract comprises the transport, installation and testing of a pipeline that will link the FPSO Cidade de Santos, located in the Exploratory Block BS-500, in 1,372 metres of water, to a gas platform in 172 metres of water in the Uruguá field;
- preparatory activities commenced for Petrobras on the **P55-SCR** project in Brazil. The EPIC contract encompasses 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 Rio de Janeiro.

In the Leased FPSO segment, the following vessels carried out operations during the year:

- 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.



Castoro 12

Offshore fleet at December 31, 2010

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	Multi-purpose mono-hull dynamically positioned crane and pipelay vessel utilised for the development of deepwater fields at depths of up to 2,100 metres, capable of launching 22" diameter pipe in J-lay configuration and lifting structures of up to 600 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.
Castoro Otto	Derrick/lay ship capable of laying pipes of up to 60" diameter and lifting structures of up to 2,200 tonnes.
Saipem 3000	Self-propelled, dynamically positioned crane vessel capable of laying flexible pipes and umbilicals in deep waters and lifting structures of up to 2,200 tonnes.
Bar Protector	Dynamically positioned dive support vessel used for deep-water diving operations and work on platforms.
Semac 1	Semi-submersible pipelay barge capable of laying pipe of up to 60" diameter 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 laying pipes in shallow waters.
Castoro 12	Pipelay barge, capable of laying pipe up to 40" diameter in ultra-shallow waters (up to 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 up to 40" diameter pipes in ultra-shallow waters (1.4 metres).
Saibos 230	Work/pipelaying/accommodation barge capable of laying pipe up to 30" diameter, equipped with a mobile crane for piling, marine terminals and fixed platforms.
Ersai 1	Heavy lifting barge equipped with two crawler cranes, capable of carrying out installations whilst grounded on the seabed. The lifting capacities of the two 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	Self propelled workshop/storage barge used as support vessel, with storage space and office space for 50 people.
Ersai 4	Self propelled workshop/storage barge used as support vessel, with storage space and office space for 150 people.
Ersai 400	Accommodation barge for up to 400 people, equipped with antigas shelter for H ₂ S leaks.
Castoro 9	Launching/cargo barge.
Castoro XI	Heavy-duty cargo barge.
Castoro 14	Cargo barge.
Castoro 15	Cargo barge.
S42	Cargo barge, utilised for storage of S7000 J-lay tower.
S43	Cargo barge.
S44	Launching/cargo barge, for structures of up to 30,000 tonnes.
S45	Launching/cargo barge, for structures of up to 20,000 tonnes.
S46	Cargo barge.
S47	Cargo barge.
Bos 600	Launching/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



General overview

The Saipem Group's Onshore expertise is centred around 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 & gas, complex civil and marine infrastructures and environmental markets. In numerous markets, the company places great emphasis on maximising local content during project execution.

The Group enjoys a long-term and continuing operational presence in the Arabian Peninsula and most of the Middle East, West Africa, North Africa, Europe, Russia, Kazakhstan and the Indian subcontinent, and has a growing presence in Canada, a number of Latin American countries and Australia.

Market conditions

The signs of economic recovery and renewed energy demand seen in 2010, particularly in emerging nations, and the resulting rise in oil prices, allowed levels of activity, while still below the top pre-crisis levels, to either remain at or return to reasonable levels in many areas of the onshore plant sector.

In spite of uncertainty concerning the future and solidity of the economic recovery, expectations remain of a gradual growth in oil demand and consequently of oil prices remaining at acceptable levels. This should encourage oil companies to invest in the development of the new fields needed to replace those nearing depletion and the construction of new facilities for the production and transportation of energy, fuel and chemical derivatives. This trend, coupled with the growth in the front-end engineering and design (FEED) services, which enable development costs and times for new plant construction projects to be optimized, should help the sector recover the time lost to delays in the award of a number of major contracts.

Most new contract awards in 2010 for the construction of major onshore plants were concentrated in the Middle East (mainly United Arab Emirates, Saudi Arabia and Kuwait), Asia (China, India), North/Central America and in some areas of the former Soviet Union, particularly in the refining, upstream and pipeline transportation sectors.

The upstream sector in particular accounted for a large portion of new contracts, especially in the Middle East (major awards were made in the United Arab Emirates and Kuwait) and the former CIS (Turkmenistan). The sector has good potential for development in the short to medium term due to the growth in fuel demand and the need to replace declining fields. Massive programmes of investment have been announced in countries such as Iraq and Saudi Arabia in relation to oil production and in Canada and Venezuela in relation to non conventional oil fields (these latter dependent on oil prices remaining high).

The highest levels of activity during the year were registered in the refining sector. Major new projects were awarded for export refineries in the Middle East (United Arab Emirates and Saudi Arabia, albeit with slightly slower execution schedules than were originally intended) as well as – on a smaller scale, to meet local requirements – in India and Latin America. Meanwhile, reflecting the prevalent macro-trend, the growth in demand in the Far East compensated for the drop off in consumption in the west. The outlook is positive in this sector for the development of plants close to secondary markets currently experiencing growth (Latin America, Africa, Central Asia). Exportation projects on the other hand, which are complex and costly, may first require the economic recovery to gather further momentum. In spite of the positive signs, the trend of closures of smaller, technically obsolete refineries and their replacement by larger more modern plant continued during 2010.

In the gas production sector, the development of non-conventional fields is becoming increasingly cheap and widespread in America, while the same is likely to occur in China and Australia in the near future. A similar scenario in Europe, which possesses non conventional fields of a size comparable with those in North America, represents a prospect for the medium-term.

In the last two years, the growth in natural gas production, particularly from non conventional sources in the United States and the overcapacity connected with the start-up of liquefaction mega plants in Qatar, coupled with weakened demand in the most developed countries due to the economic crisis, has led to a market surplus, a drop in gas prices and a consequent slowdown in investments in all related segments. Nonetheless, prospects for medium-term growth are thought to be good, in particular because of the growing energy demand in developing countries. These conditions should lead to a resumption of growth in international gas trading (supplied via pipeline or delivered as LNG) as companies look to supply gas from increasingly remote fields to the world's major end markets.

Pipelines confirmed their importance in the sector's strategic markets, with the year seeing a number of new contract awards for the construction of pipelines, particularly in Russia and neighbouring countries, while at present the focus is on China, the Middle East and North America. In the medium-term, the prospects of new contract awards in the pipeline sector remained good in the Middle East and in the former Soviet Union (for pipelines to both Europe and West Asia) as well as in connection with the development of new resources in the Americas.

Although the gas liquefaction sector showed no signs of recovery during 2010, as a consequence of the current overcapacity, sector operators expect a relatively rapid upturn in new investments as a result of the growth in demand. The main projects currently under development/implementation are located in the Pacific area – in particular in Australia – due to the presence of a number of new fields, some of which are unconventional, and their relative proximity to the major Asian markets, especially China. Other potentially interesting areas in the short-term are West Africa (Nigeria, Angola) and Russia.

The petrochemical sector, which is strongly cyclical, continued to be impacted by the crisis and by the overcapacity created by the recent phase of heavy investment. The fall in demand has led to a significant slowdown in new initiatives. Apart from the mega export plants in the Middle East (especially in the Arab Emirates), few new projects were awarded during the year. A concrete recovery will only be possible once the current production surplus has been absorbed and a number of obsolete plants have been closed. The most significant projects are planned for construction in Asia (China, India, Vietnam, Thailand) and the Middle East (Saudi Arabia, Qatar, Kuwait, Arab Emirates), thus confirming the tendency of the industry to increasingly focus on these areas. Additional opportunities may emerge in South America and, possibly, Russia.

The fertilisers market is currently performing particularly well, with good prospects for new contract awards in India, Asia, Latin America and Africa. Although demand for fertiliser products is good, there are certain difficulties finalising contracts due to problems related to the supply of raw materials and securing financing, deriving in part from complex and bureaucratic legislation.

Finally, the rapid economic development occurring in many emerging nations is creating a new and significant market for major civil and port infrastructure projects. This sector is of growing interest to the Saipem Group, which intends to pursue the best business opportunities in the rail, road and port infrastructure and marine terminal segments.

New contracts

The most significant contracts awarded to the Group during 2010 were:

- for Abu Dhabi Gas Development Co Ltd, three EPC contracts as part of the program for the development of the high sulphur content Shah sourgas field situated in the south of the Emirate, which 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 other treatment facilities near Habshan and Ruwais in the northern part of the Emirate;
- for Husky Oil, the Sunrise EPC contract in Canada, which encompasses the engineering, procurement and construction of the Central Processing Facilities, comprising two plants;
- for Kharafi National, an EPC contract encompassing the engineering, procurement, construction and commissioning of an oil and gas treatment facility for the Jurassic field located in the north of Kuwait. The project also comprises the installation of the gathering system and pipelines and the construction of a sulphur granulation plant;
- for Kuwait Oil Co (KOC), a contract for the engineering, procurement and construction of the new booster station (BS-171) comprising three high and low-pressure gas trains for the production of dry gas and condensate;
- in Mexico, for PEMEX, the EPC contract for 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, 2,000 m above sea level, and at the Antonio M. Amor refinery, 1,700 m above sea level;

- for Polskie LNG, the EPC contract for the construction of a regasification terminal on the northwest coast of Poland. The contract encompasses the engineering, procurement and construction of regasification facilities, including two liquid gas storage tanks;
- for Sonatrach, the EPC contract for the LDHP project within the framework of the LPG-LDHP initiative, at the Hassi Messaoud complex in Algeria. The LDHP project encompasses the engineering, procurement and construction of an oil-gas separation plant and a gathering system made up of manifolds and pipelines;
- for the NNPC (Nigerian National Petroleum Corp)/Chevron Nigeria Ltd joint venture, the EPC contract for the Olero Creek Restoration project, encompassing the refurbishment of production facilities in the Olero Creek swamp area in Delta State, Nigeria;
- for Dijla Petroleum Company, the EPC turnkey contract for the Central Processing Facilities to be installed at the Khurbet East oil field in Syria;
- for Rivers State Government, an EPC contract comprising engineering, procurement, construction and commissioning of an OCGT (open-cycle gas turbine) power generation unit, in Port Harcourt, Nigeria;
- for the Port Autonome de Pointe Noire, the EPC contract for the reconstruction and extension of the Pointe Noire Container Quay in Congo, encompassing the engineering, procurement and construction of a combi-wall quay and accessory facilities.

Capital expenditure

Capital expenditure in the Onshore sector focused mainly on the acquisition and readying of plant and equipment necessary for the execution of projects.

Work performed

Onshore activities during the year comprised the laying of 385 km of pipe of various diameters and the installation of 874,428 tonnes of equipment.



Khurais Crude Facilities, Saudi Arabia

The most significant works are detailed below by geographical area.

In Saudi Arabia, for Saudi Aramco:

- activities were completed on the **Khurais Crude Facilities** project for the construction of a gas-oil separation plant (GOSP) as part of the development of the Khurais oil field in Saudi Arabia, situated approximately 180 km north-east of Riyadh. The contract comprised the engineering, procurement and construction of four gas-oil separation trains, in addition to a number of production infrastructure facilities;
- activities were completed on the **Khurais Utilities and WIPS** project, which forms part of the programme for the development of the Khurais complex. The contract comprised engineering, procurement, construction, installation and commissioning of pumping stations which inject water from the Qurayyah water treatment plant into the Khurais field, as well as all necessary utilities;
- activities were completed on the **Qurayyah Seawater Treatment Plant** project, which comprised the expansion of the plant and injection of seawater into the oil fields to support oil production operations;
- construction activities started on the EPC **Manifa Field** contract for the construction of gas/oil separation trains at the Manifa Field in Saudi Arabia. The project encompasses the engineering, procurement and construction of three gas/oil separation trains (GOSP), gas dehydration, crude inlet manifolds and the flare gas system.

In Qatar:

- work was completed on the **LLPDE Plant** project, which comprised the construction of a polyethylene plant for Qatofin;
- for Qatar Fertiliser Co SAQ, work is underway in the industrial area of Qafco in the city of Mesaieed on the EPC **Qafco 5 - Qafco 6** project comprising engineering, procurement, construction and commissioning of four new ammonia and urea production plants and associated service infrastructure. The plants will form the world's largest ammonia and urea production site;
- construction and commissioning activities are being completed on the EPC-type **Pearl Gas To Liquids (GTL)** project for Qatar Shell Ltd, comprising the construction of a waste water treatment plant in the industrial city of Ras Laffan.

In the United Arab Emirates:

- work was completed on the EPC-type **Ruwais** project for Gasco, which comprised the construction of a fractionation train and the expansion of associated facilities, including the construction of a new loading dock and new refrigerated tanks;
- activities started on the EPC contract for Abu Dhabi Gas Development Co Ltd which is part of the development of the high sulphur content **Shah** sourgas field.

In Kuwait:

- construction work continued for Kuwait Oil Co (KOC) on the EPC contract **BS 160** in Kuwait, which encompasses the engineering, procurement, construction and commissioning of a new gas booster station consisting of two trains for gas

compression and dehydration. The gas will be subsequently conveyed to the Mina Al Ahmadi refinery;

- activities are underway for Kuwait Oil Co (KOC) on the EPC contract for the replacement of the compressors systems at KOC's **Gathering Centres 07, 08 and 21**, in the south of the country. The scope of work consists of engineering, procurement, the demolition and disposal of existing facilities, construction, installation, commissioning, as well as the training of personnel for three new compressors;
- activities started on the EPC contract **BS 171** for Kuwait Oil Co (KOC), which encompasses the engineering, procurement and construction of a new booster station comprising three high and low-pressure gas trains for the production of dry gas and condensate;
- preparatory activities started on the EPC **Jurassic** project for Kharafi National, encompassing the engineering, procurement, construction and commissioning of an oil and gas treatment facility for the Jurassic field located in the north of Kuwait. The project also comprises the installation of the gathering system and pipelines and the construction of a sulphur granulation plant.

In Oman, work is being completed for SIDC (Sohar International Development Co) on the contract to design and construct a deepwater bulk jetty for the loading and unloading of mineral ores at the Port of **Sohar**, about 150 kilometres northwest of Muscat.

In Pakistan, work is being completed for **Engro Chemical Pakistan Ltd (ECPL)** on the project for the supply of technology licenses, engineering, procurement and supervisory activities relating to the construction of a plant for the production of ammonia and urea, including all service infrastructures, in Daharki, approximately 450 kilometres north-east of Karachi.

In Syria, for Dijla Petroleum Company, preparatory activities started on the **Khurbet East Central Processing Facility** turnkey project for the engineering, procurement and construction of processing facilities for the Khurbet East field.

In Algeria, for Sonatrach:

- work was completed on the EPC-type **UBTS (Unité de Traitement du Brut et de sa Stabilisation)** project, which encompassed the engineering, procurement and construction of a crude oil treatment and stabilisation plant, comprising three trains, one maintenance unit, four stocking units and a pipeline transporting oil, water and gas;
- work was completed on the EPC-type project **LZ2 Hassi R'mel-Arzew**, which comprised the installation of a new LPG pipeline connecting the Hassi R'mel gas field, in central Algeria, to the oil exporting area of Arzew, located on Western Algeria's Mediterranean coast;
- construction work continued on the EPC contract, in Algeria, for the construction of infrastructure of an LPG treatment plant in the **Hassi Messaoud** oil complex. The contract comprises the engineering, procurement and construction of three LPG trains;
- construction work continued on the EPC-type **LNG GL3Z Arzew** contract, which comprises engineering, procurement and

construction of a liquefaction plant and the construction of utilities, a generator set and jetty;

- construction activities started on the EPC project for Sonatrach and First Calgary Petroleum for the construction of facilities for the treatment of natural gas extracted from the **Menzel Ledjmet East** field and from the future developments of the Central Area Field Complex. The contract encompasses the engineering, procurement and construction of the natural gas gathering systems and processing plant and the related export pipelines;
- work continued on the **Ammonia/Urea Arzew** EPC contract, comprising engineering, procurement and construction of a marine export terminal for a future urea/ammonia plant to be built near the Algerian city of Arzew, approximately 400 kilometres west of Algiers;
- construction activities started on the EPC contract for gas pipeline **GK3 - lot 3**, covering the engineering, procurement and construction of a gas transportation system. Lot 3 comprises a gas pipeline system from Mechtatine to Tamlouka in the northeast of Algeria, which then connects the latter to Skikda and El-Kala, located on the northeastern coast of the country.

In Morocco, work was completed on the EPC-type project for the expansion of the **Samir** refinery, which comprised the construction of a vacuum unit, a hydro-cracking and a hydro-treating unit, as well as sulphur recovery, amine regeneration, sour water stripper units and the development of existing refinery utilities.

In Nigeria:

- work was completed for Shell Petroleum Development Co on the EPC-type **Nembe Creek-Cawthorne Channel** project, which comprised the construction, installation and commissioning of a pipeline located in swamp terrain connecting the San Bartholomew Manifold to the Cawthorne Channel Junction Manifold (respectively in Bayelsa and Rivers states) and the decommissioning of an existing pipeline and ancillary facilities;
- construction work was completed on the EPC-type **Gbaran** project for Shell Petroleum Development Co of Nigeria, which encompassed engineering, procurement and laying of pipelines, flowlines and composite fibre optic and high voltage electrical cables;
- construction work was completed on the EPC-type **Gbaran Logistic Base** project for Shell Petroleum Development Co of Nigeria (SPDC), which comprised engineering, procurement, construction and commissioning of a logistics base for the Gbaran field;
- work is being completed on the first phase of the **OB/OB Revamping (T-4/5)** project for Nigerian Agip Oil Co (NAOC), which comprises engineering, procurement, construction and commissioning of new units and the demolition and decommissioning of existing units at the gas treatment plants of Obiafu/Obrikom;
- work is underway for Total Exploration and Production Nigeria Ltd - TEPNG (operator of the joint venture NNPC/TEPNG) on the EPC contract **OML 58 Upgrade** in Nigeria, which comprises

engineering, procurement, construction and commissioning of new units and the demolition and decommissioning of existing units at the gas treatment plants of Obagi and Obite;

- work is ongoing for ChevronTexaco on the EPC-type **Escravos GTL** project. The plant will comprise two parallel trains;
- for Rivers State Government, work is underway on an EPC contract comprising engineering, procurement, construction and commissioning of an **OCGT** (open-cycle gas turbine) power generation unit in Port Harcourt, Nigeria.

In Congo, preparatory activities started for the Port Autonome de Pointe Noire on the EPC contract for the reconstruction and extension of the **Pointe Noire** Container Quay, encompassing the engineering, procurement and construction of a combi-wall quay and accessory facilities.

In Italy, engineering, procurement and construction activities are underway for the Eni Refining & Marketing division in connection with the first industrial scale application of EST Technology (Eni Slurry Technology), as part of the project for the construction of a refinery at Sannazzaro. EST Technology – to whose development Saipem made a significant contribution – has the capacity to almost completely convert heavy oil residues into lighter products.

In France, work was completed on the regasification terminal on the **Fos Cavaou** project for Gaz de France, which comprised engineering, procurement and construction of all facilities for a regasification terminal, including three storage tanks and maritime works.

In Poland, engineering activities commenced for Polskie LNG on the **Polskie** EPC contract for the construction of a regasification terminal on the northwest coast of Poland. The scope of work comprises the engineering, procurement and construction of the regasification facilities, including two liquid gas storage tanks.

In Canada, preparatory activities started for Husky Oil on the **Sunrise** EPC contract, which encompasses the engineering, procurement and construction of the Central Processing Facilities, comprising two plants.

In Mexico, work began for PEMEX on the **Tula and Salamanca** EPC 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, near the town of Tula de Allende, approximately 150 km north of Mexico City and 2,000 m above sea level, and at the Antonio M. Amor refinery, near the town of Salamanca, approximately 300 km northwest of Mexico City and 1,700 m above sea level.

In Australia, construction activities are underway for Chevron on the **Gorgon LNG** jetty and marine structures project. The scope of work consists of the engineering, procurement, fabrication, construction and commissioning of the LNG jetty and related marine structures for the new Chevron Gorgon LNG plant on Barrow Island, 70 kilometres off the Pilbara coast of Western Australia.



GL3Z Arzew, Algeria

Offshore Drilling



General overview

The principal vessels in the Group's fleet are: the Saipem 12000, a drillship capable of working at depths of up to 3,600 metres using its dynamic positioning system; the Saipem 10000, a drillship capable of working at depths of up to 3,000 metres using its dynamic positioning system; the Scarabeo 7, a semi-submersible vessel capable of operating at depths of up to 1,500 metres; and the Scarabeo 5, a fourth generation semi-submersible vessel, capable of working at depths of over 1,800 metres and drilling to a depth of 9,000 metres. The fleet also includes three semi-submersible rigs, seven jack-ups and a TAD (Tender Assisted Drilling unit).

In the Offshore Drilling sector, the Group operated during the year in West and North Africa, the Gulf of Suez, the Persian Gulf, Norway, Peru, Indonesia, Italy and East Timor.

Market conditions

The recovery in oil prices seen in 2010, coupled with the first signs of stabilisation in the world economy are gradually providing grounds for renewed optimism in the Offshore Drilling sector. The disaster in the Gulf of Mexico and the resulting moratorium have led to a decrease – albeit a limited one – in deepwater drilling activities operations in the region. However, the market in this area remains relatively separate and autonomous from the rest of the world.

Internationally, utilisation rates varied according to the segment (i.e. shallow or deepwater).

In 2010, the total overall number of jack-ups under contract fell

slightly compared with the previous year, with utilisation rates for older, less efficient jack-ups slumping, while rates for latest generation jack-ups remained stable. The completion and delivery of a large number of new jack-ups during the year, combined with deliveries scheduled for 2011, should work in favour of the removal from service of the most obsolete rigs and also help to keep day rates under control.

The number of semi-submersibles and drillships active in 2010 increased compared with the previous year, with a significant rise recorded in Brazil. This upward trend ought to continue in 2011 and at least partially absorb the new production capacity expected to come onto the market during the course of the year. Day rates for semi-submersibles and drillships registered a marked upturn in South America, West Africa and, to a lesser extent, in South East Asia.

There are still a large number of vessels under construction but without a contract, particularly in the jack-up sector. This situation is likely to persist at least up until the end of 2011.

New contracts

The most significant contracts awarded to the Group during 2010 were:

- two contracts, signed with Total E&P Congo and Addax Petroleum for the charter of the semi-submersible rig Scarabeo 3 for use in Congo and in Nigeria for a total period of 15 months plus options, starting from January 2010;
- the charter by Saudi Aramco of the jack-up Perro Negro 5 for a period of thirty-six months in Saudi Arabia;
- an agreement with the Egyptian company IEOC for the

extension of the contract for the charter of the semi-submersible rig **Scarabeo 4** until June 2013;

- the charter by Harrington Dubai of the jack-up **Perro Negro 3** for drilling activities in the Persian Gulf for a period of twenty-four months;
- the charter by Eni Exploration & Production Division of the newly constructed **Perro Negro 8** for a period of one year in Italy;
- the charter by Total of the jack-up **Perro Negro 2** for a period of six months in the Middle East.

Capital expenditure

The most significant items of capital expenditure within the Offshore Drilling sector were:

- the completion of investments on the new ultra-deep water drillship **Saipem 12000**, which commenced operations on behalf of Total Exploration & Production for the development of Block 17 in Angola during the second half of the year;
- the purchase of a jack-up under construction and the completion of related investments. The rig – **Perro Negro 8** – commenced operations during the year in Italy on behalf of Eni;
- the continuation of construction activities for the new deep-water semi-submersible platform **Scarabeo 8**, which will operate in Norway on behalf of Eni Norge;
- the continuation of construction activities for the new deep-water semi-submersible platform **Scarabeo 9**, which will operate in the Gulf of Mexico;
- class reinstatement works and investments made on the fleet to ensure compliance with international regulations and to customise vessels to client-specific requirements.

Work performed

Activities comprised the drilling of 44 wells, totalling approximately 129,506 metres drilled.

The newly constructed deep-water drillship **Saipem 12000** commenced operations in July on a long-term contract offshore Angola for Total Exploration & Production.

The deep-water drillship **Saipem 10000**, having completed operations in Angola on behalf of Total Exploration & Production, operated from March to mid-June on behalf of Eni offshore Indonesia, before returning to the shipyard in Singapore for certification purposes. The vessel subsequently resumed operations for Eni, first in Indonesia and then in East Timor.

The semi-submersible platform **Scarabeo 3** concluded operations in Congo for Total E&P Congo in March and then resumed drilling operations offshore Nigeria for Addax Petroleum.

The semi-submersible platform **Scarabeo 4** operated in Egypt and Libya for IEOC - International Egyptian Oil Co.

The semi-submersible platform **Scarabeo 5** continued HP/HT (high pressure/high temperature) operations in offshore Norway on behalf of Statoil.

The semi-submersible platform **Scarabeo 6** continued drilling operations in Egypt for Burullus Gas Co.

The semi-submersible platform **Scarabeo 7** continued to operate in Angola for Eni Angola.

The jack-up **Perro Negro 2** operated in Abu Dhabi for Total Abu Bukhoosh.

The jack-up **Perro Negro 3** started operations in January in the Persian Gulf for Harrington Dubai.

The jack-up **Perro Negro 4** continued operations in Egypt for Petrobel.

The jack-up **Perro Negro 5** continued operations in Saudi Arabia for Saudi Aramco.

The jack-up **Perro Negro 6** continued operations in Angola for Sonangol.

The jack-up **Perro Negro 7** continued drilling operations in Saudi Arabia for Saudi Aramco.

The newly constructed jack-up **Perro Negro 8** commenced drilling operations in Italy for Eni Exploration & Production.

The **Packaged 5820** installation continued operations in Libyan waters for Mabruk Oil Operations Co.

In Congo, the new tender assisted rig **TAD 1** continued drilling operations for Eni Congo SA.

Also in Congo, workover and maintenance works continued on the fixed platforms owned by Eni Congo SA.

In Peru, two rigs chartered by Savia SA (formerly Petrotech) performed one hundred and sixty-eight workover and pulling operations, while three tender assisted rigs chartered by BPZ Energy and Savia SA drilled eight wells and performed two heavy workover operations.



Saipem 12000

Utilisation of vessels

Vessel utilisation in 2010 was as follows:

Vessel	Days under contract
Semi-submersible platform Scarabeo 3	365
Semi-submersible platform Scarabeo 4	365
Semi-submersible platform Scarabeo 5	365
Semi-submersible platform Scarabeo 6	347 (*)
Semi-submersible platform Scarabeo 7	365
Drillship Saipem 10000	269 (*)
Drillship Saipem 12000	147
Jack-up Perro Negro 2	354 (*)
Jack-up Perro Negro 3	334 (*)
Jack-up Perro Negro 4	365
Jack-up Perro Negro 5	256 (*)
Jack-up Perro Negro 6	365
Jack-up Perro Negro 7	365
Jack-up Perro Negro 8	40
Tender Assisted Drilling Unit	263 (*)

(*) For the remaining days (to 365), the vessel underwent class reinstatement works.

Onshore Drilling



General overview

In the Onshore Drilling sector, the Saipem Group operated in 2010 in Italy, Algeria, Saudi Arabia, Kazakhstan, Ecuador, Colombia, Brazil, Bolivia, Peru, Venezuela, Congo and Ukraine.

Market conditions

In 2010, the partial recovery in economic and market conditions had a positive effect on the Onshore Drilling sector, which was boosted by the pick up in oil prices and – at least in Europe – in natural gas prices. In North America, levels of activity in the sector registered an upturn in both the United States and Canada, where the number of active rigs was significantly higher than at year end 2009, although still below 2008 levels.

In the rest of the world, where the impact of the crisis had been less severe, 2010 utilisation rates for the onshore fleet rose versus the previous year and were in line with the peak levels seen in 2008. The areas where growth was highest included Latin America, and, to an extent, the Middle East and North Africa.

2011 is expected to see further consolidation of utilisation rates and, potentially, a pick up in day rates.

New contracts

The most significant contracts awarded to the Group during 2010 were:

- two contracts for ExxonMobil Kazakhstan Inc (EMKI) in Kazakhstan for the decommissioning and transportation of two

- rigs owned by the client already operated by Saipem. Saipem will also carry out conversion activities on one of the two rigs;
- additional new contracts with several clients for the charter of four rigs in Algeria and Peru, two of which were idle at the time the contracts were signed. The contracts encompass the utilisation of the rigs starting from the first quarter of 2010 for various periods of six months to two years.

Capital expenditure

Capital expenditure in the Onshore Drilling sector included:

- the conclusion of construction activities on a new rig which commenced operations in Italy for Total Italia;
- the conclusion of construction activities on a new rig which has already been transferred to Kazakhstan where it will operate for Agip KCO;
- the continuation of construction works on a new rig due to operate in Kazakhstan for Agip KCO;
- upgrading and integration works on rigs and installations to maintain operational efficiency.

Work performed

Activities comprised the drilling of 279 wells, totalling approximately 881,400 metres drilled.

In **Italy**, onshore drilling operations were performed on behalf of Eni Exploration & Production, utilising two extended-reach drilling and workover rigs in the provinces of Novara and Potenza, while a

third rig began drilling operations for Total Italia in the province of Matera.

In **Saudi Arabia**, seven rigs operated for Saudi Aramco and one for South Rub Al-Khali Co Ltd.

In **Algeria**, seven rigs operated for First Calgary Petroleum, Repsol, Gazprom, ConocoPhillips and Groupement Sonatrach Agip.

In **Congo**, two rigs operated for Eni Congo.

In **Peru**, the Group has seven drill rigs and twelve workover and pulling rigs and also operates five workover and pulling rigs owned by third-parties. An eighth rig was mobilised to Ecuador after having concluded operations in Peru. The drill rigs drilled a total of twenty-eight wells for Perenco, Pluspetrol, Interoil, Sapet, Talisman and Petrobras, while a total of almost one thousand two hundred workover and pulling operations were carried out for Pluspetrol, Petrobras, Savia SA (formerly Petrotech) and Interoil.

In **Venezuela**, the Group has twenty-three drill rigs and four workover and pulling rigs. The drill rigs drilled a total of one hundred and eighteen wells, mainly for PDVSA, but also for Petroquiriquire, Petrowayu and Baripetrol, while a total of one hundred and eighteen workover and pulling operations were carried out for PDVSA.

In **Colombia**, six rigs drilled thirty-six wells and performed seven workover and pulling operations for Petrolifera, Hocol, Parex, Ecopetrol, Occidental and Perenco Colombia.

In **Brazil**, three rigs drilled twelve wells for Petrobras.

In **Ecuador**, three rigs drilled fifteen wells for Agip Oil Ecuador, Repsol and Ismocol.

In **Kazakhstan**, drilling/workover operations continued on behalf of Karachaganak Petroleum Operating (KPO) in the province of Uralsk. During the year, three rigs owned by Saipem continued drilling operations in Uralsk and Aktobe provinces for Zhaikmunai Llp, Maersk Oil Kazakhstan and OilTechnoGroup. An additional four rigs were used: one chartered from the local company Kazburgas and three from the U.S. company Parker.

Also in Kazakhstan, work continued on two contracts for ExxonMobil Kazakhstan Inc (EMKI), encompassing the decommissioning and transportation of two rigs owned by the Client.

Finally, drilling operations were completed on the 'D' Island project on behalf of Agip KCO in the northern areas of the Caspian Sea. The project comprised drilling operations in Block D of the Kashagan field. Operations for the decommissioning and transportation of the two rigs owned by the Client have now commenced.

In **Ukraine**, two rigs operated for Regal Petroleum under a contract that was terminated by the Client in December.

Utilisation of equipment

Average utilisation of rigs in 2010 stood at 94% (91% in 2009). At December 31, 2010, the Company owned 86 rigs (plus one rig under construction and one already on site ready to commence operations) located as follows: 28 in Venezuela, 19 in Peru, 8 in Saudi Arabia, 7 in Algeria, 6 in Colombia, 4 in Italy, 3 in Kazakhstan, 3 in Brazil, 3 in Ecuador, 2 in Ukraine, 2 in Congo and 1 in Bolivia. Additionally, 6 third-party rigs were used in Peru, 3 third-party rigs were used by the joint venture SaiPar and 2 third-party rigs were used in Kazakhstan.



Val d'Agri, Italy

Financial and economic results

Results of operations

Saipem Group - Income statement

Year 2009	(€ million)	Year 2010	% Ch.
10,292	Net sales from operations	11,160	8.4
14	Other income and revenues	14	
(7,227)	Purchases, services and other costs	(7,711)	
(1,483)	Payroll and related costs	(1,627)	
1,596	Gross operating profit (EBITDA)	1,836	15.0
(440)	Depreciation, amortisation and impairment	(517)	
1,156	Operating profit (EBIT)	1,319	14.1
(100)	Net finance expense	(110)	
7	Net income from investments	13	
1,063	Adjusted profit before income taxes	1,222	15.0
(288)	Income taxes	(344)	
775	Adjusted profit before minority interest	878	13.3
(43)	Net profit attributable to minority interest	(50)	
732	Adjusted net profit	828	13.1
-	Gains on disposals	17	
-	Taxation	(1)	
732	Net profit	844	15.3

Net sales from operations for 2010 amounted to €11,160 million, up 8.4% million compared to 2009, due to greater volumes generated in all sectors of activity.

Gross operating profit (EBITDA) amounted to €1,836 million, a 15% increase versus 2009, reflecting a very good operating performance.

Depreciation and amortisation of tangible and intangible assets amounted to €517 million, representing a significant increase (17.5%) compared with the previous year, mainly due to new rigs beginning operations, particularly in the Offshore Drilling sector.

Operating profit (EBIT) for 2010 stood at €1,319 million, a €163 million (14.1%) increase over the previous year. This figure is analysed in detail in the subsequent sections describing the performance of the various business units.

Net finance expense increased by €10 million compared with 2009, mainly due to the increase in net borrowings.

Net income from investments amounted to €13 million, representing an increase compared with 2009.

Adjusted profit before income taxes stood at €1,222 million, a 15% increase versus 2009.

Income taxes amounted to €344 million, an increase by €56 million compared to 2009, due to the combined effect of increases in both the taxable income tax and in the tax rate, which rose from 27.1% in 2009 to 28.1% in 2010.

Adjusted net profit stood at €828 million, representing an increase by 13.1% compared with 2009.

Net profit totalled €844 million. This included the sale of the minority holding (40%) in the French company Doris Engineering sa.

Operating profit and costs by function

Year 2009	(€ million)	Year 2010	% Ch.
10,292	Net sales from operations	11,160	8.4
(8,714)	Production costs	(9,361)	
(100)	Idle costs	(131)	
(114)	Selling expenses	(143)	
(17)	Research and development costs	(12)	
(9)	Other operating income (expenses)	(10)	
(182)	General and administrative expenses	(184)	
1,156	Operating profit (EBIT)	1,319	14.1

In 2010, the Saipem Group achieved **net sales from operations** of €11,160 million, an increase by €868 million compared to the previous year.

Production costs (which include direct costs of sales and depreciation of vessels and equipment) totalled €9,361 million (€8,714 million in 2009). This significant increase was in line with an increase in sales volumes.

Idle costs increased by €31 million, mainly due to lower utilisation rates for Offshore vessels.

Selling expenses of €143 million registered an increase by €29 million compared with the previous year due to an increase in sales activities, particularly in the Offshore sector.

Research and development costs included in operating costs decreased by €5 million.

General and administrative expenses amounting to €184 million were essentially unchanged from the previous year.

Operating profit (EBIT) increased by 14.1% compared to 2009.

The analysis by business sector is as follows:

Offshore

(€ million)	Year 2009	Year 2010
Net sales from operations	4,341	4,486
Cost of sales	(3,531)	(3,654)
Gross operating profit (EBITDA)	810	832
Depreciation and amortisation	(195)	(219)
Operating profit (EBIT)	615	613

Revenues for 2010 amounted to €4,486 million, a 3.3% increase compared to 2009. The increased volumes related mainly to an increase in activities in West Africa and Kazakhstan.

The cost of sales amounted to €3,654 million, representing a 3.5% increase compared to 2009.

Depreciation and amortisation rose by €24 million compared with 2009.

Operating profit (EBIT) for 2010 amounted to €613 million, equal to 13.7% of revenues, compared to €615 million, equal to 14.2% of revenues in 2009. Meanwhile, the gross profit margin (EBITDA) stood at 18.5%, which was slightly down on the figure of 18.7% recorded in 2009 due to higher idle costs that were only partially compensated by higher profits on executed projects.

Onshore

(€ million)	Year 2009	Year 2010
Net sales from operations	4,831	5,236
Cost of sales	(4,493)	(4,827)
Gross operating profit (EBITDA)	338	409
Depreciation and amortisation	(48)	(39)
Operating profit (EBIT)	290	370

2010 revenues amounted to €5,236 million, up 8.4% compared to 2009. This was largely due to higher volumes in North and West Africa.

The cost of sales of €4,827 million increased by 7.4% compared with 2009.

Depreciation and amortisation fell slightly.

Operating profit (EBIT) in 2010 amounted to € 370 million, versus € 290 million in 2009, with the margin on revenues rising from 6.0% to 7.1%. The gross profit margin (EBITDA) stood at 7.8%,

compared with 7.0% in 2009. The increase in margin is attributable to an improved operating performance.

Offshore Drilling

(€ million)	Year 2009	Year 2010
Net sales from operations	566	750
Cost of sales	(279)	(348)
Gross operating profit (EBITDA)	287	402
Depreciation and amortisation	(95)	(144)
Operating profit (EBIT)	192	258

2010 revenues amounted to € 750 million, representing a 32.5% increase versus 2009, attributable mainly to the full-scale activities of the jack-up Perro Negro 6 and the semi-submersible platforms Scarabeo 3 and Scarabeo 4, and to the drillship Saipem 12000 and the jack-up Perro Negro 8 starting operations. The cost of sales increased by 24.7% compared to 2009. Depreciation and amortisation increased by € 49 million versus 2009, due to the full-scale operation of vessels that underwent

preparatory works in 2009, the full scale activity of the jack-up Perro Negro 6, and to the drillship Saipem 12000 and the jack-up Perro Negro 8 starting operations.

Operating profit (EBIT) in 2010 amounted to € 258 million, versus € 192 million in 2009, with the margin on revenues rising from 33.9% to 34.4%.

Meanwhile, the gross profit margin (EBITDA) improved to 53.6% from 50.7% in the previous year.

Onshore Drilling

(€ million)	Year 2009	Year 2010
Net sales from operations	554	688
Cost of sales	(393)	(495)
Gross operating profit (EBITDA)	161	193
Depreciation and amortisation	(102)	(115)
Operating profit (EBIT)	59	78

Revenues for 2010 amounted to € 688 million, representing a 24.2% increase compared to 2009, due mainly to the start of operations of new rigs in South America and Congo and also to the refurbishment of two plants in Kazakhstan owned by the Client. The cost of sales increased by 25.9% compared to 2009.

The increase in depreciation and amortisation is due to the start of operations of new rigs.

2010 operating profit (EBIT) amounted to € 78 million, versus € 59 million in 2009, with the margin on revenues rising from 10.6% to 11.3%.

Meanwhile, the gross profit margin (EBITDA) stood at 28.1%, compared with 29.1% in 2009.

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

	(€ million)	Dec. 31, 2009	Dec. 31, 2010
Net tangible assets		6,295	7,403
Net intangible assets		756	760
		7,051	8,163
- Offshore		3,105	3,617
- Onshore		464	444
- Offshore Drilling		2,750	3,204
- Onshore Drilling		732	898
Investments		118	105
Non-current assets		7,169	8,268
Net current assets		(647)	(658)
Provision for employee benefits		(182)	(193)
Capital employed, net		6,340	7,417
Shareholders' equity		3,434	4,060
Minority interest		61	94
Net borrowings		2,845	3,263
Coverage		6,340	7,417
Leverage (net borrowings/shareholders' equity including minority interest)		0.83	0.80
No. shares issued and outstanding		441,410,900	441,410,900

(1) See 'Reconciliation of reclassified balance sheet, income statement and cash flow statement to statutory schemes' on page 62.

Management uses the reclassified consolidated balance sheet to calculate key ratios such as Return On Average Capital Employed (ROACE) and the proportion of net borrowings to shareholders' equity (leverage), which is used to evaluate whether Saipem's financing structure is sound and well-balanced.

Non-current assets at December 31, 2010 stood at €8,268 million, an increase by €1,099 million compared to December 31, 2009. This increase is due to capital expenditure of €1,545 million, equity investments of €4 million, depreciation and amortisation of €517 million, disposals of fixed assets and write-offs of €9 million, disposals of investments of €14 million and the positive effect on non-current assets deriving mainly from the translation of financial statements in foreign currencies of €90 million.

Net current assets decreased by €11 million from negative €647 million at December 31, 2009 to negative €658 million at December 31, 2010, mainly due to the change in working capital.

The **provision for employee benefits** amounted to €193 million, representing an increase by €11 million compared with December 31, 2009.

As a result of the above, **net capital employed** increased by €1,077 million to €7,417 million at December 31, 2010, compared to €6,340 million at December 31, 2009.

Shareholders' equity, including minority interest, increased by €659 million to €4,154 million at December 31, 2010, versus €3,495 million at December 31, 2009. This increase was related to net profit for the year of €894 million and the positive effects arising from the translation into euro of financial statements expressed in foreign currencies and from other variations (€102 million), which were partially offset by changes in the fair value of exchange rate, interest rate and commodity hedging instruments (€74 million) and dividend distribution (€263 million).

The increase in net capital employed, which was only partially offset by the increase in shareholders' equity, led to an increase in net borrowings which, at December 31, 2010, stood at €3,263

million, compared to €2,845 million at December 31, 2009, representing an increase by €418 million.

Analysis of net borrowings

(€ million)	Dec. 31, 2009	Dec. 31, 2010
Financing receivables due after one year	(8)	(3)
Payables to banks due after one year	200	200
Payables to other financial institutions due after one year	1,596	2,687
Net medium/long-term debt	1,788	2,884
Accounts c/o bank, post and Group finance companies	(969)	(923)
Cash and cash equivalents	(17)	(7)
Financial assets held for trading or available for sale	(36)	-
Financing receivables due within one year	(68)	(20)
Payables to banks due within one year	327	284
Payables to other financial institutions due within one year	1,820	1,045
Net short-term debt	1,057	379
Net borrowings	2,845	3,263

The fair value of derivative assets (liabilities) is detailed in Note 7 'Other current assets', Note 19 'Other current liabilities' and Note 24 'Other non-current liabilities'. Net borrowings includes the fair value of interest rate swap assets (liabilities).

A breakdown by currency of gross debt, amounting to €2,417 million, is provided in Note 15 'Short-term debt' and Note 20

'Long-term debt and current portion of long-term debt'.

Statement of comprehensive income

(€ million)	Dec. 31, 2009	Dec. 31, 2010
Net profit (loss) for the year	775	894
Other items of comprehensive income:		
- change in the fair value of cash flow hedges (*)	193	(94)
- investments carried at fair value	1	-
- exchange rate differences arising from the translation into euro of financial statements currencies other than the euro	(8)	52
- gain on disposal of a business unit taken to equity reserve account	-	14
- other changes	-	1
- income tax relating to other items of comprehensive income	(26)	16
Other items of comprehensive income	160	(11)
Total comprehensive income for the year	935	883
Attributable to:		
- Saipem	894	828
- minority interest	41	55

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

Shareholders' equity

(€ million)

Shareholders' equity including minority interest at December 31, 2009	3,495
Total comprehensive income	883
Dividend distribution	(263)
Sale of treasury shares	35
Cost related to stock options	3
Other changes	1
Total changes	659
Shareholders' equity including minority interest at December 31, 2010	4,154
Attributable to:	
- Saipem	4,060
- minority interest	94

Reconciliation of statutory net profit and shareholders' equity to consolidated net profit and shareholders' equity

(€ million)	Shareholders' equity		Net profit	
	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2010
As reported in Saipem SpA's financial statements	1,188	1,075	490	85
Difference between the equity value of individual accounts of consolidated companies with respect to the corresponding book value in the statutory accounts of the Parent Company	1,844	2,672	306	862
Consolidation adjustments, net of effects of taxation:				
- difference between purchase cost and underlying book value of net equity	819	825	(1)	(1)
- elimination of unrealized intercompany profits	(299)	(291)	28	21
- other adjustments	(57)	(127)	(48)	(73)
Total shareholders' equity	3,495	4,154	775	894
Minority interest	(61)	(94)	(43)	(50)
As reported in consolidated financial statements	3,434	4,060	732	844

Reclassified cash flow statement ⁽¹⁾

Saipem's reclassified cash flow statement derives from the statutory statement of cash flows. It enables investors to understand the link existing between changes in cash and cash equivalents (deriving from the statutory cash flow statement) and changes in net borrowings (deriving from the reclassified cash flow statement) occurring between the beginning and the end of the year. 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 year 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; (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.

(€ million)	2009	2010
Net profit	732	844
Minority interest	43	50
<i>Adjustments to reconcile cash generated from operating profit before changes in working capital:</i>		
Depreciation, amortisation and other non-monetary items	482	531
Losses (gains) on/impairments of current assets	-	(17)
Dividends, interest, extraordinary income/expenses and income taxes	320	382
Net cash generated from operating profit before changes in working capital	1,577	1,790
Changes in working capital related to operations	(331)	(220)
Dividends, interests, extraordinary income/expenses and income taxes received (paid) during the year	(279)	(246)
Net cash flow from operations	967	1,324
Capital expenditure	(1,615)	(1,545)
Investments in acquisition of consolidated companies	-	(4)
Disposals	9	53
Other cash flow related to capital expenditures, investments and disposals	11	-
Free cash flow	(628)	(172)
Repayment of debt related to financing activities	184	41
Changes in short and long-term financial debt	219	259
Sale of treasury shares	7	35
Cash flow from capital and reserves	(239)	(263)
Effect of changes in consolidation and exchange differences	45	44
CHANGE IN CASH AND CASH EQUIVALENTS FOR THE YEAR	(412)	(56)
Free cash flow	(628)	(172)
Sale of treasury shares	7	35
Cash flow from capital and reserves	(239)	(263)
Exchange differences on net borrowings and other changes	47	(18)
CHANGE IN NET BORROWINGS	(813)	(418)

(1) See 'Reconciliation of reclassified balance sheet, income statement and cash flow statement to statutory schemes' on page 62.

Net cash flow from operations (€1,324 million) only partially funded capital expenditures, thus generating a negative free cash flow of €172 million.

Cash flow from capital and reserves, which amounted to a negative €263 million, were due to the payment of dividends. The sale of treasury shares for incentive schemes for senior managers generated a positive cash flow of €35 million, while the effect of exchange differences on net borrowings and other changes produced a net outflow of €18 million.

As a result, **net borrowings** increased by €418 million. In particular

Net cash generated from operating profit before changes in working capital of €1,790 million related to:

- net profit for the year of €894 million, including minority interest of €50 million;
- depreciation, amortisation and impairment of tangible and intangible assets of €517 million, the change in the provision for employee benefits of €13 million and other changes of €1 million;
- net gains on the disposal of assets, which had a negative effect of €17 million;
- net finance expense of €37 million and income taxes of €345 million.

The negative change in working capital related to operations of €220 million was due to financial flows of projects underway.

Dividends, interests and income taxes paid during 2010 of €246 million were mainly related to taxes paid and refunded and to the purchase and sale of tax credits.

Capital expenditure in 2010 amounted to €1,545 million. Details of investments by sector are as follows: Offshore (€713 million),

Offshore Drilling (€553 million), Onshore Drilling (€254 million) and Onshore (€25 million). Additional information concerning capital expenditure in 2010 can be found in the 'Operating review' section.

New equity investments amounted to €4 million.

Cash flow generated by disposals amounted to €53 million.

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 Capital Employed (ROACE) operative

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 year, which amounted to €2,225 million at December 31, 2009 and €2,312 million at December 31, 2010.

		2009	2010
Adjusted net profit	(€ million)	775	878
Exclusion of net finance expense (net of tax effect)	(€ million)	73	80
Unlevered adjusted net profit	(€ million)	848	958
Capital employed, net:	(€ million)		
- at the beginning of the year		4,810	6,340
- at the end of the year		6,340	7,417
Average capital employed, net	(€ million)	5,575	6,879
Adjusted ROACE	(%)	15.2	13.9
Return On Average Operating Capital	(%)	23.8	20.8

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 the Group's level of indebtedness, calculated as the ratio between net borrowings and shareholders' equity. Management's objective is to achieve a leverage ratio no higher than 0.5 during the period of implementation of the four-year plan.

	2009	2010
Leverage	0.83	0.80

Sustainability

Saipem's 2010 sustainability performance is presented in detail in the Sustainability Report, a document the company publishes on an annual basis as a means of communicating with its stakeholders with regard to the programmes, actions and indicators that constitute its sustainability effort.

During the year, Saipem continued to work towards integrating a sustainable approach and the use of sustainability tools within its stakeholder relations, especially with clients and local communities, in its operations and in a number of important business projects.

The Sustainability Committee, which exercises a sustainability strategy setting role¹, met twice in an official capacity during 2010. The Committee discussed sustainability programmes and approved the 2009 Sustainability Report.

Local content and externalities

Saipem's sustainability strategy is increasingly focused on maximising and developing the quality of local content as a contribution to the socio-economic context in the areas in which it operates. This approach has the objective of favouring sustainable development and wealth creation by fostering and developing local employment, the skills of local resources and local suppliers. A project to analyse and measure the externalities associated with Saipem's local content strategy (i.e. the direct, indirect and induced socio-economic impacts of the strategy) was launched in 2009 at Ersai (a Kazakh company, where ownership is 50% Saipem, 50% local) and continued with two assessments carried out in Angola and Peru.

The results of the analysis confirmed the positive effects of Saipem's local content strategy on socio-economic development and skills and resources in the two areas in question. Further details on the two assessments can be found in the 2010 Sustainability Report and will be presented to relevant stakeholders during 2011.

Relationships with stakeholders

In April 2010, the fourth Sustainability Report, detailing the Group's sustainability performance in 2009, was published. The report, which was certified by PricewaterhouseCoopers and published with a leaflet containing a brief overview of the report, included detailed information on areas in which Saipem has a strategic presence and on a number of significant local operations.

The local stakeholder communication initiatives continued during 2010. Saipem produces and publishes Sustainability Case Studies regarding key countries and key projects which have stood out for their good sustainability practices and which may represent a useful point of reference for future projects in specific countries or geographical areas. During 2010, new Country Case Studies were published on Peru and Kazakhstan, while two new Project Case Studies were published on LNG Marine Facilities - CDB Melchorita (Peru) and West Delta Deep Marine PhIV and Sequoia Joint Development (Egypt). Additional case studies concerning areas of strategic interest for Saipem are currently being prepared. All of the relevant documentation can be found on the sustainability section of the Saipem website at www.saipem.com/sustainability.

Recognition of the financial community

Saipem's sustainability effort was recognised by both ratings agencies and financial institutions during 2010. Following its inclusion, during the previous year, in the Dow Jones STOXX sustainability index, Saipem was included in 2010 in the DJSI World index. In March 2010, Saipem was also listed in the FTSE4Good. This listing was confirmed in the index's September review. Saipem was also selected for listing in the Ethibel EXCELLENCE Investment Register and was included in the ASPI (Advanced Sustainable Performance Indices) Eurozone® indexes. Finally, for the second year running, Saipem was recognised as a 'Sustainability Leader' in the Oil Equipment & Services sector in the SAM Sustainability Yearbook 2010.

Community sustainability projects

Sustainability projects continued during the year in areas where Saipem operates through the implementation of support programmes for business growth (China, Kazakhstan, Peru), the improvement of education and health facilities (Algeria, Angola, Azerbaijan, Congo, Kazakhstan) – including in partnership with local institutions – and the development of local resources. Further details on sustainability strategies, programmes and actions can be found in the 2010 Sustainability Report, which is available on the Saipem website and is also distributed to relevant stakeholders. The report contains detailed information on the most significant countries from a sustainability perspective (i.e. Algeria, Angola, Azerbaijan, Brazil, China, Congo, Indonesia, Kazakhstan, Libya, Nigeria, Peru, Saudi Arabia).

(1) The Sustainability Committee is chaired by the Saipem Chief Executive Officer and consists of all the Directors of the Corporate functions, the deputy CEO of Saipem SA, the Chief Operating Officers of the Business Units and the Director of Integrated Projects.

Research and development

Asset technology

Saipem Group's asset technology initiatives (i.e. relating to vessels, equipment, processes) are conducted with the aim of improving the sustainability of the Group's activities in terms of competitiveness, operational reliability and lower environmental impact through technological innovation.

During 2010, a number of projects moved from the concept phase to the experimental phase.

The Field Joint Coating systems, the technology for remote monitoring of buckling during pipe launch operations and a number of excavation technologies for certain critical operating scenarios in fact all entered the results validation phase.

The year also saw the completion of initial studies of sustainable construction technologies for use in particularly sensitive marine environments (e.g. delicate ecosystems/seabeds) with the aim of mitigating environmental impact and restoring affected areas.

Meanwhile, work continued on the detailed design of the main technical systems and subsystems for the launch and production facilities of the new pipelay vessel CastorOne.

In addition, work continued on the development of the high capacity systems for pipe abandonment and recovery operations and the launch of large pipes in ultra shallow waters, the systems for monitoring pipe conditions during laying operations, pipe loading equipment and studies for improving the responsiveness of the dynamic positioning systems in extreme sea conditions.

Finally, two important events were held to increase the dissemination of Saipem technological know-how and innovation: the 'Offshore and Arctic Technology Development Workshop' and the latest edition of the Trofeo dell'Innovazione (Innovation Trophy).

Offshore technology

The Group's activities in the offshore technology area during 2010 focused on the development of innovative solutions for offshore oil and gas production in terms of field architecture, concepts and technologies. The main activities carried out during the year pertained to solutions for the offshore developments in frontier areas (e.g. deepwater, Arctic), and the monetisation of offshore natural gas reserves using offshore liquefaction technology. Studies on systems for the exploitation of renewable marine energy sources were also carried out.

In the subsea processing area, the effort was focused on a series of tests on new system and subsystems developed in previous years:

- the new, patented multipipe gas/liquid gravity separation system went successfully through a second extensive phase of technical performance testing in the frame of a JIP (Joint Industry Project) supported by a number of major oil companies. In this phase, the performances of the system were validated through tests conducted under real flow conditions (gas/oil mixture, under P&T conditions);
- the development of the liquid/liquid gravity spool separation system continued with the pre-design work and the preparation for a first performance testing phase. The validation of the concept should be carried out in 2011;
- 2010 activities in subsea processing works focused on subsea solutions for the treatment of produced water.

In the SURF (Subsea, Umbilical, Riser and Flowlines) area, progress was made on activities started in the previous year, including developments on new risers for ultra deep water applications (up to 3,000 m) or for intermediate water depths (between 300 and 500 m), on thermal insulation of subsea elements with complex geometries (FLET, ILT, Spools) and on active heating solutions and anticorrosion technologies.

The realisation of subsea field architecture studies for various operators showed the attractiveness of new Subsea Processing Design and innovative SURF technologies and helped identify major emerging needs in terms of new solutions (related to flowlines, risers, subsea treatment, subsea power transmission and control).

Activities for floating LNG (FLNG) increased in 2010, in particular with regard to the development of:

- medium-scale generic LNG FPSO;
- a tandem offloading system employing floating cryogenic hoses.

Work on Arctic offshore developments continued in 2010 with participation in various development programs (including basin tests and development of specific softwares) with the aim of better assessing and predicting the operating behaviour of structures in Arctic conditions and with specific applied loads. 2010 activities in the offshore renewable energy area were mainly focused on the full scale (10 m diameter) prototype of the Sabella turbines, which could potentially be installed off the coast of Brittany in the coming years. The participation of the French government in funding the project was officially announced at the end of 2010.

Onshore technology

In support of Saipem's core activities in designing and building modern, cost-effective and sustainable upstream, midstream and downstream onshore plants for its customers worldwide, Saipem pursued the development of select proprietary process technologies and related know-how, as well as the application of the most advanced third-party state-of-the-art technologies, focusing in 2010 on the following key areas.

Continuing incremental performance improvements to its Snamprogetti™ Urea fertiliser production technology, licensed to date to 120 units world-wide.

Following the successful design and in some cases the forthcoming start-up of the largest urea complexes in the world (Engro in Pakistan; Qafco V and VI in Qatar and Matix in India), based on single trains of 3,850 t/d, a design basis has been developed for a possible future 'jumbo' complex larger than 5,000 t/d, utilising the same well-proven sequence of technologies. Current development activity continues to focus on optimizing piping, instrumentation and lay-out issues, as well as on special improved steels.

An updated mathematical model of the urea plant high pressure section was developed jointly with Eni. Once finally validated, this model will be used for further process improvements.

In addition, the design of a pilot ammonia recovery unit is under execution as part of the Urea Zero Emissions project, which will be located in a commercial scale plant.

Within the context of the Enel/Eni pilot CCS (Carbon Capture and Storage) program, Saipem is applying – among others – its pipeline design knowledge to the section related to the transportation of CO₂ in dense phase. The design for Eni of a pilot pipeline loop, to be located in the Enel power station of Brindisi, was completed during the year. Once built, its operation will provide practical know-how for future CO₂ pipelines.

An MTBE cracking unit based on proprietary technology to produce high purity isobutene has been successfully started-up in India, using a new catalyst.

Saipem is close to completing the construction of the first commercial unit of ENSOLVEX, a new proprietary technology for the remediation of soils and sediments contaminated by organic compounds, at the Eni R&M refinery in Gela, Italy. The pre-commissioning has been rescheduled to 2011, due to permit issues.

Saipem has completed the commissioning of the first semi-commercial plant to remove CO₂ from refinery streams by biofixation, using microalgae selected by Eni R&M laboratories. The biomass produced as a result could be used in the future for the production of biofuels.

Saipem has filed an additional patent application for 'Zero Emission Sulphur Handling and Transportation', a new method of solidifying liquid sulphur in solid blocks, thus consolidating its proprietary position in sulphur management technology.

Saipem continues to provide engineering and project management support for the technology development and commercial implementation of certain Eni proprietary R&D programs, foremost of which for EST - Eni Slurry Technology, for which a first full size commercial unit is currently in construction at the Eni R&M refinery in Sannazzaro, Italy.

Quality, Health, Safety and Environment

Quality

To ensure compliance with market requirements, which are extremely varied and competitive and with the international standard ISO 9001:2000, innovative project quality management and quality control tools continued to be defined and implemented. 2010 saw the continuation or commencement of the following initiatives:

In the Corporate and business support area:

- Customer Satisfaction: implementation of a project sponsored by top management for monitoring Saipem Group customer satisfaction. In addition to the publication of a dedicated Corporate Standard applicable to all Business Units, an online application was developed for recording and analysing clients' feedback;
- Communication and Training: in addition to the usual training activities regarding quality principles aimed at home office, project and operative personnel, 2010 saw:
 - the launch of an awareness campaign regarding quality principles in all Group sites using multimedia tools and posters connected with the theme of 'employee engagement';
 - the design and development of specific Quality Control training initiatives (basic course on NDT techniques and applicable regulations for Drilling Operations Quality personnel, QA/QC courses for Field Engineers);
- Knowledge Management & Sharing: beginning of design work on areas dedicated to the QHSE units of operating companies and main branches ('QHSE Corner') on the 'QHSE Site' portal, for the purpose of sharing know-how and storing documentation relating to pertinent issues.

In the Project Quality Management area:

- rationalisation and development of standard Project Quality Management systems for Business Unit (Onshore and Offshore) and Asset investment projects;
- completion of the 'Vessel Reporting System' project for evaluating the quality performance of Offshore Construction vessels, including the development of a dedicated periodic reporting system;
- implementation of engineering review and control and Integrated Design Review methodologies on EPIC projects with a view to a potential future consolidation/implementation at Offshore Business Unit and Asset Investment project level;
- performance of an integrated audit of internal processes with a special focus on the application of the Golden Rules & Silver Guidelines defined by Saipem Top Management.

In the Quality Control area:

- mapping and standardisation of processes and related applications in support of Quality Control activities in fabrication yards;
- development of a management system for controlling tubular goods inspections, aimed at improving the planning, effectiveness and efficiency of inspections and at ensuring material traceability;
- completion of experimentation at fabrication yards of phased array non-destructive testing and acquisition of same. Phased array technology is a tried and tested methodology which is approved by clients and third party certification bodies;
- start of experimentation of new computerised Pipe Tracking System technologies with the objective of automating and improving traceability and control processes.

Saipem safety performance

Saipem's safety performance is continuously improving as a result of a constant effort to implement safe working practices, share lessons learned and develop the know-how and capabilities of personnel. The results achieved in 2010 are proof of this effort's positive effect on safety in the areas in which Saipem has operating companies and branches. Training centres have been set up in these areas in order to ensure the transfer of know-how and skills, while new safety initiatives have been launched and implemented with the aim of promoting safe working practices. However, in spite of the positive results achieved, the year saw a number of fatal accidents occur on Saipem projects.

In 2010, five accidents occurred in which six people – two Saipem employees and four members of contractor personnel – lost their lives. Two of the accidents occurred during drilling operations and three on onshore projects.

An analysis of lessons learned indicated a number of gaps in our systems, particularly with regard to the management of contractor staff and the implementation of the HSE management system on new projects, where HSE management systems are still in the initial phases of implementation, especially in relation to contractor activities.

The Lost Time Incident (LTI) frequency rate for 2010 was 0.40, which represents an improvement of 17% compared with the previous year, while the Total Recordable Incident frequency rate was 1.71 (improvement of 11%). Both indicators are calculated per million man-hours.

Leadership in Health and Safety

With regard to the Leadership in Health and Safety programme, 2010 brought with it a series of important developments and challenging commitments, including the following:

- in May 2010, the Leadership in Safety programme was changed to Leadership in Health & Safety (LiHS). The name change indicates a new company-wide commitment to promoting a health and safety culture at the work place as well as outside of work, with the aim of ensuring a better future for all;
- in 2010, Saipem Top Management launched the new phase of the LiHS programme, which is geared towards the introduction within the Group of 5 non-negotiable behaviours known as 'Leading Behaviours' via an innovative approach to cultural change based on emulation of positive behaviour. The new phase will be supported throughout 2011 by a major communication campaign;
- in the three years since its launch, the three phases of the LiHS programme have been rolled out to more than 20,000 employees. All three phases continue to be implemented across Saipem;
- in September 2010, the articles of association of the Fondazione LHS (LHS Foundation) were signed. The foundation, which was created to promote the principles of the LiHS programme, will be involved in research work and in training/information regarding health and safety in the work place with a focus on leadership and behavioural aspects.

HSE training protocols

During the second half of 2010, the Saipem SpA HSE training protocols were finalised. The training protocols define the basic rules for the development of training programmes for all Saipem professional roles and constitute the basis for the development, in accordance with legal requirements and Saipem policies, of yearly general Training Plans for professional roles and specific project Training Plans adapted to meet the requirements of a specific working environment.

Industrial hygiene

As a result of changes in national and international legislation, a series of new risk factors were used in the monitoring of work environments carried out at Saipem production sites in Italy and abroad. These were: noise, vibrations, microclimates, hazardous chemicals, electromagnetic fields, welding fumes, manual handling of loads and ionising radiation.

In parallel with the monitoring programme at the production sites, a survey and assessment campaign focused on Saipem office buildings throughout Italy was implemented. The campaign examined all those microclimate parameters that under adverse conditions can lead to the phenomenon known as 'Sick Building Syndrome' and essentially looked at the following factors: air quality, lighting, ergonomics and microclimate.

Following the completion of the monitoring programmes, risk assessment documents were produced. The documentation contains the results of the surveys carried out and details the corrective actions (technical and/or organisational-procedural) to be implemented in areas where the limits established in national and international health and safety regulations were exceeded.

Environmental awareness campaign

In June 2010, on World Environment Day, the Corporate QHSE Department launched its own environmental awareness campaign. To ensure all Saipem personnel were made aware of the initiative, it was publicised through an announcement on the company intranet and an article published in the in-house magazine 'Orizzonti'.

The principal themes of the 2010 campaign were:

- energy saving, with the objective of reducing energy consumption and, consequently, the emission of pollutants into the atmosphere;
- oil spill prevention, with the objective of increasing the level of attention during critical activities where there is a risk of oil spills on land or sea;
- waste recycling, with the objective of increasing attention to and awareness of the benefits of correct waste segregation/separation.

The core message of the campaign was that, with minor lifestyle changes and at no cost whatsoever, each of us can make a difference by adopting environmentally responsible behaviour.

Health and Occupational Medicine

The main objective of Saipem's Italian Health and Occupational Medicine service is to carry out health surveillance activities in compliance with specific requirements deriving from European directives and Italian law. The service has agreements in place with more than 20 Occupational Medicine Centres in Italy for the implementation of reliable and efficient health surveillance programmes (including monitoring of alcohol and drug use). The clinical side of the service provided, which involves regular preventive check-ups on workers' health, is in reality only one aspect of the health surveillance activities. For example 'Pre Travel Counselling' training activities are organised to facilitate and promote a travel medicine culture by keeping workers informed with regard to specific risks present in his/her country of destination and the preventive measures that should be adopted.

Saipem's health and medical service continued during 2010 with its usual activities of prevention, protection and promotion and the provision of emergency medical assistance to employees at companies and operating sites, within the framework of the Health Management System (GIPSI).

The initiatives launched by the health and medical department during the year included:

- the BE.ST (BEtter lifeSTyle) programme, which was launched in September on the Saipem 7000. The programme was developed in collaboration with catering firm Ligabue and the CSA (Centro Studi dell'Alimentazione - Centre for Dietary Studies). The objective of the programme is to create alternative, nutritionally-balanced menus based on the Mediterranean diet, with the aim of improving the lifestyle, wellbeing and eating habits of site personnel through a focus on increased health awareness;
- revision/update of operating site risks using a dedicated Health Risk Assessment software customised for specific Saipem projects and geographical areas;
- the implementation of a Telediabetology pilot study on board the Saipem 3000, which confirmed the system's effectiveness

in the offshore environments typical of the Oil & Gas industry. Judging by the results of the pilot, Telediabetology will open up new horizons in terms of the remote management, using e-health technology, of not only known cases of diabetes but also of persons who are at risk of developing type-2 diabetes due to a lack of information, monitoring and/or incorrect management.

The new version of GIPSI was launched, with the objective of simplifying the reporting system through the creation of a single, all-inclusive programme which will be used to manage all health related information in real time by competent personnel. The implementation of the new electronic reporting system will also contribute towards achieving compliance with the MEDES department's environmentally-friendly 'Zero Paper' policy.

Human resources

Workforce

Due to the increase in the backlog of orders and the commencement of operations by a number of new assets, 2010 saw a rise in the workforce from 36,468 resources, of which 13,925 with critical professional skills, at year end 2009, to 39,249, of which 15,224 with critical professional skills, at year end 2010. In addition to this growth in absolute terms, the ratio between resources that are critical for success and business sustainability and the total workforce rose from 38.2% in 2009 to 38.8% in 2010.

The year also witnessed two other significant trends. The number of female managers rose in 2010 by 0.8%, a not inconsiderable figure if we take into account the fact that Saipem's workforce tends to be operational and the geographical areas in which personnel is deployed. Finally, local managers increased from 15.9% in 2009 to 17.8%.

Industrial relations

Saipem's approach in industrial relations is to pay careful and close attention to the socio-economic context and to the legislation in force in the countries in which it operates, with the aim of ensuring harmonisation and optimal management, in accordance with company policy, of relations with trade unions, employers' associations, institutions and public bodies. 2010 saw the completion of discussions with national representatives of Trade Union organisations from the Energy and Maritime sectors with respect to the following issues of interest to Saipem and Group companies:

- renewal of the agreement relating to the seagoing allowance for seamen, masters and chief engineers serving on board special vessels;
- renewal of the National Collective Labour Agreement for the Energy and Petroleum Industry for the three-year period 2010-2012, including definition of contractual increases and significant agreements on welfare (supplementary pension funds, supplementary health insurance, etc.);
- signing of new regulations for drilling operations offshore Italy, including definition of new shift regulations and specific allowances.

The increasingly globalised labour market – in which a growing number of international institutions are involved – coupled with the growing internationalisation of Saipem itself, the increasingly decentralised nature of its operations in frontier areas and finally the importance of the human factor make centralised monitoring/coordination of Industrial Relations fundamental. To

this end, an information channel was created through the Overseas Industrial Relations function that aims to enable centralised monitoring of trade union activities at associate and branch companies, thus helping to ensure a global strategy/philosophy that is in line with international agreements. During the year, the function monitored the development of talks for the renewal of work contracts in Kazakhstan, which are expected to be concluded in 2011.

Human resources

In view of an international market that is characterised by a high degree of instability and change and in line with the new organisational structure of the Human Resources function, 2010 saw the launch of a series of initiatives aimed at recovering efficiency and improving performance. The initiatives involved the introduction of systems for coordinating and increasing decentralised personnel management offices (at Business Unit and geographical level both in Italy and abroad) and systems for monitoring and reporting on the development of significant trends connected with Italian, local and international personnel and their comparison with international benchmarks.

On the coordination and support side, new IT tools (some of which are already available for use) and training initiatives (classroom-based and on-the-job) with regard to general and specific issues (taxes and social security, immigration procedures by country, etc.) are due to be introduced. The reporting system, meanwhile, contains information on applicable legislation, references to national collective labour agreements and group guidelines, in order to ensure that a uniform approach is applied to human resources issues.

With regard to the management of resources involved in international assignments, a number of projects were implemented to incentivize and support geographical mobility, in line with international best practices.

Development, Training and Organisation

The uncertain conditions and cautious approach that continued to hold sway on the international markets and in particular on the labour markets led during 2010 to a review of training, development and compensation tools and policies in favour of a self-service/self-development approach geared towards maximising the pro-activity of resources in terms of defining their own development and training plans and seeking increased engagement with their line managers.

Selection activities focused mainly on recruiting experienced personnel and on taking advantage of market opportunities. 2010 saw a fall in the numbers of young personnel and graduates hired as well as the definition and planning of a series of initiatives aimed at technical institutes in Italy designed to enhance the group's image and improve its ability to recruit Italian school leavers with a view to balancing out the mix of graduates and school leavers at the company.

The Saipem e-recruiting portal, eFesto, was provided with enhanced and additional functionalities to ensure greater traceability in all phases of the recruitment process and accurate and effective coordination and control capabilities.

Local Content initiatives were launched through training and development campaigns in Kazakhstan and Angola with the objective of increasing the use of local resources in operations positions. In Algeria, in collaboration with the University of Oran, training programmes aimed at young local engineers were created with the aim of developing technical/specialist skills relating to Project Control and HSE and to the Engineering & Construction sectors.

Training activities were characterised by a marked focus on 'law compliant' initiatives. A series of courses and seminars for Employers, Safety Managers, Safety Supervisors and workers regarding the new work safety legislation introduced under Legislative Decree No. 81/2008 was organised. In addition, e-learning courses for training related to Legislative Decree No. 231/2001 were started. The courses now include the promotion of the Code of Ethics. Training has also been developed for members of the Compliance Committees of subsidiaries in Italy and abroad. Two important conferences were organised during the year. The first was held in order to raise awareness of anti-corruption legislation and the relevant procedure adopted within Saipem, while the other was aimed at ensuring the implementation of the code of practice regulating operations with related parties, in compliance with the regulations issued by Consob. Finally, e-

learning courses regarding security were launched with the objective of providing resources working abroad with an adequate level of knowledge of the principal security issues.

The year also saw the start of an intensive training programme aimed at developing and consolidating the technical/specialist capabilities and skills required for roles that are critical to Saipem's business but that are difficult to locate on the market. Training initiatives in the Offshore sector included a course for Prefabrication Supervisors (which commenced in 2009), a Field Engineering training course and the implementation of a training programme for Offshore Crane Operators involving a mixture of theoretical classes and practical experience at a specially-created training centre in Rotterdam.

In the Onshore area, support activities were carried out in connection with the redefinition of the role of the project engineer, while work continued in relation to the consolidation of the roles of Construction Manager and Site Assistant. The year also saw the review of the Project Management training programme. Finally, training was commenced in support of Saipem's investment plans, with intensive training programmes taking place for personnel assigned to new vessels that will shortly begin operations.

In terms of training for management, personnel courses were introduced for both senior and middle managers with the principal aim of enhancing leadership, communication and resource management and development skills.

Human resource development activities was the area most affected during the year by the introduction of new models and by reviews and updates of methodologies and tools. The personnel 'segmentation' process (i.e. the procedures and criteria used by Saipem to identify the most desirable resources on the market) received a complete overhaul. As a consequence, the young graduates monitoring process was also updated. At an international level, the monitoring and career planning system for very critical and talented resources was improved.

	(units)	Average workforce 2009	Average workforce 2010
Offshore		12,181	13,533
Onshore		14,470	14,916
Offshore Drilling		1,531	1,508
Onshore Drilling		4,588	5,213
Staff positions		3,454	3,258
Total		36,224	38,428
Italian personnel		7,218	7,071
Other nationalities		29,006	31,357
Total		36,224	38,428
Italian personnel under open-ended contract		6,322	6,174
Italian personnel under fixed-term contract		896	897
Total		7,218	7,071
	(units)	Dec. 31, 2009	Dec. 31, 2010
Number of engineers		7,107	7,244
Number of employees		36,468	39,249

During the year, the 'Feedback' project was launched for all Italian and international managerial resources. The objective of the project is to enhance these resources' abilities to manage and develop their staff in accordance with the Model of Excellence, which sets out the attitudes, characteristics and skills needed for success.

The programme known as 'project Generation Y', which was launched in 2009 and which was designed to enhance Saipem's policies for the management and development of young resources, was completed during the year. The initial proposals generated by the project (which were verified and validated using the results of a statistical analysis drawn from a survey of young Italians) are currently being implemented.

One of the most important initiatives carried out during the year was the engagement analysis of middle management employees (approximately 3,400, with a response index of above 70%) carried out at operating companies in Italy, France and the United Kingdom with the aim of analysing and identifying the factors driving the motivation and involvement of company resources. The results of the analysis have been communicated to all employees, while action plans are currently being implemented.

Market trends and global economic conditions, which remained essentially stable compared with the previous year, continued to dictate a cautious attitude in relation to compensation policies, in particular variable incentive plans (including project incentives) and retention systems.

Compensation policies regarding the fixed and variable components of remuneration remained on average at the levels recorded in 2009, with almost complete coverage of local inflation rates and compensation of critical positions at around the market median. In relation to management incentive schemes, the current short-term monetary incentive scheme, which is linked to individual performance and the long-term monetary scheme, linked to the company's performance in the long-term, was confirmed during the year for Italian and international managerial resources.

Individual annual monetary incentives, which were based on actual 2009 management performance, were paid out in April to 222 Italian senior managers, representing 79.3% of the total, with a total cost outlay of €6.5 million (22% of total compensation at January 1, 2010). The new targets for 2010 for the same population of senior managers were also defined. Additionally, July 2010 saw the allocation of deferred monetary incentives to 221 senior managers, representing 78.9% of senior managers, with a total cost outlay of €5.3 million.

Finally, the Board of Directors approved a new long-term monetary scheme to replace the stock option plan that ran until 2008, in order to ensure that the compensation package remained in line with the market average. The scheme was implemented in October 2010 for 70 critical Italian resources, representing 25% of Italian managerial resources.

The international Global Grading project, which was completed during the year, involved the development of an internal grading system based on typical positions in Saipem's market sector. This, together with the introduction of a new system for the calculation

of expatriate compensation packages is designed to aid the interpretation of compensation analyses, the definition of local compensation strategies and the coordination of actions aimed at ensuring mobility and obtaining international wage comparisons.

In terms of communication activities, the year saw a continued effort to enhance the intranet portal with the addition of new functionalities allowing for the introduction of interactive features such as forums, video sharing and message boards. As part of the drive to extend the intranet functions to overseas companies and feature more local content, 2010 saw the launch of a number of channels in French aimed at more than 2000 users.

New content was also added to the portal in relation to development activities, such as the Model of Excellence, the site for Knowledge Owners and the results of the Engagement Survey of Middle Managers, which were commented on in a video and a powerpoint presentation.

A new corporate video entitled One World One Word was launched to coincide with the commencement of a campaign to enhance the corporate image and reinforce employees' sense of belonging.

During 2010, Saipem's organisational strategy and actions moved towards the creation of a structure capable of providing the business with a high level of operational flexibility and the maximum possible efficiency, while optimising the available financial, technical and human resources.

In this context:

- initiatives were carried out to optimise procurement processes with the objective of mitigating the risks associated with price volatility and reducing the time required to purchase goods and services by ensuring greater involvement of the Business Units from the project acquisition phase;
- the project launched to increase the competitiveness of the Drilling Business Unit was concluded during the year. The project comprised the definition and implementation of a series of organisational changes that regarded structures and processes with the aim of maximising the unit's effectiveness and efficiency.

The above organisational initiatives were conducted without compromising Saipem's governance model, which ensures an effective system of separation and reciprocal control of responsibilities and powers. The changes currently being implemented in national and international regulatory and control systems in fact identify a governance model geared towards achieving a continuous effort to improve the design of certain critical company bodies, systems and procedures (appointment of management and control bodies of subsidiaries, system of management for powers of attorney, definition of organisational structures), as central to the management of an enterprise.

Other actions included:

- the start of a review of the current system of procedures and regulations with the aim of rationalising and increasing the effectiveness of the documentation used to provide guidance and regulate the company's operations and at the same time enabling the company to respond more rapidly to organisational changes and developments in the applicable external regulatory framework;

- the systemization of the organisational structures and governance models of Saipem SpA branches, which included the issue of a standard Matrix of Authorizations applicable in all branches.

As part of the organisational restructuring initiatives, the Quality, Health, Safety, Environment and Sustainability function underwent a reorganisation during the year. This consisted of the adoption of an organisational model that has already been implemented in a number of staff and business support functions with the objective of increasing the effectiveness and rapidity with which the function responds to the needs of the business units.

With regard to foreign operating companies, an important organisational restructuring initiative was completed at Saipem sa with the aim of providing the company with a high level of flexibility to facilitate the management of workloads relating to the Onshore and Offshore business units. This involved the creation of two new positions responsible one for the joint management from a human resources perspective of the Onshore and Offshore business units and the other for the centralised management of the engineering competencies required for the implementation of onshore and offshore projects.

Information Technology

Information, Communication, Technologies

2010 again saw a number of change initiatives implemented on Saipem's information systems with the aim of improving the level of service provided, in line with company requirements. A number of activities were carried out to complete long-term plans for the enhancement of the principal management systems: the adoption of new functionalities offered by release 6.0 of SAP R/3; the revision of the system architecture of the SAP BW/BO-based datawarehouse; and the continuation of the upgrade of the Oracle Peoplesoft-based personnel management system. In addition, there was a review of the business applications portfolio with the objective of adapting them to meet the requirements of the Oil & Gas market, which are constantly evolving.

Under the IBIS Consolidation initiative (connected with the IBIS – Integrated Business Information Systems – long-term investment programme), following the upgrade to SAP R/3 version 6.0 implemented in the previous year, 2010 saw a review of the work processes supported by the application with the purpose of adopting and adapting the added functionalities offered by the new version. The principal initiative was the enhancement of the current IBIS model through the design and implementation of an accounting model for managing working capital based on SAP New General Ledger. The project also encompassed the upgrade where possible of a part of the ABAP custom code in order to take maximum advantage of native SAP functionalities.

At the same time, a number of SAP roll outs were also carried out, as well as a revision of the application model in order to accommodate the new functionalities required for the roll out at the Peruvian company Petrex.

In coordination with the roll outs initiative, an important functional and technical upgrade was carried out on Spectec's asset management application, AMOS. In order to mitigate the risks associated with the upgrade, a new improved project management methodology for use on ICT projects was adopted, which contributed to the success of the initiative. The methodology is part of an improvement process that the ICT function has been developing for some time with a view to enhancing its change management capabilities.

The WMS Workload Management System, the integrated system for project resource workload planning and control, has reached maturity and its roll out has been completed for the majority of engineering and monitoring resources. Thanks to the widespread roll out of the WMS by the central Workload Management function in Group companies that carry out engineering and monitoring services, this innovative management environment can now be considered a 'mainstream' application. It is currently being extended to other Saipem professional families and lines of business.

In the business support area, a large number of initiatives were carried out to improve response time and quality for engineering design and construction activities. The most important partnerships in this sector are with the suppliers Intergraph, Bentley, Aveva and Tekla, with whom we have introduced numerous changes to the engineering and construction support systems in an attempt to reduce the level of product customisation in favour of the adoption of standard solutions. Development of these solutions is guided by Saipem through intensive dialogue with the suppliers aimed at ensuring its requirements are met.

By the end of 2010, the shared development schedule for a series of new functionalities in Intergraph's SmartPlant Material Enterprise and Reference Data application suite had reached the pilot phase. A finished product fully meeting with Saipem's requirements should be completed during 2011, with the objective of rolling out the new version of the tool in Saipem's principal engineering centres, sites and fabrication yards. This should enable Saipem to define a multi-year change plan to replace an application suite developed in-house – which is still in use in the onshore business unit – with a product that comes with the full support of its developer, Intergraph, thus mitigating and eventually eliminating what constitutes a significant operating risk.

In terms of IT infrastructure, the year saw both the switchover to the Saipem.com domain, which was carried out successfully for both the company website and the email system, and the continuation of the WIE - Windows Infrastructure Evolution project, whose objective is the group-wide overhaul of infrastructure and workstations through the introduction of the functionalities offered by the latest Microsoft platforms. Following a pre-pilot phase which was used for the design of the structural elements of the new distributed Windows architecture, the design of a 'single forest model' was carried out. Deploying this model allows the dedicated technical component used to manage the email system to be integrated into the standard Windows domain. During the first half of 2011, a pilot project for the introduction of centralised automated management model of user services will be conducted at a number of international sites. The offices of Saipem sa in Paris will be involved in the project as of the initial conceptual design stage.

In telecommunications, 2010 saw the activation on Saipem vessels of the new satellite communications system with dedicated bandwidth provided by Telespazio, while the Orange contract for the network on terrestrial sites was renewed in collaboration with the Procurement function. In addition to the significant savings on running costs already achieved and those that will be obtained in 2011, an increase in the passband was included in the relevant contracts in order to increase the service offered to users.

As a result of the implementation of unified communications services, the reductions in telephony costs achieved through the use of IP technology for the transmission of voice conversations over a data network have now been consolidated at a group wide level within Saipem. The initiative was carried out in cooperation with Eni ICT.

ICT process governance in 2010 again focused on improving security performance. The year saw the launch of a new initiative involving the analysis of company data and the management of the associated risk. In addition, there were the positive results from the monitoring activities conducted in compliance with the Sarbanes Oxley Act and Law 262. Compliance activities, which were strengthened with the adoption of the international ISO framework 27001, are aimed at improving ICT Governance in the whole Saipem Group. Compliance assessments were carried out for nineteen Group companies, while remediation actions for the areas of weakness identified were monitored for the purposes of continuous improvement. This approach is combined with an intelligent use of the latest security technologies to enable Saipem to significantly reduce the risk of exposure of company systems and data to security threats which are increasingly commonplace in connection with the Internet and associated systems.

Corporate Governance Report and Shareholding Structure, pursuant to Article 123-*bis* of the Consolidated Finance Act¹ approved by the Board of Directors on March 8, 2011

The 'Corporate Governance Report and Shareholding Structure' (the 'Report') pursuant to Article 123-*bis* of the Consolidated Finance Act has been prepared as a separate document, approved by Saipem's Board of Directors on March 8, 2011, and published on Saipem's website at www.saipem.com under the section 'Corporate Governance'.

The Report was prepared in accordance with the criteria contained in the 'Guidelines for the preparation of the report on Corporate Governance - II Edition (February 2010)' published by Borsa Italiana SpA and in the Corporate Governance Code.

The Report provides a comprehensive overview of the Corporate Governance System adopted by Saipem SpA. It contains a profile of the Company and the principles by which it operates; information on the Company's shareholding structure and on its adherence to

the Corporate Governance Code (including the principle practices of governance applied and the principle characteristics of the risk and internal control management system in relation to the financial reporting process); and a description of the composition and operation of the administration and control bodies and their committees, their roles and powers and the criteria applied for determining the remuneration of Directors.

The report also indicates the procedures adopted with regard to 'Transactions involving interests held by board directors and statutory auditors and transactions with related parties', which can be consulted on Saipem's website www.saipem.com under the section 'Corporate Governance', the communication policy for institutional investors and shareholders and the policy regarding the disclosure of inside information.

(1) The Corporate Governance Report is published on Saipem's website www.saipem.com under the section 'Corporate Governance'.

Risk management

The main industrial risks that Saipem is facing and actively monitoring and managing are the following:

- (i) 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;
- (ii) the country risk;
- (iii) the project risk associated with the executions phase of engineering and construction contracts undertaken by the Onshore Construction, Offshore Construction and Asset Business Units.

For information regarding financial risks, see the paragraph 'Management of financial risks' in the summary of significant accounting policies section of the notes to the consolidated financial statements.

HSE risk

Saipem's business activities conducted both in and outside of 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. These laws and regulations require prior authorisation and/or the acquisition of a license before operations may commence and the compliance with health, safety and environmental protection regulations.

Environmental regulations impose restrictions on the types, quantities and concentration of pollutants that can be released into the air, water and soil and require companies to adopt correct waste management practices. In particular, strict operating practices and standards to protect biodiversity must be adopted when exploring for, drilling and producing oil and gas in certain ecologically sensitive locations (protected areas). Failure to comply with environmental, health and safety laws is punishable by criminal and civil sanctions against the individuals responsible and – in certain cases of violations of safety laws – against companies, in accordance with a European model of direct corporate liability implemented in Italy through Legislative Decree 231/2001. Environmental, health and safety laws and regulations have a substantial impact on Saipem's operations and expenses and liabilities that Saipem may incur in relation to compliance with environmental, health and safety laws and regulations are expected to remain material to the Group's results of operations or financial position in future years. Recently enacted legislation regarding health and safety in the workplace in Italy introduced new requirements which will have an impact on operations at Eni sites and in particular on relationships with contractors as well as significant repercussions on the models used for attributing

liability in the event of violations of health and safety legislation. The new legislation emphasises the importance of adopting certified organisational and management models, which can release companies from corporate liability in the event of violations of legislation regarding health and safety in the workplace. For this purpose, Saipem has adopted HSE guidelines to ensure the health and safety of employees, local communities, contractors and clients and the safeguarding of the environment, in compliance with local and international rules and regulations and in line with international best practices and standards. 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. Additionally, the codification and proceduralization of operating phases has led to a reduction of the human factor in plant risk management. Operating emergencies that may have an adverse impact on assets, people and the environment are managed by the business units at site level through dedicated HSE structures equipped with emergency response plans indicating the corrective actions to be taken to minimise damage in the event of an incident and responsibilities for ensuring they are taken.

Saipem's integrated approach to managing health, safety and environmental issues is supported by the adoption in all Group companies of an HSE management system based on the Saipem/Eni Management System Model. This is a procedure based on an annual cycle of planning, implementation, control, review of results and definition of new objectives. The model is aimed at achieving risk prevention and the systematic monitoring and control of HSE performance, in a cycle of continuous improvement, and is subject to audits by internal and independent experts. Saipem's facilities are certified to international standards such as ISO 14001, OHSAS 18001 and even EMAS. Saipem also provides an advanced programme of training and development for HSE staff with the aim of:

- promoting conduct consistent with the applicable guidelines;
- guiding HSE-related cultural, professional and managerial growth of all personnel working at and for Saipem;
- supporting knowledge management and HSE risk control.

Country risk

Substantial portions of Saipem's operations are performed in countries outside the EU and North America, certain of which may

be politically 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. While the occurrence of these events is unpredictable, they may have a material adverse impact on Saipem's financial position and results. Saipem employs a continuous and holistic approach to monitoring political, social and economic risk in countries in which it operates or intends to invest, using the 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.

Project risk

The main objectives of the Risk and Opportunity and Knowledge Management department are to:

- promote the use of the Project Risk Management methodology in tenders and in the execution phase of projects managed by Business Units applying the methodology and on the principal investment projects underway;
- 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 and contributing 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 comply in terms of project risk management with the principal international risk management and standards.

Insurance

The Corporate Insurance function, in close cooperation with top management, defines, on an annual basis, 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.

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

The Saipem insurance program is structured in such a way as to appropriately transfer to the insurance market risks deriving from operations, 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 program. 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 Program, a distinction should be made between insurance cover for Group assets ('Corporate insurance policies') and the insurance cover connected with project execution ('Project execution insurance policies').

Corporate insurance policies

The Corporate insurance program 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 program taken out on the insurance market.

The catastrophic insurance program 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: shipowners' liability cover through a P&I Club that is part of the International Group of P&I Clubs, up to a limit of US \$5.6 billion for events occurring during transit and up to US \$300 million for events occurring during operations. The policy also includes a sublimit for sea surface pollution by vessels of an amount per event of up to US \$1 billion during transit and up to US \$300 million during 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 up to a limit of €300 million per event.

- '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 band of risk, corresponding to €10 million per event for all classes of risk. Sigurd Rück AG in turn mitigates its portfolio of risks by issuing reinsurance-linked securities on the primary securities market.

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 is 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

No treasury shares were purchased on the market during 2010. Saipem SpA holds 3,710,372 treasury shares (5,651,047 at December 31, 2009), amounting to €84 million (€119 million at December 31, 2009). These are ordinary shares of Saipem SpA with a nominal value of €1 each.

At March 8, 2011, the share capital amounted to €441,410,900. On the same day, the number of shares in circulations was 437,898,478.

Shares held by the Directors, Statutory Auditors and the General Managers in the issuer and its controlled companies

Pursuant to Consob resolution 11971 of May 14, 1999 and subsequent addenda, the following table indicates the number of shares held in Saipem and its controlled companies by the Directors, Statutory Auditors and General Managers, as well as by their spouses, where not legally separated, and by their minor children, either directly or through subsidiary companies, fiduciaries or third parties.

Name and surname	Company	Number of shares held at Dec. 31, 2009	Number of shares purchased	Number of shares sold	Number of shares held at Dec. 31, 2010
Pietro Franco Tali	Saipem SpA	201,122	252,775 ⁽¹⁾	243,897	210,000
Hugh O'Donnell	Saipem SpA	-	74,000 ⁽¹⁾	74,000	-
Jacques Yves Léost ⁽²⁾	Saipem SpA	230,167	140,000 ⁽¹⁾	80,060	n.d.
Umberto Vergine ⁽³⁾	Saipem SpA	-	920	-	920
Senior managers with strategic responsibilities	Saipem SpA	74,872	394,950 ⁽¹⁾	425,050	42,372 ⁽⁴⁾

(1) Exercise of stock options.

(2) Board Director of Saipem SpA from January 1, 2010 to August 18, 2010 and Chairman and General Manager of Saipem sa from January 1, 2010 to August 29, 2010. As of August 29, 2010, Mr. Léost no longer holds any office within the Group.

(3) Board Director of Saipem SpA as from October 27, 2010.

(4) The difference of 2,400 shares relates to directors who were no longer in office as of December 31, 2010.

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 recently published 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 December 31, 2010, the following eleven Saipem subsidiaries fell within the scope of application of the regulation in question:

- Ersai Caspian Contractor LLC;
- Petrex SA;
- Saipem Contracting (Nigeria) Ltd;
- Saipem Contracting Algérie SpA;
- Snamprogetti Saudi Arabia Ltd;
- Global Petroprojects Services AG;
- Saipem Asia Sdn Bhd;

- Saipem Misr for Petroleum Services (S.A.E.);
- Saudi Arabian Saipem Ltd;
- Saipem America Inc;
- PT Saipem Indonesia.

Procedures designed to ensure full compliance with Article 36 with regard to the above companies have already been adopted.

No further regulatory compliance plans are therefore scheduled for 2011.

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 13 of Article 2.6.2 of the Rules of the Markets organised and managed by Borsa Italiana SpA, the Board of Directors has ascertained that the company satisfies the conditions set out in 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.

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 six months, any transactions they enter into with Saipem SpA or its subsidiaries, directly or through a third party, in compliance with the provisions of IAS 24. The amounts of trade, financial or other operations with related parties are provided in Note 43 to the consolidated financial statements.

As of January 1, 2011, the new procedure 'Transactions involving interests held by board directors and statutory auditors and transactions with related parties' came into effect. The procedure can be consulted on Saipem's website www.saipem.com under the section 'Corporate Governance'.

Transactions with the parent company and with entities subject to its direction and coordination

Saipem SpA 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 45 'Transactions with related parties' in the notes to the consolidated financial statements.

Events subsequent to year end

New contracts

During January 2011, Saipem was awarded new contracts and negotiated variations to existing contracts amounting to approximately €1 billion. These can be broken down as follows:

- approximately €750 million in the Onshore sector relating to contracts reported in the press release of January 14, 2011;
- approximately €240 million in the Offshore and Onshore Drilling sectors relating to contracts reported in the press release of January 26, 2011.

Organisational changes

With the aim of facilitating enhanced integration of the Engineering & Project Management competencies with those deriving from our powerful Asset Base, the Onshore and Offshore Business Units have been unified. The resulting single Business Unit, denominated 'Engineering & Construction', will be headed by Chief Operating Officer Pietro Varone. The Drilling Business Unit,

headed by Chief Operating Officer Giuseppe Caselli, already comprises both Onshore and Offshore segments. In view of the differences in terms of invested capital and margins, reporting of financial results will continue to be split by Onshore and Offshore segments, both for Drilling and Engineering & Construction. In addition, responsibilities for development of new Assets, along with maintenance of Assets (which was previously a support function to the Business Units) have now been reallocated to the two Business Units – Engineering & Construction and Drilling, respectively – based on Asset type.

Management outlook

Oil industry spending is expected to increase in 2011, underpinning expectations of improved market prospects for the oil services industry. Specifically, Onshore sector spending is expected to experience similar high levels of investment as in 2010, whilst the Offshore sector spending is expected to increase. This should allow for a continued positive trend in the Onshore market and a gradual recovery in the Offshore market, a sector that has remained weak over the last two years. In the Drilling sectors, good demand is expected to lead to a gradual recovery of both utilisation levels and daily rates.

As far as Saipem is concerned, the record level of the backlog, its size and quality, and the strong operating performance of the industrial model, underpin expectations of again achieving record results.

Specifically compared to 2010, revenues are expected to increase by 5% and EBITDA by 10%. Depreciation is forecast to increase over €100 million due to the asset base expansion. Financial expenses are expected to rise due to the charge to the income statement of interest previously capitalised on investments completed in 2010 or to be completed in 2011. The tax rate is currently expected to remain in line with that of 2010. The increase in adjusted net profit is expected to be around 5% compared to the record level of 2010.

Investments for 2011 are forecast around €1 billion and will be spent on progressively strengthening the Offshore asset base and completing the expansion of the Drilling fleet. Leverage is expected to drop slightly.

Non-GAAP measures

Certain of the performance indicators used in the Directors' Report are not included in the IFRS (Non-GAAP measures). They 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 Directors' Report 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;
- gross operating profit: 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.

Gross operating profit 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;
- sources of capital employed/coverage: the sum of shareholders' equity, minority interest and net borrowings.

Declaration pursuant to Legislative Decree No. 196 of June 30, 2003

In his capacity as data controller of personal data, the Chairman declares that the Security Policy Document has been updated pursuant to Legislative Decree No. 196 of June 30, 2003.

Secondary offices

Pursuant to Article 2428 of the Italian Civil Code, the company declares that it has a secondary office in Cortemaggiore (PC), Via Enrico Mattei 20.

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

Reclassified balance sheet

Reclassified balance sheet items (where not stated otherwise, items comply with statutory scheme)	Dec. 31, 2009		Dec. 31, 2010	
	Partial amounts from statutory scheme	Amounts from reclassified scheme	Partial amounts from statutory scheme	Amounts from reclassified scheme
A) Net tangible assets		6,295		7,403
<i>Note 8 - Property, plant and equipment</i>	6,295		7,403	
B) Net intangible assets		756		760
<i>Note 9 - Intangible assets</i>	756		760	
C) Investments		118		105
<i>Note 10 - Investments accounted for using the equity method</i>	118		115	
<i>Note 11 - Other investments</i>	2		2	
<i>Recl. from E) - provisions for losses related to investments</i>	(2)		(12)	
D) Working capital		(449)		(506)
<i>Note 3 - Trade and other receivables</i>	4,040		4,330	
<i>Recl. to I) - financing receivables not related to operations</i>	(68)		(20)	
<i>Note 4 - Inventories</i>	1,071		791	
<i>Note 5 - Current tax assets</i>	113		72	
<i>Note 6 - Other current tax assets</i>	285		218	
<i>Note 7 - Other current assets</i>	256		275	
<i>Note 12 - Other financial assets</i>	8		3	
<i>Recl. to I) - financing receivables not related to operations</i>	(8)		(3)	
<i>Note 13 - Deferred tax assets</i>	113		90	
<i>Note 14 - Other non-current assets</i>	34		39	
<i>Note 16 - Trade and other payables</i>	(5,735)		(5,814)	
<i>Note 17 - Income tax payables</i>	(115)		(166)	
<i>Note 18 - Other current tax liabilities</i>	(124)		(107)	
<i>Note 19 - Other current liabilities</i>	(227)		(149)	
<i>Note 23 - Deferred tax liabilities</i>	(64)		(55)	
<i>Note 24 - Other non-current liabilities</i>	(28)		(10)	
E) Provisions		(198)		(152)
<i>Note 21 - Provisions for contingencies</i>	(200)		(164)	
<i>Recl. to C) - provisions for losses related to investments</i>	2		12	
Net assets available for disposal		-		-
F) Provision for employee benefits		(182)		(193)
<i>Note 22 - Provisions for employee benefits</i>	(182)		(193)	
CAPITAL EMPLOYED, NET		6,340		7,417
G) Shareholders' equity		3,434		4,060
<i>Note 26 - Saipem shareholders' equity</i>	3,434		4,060	
H) Minority interest		61		94
<i>Note 25 - Minority interest</i>	61		94	
I) Net borrowings		2,845		3,263
<i>Note 1 - Cash and cash equivalents</i>	(986)		(930)	
<i>Note 2 - Other financial assets held for trading or available for sale</i>	(36)		-	
<i>Note 15 - Short-term debt</i>	1,797		1,002	
<i>Note 20 - Long-term debt</i>	1,796		2,887	
<i>Note 20 - Current portion of long-term debt</i>	350		327	
<i>Recl. from D) - financing receivables held for non-operating purposes (Note 3)</i>	(68)		(20)	
<i>Recl. from D) - financing receivables held for non-operating purposes (Note 12)</i>	(8)		(3)	
SOURCES OF CAPITAL EMPLOYED/COVERAGE		6,340		7,417

Reclassified income statement

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

- the other gains and losses deriving from 'gains from sales of fixed assets' (€1 million) and 'compensation for damages' (€2 million) have been recorded as increases under the corresponding cost items in the reclassified income statement;
- the items 'financial income' (€851 million), 'financial expenses' (-€995 million) and 'derivatives' (€34 million), which are indicated separately under the statutory scheme, are stated net under the item 'finance (expense) income' (-€110 million) in the reclassified income statement;
- the items 'effect of accounting using the equity method' (€12 million) and 'other income (expenses) from investments' (€18 million), which are indicated separately under the statutory scheme, are stated net under the items 'net income from investments' (€13 million) and 'gain on disposals' (€17 million) in the reclassified income statement;
- the item 'income taxes' (-€345 million) indicated in the statutory scheme is stated separately under the items 'income taxes' (-€344 million) and 'taxation' (-€1 million).

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' (€514 million), 'net impairment of tangible and intangible assets' (€3 million), 'change in the provision for employee benefits' (€13 million) and 'other changes' (-€1 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' (€531 million);
- the items 'interest income' (-€8 million), 'interest expense' (€45 million) and 'income taxes' (€345 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' (€382 million);
- the items regarding changes in 'inventories' (€293 million), 'trade receivables' (-€313 million), 'other assets and liabilities' (-€213 million), 'trade payables' (€47 million) and 'provisions' (-€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 relating to operations' (-€220 million);
- the items 'dividends received' (€6 million), 'interest received' (€6 million), 'interest paid' (-€39 million) and 'income taxes paid net of refunds of tax credits' (-€219 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' (-€246 million);
- the items relating to investments in 'intangible assets' (-€12 million) and 'tangible assets' (-€1,533 million), indicated separately and included in cash flow from investing activities in

the statutory scheme, are shown net under the item 'capital expenditure' (-€1,545 million);

- the items relating to disposals of 'tangible assets' (€5 million), 'consolidated subsidiaries and businesses' (€14 million) and 'investments' (€34 million), indicated separately and included in cash flow from disposals in the statutory scheme, are shown under the item 'Disposals' (€53 million);
- the items 'financing receivables' (-€44 million), 'securities' (€36 million) and 'financing receivables' (€49 million), indicated separately and included in net cash used in investing activities in the statutory scheme, are shown net under the item 'Borrowings (repayment) of debt related to financing activities' (€41 million);
- the items 'proceeds from long-term debt' (€2,437 million), 'repayments of long-term debt' (-€1,400 million) and 'increase (decrease) in short-term debt' (-€778 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' (€259 million).

All other items are unchanged.



Consolidated financial statements
2010

Balance sheet

(€ million)	Note	Dec. 31, 2009		Dec. 31, 2010	
		Total	of which with related parties	Total	of which with related parties
ASSETS					
Current assets					
Cash and cash equivalents	(1)	986	617	930	509
Other financial assets held for trading or available for sale	(2)	36	-	-	-
Trade and other receivables	(3)	4,040	1,158	4,330	1,073
Inventories	(4)	1,071	142	791	-
Current tax assets	(5)	113	-	72	-
Other current tax assets	(6)	285	-	218	-
Other current assets	(7)	256	159	275	165
Total current assets		6,787		6,616	
Non-current assets					
Property, plant and equipment	(8)	6,295	-	7,403	-
Intangible assets	(9)	756	-	760	-
Investments accounted for using the equity method	(10)	118	-	115	-
Other investments	(11)	2	-	2	-
Other financial assets	(12)	8	-	3	-
Deferred tax assets	(13)	113	-	90	-
Other non-current assets	(14)	34	-	39	-
Total non-current assets		7,326		8,412	
TOTAL ASSETS		14,113		15,028	
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities					
Short-term debt	(15)	1,797	1,746	1,002	875
Current portion of long-term debt	(20)	350	72	327	126
Trade and other payables	(16)	5,735	255	5,814	344
Income tax payables	(17)	115	-	166	-
Other current tax liabilities	(18)	124	-	107	-
Other current liabilities	(19)	227	169	149	132
Total current liabilities		8,348		7,565	
Non-current liabilities					
Long-term debt	(20)	1,796	1,590	2,887	2,687
Provisions for contingencies	(21)	200	-	164	-
Provisions for employee benefits	(22)	182	-	193	-
Deferred tax liabilities	(23)	64	-	55	-
Other non-current liabilities	(24)	28	26	10	8
Total non-current liabilities		2,270		3,309	
TOTAL LIABILITIES		10,618		10,874	
SHAREHOLDERS' EQUITY					
Minority interest	(25)	61	-	94	-
Saipem's shareholders' equity:	(26)	3,434	-	4,060	-
- share capital	(27)	441	-	441	-
- share premium reserve	(28)	55	-	55	-
- other reserves	(29)	99	-	46	-
- retained earnings		2,226	-	2,758	-
- net profit for the year		732	-	844	-
- treasury shares	(30)	(119)	-	(84)	-
Total shareholders' equity		3,495		4,154	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		14,113		15,028	

Income statement

(€ million)	Note	2009		2010	
		Total	of which with related parties	Total	of which with related parties
REVENUES					
Net sales from operations	(32)	10,292	1,875	11,160	2,726
Other income and revenues	(33)	27		17	
Total revenues		10,319		11,177	
Operating expenses					
Purchases, services and other	(34)	(7,233)	(86)	(7,714)	(106)
Payroll and related costs	(35)	(1,483)		(1,627)	
Depreciation, amortisation and impairment	(36)	(440)		(517)	
Other operating expenses		(7)	(7)	-	-
OPERATING PROFIT		1,156		1,319	
Finance income (expense)					
Finance income		1,101	13	851	-
Finance expense		(1,116)	(56)	(995)	(53)
Derivative financial instruments		(85)	56	34	30
Total finance income (expense)	(37)	(100)		(110)	
Income (expense) from investments					
Share of profit of equity-accounted investments		7		-	
Other gain from investments		-		30	
Total income (expense) from investments	(38)	7		30	
PROFIT BEFORE INCOME TAXES		1,063		1,239	
Income taxes	(39)	(288)		(345)	
NET PROFIT		775		894	
Attributable to:					
- Saipem		732		844	
- minority interest	(40)	43		50	
Earnings per share attributable to Saipem (€ per share)					
Basic	(43)	1.68		1.93	
Diluted	(43)	1.66		1.92	

Statement of comprehensive income

(€ million)	Dec. 31, 2009	Dec. 31, 2010
Net profit	775	894
Other items of comprehensive income:		
- change in the fair value of cash flow hedges ⁽¹⁾	193	(94)
- investments carried at fair value	1	-
- exchange rate differences arising from the translation into euro of financial statements currencies other than the euro	(8)	52
- gain on disposal of a business unit accounted for directly to equity	-	14
- other changes	-	1
- income tax relating to other items of comprehensive income	(26)	16
Other items of comprehensive income	160	(11)
Total comprehensive income	935	883
Attributable to:		
- Saipem Group	894	828
- minority interest	41	55

(1) 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	Cumulative currency translation differences	Retained earnings	Net profit for the year	Treasury shares purchases	Total	Minority interest	Total shareholders' equity
Balance at December 31, 2007	441	55	7	72	34	108	(93)	873	875	(77)	2,295	4	2,299
2008 net profit	-	-	-	-	-	-	-	-	914	-	914	18	932
Other items of comprehensive income													
Change in the fair value of cash flow hedges net of the tax effect	-	-	-	-	-	(194)	-	-	-	-	(194)	-	(194)
Investments carried at fair value	-	-	-	-	-	-	-	(7)	-	-	(7)	-	(7)
Exchange rate differences arising from the translation into euro of financial statements currencies other than euro	-	-	-	-	-	(3)	8	-	-	-	5	-	5
Total recognised income and (expense) for the year 2008	-	-	-	-	-	(197)	8	(7)	914	-	718	18	736
Transactions with shareholders													
Dividend distribution	-	-	-	-	-	-	-	-	(192)	-	(192)	-	(192)
Retained earnings and transfer to legal reserve	-	-	-	15	-	-	-	668	(683)	-	-	-	-
Treasury shares repurchased	-	-	-	-	(17)	-	-	16	-	(49)	(50)	-	(50)
Other changes in shareholders' equity													
Cost related to stock options/grants	-	-	-	-	-	-	-	8	-	-	8	-	8
Other changes	-	-	-	-	-	-	-	(22)	-	-	(22)	(1)	(23)
Total	-	-	-	15	(17)	-	-	670	(875)	(49)	(256)	(1)	(257)
Balance at December 31, 2008	441	55	7	87	17	(89)	(85)	1,536	914	(126)	2,757	21	2,778
2009 net profit	-	-	-	-	-	-	-	-	732	-	732	43	775
Other items of comprehensive income													
Change in the fair value of cash flow hedges net of the tax effect	-	-	-	-	-	167	-	-	-	-	167	-	167
Investments carried at fair value	-	-	-	-	-	-	-	1	-	-	1	-	1
Exchange rate differences arising from the translation into euro of financial statements currencies other than euro	-	-	-	-	-	(1)	(5)	-	-	-	(6)	(2)	(8)
Total recognised income and (expense) for the year 2009	-	-	-	-	-	166	(5)	1	732	-	894	41	935
Transactions with shareholders													
Dividend distribution	-	-	-	-	-	-	-	-	(239)	-	(239)	-	(239)
Retained earnings and transfer to legal reserve	-	-	-	1	-	-	-	674	(675)	-	-	-	-
Treasury shares repurchased	-	-	-	-	-	-	-	-	-	7	7	-	7
Other changes in shareholders' equity													
Cost related to stock options/grants	-	-	-	-	-	-	-	8	-	-	8	-	8
Difference between the carrying amount and strike price of stock options and stock grants exercised by Saipem senior managers	-	-	-	-	-	-	-	(1)	-	-	(1)	-	(1)
Other changes	-	-	-	-	-	-	-	8	-	-	8	(1)	7
Total	-	-	-	1	-	-	-	689	(914)	7	(217)	(1)	(218)
Balance at December 31, 2009	441	55	7	88	17	77	(90)	2,226	732	(119)	3,434	61	3,495

Statement of changes in shareholders' equity continued

(€ million)	Saipem shareholders' equity												
	Share capital	Share premium reserve	Other reserves	Legal reserve	Reserve for treasury shares	Cash flow hedge reserve	Cumulative currency translation differences	Retained earnings	Net profit for the year	Treasury shares purchases	Total	Minority interest	Total shareholders' equity
Balance at December 31, 2009	441	55	7	88	17	77	(90)	2,226	732	(119)	3,434	61	3,495
2010 net profit	-	-	-	-	-	-	-	-	844	-	844	50	894
Income (expense) recognised directly in equity													
Change in the fair value of cash flow hedges net of the tax effect	-	-	-	-	-	(74)	-	-	-	-	(74)	-	(74)
Exchange rate differences arising from the translation into euro of financial statements currencies other than euro	-	-	-	-	-	-	47	-	-	-	47	5	52
Gain on disposal of a business unit accounted for directly to equity	-	-	-	-	-	-	-	14	-	-	14	-	14
Capital gains tax	-	-	-	-	-	-	-	(4)	-	-	(4)	-	(4)
Other changes	-	-	-	-	-	-	-	1	-	-	1	-	1
Total recognised income and (expense) for the year 2010	-	-	-	-	-	(74)	47	11	844	-	828	55	883
Transactions with shareholders													
Dividend distribution	-	-	-	-	-	-	-	-	(240)	-	(240)	(23)	(263)
Retained earnings and transfer to legal reserve	-	-	-	-	-	-	-	492	(492)	-	-	-	-
Treasury shares repurchased	-	-	-	-	(17)	-	-	17	-	35	35	-	35
Other changes in shareholders' equity													
Cost related to stock options/grants	-	-	-	-	-	-	-	3	-	-	3	-	3
Difference between the carrying amount and strike price of stock options and stock grants exercised by Saipem senior managers	-	-	-	-	-	-	-	-	-	-	-	-	-
Other changes	-	-	-	-	-	-	(9)	9	-	-	-	1	1
Total	-	-	-	-	(17)	-	(9)	521	(732)	35	(202)	(22)	(224)
Balance at December 31, 2010	441	55	7	88	-	3	(52)	2,758	844	(84)	4,060	94	4,154

Cash flow statement

(€ million)	Note	2009	2010
Net profit for the year		732	844
Minority interest		43	50
Adjustments to reconcile net profit to net cash provided by operating activities:			
- depreciation and amortisation	(36)	438	514
- net impairment of tangible and intangible assets	(36)	2	3
- effect of accounting using the equity method	(38)	(7)	-
- net gains on disposal of assets		-	(17)
- dividends	(38)	(2)	-
- interest income		(27)	(8)
- interest expense		61	45
- income taxes	(39)	288	345
- other changes		38	1
Changes in working capital:			
- inventories		330	293
- trade receivables		(22)	(313)
- trade payables		(568)	47
- provisions for contingencies		20	(34)
- other assets and liabilities		(91)	(213)
<i>Cash flow from working capital</i>		1,235	1,557
Change in the provision for employee benefits		11	13
Dividends received		8	6
Interest received		26	6
Interest paid		(91)	(39)
Income taxes paid net of refunds of tax credits		(222)	(219)
Net cash provided by operating activities		967	1,324
<i>of which with related parties</i>	(45)		1,912
2,771			
Investing activities:			
- tangible assets	(8)	(1,601)	(1,533)
- intangible assets	(9)	(14)	(12)
- equity investments	(10)	-	(4)
- financing receivables		-	(44)
<i>Cash flow from investing activities</i>		(1,615)	(1,593)
Disposals:			
- tangible assets		8	5
- consolidated subsidiaries and businesses		-	14
- investments		1	34
- securities		-	36
- financing receivables		195	49
<i>Cash flow from disposals</i>		204	138

Cash flow statement continued

(€ million)	Note	2009	2010
Net cash used in investing activities ⁽¹⁾		(1,411)	(1,455)
<i>of which with related parties</i>	(45)	-	-
Proceeds from long-term debt		1,099	2,437
Repayments of long-term debt		(65)	(1,400)
Increase (decrease) in short-term debt		(815)	(778)
		219	259
Net capital contributions by minority shareholders		-	-
Net acquisition of treasury shares different from Saipem SpA		-	-
Acquisition of additional interests in consolidated subsidiaries		-	-
Sale of additional interests in consolidated subsidiaries		-	-
Dividend distribution		(239)	(263)
Net purchase of treasury shares		7	35
Net cash used in financing activities		(13)	31
<i>of which with related parties</i>	(45)	398	280
Effect of exchange rate changes on cash and cash equivalents and other changes		45	44
Net cash flow for the year		(412)	(56)
Cash and cash equivalents - beginning of year	(1)	1,398	986
Cash and cash equivalents - end of year	(1)	986	930

(1) 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 'Directors' report'.

Cash flows of such investments were as follows:

(€ million)	Dec. 31, 2009	Dec. 31, 2010
Financing investments:		
- securities		
- financing receivables	-	(44)
	-	(44)
Disposal of financing investments:		
- securities	-	36
- financing receivables	184	49
	184	85
Net cash flows from financing activities	184	41

Supplementary information

(€ million)	Dec. 31, 2010
Analysis of disposals of consolidated subsidiaries and businesses	
Current assets	5
Non-current assets	-
Net liquidity (net borrowings)	-
Current and non-current liabilities	(5)
Net effect of disposals	-
Market value of holdings after control ceased	-
Gain on disposals	14
Minority interest	-
Total sale price	14
less:	
<i>Cash and cash equivalents</i>	-
Cash flow from disposals	14

Notes to the consolidated financial statements

Basis of presentation

The consolidated financial statements of Saipem have been prepared in accordance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and adopted by the European Commission pursuant to Article 6 of EC Regulation No. 1606/2002 of the European Parliament and Council of July 19, 2002 and in accordance with Article 9 of Legislative Decree No. 38/2005¹. The consolidated financial statements have been prepared by applying the cost method, with adjustments where appropriate, except for items that under IFRS must be recognised at fair value, as described in the 'Summary of significant accounting policies' section.

The consolidated financial statements include the statutory accounts of Saipem SpA and the accounts of all Italian and foreign companies in which Saipem SpA holds the right to directly or indirectly exercise control, determine financial and management decisions and obtain economic and financial benefits. The consolidated financial statements also include, on a line-by-line proportional basis, data of companies managed under joint operating agreements.

Subsidiaries performing only limited operating activities are not consolidated. Their non consolidation is therefore not material and does not have a significant effect on total assets, liabilities, net financial position and profit for the year².

Immaterial subsidiaries excluded from consolidation, associates and other interests are accounted for as described under the heading 'Financial fixed assets'.

Consolidated companies, non-consolidated subsidiaries, associates and relevant shareholdings as set forth in Article 126 of Consob Resolution 11971 of May 14, 1999 and subsequent addenda, are separately indicated in the section 'Scope of consolidation at December 31, 2010'. After this section, there follows a list detailing the changes in the scope of consolidation area from the previous year.

Subsidiaries' financial statements are audited by independent auditors, who examine and certify the information required for the preparation of the consolidated financial statements. The consolidated financial statements at December 31, 2010, approved by Saipem's Board of Directors on March 8, 2011, were audited by the independent auditor Reconta Ernst & Young SpA. As the auditor of the Group, Reconta Ernst & Young SpA is responsible for the auditing activities of the subsidiaries, and, to the extent allowed under Italian legislation, when there are other independent auditors, it takes the responsibility of their work.

Amounts in these financial statements and the notes thereto are stated in millions of euros (€ million).

Principles of consolidation

Interests in consolidated companies

Fully owned subsidiaries are consolidated using the full consolidation method. Assets and liabilities, revenues and expenses related to fully consolidated subsidiaries are therefore wholly incorporated into the consolidated financial statements. The book value of these interests is eliminated against the corresponding portion of their shareholders' equity.

Jointly controlled companies are consolidated using the proportional method. The book value of interests in these companies is therefore eliminated against the corresponding portion of their shareholders' equity. Assets and liabilities, revenues and expenses are incorporated into the consolidated financial statements proportionally to the extent of the interest held. Subsidiaries and jointly-controlled entities are consolidated from the date on which control is transferred to the Group and are deconsolidated from the date on which control ceases.

The shareholders' equity in consolidated companies is determined by attributing to each of the balance sheet items its fair value at the date on which control is acquired. The excess of the purchase price of an acquired entity over the total fair value assigned to assets acquired and liabilities assumed is recognised as goodwill. Negative goodwill is recognised in the income statement. Equity and net profit attributable to minority interests are shown separately in the consolidated balance sheet and consolidated income statement, respectively. If the degree of control acquired is not total, the equity attributable to minority interests is determined on the basis of the fair value of the assets and liabilities at the date on which control is acquired, excluding any related goodwill (partial goodwill method). Alternatively, the full value of goodwill arising on the acquisition is recognised, including the share attributable to minority interest (full goodwill method)³. In this case, equity attributable to minority interests is shown at fair value including the related goodwill. The choice of method is made for each individual business combination on a transaction by transaction basis.

In the event that additional ownership interests in subsidiaries are purchased from minority shareholders, any excess of the amount paid over the carrying value of the minority interest acquired is recognised directly in equity as goodwill. Similarly, the effects of disposals of ownership interests in a subsidiary that do not result in the loss of control are accounted for as equity transactions.

The difference between the proceeds from the disposal of the subsidiary and its carrying amount as at the date of disposal – including the cumulative amount of any exchange differences that relate to the subsidiary, recognised in the separate component of equity in accordance with IAS 21, the 'Effects of changes in foreign exchange rates' – is recognised in the consolidated income statement as a gain or loss on the disposal.

(1) The international accounting standards used in the preparation of the consolidated financial statements are substantially the same as those issued by the IASB and in force in 2010, since the current differences between the IFRS endorsed by the European Commission and those issued by the IASB relate to circumstances not applicable to the Group.

(2) According to the IASB conceptual framework, 'information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements'.

(3) Decision to apply the partial or full goodwill method is also made for business combinations where negative goodwill is taken to the income statement (i.e. a gain on bargain purchase).

Intercompany transactions

Unrealised intercompany profit is eliminated, as are intercompany receivables, payables, revenues and expenses, guarantees (including performance bonds), commitments and risks. Intercompany losses are not eliminated since they are considered an impairment indicator of the assets transferred.

Foreign currency translation

Financial statements of foreign companies having a functional currency other than the euro (the Group's presentation currency) are converted into the presentation currency applying: (i) closing exchange rates for assets and liabilities; (ii) historical exchange rates for equity accounts; and (iii) average rates for the year to the income statement (source: Bank of Italy).

Cumulative exchange rate differences resulting from this translation are recognised in shareholders' equity under the item 'Cumulative currency

translation differences' for the portion relating to the Group's interest 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 of foreign subsidiaries translated into euro are denominated in the functional currencies of the countries where the entities operate, i.e. the local currency or the currency in which most financial transactions and assets and liabilities are denominated.

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, 2009	Exchange rate at Dec. 31, 2010	2010 average exchange rate
US Dollar	1.4406	1.3362	1.32572
British Pound Sterling	0.8881	0.86075	0.85784
Algerian Dinar	104.172	99.2612	98.0911
Angolan Kwanza	128.608	123.79	121.852
Argentine Peso	5.46185	5.30994	5.1856
Australian Dollar	1.6008	1.3136	1.44231
Azerbaijan Manat	1.15723	1.06739	1.06434
Brazilian Real	2.5113	2.2177	2.33143
Canadian Dollar	1.5128	1.3322	1.36511
Croatian Kuna	7.3	7.383	7.28906
Dominican Peso	51.9443	50.0039	48.701
Egyptian Pound	7.90576	7.75751	7.47158
Indian Rupee	67.04	59.758	60.5878
Indonesian Rupee	13,626.1	12,002.1	12,041.7
Malaysian Ringgit	4.9326	4.095	4.26679
Mexican Peso	18.9223	16.5475	16.7373
Nigerian Naira	215.548	203.444	200.252
Norwegian Kroner	8.3	7.8	8.0043
Peruvian New Sol	4.16189	3.75086	3.74495
Qatar Riyal	5.24609	4.86375	4.82589
Romanian New Leu	4.2363	4.262	4.21216
Russian Rouble	43.154	40.82	40.2629
Saudi Arabian Riyal	5.40329	5.0106	4.97165
Singapore Dollar	2.019	1.7136	1.80552
Swiss Franc	1.484	1.2504	1.38034
UAE Dirham	5.29142	4.90781	4.86925

Summary of significant accounting policies

The most significant accounting policies used in the preparation of the consolidated financial statements are described below.

Current assets

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts are classified as current liabilities under the item 'Short-term debt'.

Inventories

Inventories, with the exception of contract work-in-progress, are stated at the lower of purchase or production cost and market value. The cost of inventories is determined by applying the weighted average cost method, while market value – given that the inventories are mainly spare parts – is taken as the lower of replacement cost or net realisable value.

Work-in-progress relating to long-term contracts is stated on the basis of agreed contract revenue determined with reasonable certainty, recognised in proportion to the stage of completion of contract activity.

Given the nature of the contracts and the type of work, the percentage of completion is calculated on the basis of the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs (i.e. cost-to-cost method).

Adjustments made for the economic effects of using this method relating to differences between amounts matured based on stage of completion and recognised revenues are included under contract work-in-progress if positive or under trade payables if negative.

When hedged by derivative contracts qualifying for hedge accounting, revenues denominated in foreign currencies are translated at the contracted rates. Otherwise, they are translated at the exchange rate prevailing at year end. The same method is used for costs denominated in a foreign currency.

The valuation of work-in-progress considers all directly related costs, contractual risks and contract revision clauses, where they can be reliably estimated.

Modifications to original contracts for additional works are recognised when realisation is probable and the amount can be reliably estimated. Expected losses on contracts are recognised fully in the year in which they become probable.

Bidding costs are expended in the year in which they are incurred.

Current financial assets

Held for trading financial assets and available-for-sale financial assets are measured at fair value with gains or losses recognised in the income statement under 'Finance income (expense)⁽⁴⁾ and to the equity reserve related to other comprehensive income, respectively. In the latter case, changes in fair value recognised in equity are taken to the income statement when the asset is sold or impaired.

The objective evidence that an impairment loss has occurred is verified considering, inter alia, significant breaches of contracts, serious financial difficulties or the high probability of insolvency of the counterparty. Losses are deducted from the carrying amount of the asset.

Available-for-sale financial assets include financial assets other than derivative financial instruments, loans and receivables, held-for-trading financial assets and held-to-maturity financial assets.

The fair value of financial instruments is determined by market quotations or, in their absence, by the value resulting from the adoption of suitable financial valuation models which take into account all the factors adopted by market operators and prices obtained in similar recent transactions in the market.

Interest and dividends on financial assets stated at fair value are accounted for on an accrual basis as 'Finance income (expense)' and 'Other income (expense) from investments', respectively.

When the purchase or sale of a financial asset occurs under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the market place concerned (e.g. purchase of securities on regulated markets), the transaction is accounted for on the settlement date.

Receivables are stated at amortised cost (see 'Financial fixed assets - Receivables and financial assets held to maturity').

Transferred financial assets are derecognised when the contractual rights to receive the cash flows of the financial assets are transferred together with the risks and rewards of ownership.

Non-current assets

Tangible assets

Tangible assets are recognised using the cost model and stated at their purchase or production cost including any costs directly attributable to bringing the asset into operation. In addition, when a substantial period of time is required to bring the asset into operation, the purchase price or production cost includes the borrowing costs incurred that could have otherwise been saved had the investment not been made. The purchase or production costs are net of government grants related to assets, which are only recognised when all the required conditions have been met.

In the case of a present obligation for the dismantling and removal of assets and the restoration of sites, the carrying value includes, with a corresponding entry to a specific provision, the estimated (discounted) costs to be borne at the moment the asset is retired. The accounting treatment of changes in estimates for these provisions, the passage of time and the discount rate are indicated under 'Provisions for contingencies'.

Assets held under finance leases or under leasing arrangements that do not take the legal form of a finance lease but substantially transfer all the risks and rewards of ownership of the leased asset are recognised at fair value, net of taxes due from the lessor or, if lower, at the present value of the minimum lease payments. Leased assets are included within tangible assets. A corresponding financial debt payable to the lessor is recognised as a financial liability. These assets are depreciated using the criteria described below. Where it is not reasonably certain that the purchase option will be exercised, leased assets are depreciated over the shorter of the lease term and the estimated useful life of the asset.

(4) From 2009, changes in the fair value of non-hedging commodity derivatives, including the effects of settlements, are recognised under 'Other operating income and expenses'.

Expenditures on renewals, improvements and transformations that extend the useful lives of the related asset are capitalised.

Tangible assets are depreciated systematically using a straight-line method over their useful life, which is an estimate of the period over which the assets will be used by the company. When tangible assets comprise more than one significant element with different useful lives, each component is depreciated separately. The depreciable amount of an asset is its cost less the estimated residual value at the end of its useful life, if this is significant and can be reasonably determined. Land is not depreciated, even where purchased with a building. Tangible assets held for sale are not depreciated but are valued at the lower of book value and fair value less costs to sell (see 'Non-current assets held for sale').

Replacement costs of identifiable components in complex assets are capitalised and depreciated over their useful life. The residual book value of the component that has been replaced is charged to the income statement. Ordinary maintenance and repair costs are expensed when incurred.

The carrying value of tangible assets is reviewed for impairment whenever events indicate that the carrying amounts for those assets may not be recoverable. The recoverability of an asset is assessed by comparing its carrying value with the recoverable amount, represented by the higher of fair value less costs to sell and value in use. If there is no binding sales agreement, fair value is estimated on the basis of market values, recent transactions, or the best available information that shows the proceeds that the company could reasonably expect to collect from the disposal of the asset.

Value in use is the present value of the future cash flows expected to be derived from the use of the asset and, if significant and reasonably determinable, from its disposal at the end of its useful life, net of disposal costs. Cash flows are determined on the basis of reasonable and documented assumptions that represent the best estimate of the future economic conditions during the remaining useful life of the asset, giving more importance to independent assumptions. Discounting is carried out at a rate that reflects current market assessments of the time value of money and the risks specific to the asset that are not reflected in the estimate of future cash flows. The discount rate used is the Weighted Average Cost of Capital (WACC) adjusted for risks specific to the market.

Value in use is calculated net of the tax effect as this method results in values similar to those resulting from discounting pre-tax cash flows at a pre-tax discount rate deriving, through an iteration process, from a post-tax valuation.

Valuation is carried out for each single asset or, if the realisable value of a single asset cannot be determined, for the smallest identifiable group of assets that generates independent cash inflows from their continuous use (i.e. 'cash generating unit'). If the reasons for impairment cease to exist, the impairment loss is reversed to the income statement as income from revaluation. The value of the asset is written back to the lower of the recoverable amount and the original book value before impairment and net of any depreciation that would have been incurred had no impairment loss been recognised.

Tangible assets destined for specific operating projects, for which no further future use is envisaged due to the characteristics of the asset

itself or high usage during project execution, are depreciated over the duration of the project.

Intangible assets

Intangible assets are assets without physical substance, controlled by the company and capable of producing future economic benefits, and goodwill acquired in business combinations. An asset is classified as intangible when management is able to distinguish it clearly from goodwill. This condition is normally met when: (i) the intangible asset arises from legal or contractual rights, or (ii) the asset is separable, i.e. can be sold, transferred, licensed, rented or exchanged, either individually or as an integral part of other assets. An entity controls an asset if it has the ability to obtain the future economic benefits related to an asset and to restrict the access of others to those benefits. Intangible assets are initially stated at cost as determined by the criteria used for tangible assets.

Intangible assets with a defined useful life are amortised systematically over their useful life estimated as the period over which the assets will be used by the company. The amount to be amortised and the recoverability of their book value are determined in accordance with the criteria described in the section 'Tangible assets'.

Goodwill and other intangible assets with an indefinite useful life are not amortised. The recoverability of their carrying value is reviewed at least annually and whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

Goodwill is tested for impairment at the level of the smallest aggregate (cash generating unit) on which the company, directly or indirectly, evaluates the return on the capital expenditure to which goodwill relates. The cash generating unit is the smallest identifiable group of assets that generates cash inflows from continuing use, and that are largely independent of the cash inflows from other assets or groups of assets. If the carrying amount of the cash generating unit, including goodwill allocated thereto, exceeds the cash generating unit's recoverable amount, the excess is recognised as impairment⁽⁵⁾. The impairment loss is first allocated to reduce the carrying amount of goodwill. Any remaining excess is allocated on a pro-rata basis to the carrying value of the assets that form the cash generating unit. Impairment charges against goodwill are not reversed⁽⁶⁾. Negative goodwill is recognised in the income statement.

Costs of technological development activities

Costs of technological development activities are capitalised when the company can prove that:

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

(5) For the definition of the recoverable amount, see 'Tangible assets'.

(6) Impairment charges recognised in an interim period are not reversed even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the subsequent interim period.

Grants

Grants related to assets are recorded as a reduction of the purchase price or production cost of the related assets when there is reasonable assurance that all the required conditions attached to them, agreed upon with government entities, will be met. Grants related to income are recognised in the income statement.

Financial fixed assets

INVESTMENTS

Investments in subsidiaries excluded from consolidation and associates are accounted for using the equity method. When there is objective evidence of impairment (see also section 'Current financial assets'), the recoverability is tested by comparing the carrying amount and the related recoverable amount determined adopting the criteria indicated in the item 'Tangible assets'.

Subsidiaries excluded from consolidation and associates may be accounted for at cost, adjusted for impairment losses, if this does not result in a misrepresentation of the company's financial condition and results.

When the reasons for their impairment cease to exist, investments accounted for at cost are revalued within the limit of the impairment made and their effects are taken to the income statement item 'Other income (expense) from investments'.

Other investments, included in non current assets, are recognised at their fair value and their effects are included in the equity reserve related to other comprehensive income. Changes in fair value recognised in equity are charged to the income statement when the investment is sold or impaired. When investments are not traded in a public market and fair value cannot be reasonably determined, investments are accounted for at cost, adjusted for impairment losses; impairment losses may not be reversed⁷. The risk deriving from losses exceeding shareholders' equity is recognised in a specific provision to the extent the parent company is required to fulfil legal or implicit obligations towards the subsidiary or to cover its losses.

RECEIVABLES AND HELD-TO-MATURITY FINANCIAL ASSETS

Receivables and financial assets held to maturity are stated at cost represented by the fair value of the initial exchanged amount adjusted to take into account direct external costs related to the transaction (e.g. fees of agents or consultants, etc.). The initial carrying value is then adjusted to take into account capital repayments, devaluations and amortisation of the difference between the reimbursement value and the initial carrying value. Amortisation is carried out on the basis of the effective interest rate, which is the rate that exactly discounts the present value of estimated future cash flows to the initial carrying value (i.e. the amortised cost method). Receivables for finance leases are recognised at an amount equal to the present value of the lease payments and the purchase option price or any residual value; the amount is discounted at the interest rate implicit in the lease.

Any impairment is recognised by comparing the carrying value with the present value of the expected cash flows discounted at the effective interest rate defined at initial recognition or at the moment of its updating to reflect re-pricings contractually established (see also 'Current assets'). Receivables and held-to-maturity financial assets are recognised net of the provision for impairment losses. When the impairment loss is definite,

the provision is used. Otherwise it is released. Changes to the carrying amount of receivables or financial assets arising from amortised cost valuation are recognised as 'Finance income (expenses)'.

Non-current assets held for sale

Non-current assets and current and non-current assets included within disposal groups, whose carrying amount will be recovered principally through a sale transaction rather than through their continuing use, are classified as held for sale. Non-current assets held for sale, current and non-current assets included within disposal groups and liabilities directly associated with them are recognised in the balance sheet separately from the entity's other assets and liabilities.

Non-current assets held for sale are not depreciated and are measured at the lower of the fair value less costs to sell and their carrying amount.

Any difference between the carrying amount and the fair value less costs to sell is taken to the income statement as an impairment loss; any subsequent reversal is recognised up to the cumulative impairment losses, including those recognised prior to qualification of the asset as held for sale.

Financial liabilities

Debt is carried at amortised cost (see 'Financial fixed assets - Receivables and held-to-maturity financial assets' above).

Provisions for contingencies

Provisions for contingencies are liabilities for risks and charges of a definite nature and whose existence is certain or probable but for which at year-end the timing or amount of future expenditure is uncertain. Provisions are recognised when: (i) there is a present obligation (legal or constructive), as a result of a past event; (ii) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; (iii) a reliable estimate can be made of the amount of the obligation. Provisions represent the best estimate of the expenditure required to settle the obligation or to transfer it to a third parties at the balance sheet date. The amount recognised for onerous contracts is the lower of the cost necessary to fulfil the obligations, net of expected economic benefits deriving from the contracts, and any compensation or penalties arising from failure to fulfil these obligations. Where the effect of the time value of money is material and the payment dates of the obligations can be reliably estimated, the provisions should be discounted using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as 'Finance income (expense)'.

When the liability regards a tangible asset, the provision is stated with a corresponding entry to the asset to which it refers. The income statement charge is made through the depreciation process.

The costs that the company expects to bear in order to carry out restructuring plans are recognised when the company formally defines the plan and the interested parties have developed the reasonable expectation that the restructuring will happen.

Provisions are periodically updated to show the variations of estimates of costs, production times and actuarial rates. The estimated revisions of the provisions are recognised in the same income statement item that previously held the provision, or, when the liability regards tangible

(7) Impairment charges recognised in an interim period are not reversed even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the subsequent interim period.

assets, with a corresponding entry to the assets to which they refer.

In the notes to the consolidated financial statements, the following contingent liabilities are described: (i) possible, but not probable, obligations arising from past events, whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the company; (ii) present obligations arising from past events whose amount cannot be measured with sufficient reliability or whose settlement will probably not require an outflow of resources embodying economic benefits.

Employee benefits

Post-employment benefit plans, including constructive obligations, are classified as either 'defined contribution plans' or 'defined benefit plans', depending on the economic substance of the plan as derived from its principal terms and conditions. In the first case, the company's obligation, which consists of making payments to the State or to a trust or fund, is determined on the basis of the contributions due.

The liabilities related to defined benefit plans, net of any plan assets, are determined on the basis of actuarial assumptions⁸ and charged on an accruals basis during the employment period required to obtain the benefits. The valuation of the liability is made by independent actuaries.

The actuarial gains and losses of defined benefit plans are recognised pro-rata on service in the income statement using the corridor method, if and to the extent that the net cumulative actuarial gains and losses unrecognised at the end of the previous reporting period exceed the greater of 10% of the present value of the defined benefit obligation and 10% of the fair value of the plan assets, over the expected average remaining working lives of the employees participating in the plan. Such actuarial gains and losses derive from changes in the actuarial assumptions used or from a change in the conditions of the plan.

Obligations for long-term benefits are determined by adopting actuarial assumptions. The effect of changes in actuarial assumptions or a change in the characteristics of the benefit are taken to profit or loss in their entirety.

Treasury shares

Treasury shares are recorded at cost and as a reduction of equity. Gains or losses from the subsequent sale of treasury shares are recorded as an increase (or decrease) in equity.

Revenues

Revenues related to contract work-in-progress are recognised on the basis of contractual revenues, with reference to the stage of completion determined using the cost-to-cost method. Revenues for contract work-in-progress in a foreign currency are recognised at the euro exchange rate on the date the stage of completion of a contract is measured with the customer. This value is adjusted to take into account exchange differences arising on derivatives that qualify for hedge accounting.

Advances are recognised at the exchange rate on the date of payment.

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 related amount. Claims deriving, for example, from additional costs incurred for reasons

attributable to the client are included in the total amount of revenues only when it is probable that the client will accept them. Work that has not yet been accepted is recognised at the year-end exchange rate.

Revenues associated with sales of products and services, with the exception of contract work-in-progress, are recorded when the significant risks and rewards of ownership pass to the customer or when the transaction can be considered settled and associated revenue can be reliably measured.

Revenue related to partially rendered services is recognised by reference to the stage of completion, providing this can be measured reliably and that there is no significant uncertainty regarding the collectibility of the amount and the related costs. When the outcome of the transaction cannot be estimated reliably, revenue is recognised only to the extent of costs incurred that are expected to be recoverable.

Revenues are stated net of returns, discounts, rebates and bonuses and direct taxation.

Costs

Costs are recognised when the related goods and services are sold, consumed or allocated, or when their future benefits cannot be determined. Operating lease payments are recognised in the income statement over the length of the contract.

Labour costs comprise remuneration paid, provisions made to pension funds, accrued holidays, national insurance and social security contributions in compliance with national contracts of employment and current legislation.

Given their compensatory nature, labour costs also include stock options granted to senior managers. The instruments granted are recorded at fair value on the vesting date and are not subject to subsequent adjustments. The current portion is calculated pro-rata over the vesting period⁹. The fair value of stock options is determined using valuation techniques which consider conditions related to the exercise of options, current share prices, expected volatility and the risk-free interest rate.

The fair value of stock options is shown in the item 'Payroll and related costs' as a contra entry to the equity item 'Other reserves'.

The costs for the acquisition of new knowledge or discoveries, the study of products or alternative processes, new techniques or models, the planning and construction of prototypes or any other costs incurred for other scientific research activities or technological development, are generally considered current costs and expensed as incurred. These costs are capitalised when they meet the requirements listed under 'Costs of technological development activities'.

Exchange rate differences

Revenues and costs associated with transactions in currencies other than the functional currency are translated into the functional currency by applying the exchange rate at the date of the transaction.

Monetary assets and liabilities in currencies other than the functional currency are converted by applying the year-end exchange rate. The effect is recognised in the income statement. Non-monetary assets and liabilities denominated in currencies other than the functional currency valued at cost are translated at the initial exchange rate. Non-monetary assets that are re-measured at fair value (i.e. at their recoverable amount

(8) Actuarial assumptions relate to, inter alia, the following variables: (i) future salary levels; (ii) employee mortality rate; (iii) employee turnover rate; (iv) percentage of plan participants with dependents eligible to receive benefits (e.g. spouses and children); (v) for medical assistance plans, frequency of claims and future medical costs; (vi) interest rates.

(9) Period between the date of the award and the date on which the option can be exercised.

or realisable value), are translated at the exchange rate applicable on the date of re-measurement.

Dividends

Dividends are recognised at the date of the general shareholders' meeting in which they were declared, except when the sale of shares before the ex-dividend date is certain.

Income taxes

Current income taxes are determined on the basis of estimated taxable income. The estimated liability is recognised in 'Income tax payables'. Current income tax assets and liabilities are measured at the amount expected to be paid to (recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.

Deferred tax assets or liabilities are recognised for temporary differences between the carrying amounts and tax bases of assets and liabilities, based on tax rates and tax laws that have been enacted or substantively enacted for future years. Deferred tax assets are recognised when their realisation is considered probable.

For temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax liabilities are not recorded if the investor is able to control the timing of the reversal of the temporary difference and it is probable that the reversal will not occur in the foreseeable future.

Deferred tax assets and liabilities are recorded under non-current assets and liabilities and are offset at single entity level if related to offsettable taxes. The balance of the offset, if positive, is recognised in the item 'Deferred tax assets'; if negative, in the item 'Deferred tax liabilities'.

When the results of transactions are recognised directly in shareholders' equity, current taxes, deferred tax assets and liabilities are also charged to shareholders' equity.

Derivatives

A derivative is a financial instrument which has the following characteristics: (i) its value changes in response to the changes in a specified interest rate, financial instrument price, commodity price, foreign exchange rate or other variable; (ii) it requires no initial net investment or the investment is small; (iii) it is settled at a future date.

Derivatives, including embedded derivatives that are separated from the host contract, are assets and liabilities recognised at their fair value, which is estimated using the criteria described in the section 'Current assets'.

Consistently with its business requirements, Saipem classifies derivatives as hedging instruments whenever possible.

Derivatives are classified as hedging instruments when the relationship between the derivative and the subject of the hedge is formally documented and the effectiveness of the hedge is high and is tested regularly. When hedging instruments cover the risk of changes in the fair value of the hedged item (fair value hedge; e.g. hedging of changes in the fair value of fixed interest rate assets/liabilities), they are stated at fair value, with changes taken to the income statement. Hedged items are accordingly adjusted for changes in their fair value attributable to the hedged risk.

A cash flow hedge is a hedge of the exposure to variability in cash flows that could affect profit or loss and that is attributable to a particular risk associated with a recognised asset or liability (such as future interest payments on variable rate debt) or a highly probable forecast transaction, such as project income/costs.

The effective portion of changes in fair value of derivatives designated as hedges under IAS 39 is recorded initially in a hedging reserve and is recognised in the income statement in the period in which the hedged item affects the income statement.

The ineffective portion of changes in fair value of derivatives, as well as the entire change in fair value of those derivatives not designated as hedges or that do not meet the criteria set out in IAS 39, are taken directly to the income statement under 'Finance income (expenses)'.

Financial statements¹⁰

Assets and liabilities of the balance sheet are classified as current and non-current¹¹. Items of the income statement are presented by nature¹². The statement of comprehensive income shows net profit together with incomes and expenses that are recognised directly in equity in accordance with IFRS.

The statement of changes in shareholders' equity includes profit and loss for the year, transactions with shareholders and other changes in shareholders' equity.

The statement of cash flows is presented using the indirect method, whereby net profit is adjusted for the effects of non-cash transactions.

Risk management

The main risks that Saipem is facing and 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 suitable sources of funding for the Group's operations may not be available.

(10) The financial statements schedules are the same as those adopted in the 2009 Annual Report, with the exception of the cash flow statement, which has been modified in order to provide an articulation of the items included in 'Net cash provided by operating activities', 'Net cash used in investing activities' and 'Net cash used in financing activities'. The restatement of comparative data led to an increase in 'Net cash used in investing activities' of €184 million and a corresponding decrease in 'Net cash used in financing activities'. In particular, the main changes regarded: (i) the elimination of the items 'Net cash generated from operating profit before changes in working capital' and 'Net cash flow from operations'; (ii) the creation of the item 'Effect of accounting using the equity method'; (iii) the inclusion in the item 'Changes in working capital' of net impairments (write-ups) of inventory, trade receivables and changes in the fair value of derivative contracts, which were previously included in the item 'Impairments (write-ups)'; (iv) inclusion in the item 'Changes in working capital' of changes in the provisions for contingencies; (v) presentation of the change in the provision for employee benefits after the item 'Cash provided by operating activities'; (vi) the inclusion of the item 'Securities', which was previously included in 'Net cash used in financing activities', in the items 'Cash flow from investing activities' and 'Cash flow from disposals'; (vii) the item 'Collection and transfer of financing receivables and other short-term financial assets' has been renamed 'Financing receivables' and includes the items 'Repayments of short-term receivables' and 'Repayments of short-term receivables (debt)', which were previously included in 'Net cash used in financing activities'; (viii) the items 'Proceeds from short-term debt', 'Repayments of short-term receivables (debt)' and 'Increase (decrease) in short-term debt to banks' have been included in the item 'Increase (decrease) in short-term debt'.

(11) As of 2009, non-hedging derivatives are shown under the items 'Other current assets'/Other current /liabilities' and 'Other non-current assets'/Other non-current liabilities', depending on their settlement date.

(12) Additional information regarding financial instruments, applying the classification required by IFRS, is provided under Note 31 'Guarantees, commitments and risks - Additional information on financial instruments'.

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.

For further details on industrial risks, see the 'Risk management' section in the Directors' report.

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 a set of policies and guidelines 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 in or linked to non-euro currencies. This impacts on:

- 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 (translation risk).

Saipem'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 Eni Corporate Finance Unit of Eni SpA at fair value on the basis of 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.

An exchange rate sensitivity analysis was performed for those currencies other than euro for which exchange risk exposure in 2010 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, as under IAS 32, work in progress does not constitute a financial asset. 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 -€7 million (€24 million at December 31, 2009) and an overall effect on shareholders' equity, before related tax effects, of -€328 million (-€219 million at December 31, 2009).

Meanwhile, 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 €27 million (€47 million at December 31, 2009) and an overall effect on shareholders' equity, before related tax effects, of €333 million (€246 million at December 31, 2009).

The increase (decrease) with respect to the previous year is 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.

The table below shows the balance sheet and income statement effects of the sensitivity analysis.

(€ million)	2009				2010			
	+10%		-10%		+10%		-10%	
	Income statement	Shareholders' equity	Income statement	Shareholders' equity	Income statement	Shareholders' equity	Income statement	Shareholders' equity
Derivatives	(14)	(257)	58	257	(34)	(355)	49	355
Trade and other receivables	103	103	(85)	(85)	107	107	(87)	(87)
Trade and other payables	(56)	(56)	68	68	(83)	(83)	68	68
Cash and cash equivalents	13	13	(11)	(11)	23	23	(19)	(19)
Short-term debt	(18)	(18)	14	14	(4)	(4)	3	3
Medium/long-term debt	(4)	(4)	3	3	(16)	(16)	13	13
Total	24	(219)	47	246	(7)	(328)	27	333

The results of the sensitivity analysis on trade receivables and payables for the principal currencies are as follows.

(€ million)	Currency	2009			2010		
		Total	Δ -10%	Δ +10%	Total	Δ -10%	Δ +10%
Receivables							
	USD	845	(77)	94	901	(82)	100
	KWD	65	(6)	7	34	(3)	4
	GBP	14	(1)	1	18	(2)	2
	NOK	6	(1)	1	5	-	1
Total		930	(85)	103	958	(87)	107
Payables							
	USD	509	57	(46)	658	60	(73)
	GBP	56	6	(5)	59	5	(7)
	NOK	39	4	(4)	17	2	(2)
	KWD	5	-	(1)	13	1	(1)
	Other currencies	5	1	-	3	-	-
Total		614	68	(56)	750	68	(83)

Interest rate risk

The risk exposure arising from interest rate fluctuations within the Saipem Group is associated mainly with long-term financing with variable rates. To reduce this risk, Interest Rate Swaps (IRS) are entered into. Interest Rate Swaps are evaluated at fair value by the Treasury Department of Eni SpA on the basis of market prices provided by specialised sources. Planning, coordination and management of this activity at Group level is the responsibility of the Treasury Department.

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:

- interest rate derivatives;
- 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 year 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 the average interest rate were considered.

A positive variation in interest rates would have produced an overall effect on pre tax profit of -€5 million (-€6 million at December 31, 2009) and an overall effect on shareholders' equity, before related tax effects of -€5 million (-€5 million at December 31, 2009). A negative variation in interest rates would have produced an overall effect on pre tax profit of €5 million (€6 million at December 31, 2009) and an overall effect on shareholders' equity, before related tax effects of €5 million (€5 million at December 31, 2009).

The increase (decrease) with respect to the previous year is essentially due to the interest rates on the two reference dates and to variations in the assets and liabilities exposed to interest rate fluctuations.

The table below shows the balance sheet and income statement effects of the sensitivity analysis.

(€ million)	2009				2010			
	+10%		-10%		+10%		-10%	
	Income statement	Shareholders' equity	Income statement	Shareholders' equity	Income statement	Shareholders' equity	Income statement	Shareholders' equity
Derivatives	-	1	-	(1)	-	-	-	-
Cash and cash equivalents	1	1	(1)	(1)	1	1	(1)	(1)
Short-term debt	(5)	(5)	5	5	(2)	(2)	2	2
Medium/long-term debt	(2)	(2)	2	2	(4)	(4)	4	4
Total	(6)	(5)	6	5	(5)	(5)	5	5

Commodity 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.

Such derivatives are evaluated at fair value by the Treasury Department of Eni SpA on the basis of market prices provided by specialised sources. With regard to commodity risk hedging instruments, a 10% positive variation in the underlying rates would have produced an overall effect on pre tax profit of €0.1 million (€0.1 million at December 31, 2009) and an overall effect on shareholders' equity, before related tax effects, of €5 million (€6 million at December 31, 2009). A 10% negative variation in the underlying rates would have produced an overall effect on pre tax profit of -€0.1 million (-€0.1 million at December 31, 2009) and an overall effect on shareholders' equity, before related tax effects, of -€5 million (-€6 million at December 31, 2009).

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 deriving from non-performance of counterparties. Credit risk arising in the normal course of operations is monitored by the business units and the administration department on the basis of standard procedures and periodic reporting. For financial investments and the use of financial instruments, including derivatives, companies adopt the guidelines issued by the Treasury Department of Saipem.

The critical situation that has developed on the financial markets has led to additional preventative measures to avoid the concentration of risk/assets being adopted.

Finance debt

(€ million)	Maturity						
	2011	2012	2013	2014	2015	After	Total
Long-term debt	327	474	482	296	1,120	515	3,214
Short-term debt	1,002	-	-	-	-	-	1,002
Fair value of derivative instruments	136	9	-	-	-	-	145
	1,465	483	482	296	1,120	515	4,361
Interest on debt	75	71	62	52	37	62	359

In addition, operations involving derivative instruments are being managed with a greater degree of selectivity.

The company did not have any significant cases of non performance by counterparties.

As at December 31, 2010, Saipem had no significant concentrations of credit risk.

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.

At December 31, 2010, Saipem maintained unused borrowing facilities of €1,834 million. In addition, Eni SpA provides lines of credit 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.

Trade and other payables

(€ million)	Maturity			Total
	2011	2012-2015	After	
Trade payables	2,698	-	-	2,698
Other payables and advances	3,115	1	-	3,116

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.

(€ million)	Maturity						Total
	2011	2012	2013	2014	2015	After	
Non-cancellable operating leases	135	74	42	24	19	35	329

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.

(€ million)	Maturity	
	2011	2012
Committed on major projects	309	20
Other committed projects	115	-
	424	20

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 judgments, 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.

Summarised below are those accounting estimates used in the preparation of consolidated financial statements and interim reports that are considered critical because they require management to make a large number of subjective judgments, assumptions and estimates regarding matters that are inherently uncertain. Changes in the conditions underlying such judgments, assumptions and estimates may have a significant affect on future results.

CONTRACT WORK IN PROGRESS

Contract work in progress for long-term contracts – for which estimates necessarily have a significant subjective component – are measured on the basis of estimated revenues and costs over the full life of the contract. Contract work in progress includes extra revenues from additional works following modifications to the original contracts if their realisation is probable and the amount can be reliably estimated.

IMPAIRMENT OF ASSETS

Saipem assesses its tangible and intangible assets for possible impairment if there are events or changes in circumstances that indicate the carrying values of the assets are not recoverable.

Impairment is recognised in the event of significant permanent changes in the outlook for the market segment in which the asset is used. Determining as to whether and how much an asset is impaired involves management estimates on complex and highly uncertain factors, such as future market performances, the effects of inflation and technological improvements on operating costs, and the outlook for global or regional market supply and demand conditions.

The amount of an impairment loss is determined by comparing the book value of an asset with its recoverable amount. The recoverable amount is the greater of the asset's fair value less costs to sell and its value in use. Value in use is the present value of the future cash flows expected to be derived from the use of the asset, net of disposal costs. The expected future cash flows used for impairment reviews are based on judgmental assessments of future variables such as prices, costs, demand growth rate and production volumes, considering the information available at the date of the review and are discounted at a rate that reflects the risk inherent in the relevant activity. Goodwill and other intangible assets with an indefinite useful life are not amortised. The recoverability of their carrying value is reviewed at least annually and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Goodwill is tested for impairment at cash generating unit level, i.e. the smallest aggregate on which the company, directly or indirectly, evaluates the return on the capital expenditure. If the recoverable amount of a cash generating unit is lower than the carrying

amount, goodwill attributed to that cash generating unit is impaired up to that difference; if the carrying amount of goodwill is less than the amount of impairment, assets of the cash generating unit are impaired on a pro-rata basis for the residual difference.

BUSINESS COMBINATION

Accounting for business combinations requires the allocation of the purchase price to the various assets and liabilities of the acquired business at their respective fair values. Any positive residual difference is recognised as goodwill. Negative residual differences are credited to the income statement. Management uses all available information to make these fair value determinations and, for major business acquisitions, typically engages an independent appraisal firm to assist in the fair value determination of the acquired assets and liabilities.

CONTINGENCIES

Saipem records provisions for contingencies primarily in relation to employee benefits, litigation and tax issues. Determining appropriate amounts for provisions is a complex estimation process that includes subjective judgements.

EMPLOYEE BENEFITS

Post-employment benefit plans arising from defined benefit plans are evaluated with reference to uncertain events and based upon actuarial assumptions including, inter alia, discount rates, expected rates of return on plan assets, expected rates of salary increases, medical cost trend rates, estimated retirement dates and mortality rates.

The significant assumptions used to account for pensions and other post-retirement benefits are determined as follows: (i) discount and inflation rates reflect the rates at which the benefits could be effectively settled, taking into account the duration of the obligation. Indicators used in selecting the discount rate include rates of annuity contracts and rates of return on high-quality fixed-income investments (such as government bonds). The inflation rates reflect market conditions observed country by country; (ii) the future salary levels of the individual employees are determined including an estimate of future changes attributed to general price levels (consistent with inflation rate assumptions), productivity, seniority and promotion; (iii) healthcare cost trend assumptions reflect an estimate of the actual future changes in the cost of the healthcare related benefits provided to the plan participants and are based on past and current healthcare cost trends including healthcare inflation, changes in healthcare utilisation, and changes in health status of the participants; (iv) demographic assumptions such as mortality, disability and turnover reflect the best estimate of these future events for the individual employees involved, based principally on available actuarial data; and (v) determination of the expected rates of return on assets is made through compound averaging. For each plan, the distribution of investments among bonds, equities and cash and their specific average expected rate of return is taken into account.

Differences between expected and actual costs and between the expected return and the actual return on plan assets routinely occur and are called actuarial gains and losses. Saipem employs the corridor method to amortise its actuarial gains and losses. This method amortises on a pro-rata basis the net cumulative unrecognised actuarial gains and losses at the end of the previous reporting period that exceed 10% of the greater of (i) the present value of the defined benefit obligation; and (ii) the fair value

of plan assets, over the average expected remaining working lives of the employees participating in the plan.

Additionally, obligations for other long-term benefits are determined by adopting actuarial assumptions. The effect of changes in actuarial assumptions or a change in the characteristics of the benefit are taken to profit or loss in their entirety.

Recent accounting principles

Accounting standards and interpretations issued by IASB/IFRIC and endorsed by the European Union

Commission Regulation No. 632/2010 of July 19, 2010 endorsed the new version of IAS 24 'Related Party Disclosures', which: (i) broadens the definition of a related party; (ii) for transactions between entities related to the same Government, allows quantitative disclosures to be limited to significant transactions. The revised standard shall be applied for annual periods beginning on or after January 1, 2011.

Commission Regulation No. 149/2011 of February 18, 2011 adopted the document 'Improvements to IFRS's', which essentially consists of changes of a technical and editorial nature to existing standards and interpretations. The provisions come into effect starting from 2011.

Accounting standards and interpretations issued by IASB/IFRIC but not yet endorsed by the European Union

On November 12, 2009, IASB issued IFRS 9 'Financial Instruments', which changes the recognition and measurement of financial assets and their classification in the financial statements. The new provisions require, inter alia, a classification and measurement model of financial assets based exclusively on the following categories: (i) financial assets measured at amortised cost; (ii) financial assets measured at fair value.

The new provisions also require investments in equity instruments, other than subsidiaries, jointly controlled entities or associates, to be measured at fair value with value changes recognised in profit or loss. If these investments are not held for trading purposes, subsequent changes in the fair value can be recognised in other comprehensive income, with only dividend income recognised in profit or loss. Amounts taken to other comprehensive income shall not be subsequently transferred to profit or loss, even at disposal.

On October 28, 2010, the IASB reissued IFRS 9 to incorporate classification and measurement criteria for financial liabilities. In particular, the new version of IFRS 9 requires changes in the fair value of financial liabilities designated as at fair value through profit or loss arising from the entity's own credit risk to be presented in other comprehensive income. Such changes may however be recognised in profit or loss in order to avoid an accounting mismatch with related assets.

IFRS 9 provisions shall be applied for annual periods beginning on or after January 1, 2013.

On October 7, 2010, the IASB issued Amendment to IFRS 7 'Disclosures - Transfers of financial assets', which introduced new disclosure requirements for financial instruments. The amendment, which specifically regards the transfer of financial assets, requires a description of the risks associated with the transferred assets to which a Company is exposed and also requires specific disclosures if a substantial proportion of total transfer activity takes place in the closing days of a reporting period. The new provisions shall be applied for annual periods beginning on or after July 1, 2011 (for Saipem: 2012 financial statements).

Saipem is currently reviewing these new IFRS and interpretations to determine the likely impact on the Group's results.

Scope of consolidation at December 31, 2010

Consolidating company

Company	Registered office	Currency	Share capital	Shareholders	% held	Saipem's consolidation %	Method of consolidation or accounting principle (C)
Saipem SpA	San Donato Milanese	EUR	441,410,900	Eni Corporate SpA Saipem SpA Third parties	42.92 0.84 56.24		

Subsidiaries

Italy

Company	Registered office	Currency	Share capital	Shareholders	% held	Saipem's consolidation %	Method of consolidation or accounting principle (C)
Consorzio Sapro	San Giovanni Teatino	EUR	10,329	Saipem SpA Third parties	51.00 49.00		Co.
Saipem Energy Services SpA	San Donato Milanese	EUR	9,020,216	Saipem SpA	100.00	100.00	F.C.
Servizi Energia Italia SpA	Marghera	EUR	291,000	Saipem Energy Services SpA	100.00	100.00	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

Andromeda Consultoria Tecnica e Representações Ltda	Rio de Janeiro (Brazil)	BRL	322,350,000	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.
BOS Investment Ltd	Hertfordshire (United Kingdom)	GBP	700,000	Saipem sa	100.00	100.00	F.C.
BOS-UIE Ltd	Hertfordshire (United Kingdom)	GBP	600,600	BOS Investment Ltd	100.00	100.00	F.C.
Construction Saipem Canada Inc	Montreal (Canada)	CAD	1,000	Snamprogetti Canada Inc	100.00	100.00	F.C.
Ersai 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	Ersai Caspian Contractor Llc	100.00		E.M.
ERS - Equipment Rental & Services BV	Amsterdam (Netherlands)	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.
Hazira Cryogenic Engineering & Construction Management Private Ltd	Mumbai (India)	INR	500,000	Saipem sa Third parties	55.00 45.00		E.M.
Hazira Marine Engineering & Construction Management Private Ltd	Mumbai (India)	INR	100,000	Saipem sa Third parties	99.99 0.01		E.M.

(*) F.C. = full consolidation, P.C. = proportionate consolidation, E.M. = equity method, Co. = cost method
 (***) Inactive throughout the year.

Company	Registered office	Currency	Share capital	Shareholders	% held	Saipem's consolidation %	Method of consolidation or accounting principle (*)
Katran-K Llc	Krasnodar (Russian Federation)	RUB	1,603,800	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.
Moss Offshore AS	Lysaker (Norway)	NOK	20,000,000	Moss Maritime AS	100.00	100.00	F.C.
Nigerian Services & Supply Co Ltd (**)	Lagos (Nigeria)	NGN	40,000,000	Saipem sa	100.00		E.M.
North Caspian Service Co LLP	Almaty (Kazakhstan)	KZT	1,910,000,000	Saipem International BV	100.00	100.00	F.C.
Petrex SA	Iquitos (Peru)	PEN	485,469,045	Saipem International BV	100.00	100.00	F.C.
Petromar Lda	Luanda (Angola)	USD	357,143	Saipem sa Third parties	70.00 30.00	70.00	F.C.
Professional Training Center Llc (**)	Karakiyon District, Mangistau Oblast (Kazakhstan)	KZT	1,000,000	Ersai Caspian Contractor Llc	100.00		E.M.
PT Saipem Indonesia	Jakarta (Indonesia)	USD	111,290,000	Saipem International BV Saipem Asia Sdn Bhd	68.55 31.45	100.00	F.C.
Sagio - Companhia Angolana de Gestão de Instalação Offshore Lda	Luanda (Angola)	AOA	1,600,000	Saipem (Portugal) - Gestão de Participações SGPS SA Third parties	60.00 40.00		E.M.
Saigut SA de Cv	Col Juarez (Mexico)	MXN	90,050,000	Saimexicana SA de Cv	100.00	100.00	F.C.
Saimexicana SA de Cv	Col Juarez (Mexico)	MXN	50,000	Saipem sa	100.00	100.00	F.C.
Saipem (Beijing) Technical Services Co Ltd	Beijing (China)	USD	250,000	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	Funchal (Portugal)	EUR	299,278,738	Saipem (Portugal) - Gestão de Participações SGPS SA	100.00	100.00	F.C.
Saipem (Portugal) - Gestão de Participações SGPS SA	Funchal (Portugal)	EUR	49,900,000	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 Samic y F. (**)(***)	Buenos Aires (Argentina)	ARS	444,500	Saipem International BV Third parties	99.58 0.42		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 (**)	Sydney (Australia)	AUD	10,661,000	Saipem International BV	100.00		E.M.
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	Hassi Messaoud (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 Serviços de Petróleo Ltda	Rio de Janeiro (Brazil)	BRL	84,719,299	Saipem Energy Services SpA	100.00	100.00	F.C.

(*) F.C. = full consolidation, P.C. = proportionate consolidation, E.M. = equity method, Co. = cost method
 (**) In liquidation.
 (***) Inactive throughout the year.

Company	Registered office	Currency	Share capital	Shareholders	% held	Saipem's consolidation %	Method of consolidation or accounting principle (°)
Saipem Drilling Co Pvt Ltd	Mumbai (India)	INR	50,000,000	Saipem International BV Saipem sa	50.00 50.00	100.00	F.C.
Saipem Engineering Nigeria Ltd (***)	Lagos (Nigeria)	NGN	75,000,000	Saipem International BV Third parties	95.00 5.00		E.M.
Saipem India Project Ltd	Chennai (India)	INR	407,000,000	Saipem sa	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 Limited Liability Company - 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 Logistics Services Ltd (***)	Lagos (Nigeria)	NGN	55,000,000	Saipem International BV	100.00		E.M.
Saipem Ltd	New Malden (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 Sarl Saipem (Portugal) Comércio Marítimo Sociedade Unipessoal Lda	99.99 0.01	100.00	F.C.
Saipem Maritime Asset Management Luxembourg Sarl	Luxembourg (Luxembourg)	USD	315,000	Saipem SpA	100.00	100.00	F.C.
Saipem Mediteran Uslugue doo	Rijeka (Croatia)	HRK	1,500,000	Saipem International BV	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 A/S	Sola (Norway)	NOK	100,000	Saipem International BV	100.00		E.M.
Saipem Perfurações e Construções Petrolíferas Lda	Funchal (Portugal)	EUR	224,459	Saipem (Portugal) - Gestão de Participações SGPS SA	100.00	100.00	F.C.
Saipem Qatar Llc	Doha (Qatar)	QAR	2,000,000	Saipem International BV Third parties	49.00 51.00		E.M.
Saipem sa	Montigny le Bretonneux (France)	EUR	26,488,695	Saipem SpA	100.00	100.00	F.C.
Saipem Services México SA de Cv	Col Juarez (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	New Malden (United Kingdom)	GBP	6,470,000	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 Company 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.
SAS Port de Tanger Société par Actions Simplifiée Unipersonnelle	Montigny le Bretonneux (France)	EUR	37,000	Saipem sa	100.00	100.00	F.C.

(*) F.C. = full consolidation, P.C. = proportionate consolidation, E.M. = equity method, Co. = cost method
 (***) Inactive throughout the year.

Company	Registered office	Currency	Share capital	Shareholders	% held	Saipem's consolidation %	Method of consolidation or accounting principle (1)
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.
Shipping and Maritime Services Ltd (**)	Lagos (Nigeria)	NGN	13,000,000	ERS - Equipment Rental & Services BV	100.00		E.M.
Sigurd Rück AG	Zurich (Switzerland)	CHF	25,000,000	Saipem International BV	100.00	100.00	F.C.
Snamprogetti Africa (Nigeria) Ltd (**)(***)	Lagos (Nigeria)	NGN	5,000,000	Snamprogetti Netherlands BV Snamprogetti Management Services SA	99.00 1.00		E.M.
Snamprogetti Canada Inc	Montreal (Canada)	CAD	100,100	Saipem International BV	100.00	100.00	F.C.
Snamprogetti Engineering BV	Amsterdam (Netherlands)	EUR	18,151	Snamprogetti Maritime Asset Management Luxembourg Sarl	100.00	100.00	F.C.
Snamprogetti Ltd	Basingstoke (United Kingdom)	GBP	15,000,000	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 Management Services SA (**)	Geneva (Switzerland)	CHF	300,000	Snamprogetti Netherlands BV Third parties	99.99 0.01		E.M.
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.
Société de Construction d'Oleoducs Snc (****)	Montigny le Bretonneux (France)	EUR	39,000	Saipem sa	100.00	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 AS	Sola (Norway)	NOK	1,882,000	Saipem International BV	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.
Star Gulf Free Zone Co	Dubai (United Arab Emirates)	AED	500,000	Saipem (Portugal) - Gestão de Participações SGPS SA Saipem (Portugal) Comércio Marítimo Sociedade Unipessoal Lda	80.00 20.00	100.00	F.C.
TBE Ltd	Damietta (Egypt)	EGP	50,000	Saipem sa Third parties	70.00 30.00		E.M.
Varisal - Serviços de Consultadoria e Marketing Unipessoal Lda	Funchal (Portugal)	EUR	500,000	Saipem (Portugal) - Gestão de Participações SGPS SA	100.00	100.00	F.C.

(*) F.C. = full consolidation, P.C. = proportionate consolidation, E.M. = equity method, Co. = cost method

(**) In liquidation.

(***) Inactive throughout the year.

(****) Merged into Saipem sa on December 30, 2010. Removed from Register of Companies on January 5, 2011.

Associated and jointly controlled 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	P.C.
CEPAV (Consorzio Eni per l'Alta Velocità) Uno	San Donato Milanese	EUR	51,646	Saipem SpA Third parties	50.36 49.64	50.36	P.C.
CEPAV (Consorzio Eni per l'Alta Velocità) Due	San Donato Milanese	EUR	51,646	Saipem SpA Third parties	52.00 48.00		E.M.
Consorzio F.S.B.	Venice	EUR	15,000	Saipem Energy Services SpA Third parties	28.00 72.00		Co.
Consorzio Snamprogetti Abb Lg Chemicals (**)	San Donato Milanese	EUR	50,000	Saipem SpA Third parties	50.00 50.00		E.M.
Modena Scarl	San Donato Milanese	EUR	400,000	Saipem SpA Third parties	59.33 40.67	59.33	P.C.
Rodano Consortile Scarl	San Donato Milanese	EUR	250,000	Saipem SpA Third parties	53.57 46.43	53.57	P.C.
Rosetti Marino SpA	Ravenna	EUR	4,000,000	Saipem sa Third parties	20.00 80.00		E.M.
SP - TKP Fertilizer Srl (**)	San Donato Milanese	EUR	50,000	Saipem SpA Third parties	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 (°)
O2 Pearl snc	Montigny le Bretonneux (France)	EUR	1,000	Saipem sa Third parties	50.00 50.00	50.00	P.C.
Barber Moss Ship Management AS	Lysaker (Norway)	NOK	1,000,000	Moss Maritime AS Third parties	50.00 50.00		E.M.
Bonny Project Management Co Ltd	Greenford (United Kingdom)	GBP	1,000	LNG - Serviços e Gestão de Projectos Lda	100.00		E.M.
BOS Shelf Ltd Society	Baku City (Azerbaijan)	AZN	2,000	Star Gulf Free Zone Co Third parties	50.00 50.00	50.00	P.C.
Caspian Barge Builders Pte Ltd (***)	Singapore (Singapore)	SGD	2	Saipem Singapore Pte Ltd Third parties	50.00 50.00		E.M.
Charville - Consultores e Serviços, Lda	Funchal (Portugal)	EUR	5,000	Saipem (Portugal) - Gestão de Participações SGPS SA Third parties	50.00 50.00	50.00	P.C.
CMS&A WII	Doha (Qatar)	QAR	500,000	Snamprogetti Netherlands BV Third parties	20.00 80.00	50.00	P.C.
Dalia Floater Angola Snc	Paris la Defense (France)	EUR	0	Saipem sa Third parties	27.50 72.50	27.50	P.C.
Fertilizantes Nitrogenados de Oriente CEC	Caracas (Venezuela)	VEB	9,667,827,216	Snamprogetti Netherlands BV Third parties	20.00 80.00		E.M.

(*) F.C. = full consolidation, P.C. = proportionate consolidation, E.M. = equity method, Co. = cost method

(**) In liquidation.

(***) Inactive throughout the year.

Company	Registered office	Currency	Share capital	Shareholders	% held	Saipem's consolidation %	Method of consolidation or accounting principle (*)
Fertilizantes Nitrogenados de Oriente SA	Caracas (Venezuela)	VEB	286,549	Snamprogetti Netherlands BV Third parties	20.00 80.00		E.M.
FPSO Mystras (Nigeria) Ltd (**)	Lagos (Nigeria)	NGN	15,000,000	FPSO Mystras - Produção de Petróleo Lda	100.00		E.M.
FPSO Mystras - Produção de Petróleo, Lda	Funchal (Portugal)	EUR	50,000	Saipem (Portugal) - Gestão de Participações SGPS SA Third parties	50.00 50.00	50.00	P.C.
Kwanda Suporto Logistico Lda	Luanda (Angola)	AOA	25,510,204	Saipem sa Third parties	40.00 60.00		E.M.
LNG - Serviços e Gestão de Projectos Lda	Funchal (Portugal)	EUR	5,000	Snamprogetti Netherlands BV Third parties	25.00 75.00		E.M.
Mangrove Gas Netherlands BV	Amsterdam (Netherlands)	EUR	2,000,000	Saipem (Portugal) - Gestão de Participações SGPS SA Third parties	50.00 50.00	50.00	P.C.
Nigetecsa Free Zone Enterprise (***)	Olokola (Nigeria)	USD	40,000	Saipem International BV Third parties	50.00 50.00		E.M.
ODE North Africa Llc	Maadi - Cairo (Egypt)	EGP	100,000	Offshore Design Engineering Ltd	100.00		E.M.
Offshore Design Engineering Ltd	Kingston-Upon Thames (United Kingdom)	GBP	100,000	Saipem sa Third parties	50.00 50.00	50.00	P.C.
000 Moss Krylov Maritime (****)	Saint Petersburg (Russian Federation)	RUB	98,000	Moss Maritime AS Third parties	50.00 50.00		E.M.
RPCO Enterprises Ltd	Nicosia (Cyprus)	EUR	17,100	Snamprogetti Netherlands BV Third parties	50.00 50.00	50.00	P.C.
Sabella sas	Quimper (France)	EUR	37,000	Sofresid Engineering sa Third parties	32.50 67.50		E.M.
Saibos Akogep Snc	Montigny le Bretonneux (France)	EUR	39,000	Saipem sa Third parties	70.00 30.00	70.00	P.C.
Saipar Drilling Co BV	Amsterdam (Netherlands)	EUR	20,000	Saipem International BV Third parties	50.00 50.00	50.00	P.C.
Saipem Kharafi National MMO Fz Co (**)	Dubai (United Arab Emirates)	AED	600,000	Saipem International BV Third parties	50.00 50.00		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		E.M.
Saipem Triune Engineering Private Ltd	New Delhi (India)	INR	200,000	Saipem International BV Third parties	50.00 50.00		E.M.
Saipon snc	Montigny le Bretonneux (France)	EUR	20,000	Saipem sa Third parties	60.00 40.00	60.00	P.C.
Servicios de Construcciones Caucedo sa (**)	Santo Domingo (Dominican Republic)	DOP	100,000	Saipem sa Third parties	49.70 50.30		E.M.
Société pour la Realisation du Port de Tanger Mediterranée	Anjra (Morocco)	EUR	33,000	SAS Port de Tanger Third parties	33.33 66.67	33.33	P.C.
Southern Gas Constructors Ltd	Lagos (Nigeria)	NGN	10,000,000	Saipem (Portugal) - Gestão de Participações SGPS SA Third parties	50.00 50.00	50.00	P.C.
SPF - TKP Omifpro Snc	Paris (France)	EUR	50,000	Saipem sa Third parties	50.00 50.00	50.00	P.C.
Starstroi Llc	Krasnodar (Russian Federation)	RUB	7,699,490	Saipem sa Third parties	50.00 50.00	50.00	P.C.
Starstroi - Maintenance Llc	Krasnodar (Russian Federation)	RUB	1,000,000	Starstroi Llc	100.00		E.M.

(*) F.C. = full consolidation, P.C. = proportionate consolidation, E.M. = equity method, Co. = cost method

(**) In liquidation.

(***) Inactive throughout the year.

(****) Sold to third parties, awaiting official documentation.

Company	Registered office	Currency	Share capital	Shareholders	% held	Saipem's consolidation %	Method of consolidation or accounting principle (C)
Sud-Soyo Urban Development Lda (***)	Soyo (Angola)	AOA	20,000,000	Saipem sa Third parties	49.00 51.00		E.M.
T.P.C.I. Angola Tecnoprojecto Internacional sa	Luanda (Angola)	AOA	9,000,000	Petromar Lda Third parties	35.00 65.00		E.M.
Tchad Cameroon Maintenance BV	Rotterdam (Netherlands)	EUR	18,000	Saipem sa Third parties	40.00 60.00		E.M.
Technip-Zachry-Saipem LNG Lp	Houston (USA)	USD	5,000	TZS Llc (NV) TZS Llc (TX)	99.00 1.00	20.00	P.C.
Tecnoprojecto Internacional Projectos e Realizações Industriais SA	Porto Salvo - Concelho de Oeiras (Portugal)	EUR	700,000	Saipem sa Third parties	42.50 57.50		E.M.
TMBYS sas	Guyancourt (France)	EUR	30,000	Saipem sa Third parties	33.33 66.67	33.33	P.C.
TSKJ II - Construções Internacionais, Sociedade Unipessoal, Lda	Funchal (Portugal)	EUR	5,000	TSKJ - Serviços de Engenharia Lda	100.00		E.M.
TSKJ - Nigeria Ltd	Lagos (Nigeria)	NGN	50,000,000	TSKJ II - Construções Internacionais, Sociedade Unipessoal, Lda	100.00		E.M.
TSKJ - Serviços de Engenharia Lda	Funchal (Portugal)	EUR	5,000	Snamprogetti Netherlands BV Third parties	25.00 75.00		E.M.
TSLNG snc	Courbevoie (France)	EUR	20,000	Saipem sa Third parties	50.00 50.00	50.00	P.C.
TZS Llc (NV)	Reno (USA)	USD	10,000	Saipem America Inc Third parties	20.00 80.00	20.00	P.C.
TZS Llc (TX)	San Antonio (USA)	USD	5,000	Saipem America Inc Third parties	20.00 80.00	20.00	P.C.

The Saipem Group comprises 137 companies: 66 are consolidated using the full consolidation method, 25 with the proportionate consolidation method, 44 with the equity method and 2 with the cost method.

(*) F.C. = full consolidation, P.C. = proportionate consolidation, E.M. = equity method, Co. = cost method
 (***) Inactive throughout the year.

Changes in the scope of consolidation

Changes in the scope of consolidation with respect to the consolidated financial statements at December 31, 2009, are detailed below in date order.

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

- on January 1, 2010, **Intermare Sarda SpA**, previously consolidated using the full consolidation method, was merged by incorporation into Saipem Energy Services SpA;
- on January 14, 2010, **Consorzio USG** (in liquidation), previously accounted for using the cost method, was removed from the Register of Companies;
- on January 18, 2010, **Bannorsud - Comercio, Serviços de Consultoria e Investimentos Lda**, previously accounted for using the equity method, was sold to third parties;
- on February 16, 2010, the Texan company **Doris Construction Support Services Llc** was incorporated and is accounted for using the equity method;
- on March 18, 2010, the UK company **Saipem Ltd** was incorporated and is consolidated using the full consolidation method;
- on April 29, 2010, the French company **TMBYS sas** was incorporated and is consolidated using the proportionate method;
- on May 7, 2010, the Canadian company **Construction Saipem Canada Inc** was incorporated and is consolidated using the full consolidation method;
- on May 10, 2010, the Libyan company **Saipem Libya Limited Liability Company - SA.LI.CO. Llc** was incorporated and is consolidated using the full consolidation method;
- on June 10, 2010, **STTS Snc**, previously consolidated using the proportionate method, was removed from the Register of Companies after having been placed into liquidation;
- on June 11, 2010, **Guangdong Contractor Snc**, previously consolidated using the proportionate method, was removed from the Register of Companies after having been placed into liquidation;
- on June 30, 2010, **Africa Oil Services sa**, previously accounted for using the equity method, was removed from the Register of Companies after having been placed into liquidation;
- on July 5, 2010, the Italian company **Consorzio F.S.B.** was incorporated and is accounted for using the cost method;
- on July 30, 2010, the Dutch company **Saipem Contracting Netherlands BV** was incorporated and is consolidated using the full consolidation method;
- on August 12, 2010, **European Maritime Commerce BV**, previously consolidated using the full consolidation method, was merged by incorporation into Saipem (Portugal) Comércio Marítimo, Sociedade Unipessoal Lda;
- on August 16, 2010, **Starstroi - Sakhalin - Bezopasnost sarl**, previously accounted for using the equity method, was merged by incorporation into Starstroi Maintenance Llc;
- on August 16, 2010, **Starstroi Security Llc**, previously accounted for using the equity method, was merged by incorporation into Starstroi Maintenance Llc;
- on August 28, 2010, **Saipem Discoverer Invest sarl**, previously consolidated using the full consolidation method, was merged by incorporation into Saipem Maritime Asset Management Luxembourg Sarl;
- on August 30, 2010, **Enterprise Nouvelle Marcellin sa**, previously consolidated using the full consolidation method, was merged by incorporation into Saipem sa after having been placed into liquidation;
- on September 9, 2010, **Doris Engineering sa**, previously accounted for using the equity method, was sold to third parties. As a result of the sale:
 - i) the following companies are wholly owned by third parties:
 - **Doris Construction Support Services Llc**, previously accounted for using the equity method;
 - **Doris Development Canada Ltd**, previously accounted for using the cost method;
 - **Doris Engenharia Ltda**, previously accounted for using the equity method;
 - **Doris USA Inc**, previously accounted for using the equity method;
 - **Sea Tank Co sa**, previously accounted for using the cost method;
 - **PT Singgar - Doris**, previously accounted for using the equity method;
 - **Stat Assets Management sas**, previously accounted for using the equity method;
 - **Stat Holding International Ltd**, previously accounted for using the equity method;
 - **Stat Marine Llc**, previously accounted for using the equity method;
 - **Stat Marine Ltd**, previously accounted for using the equity method;
 - **Stat Marine sas**, previously accounted for using the equity method;
 - **Stat Services sa**, previously accounted for using the equity method;
 - ii) the company **Offshore Design Engineering Ltd**, consolidated using the proportionate method, is 50% owned by third parties;
- on September 23, 2010, **Sonsub Ltd** (in liquidation), previously consolidated using the full consolidation method, was removed from the Register of Companies;
- on September 24, 2010, the Norwegian company **Saipem Norge AS** was incorporated and is accounted for using the equity method;
- on November 3, 2010, **FPSO Firenze Produção de Petróleo Lda**, previously consolidated using the proportionate method, was removed from the Register of Companies after having been placed into liquidation;
- on November 23, 2010, the Iraqi company **Sajer Iraq Company for Petroleum Services, Trading, General Contracting & Transport Llc** was purchased and is consolidated using the full consolidation method;
- on November 30, 2010, **European Marine Contractors Ltd** (in liquidation), previously accounted for using the equity method, was removed from the Register of Companies;
- on November 30, 2010, **European Marine Investments Ltd** (in liquidation), previously accounted for using the equity method, was removed from the Register of Companies;
- on December 2, 2010, **Snamprogetti France sarl**, previously consolidated using the full consolidation method, was merged by incorporation into Saipem sa after having been placed into liquidation;
- on December 10, 2010, **SNC Saipem - Bouygues TP**, previously consolidated using the proportionate method, was removed from the Register of Companies after having been placed into liquidation;
- on December 20, 2010, **Saipem Kharafi National MMO Fz Co**, previously consolidated using the full consolidation method, was placed into liquidation;
- on December 24, 2010, **Saipem Holding France sas**, previously consolidated using the full consolidation method, was removed from the Register of Companies after having been placed into liquidation;

- on December 28, 2010, **Kazakhoil Bouygues Offshore Sarl**, previously accounted for using the cost method, was removed from the Register of Companies;
- on December 30, 2010, **Société de Construction d'Oleoducs Snc**, previously consolidated using the full consolidation method, was merged by incorporation into Saipem sa and was subsequently removed from the Register of Companies with effect from January 5, 2011;
- on December 30, 2010, **TSS Dalia snc**, previously consolidated using the proportionate method, was removed from the Register of Companies after having been placed into liquidation.

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

- on June 7, 2010, **Saipem SpA** purchased 100% of Saipem International BV's interest in Saipem Maritime Asset Management Luxembourg Sarl;
- on June 14, 2010, **Saipem (Portugal) Comércio Marítimo Sociedade Unipessoal Lda** purchased 100% of ERS Equipment Rental & Services BV's interest in European Maritime Commerce BV;
- on July 9, 2010, **Saipem sa** acquired Entreprise Nouvelle Marcellin sa's interest in Société de Construction d'Oleoducs Snc, thus becoming the company's sole shareholder;
- on August 12, 2010, **Saipem (Portugal) Comércio Marítimo Sociedade Unipessoal Lda**, as a result of its absorption of European Maritime Commerce BV, acquired this latter company's shareholding in Saipem Misr;
- on August 30, 2010, **Saipem sa**, as a result of its absorption of Entreprise Nouvelle Marcellin sa, acquired 27.5% of the share capital of Dalia Floater Angola Snc and became the sole shareholder of Bos Investment Ltd;
- on September 21, 2010, **Saipem sa** acquired 100% of Snamprogetti Netherlands BV's interest in Snamprogetti France sarl;
- on December 2, 2010, **Saipem sa**, as a result of its absorption of Snamprogetti France sarl, acquired 50% of the share capital of SPF-TKP Omipfro Srl, with effect from November 26, 2010;
- on December 14, 2010, **Saipem Maritime Asset Management Luxembourg Sarl** acquired 100% of Snamprogetti Netherlands BV's interest in Snamprogetti Engineering BV;
- on December 14, 2010, **Saipem Maritime Asset Management Luxembourg Sarl** acquired a 99.99% interest in Saipem Luxembourg SA from Saipem (Portugal) - Gestão de Participações SGPS SA.

Changes in functional currencies

As of January 1, 2010, **Boscongo sa** changed its functional currency from the Central African CFA Franc to the euro.

Current assets

1 Cash and cash equivalents

Cash and cash equivalents amounted to €930 million (€986 million at December 31, 2009) representing a decrease of €56 million on the previous year.

Cash and equivalents at year-end, 40% of which are denominated in euro, 31% in US dollars and 29% in other currencies, received an average interest rate of 0.37%. €509 million thereof (€617 million at December 31, 2009) are on deposit at Eni Group financial companies. Cash and cash equivalents include cash and cash on hand of €7 million (€17 million at December 31, 2009).

At December 31, 2010, there were no financial receivables due within 90 days.

Funds in three current accounts held by the subsidiary Saipem Contracting Algérie SpA (equivalent to a total of €29.9 million at December 31, 2010) have been temporarily frozen since February 2010 in connection with an investigation being conducted into third parties.

The breakdown of cash and cash equivalents of Saipem and other Group companies at December 31, 2010 by geographical area (based on the country of domicile of the relevant company) was as follows:

(€ million)	
Italy	96
Rest of Europe	579
Asia-Pacific	79
Africa	145
Americas	31
Total	930

2 Other financial assets held for trading or available for sale

At December 31, 2010, other financial assets available for sale, which amounted to €36 million at December 31, 2009, were reduced to zero due to the redemption of units in collective investment schemes (Sicav) with maturities of less than three months that were held by a number of French associates.

3 Trade and other receivables

Trade and other receivables of €4,330 million (€4,040 million at December 31, 2009) were as follows:

(€ million)	Dec. 31, 2009	Dec. 31, 2010
Trade receivables	3,242	3,550
Financing receivables for operating purposes	-	49
Financing receivables for non-operating purposes	68	20
Prepayments for services	553	533
Other receivables	177	178
Total	4,040	4,330

Receivables are stated net of the provision for impairment losses of €111 million:

(€ million)	Dec. 31, 2009	Additions	Deductions	Currency translation differences	Other changes	Dec. 31, 2010
Trade receivables	106	16	(14)	2	(7)	103
Other receivables	6	-	(1)	-	3	8
Total	112	16	(15)	2	(4)	111

Trade receivables amounted to €3,550 million, representing an increase by €308 million. €913 million (€962 million at December 31, 2009) were due from subsidiaries of Eni.

At December 31, 2010, Saipem had non-recourse non-notification factoring agreements relating to trade receivables, including not past due receivables, amounting to €100 million. Saipem is responsible for managing the collection of the assigned receivables and for transferring the sums collected to the factor.

Receivables from related parties are shown in Note 45 'Transactions with related parties'.

Trade receivables included retention amounts guaranteeing contract work in progress of €90 million (€198 million at December 31, 2009), of which €50 million was due within one year and €40 million due after one year.

Trade receivables neither past due nor impaired amounted to €2,573 million (€2,607 million at December 31, 2009). Impaired receivables, net of the provision for impairment losses, amounted to €1 million (unchanged from December 31, 2009). Receivables past due, but not impaired, amounted to €976 million (€634 million at December 31, 2009), of which €642 million from 1 to 90 days past due, €157 million from 3 to 6 months past due, €88 million from 6 to 12 months past due and €89 million more than one year past due. These receivables are primarily due from high credit quality counterparties.

Financing receivables for operating purposes related to the receivable held by Saipem SpA from the CEPAV Due Consortium which was previously recorded under financing receivables for operating purposes. The reclassification was carried out in view of the soon-to-be finalised supplemental agreement between CEPAV Due and R.F.I. SpA to the 1991 Agreement relating to the construction of the Treviglio-Brescia section of the High Speed Train link.

Financing receivables for non-operating purposes of €20 million (€68 million at December 31, 2009) mainly related to the receivable of €17 million held by Saipem America Inc from Eni Finance USA for the financial loan.

Receivables from jointly controlled companies, with regard to the non-consolidated portion, were almost all trade receivables and were as follows:

(€ million)	Dec. 31, 2009	Dec. 31, 2010
02 Pearl snc	7	3
Charville - Consultores e Serviços, Lda	2	1
Saipar Drilling Co BV	1	-
Société pour la Realisation du Port de Tanger Mediterranée	2	4
Saipon snc	3	1
Starstroi Llc	1	-
Southern Gas	11	5
BOS Shelf Ltd Society	1	-
TMBYS Sas	-	1
Total	28	15

Other receivables of €178 million consisted of the following:

(€ million)	Dec. 31, 2009	Dec. 31, 2010
Receivables from:		
- insurance companies	3	10
- employees	31	27
- national insurance/social security contributions	1	1
- bank accounts due within/after one year	6	5
- foreign tax authorities other than tax credits	4	2
- consultants and professionals	1	1
Guarantee deposits	18	10
Customs and excise duties	2	-
Receivables from agents and representatives	8	3
Other	103	119
Total	177	178

Other receivables neither past due nor impaired amounted to €120 million (€109 million at December 31, 2009). Other receivables past due, but not impaired, amounted to €58 million (€68 million at December 31, 2009), of which €5 million from 1 to 90 days past due, €11 million from 3 to 6 months past due, €19 million from 6 to 12 months past due and €23 million more than one year past due. These receivables are primarily due from high credit quality counterparties.

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.

Receivables in currencies other than the euro amounted to € 1,704 million (€ 1,785 million at December 31, 2009) and their breakdown by currency was as follows:

- US Dollar 68% (70% at December 31, 2009);
- Saudi Arabian Ryal 7% (9% at December 31, 2009);
- Algerian Dinar 7% (5% at December 31, 2009);
- Nigerian Naira 7% (7% at December 31, 2009);
- other currencies 11% (9% at December 31, 2009).

4 Inventories

Inventories of € 791 million (€ 1,071 million at December 31, 2009) were as follows:

(€ million)	Dec. 31, 2009	Dec. 31, 2010
Raw and auxiliary materials and consumables	323	396
Work in progress	748	395
Total	1,071	791

Inventories are stated net of the valuation allowance of €9 million.

(€ million)	Dec. 31, 2009	Additions	Deductions	Other changes	Dec. 31, 2010
Inventories valuation allowance	7	3	(1)	-	9
	7	3	(1)	-	9

5 Current tax assets

Current tax assets of € 72 million (€ 113 million at December 31, 2009) were as follows

(€ million)	Dec. 31, 2009	Dec. 31, 2010
Italian tax authorities	79	12
Foreign tax authorities	34	60
Total	113	72

The decrease in current tax assets of € 41 million was related to the disposal of income tax credits from Italian tax authorities held by Saipem SpA, which was partially offset by the increase in tax credits from foreign tax authorities.

6 Other current tax assets

Other current tax assets of € 218 million (€ 285 million at December 31, 2009) were as follows:

(€ million)	Dec. 31, 2009	Dec. 31, 2010
Italian tax authorities:	144	44
- VAT credits	141	42
- other	3	2
Foreign tax authorities:	141	174
- VAT credits	85	87
- other	56	87
Total	285	218

The decrease in other current tax assets of €67 million was related to the refunding of €99 million in VAT credits by Italian tax authorities. This was partially offset by an increase in other current tax receivables from foreign tax authorities mainly related to the Parent Company Saipem SpA, Saipem Contracting Nigeria and Saipem do Brasil.

7 Other current assets

Other current assets of €275 million (€256 million at December 31, 2009) were as follows:

(€ million)	Dec. 31, 2009	Dec. 31, 2010
Fair value of non-hedging derivatives	32	29
Fair value of hedging derivatives	127	126
Other	97	120
Total	256	275

At December 31, 2010, the fair value of derivative assets was €155 million (€159 million at December 31, 2009).

The fair value of derivative instruments was determined using valuation models commonly used in the financial sector and based on year-end market data (exchange and interest rates).

The fair value of forward contracts (forward outright and currency swaps) was determined by comparing the net present value at contractual conditions of forward contracts outstanding at December 31, 2010, with their present value recalculated at year-end market conditions. The model used is the Net Present Value model, which is based on the forward contract exchange rate, the year end exchange rate and the respective forward interest rate curves.

The fair value of derivative contracts by type is provided in the following table:

(€ million)	Assets Dec. 31, 2009			Assets Dec. 31, 2010		
	Fair value	Commitments		Fair value	Commitments	
		purchase	sale		purchase	sale
1) Derivative contracts qualified for hedge accounting:						
- interest rate derivatives						
- forward currency contracts (Spot component)						
. purchase	36			16		
. sale	94			118		
Total	130			134		
- forward currency contracts (Forward component)						
. purchase	-			-		
. sale	(3)			(9)		
Total	(3)	1,275	1,880	(9)	673	4,204
- forward commodity contracts (Forward component)						
. purchase	-			1		
Total	-	-	-	1	7	-
Total derivative contracts qualified for hedge accounting	127	1,275	1,880	126	680	4,204
2) Derivative contracts not qualified for hedge accounting:						
- interest rate derivatives						
- forward currency contracts (Spot component)						
. purchase	19			4		
. sale	13			26		
Total	32			30		
- forward currency contracts (Forward component)						
. purchase	-			-		
. sale	-			(1)		
Total	32	1,000	190	(1)	246	1,505
Total derivative contracts not qualified for hedge accounting	32	1,000	190	29	246	1,505
Total	159	2,275	2,070	155	926	5,709

Derivatives designated as cash flow hedges related to forward purchase and sale transactions (forward outright and currency swaps).

The cash flows and the income statement impact of hedged highly probably forecast transactions at December 31, 2010 are expected to occur up until 2012.

During 2010, there were no significant cases of hedged items being no longer considered highly probable.

The fair value of derivative assets qualified for hedge accounting at December 31, 2010 was equal to €126 million (€127 million at December 2009). The effective portion (spot component) of fair value movements in these derivatives (€134 million) was deferred in a hedging reserve in equity (€128 million) and recorded as finance income and expenses (€6 million), while the forward component, amounting to €8 million, was recognised as finance expense. The fair value of derivative liabilities qualified for hedge accounting at December 31, 2010, analysed in Note 19 'Other current liabilities' and Note 24 'Other non-current liabilities', was equal to €95 million (€158 million at December 31, 2009). The spot component of fair value movements in these derivatives (€77 million) was deferred offsetting in a hedging reserve in equity (€71 million) and recorded as finance income and expenses (€6 million), while the forward component, amounting to €18 million, was recognised as finance expense.

During the year, operating revenues and expenses were adjusted by a net negative amount of €35 million to reflect the effects of hedging.

Another approximately €20 million was recorded as an increase in the tangible assets to which it related.

Other assets at December 31, 2010 amounted to €120 million, representing an increase by €23 million on the previous year and consisted of: prepayments of €80 million (€55 million at December 31, 2009), insurance premiums of €18 million (€14 million at December 31, 2009), costs of office leases of €4 million (€9 million at December 31, 2009) and other assets of €18 million (€19 million at December 31, 2009).

Receivables from related parties are shown in Note 45 'Transactions with related parties'.

Non-current assets

8 Property, plant and equipment

Property, plant and equipment amounting to €7,403 million (€6,295 million at December 31, 2009) was as follows:

(€ million)	Opening net value	Investments	Depreciation and impairments	Disposals	Change in the scope of consolidation	Currency translation differences	Other changes	Final net value	Final gross value	Provision for depreciation and impairments
Dec. 31, 2009										
Land	14	-	-	-	-	(1)	1	14	14	-
Buildings	238	14	(22)	-	-	(12)	20	238	343	105
Plant and machinery	2,482	228	(302)	(4)	-	4	170	2,578	4,916	2,338
Industrial and commercial equipment	345	42	(86)	(3)	-	(5)	225	518	882	364
Other assets	86	50	(17)	(1)	10	(6)	84	206	294	88
Assets under construction and advances	2,006	1,257	-	-	-	(18)	(504)	2,741	2,741	-
Total	5,171	1,591	(427)	(8)	10	(38)	(4)	6,295	9,190	2,895
Dec. 31, 2010										
Land	14	-	-	-	-	1	-	15	15	-
Buildings	238	8	(23)	-	-	13	10	246	358	112
Plant and machinery	2,578	217	(366)	(4)	-	10	916	3,351	6,001	2,650
Industrial and commercial equipment	518	38	(91)	(4)	-	7	245	713	1,143	430
Other assets	206	29	(28)	(1)	-	15	2	223	337	114
Assets under construction and advances	2,741	1,241	-	-	-	44	(1,171)	2,855	2,855	-
Total	6,295	1,533	(508)	(9)	-	90	2	7,403	10,709	3,306

Capital expenditure during the year amounted to €1,533 million (€1,601 million at December 31, 2009) and related to the following sectors: Offshore (€706 million), Onshore (€22 million), Offshore Drilling (€552 million) and Onshore Drilling (€253 million).

The main items of capital expenditure during the year included:

- in the Offshore sector, the continuation of the construction and fitting out of a new pipelayer and a deepwater field development ship, the conversion of an oil tanker into an FPSO vessel, the development of a new fabrication yard in Indonesia, and maintenance and upgrading of the existing asset base;
- in the Onshore sector, maintenance of the existing asset base;
- in the Offshore Drilling sector, completion works on a new ultra-deepwater drillship, the purchase of a jack-up currently under construction and final investments in the same, the fitting out of two semi-submersible rigs and maintenance and upgrading of the existing asset base;
- in the Onshore Drilling sector, the construction of three rigs (one of which commenced operations during 2010 while another was mobilised for the start of operations) and upgrading of the existing asset base.

Finance expenses capitalised during the year, calculated using an average interest rate of 2.33%, amounted to €50 million (€49 million at December 31, 2009).

The main depreciation rates used are as follows:

(%)	
Buildings	2.50 - 12.50
Plant and machinery	7.00 - 25.00
Industrial and commercial equipment	3.75 - 67.00 (*)
Other assets	12.00 - 20.00

(*) The higher rate is applicable to assets to be used on specific projects where depreciation is based on project duration.

Exchange rate differences due to the translation of financial statements prepared in currencies other than the euro, amounting to positive €90 million, mainly related to companies whose presentation 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 year, no government grants were recorded as a decrease of the carrying value of property, plant and equipment.

At December 31, 2010, all property, plant and equipment was free from pledges, mortgages and/or other obligations.

The total commitment on current items of capital expenditure at December 31, 2010 amounted to €444 million (€1,065 million at December 31, 2009), as indicated in 'Summary of significant accounting policies - Risk management'.

Finance leases

Saipem currently has no finance leases.

9 Intangible assets

Intangible assets of € 760 million (€ 756 million at December 31, 2009) were as follows:

(€ million)	Opening net value	Investments	Amortisation and impairments	Changes in the scope of consolidation	Other changes	Final net value	Final gross value	Provision for amortisation and impairments
Dec. 31, 2009								
Intangible assets with finite useful lives								
Development costs	-	-	-	-	-	-	7	7
Industrial patents and intellectual property rights	2	1	(1)	-	-	2	5	3
Concessions, licenses and trademarks	15	8	(8)	-	3	18	121	103
Assets in progress and advances	4	2	(2)	-	(1)	3	3	-
Other intangible assets	4	1	(2)	-	(3)	-	1	1
Intangible assets with indefinite useful lives								
Goodwill	730	2	-	-	1	733	733	-
Total	755	14	(13)	-	-	756	870	114
Dec. 31, 2010								
Intangible assets with finite useful lives								
Development costs	-	-	-	-	-	-	7	7
Industrial patents and intellectual property rights	2	1	(1)	-	-	2	5	3
Concessions, licenses and trademarks	18	7	(7)	-	-	18	127	109
Assets in progress and advances	3	3	(1)	-	(1)	4	4	-
Other intangible assets	-	1	-	-	2	3	4	1
Intangible assets with indefinite useful lives								
Goodwill	733	-	-	-	-	733	733	-
Total	756	12	(9)	-	1	760	880	120

Concessions, licenses and trademarks, industrial patents and intellectual property rights of € 18 million and € 2 million, respectively, consist mainly of costs for the implementation of SAP applications and modules at Saipem SpA (total of € 20 million in 2009).

The main amortisation rates used are as follows:

(%)	
Development costs	20.00 - 20.00
Industrial patents and intellectual property rights	6.66 - 7.50
Concessions, licenses, trademarks and similar (included in 'industrial patents')	20.00 - 20.00
Other intangible assets	20.00 - 33.00

Goodwill of € 733 million related to the difference between the purchase price, inclusive of related costs, and the shareholders' equity of Saipem sa (€ 689 million), Sofresid sa (€ 21 million) and the Moss Maritime Group (€ 15 million) on the date that control was acquired.

For impairment purposes, goodwill has been allocated to the following cash generating units:

(€ million)	Dec. 31, 2009	Dec. 31, 2010
Offshore	416	415
Onshore	317	318
Total	733	733

The changes in the cash generating units related, in the Onshore sector, to the foreign exchange difference (Moss Maritime Group) and, in the Offshore sector, to the disposal of a business unit of Saipem Energy Services SpA.

The recoverable amount of the two cash generating units was determined based on value in use, calculated by discounting the future cash flows expected to result from the use of each CGU.

The expected future cash flows for the explicit forecast period of four years were derived from Saipem's 2011-2014 Strategic Plan, which was approved by top management in February 2011. The forecast cash flows based on the plan assume that the major programme of investments currently underway will be completed on time and within budget and that the backlog of orders at December 31, 2010 will not be affected by cancellations or renegotiations. Value in use was calculated by discounting expected future post tax cash flows at a rate of 9.0% (up 0.5% on the previous year). The terminal value (i.e. for subsequent years beyond the plan horizon) was estimated using a perpetual growth rate of 2% applied to an average normalised terminal cash flow. Assumptions were based on past experience and took into account current interest rates, business specific risks and expected long-term growth for the sectors.

Post tax cash flows and discounting rates are used as they result in values similar to those resulting from a pre-tax valuation.

The table below shows the amounts by which the recoverable amounts of the Offshore and Onshore cash generating units exceed their carrying amounts, including allocated goodwill.

(€ million)	Offshore	Onshore	Total
Goodwill	415	318	733
Amount by which recoverable amount exceeds carrying amount	4,338	3,663	8,001

The key assumptions adopted for assessing the recoverable amount of the cash generating units exceeding its carrying amount referred to operating results (a combination of various factors, e.g. sales volumes, service prices, project profit margins, cost structure), the discount rate and the growth rates adopted to determine the terminal value.

The following changes in each of the assumptions, ceteris paribus, would cause the excess of the recoverable amount of the Offshore cash generating unit over its carrying amount, including the allocated portion of goodwill, to be reduced to zero:

- decrease of 55% in the operating result;
- use of a discount rate of 18%;
- negative real growth rate.

Changes in each of the assumptions, ceteris paribus, that would cause the excess of the recoverable amount of the Onshore cash generating unit over its carrying amount, including the allocated portion of goodwill, to be reduced to zero are greater than those of the Offshore cash generating units described above.

10 Investments accounted for using the equity method

Investments accounted for using the equity method of € 115 million (€ 118 million at December 31, 2009) 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	Other changes	Closing net value	Provision for impairment
Dec. 31, 2009											
Investments in subsidiaries	2	-	-	-	(1)	-	3	-	(1)	3	-
Investments in associates	40	-	-	14	(6)	(6)	5	-	68	115	-
Total	42	-	-	14	(7)	(6)	8	-	67	118	-
Dec. 31, 2010											
Investments in subsidiaries	3	-	-	1	-	-	-	1	-	5	-
Investments in associates	115	4	(14)	15	(4)	(6)	-	-	-	110	-
Total	118	4	(14)	16	(4)	(6)	-	1	-	115	-

Investments in subsidiaries and associates at December 31, 2010 are analysed in the section 'Scope of consolidation at December 31, 2010'.

Subscriptions of € 4 million related to contributions to the share capital of Saipem Taqa Al Rushaid Fabricators Co Ltd and to contributions to cover past losses incurred by the company.

Share of profit of investments accounted for using the equity method of € 16 million related mainly to profits recorded by Rosetti Marino SpA (€ 11 million) and Tecnoprojecto Internacional Projectos e Realizações Industriais SA (€ 2 million). Expenses of € 4 million related to losses for the year incurred by TSKJ Serviços de Engenharia Lda, Kwanda Suporto Logistico Lda and Saipem Taqa Al Rushaid Fabricators Co Ltd.

Deductions following the distribution of dividends of € 6 million related to Rosetti Marino SpA (€ 2 million), TSKJ Serviços de Engenharia Lda (€ 2 million), Doris Engineering sa (€ 1 million) and Tecnoprojecto Internacional Projectos e Realizações Industriais SA (€ 1 million).

Sales and redemptions (€ 14 million) related to the sale to third parties of Doris Engineering sa.

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, 2009	Net value at Dec. 31, 2010
Snamprogetti Management Services SA	99.99	2	4
Other		1	1
Total subsidiaries		3	5
Doris Engineering sa	0.00	14	-
Fertilizantes Nitrogenados de Oriente CEC	20.00	68	68
Rosetti Marino SpA	20.00	14	24
Other		19	18
Total associates		115	110

A provision for losses relating to investments accounted for using the equity method is recorded under the provisions for contingencies. At year end 2010, the provision amounted to € 12 million (€ 2 million at December 31, 2009)

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.

11 Other investments

The net value of other investments, which was unchanged from the previous year, related to Nagarjuna Fertilizer and Chemicals Ltd.

(€ million)	Group interest (%)	Net value at Dec. 31, 2009	Net value at Dec. 31, 2010
Total subsidiaries		-	-
Total associates		-	-
Nagarjuna Fertilizer and Chemicals Ltd	0.93	2	2
Total other companies		2	2

Other information about investments

The following table summarises key financial data from the most recent available financial statements of subsidiaries and associates accounted for using the equity and cost method, in proportion to the Group interest held:

(€ million)	Dec. 31, 2009		Dec. 31, 2010	
	Subsidiaries	Associates	Subsidiaries	Associates
Total assets	7	238	11	336
Total liabilities	4	125	7	238
Net revenues	1	66	5	186
Operating profit	-	4	2	8
Net profit (loss) for the year	-	3	1	3

The total amount of assets and liabilities of subsidiaries is negligible and therefore the effects of exclusion from the scope of consolidation are considered immaterial.

12 Other financial assets

At December 31, 2010, other long-term financial assets amounted to €3 million (€8 million at December 31, 2009) and related mainly to financing receivables held for non-operating purposes by the associate company Saipem sa.

13 Deferred tax assets

Deferred tax assets of €90 million (€113 million at December 31, 2009) are shown net of offsettable deferred tax liabilities.

(€ million)	Dec. 31, 2009	Additions	Deductions	Currency translation differences and other changes	Dec. 31, 2010
Deferred tax assets	113	83	(129)	23	90
Total	113	83	(129)	23	90

Details of deferred tax assets are provided in Note 23 'Deferred tax liabilities'.

14 Other non-current assets

Other non-current assets of €39 million (€34 million at December 31, 2009) were as follows:

(€ million)	Dec. 31, 2009	Dec. 31, 2010
Other receivables	4	5
Other	30	34
Total	34	39

Current liabilities

15 Short-term debt

Short-term debt of €1,002 million (€1,797 million at December 31, 2009) was as follows:

(€ million)	Dec. 31, 2009	Dec. 31, 2010
Banks	51	83
Other financial institutions	1,746	919
Total	1,797	1,002

Short-term debt decreased by €795 million, mainly due to a restructuring of a part of long-term debt.

The current portion of long-term debt, amounting to €327 million (€350 million at December 31, 2009), is detailed in Note 20 '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, 2009			Dec. 31, 2010		
Issuing institution	Currency	Amount	Interest rate %		Amount	Interest rate %	
			from	to		from	to
CEPAV (Consorzio Eni per l'Alta Velocità) Due	Euro	43	-	-	43	-	-
Eni SpA	Euro	307	0.575	0.575	513	1.040	1.040
Eni Coordination Center SA	Euro	985	0.684	1.124	280	0.920	1.484
Eni Coordination Center SA	US Dollar	158	0.481	1.851	37	0.591	1.461
Eni Coordination Center SA	British Pound Sterling	213	0.785	0.845	-	-	-
Eni Coordination Center SA	Swiss Franc	40	0.437	0.437	-	-	-
Eni Coordination Center SA	Other	-	-	-	2	1.044	1.044
Third Parties	Euro	1	0.800	0.800	3	1.790	1.790
Third Parties	US Dollar	-	-	-	22	0.386	1.661
Third Parties	Nigerian Naira	20	16.500	16.500	26	12.000	16.000
Third Parties	Polish Zloty	-	-	-	47	-	-
Third Parties	Other	30	variable		29	variable	
Total		1,797			1,002		

At December 31, 2010, Saipem had unused lines of credit amounting to €1,834 million (€1,267 million at December 31, 2009). These agreements carry interest charges based on prevailing market conditions. Commission fees on unused lines of credit were not significant.

At December 31, 2010, there were no unfulfilment of terms and conditions or violation of agreements in relation to financing contracts.

16 Trade and other payables

Trade and other payables of €5,814 million (€5,735 million at December 31, 2009) were as follows:

(€ million)	Dec. 31, 2009	Dec. 31, 2010
Trade payables	2,602	2,698
Advances	2,826	2,761
Other	307	355
Total	5,735	5,814

Trade payables amounted to €2,698 million, up €96 million from the previous year due to an increase in Group volumes.

Advances of €2,761 million (€2,826 million at December 31, 2009) consisted of adjustments to revenues from long-term contracts in accordance with the accruals concept, made on the basis of the amounts contractually matured (€1,611 million at December 31, 2010; €1,533 million at December 31, 2009) and advances on contract work in progress received by Saipem SpA and foreign subsidiaries of €1,150 million (€1,293 million at December 31, 2009).

Trade payables and advances from Eni subsidiaries amounted to €213 million (€253 million at December 31, 2009).

Trade payables to Eni Group companies are shown in Note 45 'Transactions with related parties'.

Payables to jointly controlled companies, with regard to the non-consolidated portion, amounted to €1 million at December 31, 2010 and related to Starstroi Llc, Saipon snc and BOS Shelf Ltd. At December 31, 2009, the overall total of €3 million related to the same companies (€1 million each).

Other payables of €355 million were as follows:

(€ million)	Dec. 31, 2009	Dec. 31, 2010
Payables to:		
- employees	126	142
- non-financial public administrations	1	-
- national insurance/social security contributions	54	63
- insurance companies	6	5
- creditors relating to advances	15	9
- consultants and professionals	2	2
Other	103	134
Total	307	355

Other payables to related parties are shown in Note 45 '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.

17 Income tax payables

Income tax payables of €166 million (€115 million at December 31, 2009) were as follows:

(€ million)	Dec. 31, 2009	Dec. 31, 2010
Italian tax authorities	38	9
Foreign tax authorities	77	157
Total	115	166

The increase in current income tax payables of €51 million was related to an increase in amounts owing to foreign tax authorities by the Parent Company Saipem SpA, Saipem Contracting Algérie SpA, Petromar Lda and Saipem Ltd, which was offset by a decrease of €27 million in other current tax liabilities owed by Saipem SpA to Italian tax authorities.

18 Other current tax liabilities

Other current tax liabilities of €107 million (€124 million at December 31, 2009) were as follows:

(€ million)	Dec. 31, 2009	Dec. 31, 2010
Italian tax authorities	11	11
- other	11	11
Foreign tax authorities:	113	96
- VAT	68	40
- other	45	56
Total	124	107

The decrease of €17 million in other current tax liabilities regarding foreign tax authorities was mainly related to the change recorded by Saipem SpA.

19 Other current liabilities

Other current liabilities of € 149 million (€ 227 million at December 31, 2009) were as follows:

(€ million)	Dec. 31, 2009	Dec. 31, 2010
Fair value of non-hedging derivatives	55	50
Fair value of hedging derivatives	120	82
Other	52	17
Total	227	149

At December 31, 2010, the fair value of derivative liabilities amounted to € 132 million (€ 175 million at December 31, 2009).

The following table shows the fair value of derivative assets and liabilities at December 31, 2010:

(€ million)	Dec. 31, 2009	Dec. 31, 2010
Fair value of derivative assets	159	155
Fair value of derivative liabilities	(213)	(145)
Total	(54)	10

The fair value of derivative instruments was determined using valuation models commonly used in the financial sector and based on year-end market data (exchange and interest rates).

The fair value of forward contracts (forward outright and currency swaps) was determined by comparing the net present value at contractual conditions of forward contracts outstanding at December 31, 2010, with their present value recalculated at year-end market conditions. The model used is the Net Present Value model, which is based on the forward contract exchange rate, the year end exchange rate and the respective forward interest rate curves.

A liability of € 4 million (€ 12 million at December 31, 2009), relating to the fair value of an interest rate swap, has been recorded under Note 15 'Short-term debt'.

The fair value of interest rate swaps was determined by comparing the net present value at contractual conditions of swaps outstanding at December 31, 2010, with their present value recalculated at year-end market conditions. The model used is the Net Present Value model, which is based on EUR forward interest rates.

The fair value of derivative contracts by type is provided in the following table:

(€ million)	Liabilities Dec. 31, 2009			Liabilities Dec. 31, 2010		
	Fair value	Commitments		Fair value	Commitments	
		purchase	sale		purchase	sale
1) Derivative contracts qualified for hedge accounting:						
- interest rate derivatives						
. interest rate swaps	12	400		4	200	
- forward currency contracts (Spot component)						
. purchase	43			36		
. sale	71			37		
Total	114			73		
- forward currency contracts (Forward component)						
. purchase	-			(3)		
. sale	-			1		
Total	-	788	2,359	(2)	1,573	1,292
- forward commodity contracts (Forward component)						
. purchase	32	-		20	-	
Total	32	58		20	45	
Total derivative contracts qualified for hedge accounting	158	1,246	2,359	95	1,818	1,292
2) Derivative contracts not qualified for hedge accounting:						
- interest rate derivatives						
. interest rate swaps	-			-		
- forward currency contracts (Spot component)						
. purchase	13			34		
. sale	39			10		
Total	52			44		
- forward currency contracts (Forward component)						
. purchase	-			(1)		
. sale	-			-		
Total	-	388	1,409	(1)	1,466	462
- forward commodity contracts (Forward component)						
. purchase	-			6		
. sale	-			1		
- other derivative contracts	3		19	-		-
Total	3	-		7	13	
Total derivative contracts not qualified for hedge accounting	55	388	1,428	50	1,479	462
Total	213	1,634	3,787	145	3,297	1,754

For a comprehensive analysis of the fair value of hedging derivatives, see Note 7 'Other current assets'.

Information on hedged risks and the hedging policy is given in the basis of presentation section.

Other current liabilities, amounting to €17 million (€52 million at December 31, 2009), included deferred revenue and income of €7 million and other liabilities of €10 million.

Other payables to related parties are shown in Note 45 'Transactions with related parties'.

Non-current liabilities

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

Long-term debt, including the current portion of long-term debt, amounted to €3,214 million (€2,146 million at December 31, 2009) and was as follows:

(€ million)	Dec. 31, 2009			Dec. 31, 2010		
	Current portion of long-term debt	Long-term debt	Total	Current portion of long-term debt	Long-term debt	Total
Banks	276	200	476	201	200	401
Other financial institutions	74	1,596	1,670	126	2,687	2,813
Total	350	1,796	2,146	327	2,887	3,214

Long-term debt is shown below by year of maturity:

(€ million)							
Type	Maturity range	2012	2013	2014	2015	After	Total
		Banks	2015	-	-	-	200
Other financial institutions	2012-2024	474	482	296	920	515	2,687
Total		474	482	296	1,120	515	2,887

Long-term debt at December 31, 2010 amounted to €2,887 million, representing an increase by €1,091 million compared with December 31, 2009 (€1,796 million).

The following table analyses long-term debt, including the current portion of long-term debt, by issuing institution, currency, maturity and average interest rate:

(€ million)								
Issuing institution	Currency	Maturity	Dec. 31, 2009			Dec. 31, 2010		
			Amount	Interest rate %		Amount	Interest rate %	
				from	to		from	to
Eni SpA	Euro	2012-2017	658	1.450	4.950	653	1.790	4.950
Eni Coordination Center SA	Euro	2012-2024	580	0.964	5.970	1,078	1.224	5.970
Eni Coordination Center SA	US Dollar	2012-2016	424	2.181	5.100	1,076	0.761	5.100
Eni Coordination Center SA	Other currencies	2012-2015	-	-	-	6	0.811	0.811
Third Parties	Euro	2011-2015	476	0.575	1.050	401	0.915	3.315
Third Parties	British Pound Sterling	-	8	1.265	1.265	-	-	-
Total			2,146			3,214		

There was no debt secured by mortgages or liens on fixed assets or by pledges on securities.

The fair value of long-term debt, including the current portion of long-term debt, amounted to €2,934 million (€1,910 million at December 31, 2009) and was calculated by discounting the expected future cash flows at the following rates:

(%)	2009	2010
Euro	0.70-4.23	1.00-3.53
US Dollar	0.29-3.40	0.26-2.51
British Pound Sterling	0.54-3.23	-

The difference between the fair value of long-term debt and its nominal value was mainly due to the debt of €400 million maturing in 2017.

Pursuant to Consob communication of July 28, 2006 and the recommendation of CESR dated February 10, 2005, 'CESR's recommendations for the consistent implementation of the European Commission's Regulation on Prospectuses', the net financial position of the Saipem Group at December 31 was as follows:

(€ million)	Dec. 31, 2009			Dec. 31, 2010		
	Current	Non-current	Total	Current	Non-current	Total
A. Cash and cash equivalents	986	-	986	930	-	930
B. Available-for-sale and held-to-maturity securities	36	-	36	-	-	-
C. Liquidity (A+B)	1,022	-	1,022	930	-	930
D. Financing receivables	68	-	68	20	-	20
E. Short-term bank debt	51	-	51	83	-	83
F. Long-term bank debt	276	200	476	201	200	401
G. Short-term related party debt	1,746	-	1,746	875	-	875
H. Long-term related party debt	72	1,590	1,662	126	2,687	2,813
I. Other short-term debt	-	-	-	44	-	44
L. Other long-term debt	2	6	8	-	-	-
M. Total borrowings (E+F+G+H+I+L)	2,147	1,796	3,943	1,329	2,887	4,216
N. Net financial position pursuant to Consob communication No. DEM/6064293/2006 (M-C-D)	1,057	1,796	2,853	379	2,887	3,266
O. Non-current financing receivables	-	8	8	-	3	3
P. Net borrowings (N-O)	1,057	1,788	2,845	379	2,884	3,263

Net borrowings include IRS liabilities. However, it does not include the fair value of derivatives indicated in Note 7 'Other current assets' and in Notes 19 and 24 'Other current liabilities' and 'Other non-current liabilities'.

Current financing receivables for non-operating purposes of €20 million (€68 million at December 31, 2009) consisted mainly of financing receivables relating to time deposits at financial institutions.

21 Provisions for contingencies

Provisions for contingencies amounting to €164 million (€200 million at December 31, 2009) were as follows:

(€ million)	Opening value	Additions	Deductions	Other changes	Closing value
Dec. 31, 2009					
Provisions for taxes	66	17	(17)	-	66
Provisions for contractual penalties and disputes	38	2	(17)	6	29
Provisions for losses on investments	1	1	-	-	2
Other	80	63	(29)	(11)	103
Total	185	83	(63)	(5)	200
Dec. 31, 2010					
Provisions for taxes	66	22	(16)	(17)	55
Provisions for contractual penalties and disputes	29	5	(9)	-	25
Provisions for losses on investments	2	12	(1)	(1)	12
Other	103	35	(64)	(2)	72
Total	200	74	(90)	(20)	164

The **provisions for taxes**, amounting to €55 million, related entirely to disputes with foreign tax authorities that are either ongoing or potential, taking into account recent assessments which did not finalise all pending fiscal years.

The **provisions for contractual penalties and disputes** amounted to €25 million and consisted of accruals by Saipem SpA and a number of foreign subsidiaries. It represents a best estimate of the amount that may be required to settle current disputes.

The **provisions for losses on investments** amounted to €12 million and related to provisions for losses of investments that exceed their shareholders' equity.

Other provisions stood at €72 million and principally consisted of an estimate of expected losses on long-term contracts in the Offshore and Onshore sectors.

22 Provisions for employee benefits

Provisions for employee benefits of the Saipem Group relate to employee termination indemnities, pension plans with benefits measured in consideration of the employee's annual compensation preceding retirement and other long-term benefits. Provisions for indemnities upon termination of employment primarily related to the provisions accrued by Italian companies for employee termination indemnities ('TFR'), determined using actuarial techniques and regulated by Article 2120 of the Italian Civil Code. The indemnity is paid upon retirement as a lump sum payment, whose amount corresponds to the total of the provisions accrued during the employees' service period based on payroll costs as revalued until retirement.

As a result of the provisions contained in the Finance Act for 2007 and related legislation – which came into effect on January 1, 2007 – employees had until June 30, 2007 to decide whether to assign amounts already accrued and future benefits to a private pension fund or to the fund managed by the National Social Security Agency, Inps. For companies with less than 50 employees it was possible to continue the scheme as in previous years. The allocation of future TFR provisions to private pension funds or to the Inps fund meant that these amounts would be classified as costs to provide benefits under a defined contribution plan. Past amounts accrued for post-retirement indemnities under the Italian TFR regime continue to represent costs to provide benefits under a defined benefit plan and must be assessed based on actuarial assumptions.

Following this change in regime, which occurred in 2007, the existing provision for Italian employees was reassessed to take account of the curtailment due to reduced future obligations reflecting the exclusion of future salaries and relevant increases from actuarial calculations.

Pension funds concern:

- defined benefit plans of foreign companies located, primarily, in France, the United Kingdom and Norway;
- pension provisions and similar obligations for personnel employed abroad, to whom local legislation applies.

Benefits consist of a return on capital determined on the basis of length of service and compensation paid in the last year of service or average annual compensation paid in a specific period preceding retirement.

Liabilities and costs related to the supplementary medical reserve for Eni managers (FISDE) are calculated on the basis of the contributions paid by the company for retired managers. The deferred cash incentive scheme comprises estimated variable remuneration related to company performance to be paid out to senior managers who achieve their individual targets. The long-term monetary scheme replaces the stock option plan. Monetary incentives may be paid out after a three-year vesting period depending on the achievement of performance targets. Jubilee awards are benefits due following the attainment of a minimum period of service and, with regard to the Italian companies, they consist of remuneration in kind.

Provisions for employee benefits of € 193 million (€ 182 million at December 31, 2009) consisted of the following:

(€ million)	Dec. 31, 2009	Dec. 31, 2010
Employee termination indemnities (TFR)	63	57
Foreign pension plans	66	79
Supplementary medical reserve for Eni managers (FISDE)	14	14
Deferred monetary incentive scheme	31	33
Jubilee awards	8	10
Total	182	193

The present value of long-term employee benefits was as follows:

(€ million)	TFR	Foreign pension plans		Net liability	Other long-term benefits	Total
		Gross liability	Plan assets			
Dec. 31, 2009						
Present value of benefit obligation at beginning of year	63	120	51	69	47	179
Current cost	-	16	-	16	8	24
Interest cost	4	5	-	5	2	11
Return on plan assets	-	-	3	(3)	-	(3)
Contributions paid	-	-	2	(2)	-	(2)
Actuarial gains (losses)	2	3	1	2	3	7
Benefits paid	(7)	(10)	(1)	(9)	(6)	(22)
Amendments, curtailments and settlements	-	(14)	(14)	-	-	-
Currency translation differences and other changes	-	4	6	(2)	1	(1)
Present value of benefit obligation at end of year	62	124	48	76	55	193
Dec. 31, 2010						
Present value of benefit obligation at beginning of year	62	124	48	76	55	193
Current cost	-	14	-	14	13	27
Interest cost	3	6	-	6	2	11
Return on plan assets	-	-	3	(3)	-	(3)
Contributions paid	-	-	2	(2)	-	(2)
Actuarial gains (losses)	1	8	-	8	1	10
Benefits paid	(7)	(9)	-	(9)	(11)	(27)
Amendments, curtailments and settlements	-	7	-	7	-	7
Currency translation differences and other changes	(2)	7	5	2	-	-
Present value of benefit obligation at end of year	57	157	58	99	60	216

The present value of the obligation for other long-term benefits of €60 million (€55 million at December 31, 2009) related to FISDE (€17 million; €16 million at December 31, 2009), jubilee awards (€10 million; €8 million at December 31, 2009) and the deferred cash incentive scheme, including the long-term monetary scheme (€33 million).

The current cost and benefits paid related to Employee Termination Indemnities at December 31, 2010 were adjusted to reflect the effect of the conversion of the plan from a defined benefits plan to a defined contribution plan.

The reconciliation analysis of benefit obligations and plan assets was as follows:

(€ million)	TFR		Foreign pension plans		Other long-term benefits	
	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2010
Present value of funded benefit obligations	-	-	61	82	-	-
Present value of plan assets	-	-	48	58	-	-
Net present value of funded benefit obligations	-	-	13	24	-	-
Present value of unfunded benefit obligations	62	57	63	75	55	60
Unrecognised actuarial gains (losses)	1	-	(10)	(20)	(1)	(2)
Unrecognised past service cost	-	-	-	-	(1)	(1)
Net liability recognised in provision for employee benefits	63	57	66	79	53	57

Costs for long-term employee benefits recorded in the income statement were as follows:

(€ million)	TFR	Foreign pension plans	Other long-term benefits	Total
2009				
Current cost	-	16	8	24
Interest cost	4	5	2	11
Expected return on plan assets	-	3	-	3
Amortisation of actuarial gains (losses)	-	2	1	3
Amortisation of past service cost	-	-	-	-
Expected return on reimbursement rights	-	-	-	-
Effect of curtailments and settlements	-	-	-	-
Total costs	4	26	11	41
2010				
Current cost	-	14	13	27
Interest cost	3	6	2	11
Expected return on plan assets	-	(3)	-	(3)
Amortisation of actuarial gains (losses)	-	-	1	1
Amortisation of past service cost	-	1	-	1
Expected return on reimbursement rights	-	-	-	-
Effect of curtailments and settlements	-	8	-	8
Total costs	3	26	16	45

Costs for other long-term benefits of € 16 million (€ 11 million at December 31, 2009) mainly related to the deferred cash incentive scheme. The main actuarial assumptions used in the evaluation of post retirement benefit obligations at year end and the estimate of costs expected for 2011 were as follows:

(%)	TFR	Funded pension plans	Other long-term benefits
2009			
Main actuarial assumptions:			
- discount rates	6	3.80-13.0	3.0-6.0
- rate of compensation increase	-	4.25-9.25	-
- expected rate of return on plan assets	-	2.0-12.0	-
- rate of inflation	2.5	2.0-11.0	2.5
2010			
Main actuarial assumptions:			
- discount rates	5	4.25-10.0	5
- rate of compensation increase	3	2.0-14.0	-
- expected rate of return on plan assets	-	5.6-9.0	-
- rate of inflation	2	2.0-8.0	2

The expected rate of return on plan assets was determined with reference to prices quoted on regulated markets. With regard to Italian plans, demographic tables prepared by the Ragioneria Generale dello Stato (RG48) were used.

Plan assets consisted of the following:

(%)	Plan assets	Expected return
December 31, 2010		
Shares	4.93	8.00
Bonds	54.29	5.03
Real estate	6.55	6.00
Other	34.23	6.20

The actual return on plan assets was a gain of € 4 million (€ 5 million at December 31, 2009).

With reference to healthcare plans, the effects deriving from a 1% change in the actuarial assumptions of medical costs were as follows:

(€ million)	1% increase	1% decrease
Impact on current costs and interest costs	0.2	(0.1)
Impact on net benefit obligation	2.1	(1.8)

The amount expected to be accrued to fund defined benefit plans for 2011 amounted to € 6 million.

The analysis of changes in the actuarial valuation of the net liability with respect to the previous year, resulting from differences between actuarial assumptions and actual figures recorded at year end was as follows:

(€ million)	TFR	Foreign pension plans	Supplementary medical reserve (FISDE)	Other
2009				
Impact on net benefit obligation	(2)	5	2	-
Impact on plan assets	-	(2)	-	-
2010				
Impact on net benefit obligation	-	-	1	-
Impact on plan assets	-	(1)	-	-

23 Deferred tax liabilities

Deferred tax liabilities of € 55 million (€ 64 million at December 31, 2009) are shown net of offsettable deferred tax assets of € 111 million.

(€ million)	Dec. 31, 2009	Additions	Deductions	Currency translation differences and other changes	Dec. 31, 2010
Deferred tax liabilities	64	76	(86)	1	55
Total	64	76	(86)	1	55

'Currency translation differences and other changes', which amounted to €1 million, related to an increase in offsetting of deferred tax assets against deferred tax liabilities at individual entity level (€18 million), exchange rate gains (€3 million) and the negative tax effects (€20 million) of fair value changes of derivatives designated as cash flow hedges reported in equity.

(€ million)	Dec. 31, 2009	Dec. 31, 2010
Deferred tax liabilities	(194)	(166)
Deferred tax assets available for offset	130	111
	(64)	(55)
Deferred tax assets not available for offset	113	90
Net deferred tax assets	49	35

The most significant temporary differences giving rise to net deferred tax liabilities were as follows:

(€ million)	Dec. 31, 2009	Additions	Deductions	Currency translation differences and other changes	Dec. 31, 2010
Deferred tax liabilities:					
- accelerated tax depreciation	(11)	-	3	(1)	(9)
- non distributed reserves held by investments	(54)	(15)	-	-	(69)
- other	(129)	(61)	83	19	(88)
	(194)	(76)	86	18	(166)
Deferred tax assets:					
- accruals for impairment losses and provisions for contingencies	65	2	(11)	2	58
- carry-forward tax losses	106	25	(38)	8	101
- other	138	75	(84)	1	130
	309	102	(133)	11	289
less:					
- unrecognised deferred tax assets	(66)	(21)	6	(7)	(88)
	243	81	(127)	4	201
Net deferred tax assets (liabilities)	49	5	(41)	22	35

Unrecognised deferred tax assets of €88 million (€66 million at December 31, 2009) related to tax losses that it will probably not be possible to utilise against future income.

Tax losses

Under Italian tax law, tax losses can be carried forward for up to five subsequent years, except for losses incurred in the first three years of activity of a company, which can be carried forward without time limit. Tax losses of foreign companies can be carried forward on average for more than five years, while a considerable part can be carried forward without limit. The tax rate applied by foreign Italian subsidiaries to determine the portion of carry-forward tax losses to be utilised averaged out at 23.2%.

Tax losses, amounting to €356 million (€378 million at December 31, 2009), related entirely to foreign companies and can be used in the following periods:

(€ million)	Italian subsidiaries	Foreign subsidiaries
2011	-	-
2012	-	-
2013	-	58
2014	-	1
2015	-	-
After 2015	-	64
Without limit	-	233
Total	-	356

24 Other non-current liabilities

Other non-current liabilities of €10 million (€28 million at December 31, 2009) were as follows:

(€ million)	Dec. 31, 2009	Dec. 31, 2010
Fair value of hedging derivatives	26	9
Trade and other payables	2	1
Total	28	10

€8 million of the fair value of hedging derivatives related to commodity contracts entered into by Saipem SpA, with maturities in 2012. Further details can be found in Note 7 'Other current assets' and Note 19 'Other current liabilities'.

Shareholders' equity**25 Minority interest**

Minority interest at December 31, 2010 amounted to €94 million (€61 million at December 31, 2009).

Minority interest in profit and shareholders' equity mainly related to Ersai Caspian Contractor LLC (€84 million) and Petromar Lda (€6 million).

26 Saipem's shareholders' equity

Saipem's shareholders' equity at December 31, 2010, amounting to €4,060 million can be analysed as follows:

(€ million)	Dec. 31, 2009	Dec. 31, 2010
Share capital	441	441
Share premium reserve	55	55
Legal reserve	88	88
Reserve for treasury shares	17	-
Cash flow hedge reserve	77	3
Cumulative currency translation differences	(90)	(52)
Other reserves	7	7
Retained earnings	2,226	2,758
Net profit for the year	732	844
Treasury shares	(119)	(84)
Total	3,434	4,060

Saipem's shareholders' equity at December 31, 2010 included distributable reserves of €3,658 million (€3,000 million at December 31, 2009), 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 (€69 million at December 31, 2010).

27 Share capital

At December 31, 2010, 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 441,270,452 are ordinary shares and 140,448 are savings shares.

On April 26, 2010, Saipem's Shareholders' Meeting approved a dividend distribution of €0.55 per ordinary share and €0.58 per savings share, with the exclusion of treasury shares.

28 Share premium reserve

The share premium reserve amounted to €55 million at year end 2010 and was unchanged from December 31, 2009.

29 Other reserves

At December 31, 2010, 'Other reserves' amounted to €46 million (€99 million at December 31, 2009) and consisted of the following items.

Legal reserve

At December 31, 2010, 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

This reserve showed a positive balance at year end of €3 million (positive balance of €77 million at December 31, 2009) and related to the fair value valuation of interest rate swaps, commodity hedges and the spot component of foreign currency hedging contracts at December 31, 2010.

The reserve is shown net of tax of €1 million (€20 million at December 31, 2009).

Cumulative currency translation differences

This reserve amounted to a negative €52 million (negative €90 million at December 31, 2009) and related to exchange rate differences arising from the translation into euro of financial statements currencies other than the euro.

Reserve for treasury shares

Due to the completion of the stock option scheme, the reserve was reduced to zero during the year via the reclassification of €17 million to 'Retained earnings'.

Other reserves

Other reserves amounted to €7 million and were unchanged from December 31, 2009. They related to the allocation of part of 2009 net profit, pursuant to Article 2426, 8-bis of the Italian Civil Code. This caption also comprises the re-valuation reserve set up by Saipem SpA in previous years, amounting to €2 million.

30 Treasury shares

Saipem SpA holds 3,710,372 treasury shares (5,651,047 at December 31, 2009), amounting to €84 million (€119 million at December 31, 2009). These are ordinary shares of Saipem SpA with a nominal value of €1 each.

Treasury shares are for allocation to the 2002-2008 stock option schemes. Operations involving treasury shares during the year were as follows:

	Number of shares	Average cost (€)	Total cost (€ million)	Share capital (%)
Treasury share repurchased				
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	6,491,172			
Treasury shares held at December 31, 2010	3,710,372	22.657	84	0.84

At December 31, 2010, outstanding stock options amounted to 2,338,550 shares.

Further information on stock option schemes is provided in Note 35 'Payroll and related costs'.

Reconciliation of statutory net profit and shareholders' equity to consolidated net profit and shareholders' equity

(€ million)	Dec. 31, 2009		Dec. 31, 2010	
	Net profit	Shareholders' equity	Net profit	Shareholders' equity
As reported in Saipem SpA's financial statements	490	1,188	85	1,075
Difference between the equity value of individual accounts of consolidated companies with respect to the corresponding book value in the statutory accounts of the Parent Company	306	1,844	862	2,672
Consolidation adjustments, net of effects of taxation:				
- difference between purchase cost and underlying book value of net equity	(1)	819	(1)	825
- elimination of unrealised intercompany profits	28	(299)	21	(291)
- other adjustments	(48)	(57)	(73)	(127)
Total shareholders' equity	775	3,495	894	4,154
Minority interest	(43)	(61)	(50)	(94)
As reported in consolidated financial statements	732	3,434	844	4,060

31 Guarantees, commitments and risks

Guarantees

Guarantees of € 7,387 million (€ 6,706 million at December 31, 2009) were as follows:

(€ million)	Dec. 31, 2009			Dec. 31, 2010		
	Unsecured	Other guarantees	Total	Unsecured	Other guarantees	Total
Associates	22	55	77	22	65	87
Consolidated companies	492	3,391	3,883	487	3,198	3,685
Own	20	2,726	2,746	21	3,594	3,615
Total	534	6,172	6,706	530	6,857	7,387

Other guarantees issued for associated and consolidated companies of € 3,263 million (€ 3,446 million at December 31, 2009) related to: (i) guarantees given to third parties relating to bid bonds and performance bonds of € 3,259 million and (ii) VAT recoverable from tax authorities of € 4 million.

Commitments

Saipem SpA, for the benefit of its customers, is committed to fulfilling the contractual obligations entered into by subsidiary or associate companies where they fail to fulfil the contractual obligations themselves, as well as to paying for any damages incurred as a result of any failure to meet those obligations.

These commitments guarantee contracts whose overall value amounted to € 25,900 million (€ 21,745 million at December 31, 2009), including work already performed and the backlog of orders at December 31, 2010 relating to Group companies.

Risk management

For further details on financial and industrial risks, see the summary of significant accounting policies and the Directors' report.

Additional information on financial instruments

FINANCIAL INSTRUMENTS - CARRYING AMOUNTS AND EFFECT ON INCOME STATEMENT AND EQUITY

The carrying amounts and effect on income statement and equity of financial instruments were as follows:

(€ million)	Carrying amount	Income (expense) recognised in the income statement	Income (expense) recognised in equity
Financial instruments held for trading			
Non-hedging derivatives ^(a)	(21)	59	-
Receivables and payables and other assets (liabilities) measured at amortised cost			
Trade and other receivables ^(b)	4.261	1	-
Financing receivables ^(a)	20	-	-
Trade and other payables ^(c)	5.814	9	-
Financing payables ^(a)	4.216	(56)	-
Net hedging derivative assets (liabilities) ^(d)	31	(25)	94

(a) The income statement effects relate only to the income (expense) indicated in Note 37 'Finance income (expense)'.

(b) The income statement effects were recognised in 'Purchases, services and other' (expenses of €5 million relating to impairments and losses on receivables) and in 'Finance income (expense)' (€6 million, relating to currency translation gains (losses) arising from adjustments to the year-end exchange rate).

(c) The income statement effects were recognised in 'Finance income (expense)' (€9 million) (currency translation gains (losses) arising from adjustments to the year-end exchange rate).

(d) The income statement effects were recognised in 'Net sales from operations' and 'Purchases, services and other' (€35 million) and in 'Finance income (expense)' (€10 million).

FAIR VALUE OF FINANCIAL INSTRUMENTS

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:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- 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);
- Level 3: inputs for assets or liabilities that are not based on observable market data.

Financial instruments measured at fair value at December 31, 2010 were classified as follows:

(€ million)	Dec. 31, 2010			
	Level 1	Level 2	Level 3	Total
Held for trading financial assets (liabilities):				
- non-hedging derivatives	-	(21)	-	(21)
Financial assets measured at fair value under the fair value option:				
- investments	2	-	-	2
Net hedging derivative assets (liabilities)	-	31	-	31
Total	2	10	-	12

In the normal course of its business, Saipem uses various types of financial instrument. The information regarding their fair value is as follows.

NOTIONAL AMOUNTS OF DERIVATIVES

The notional amount of a derivative is an amount used as a reference to calculate the contractual payments to be exchanged. This amount may be expressed in terms of a monetary or physical quantity (e.g. barrels, tonnes, etc.). Monetary quantities in foreign currencies are converted into euros at the exchange rate prevailing at year end.

Notional amounts of derivatives do not represent the amounts actually exchanged between the parties and do not therefore constitute a measure of Saipem's credit risk exposure. This is instead represented by the positive fair value of derivative contracts at year end.

INTEREST RATE RISK MANAGEMENT

Saipem only enters into interest rate swaps to manage its interest rate risk.

(€ million)	Notional amount at Dec. 31, 2009	Notional amount at Dec. 31, 2010
Interest rate swaps (IRS)	400	200

The table below shows swaps entered into, weighted average interest rates and maturities. Average interest rates are based on year end rates and may be subject to changes that could have a significant impact on future cash flows. Comparisons between the average buying and selling rates are not indicative of the fair value of derivatives. In order to determine their fair value, the underlying transactions must be taken into account.

		Dec. 31, 2009	Dec. 31, 2010
Receive fixed/pay variable-notional amount	(€ million)	400	200
Weighted average rate received	(%)	3.85	3.85
Weighted average rate paid	(%)	1.00	1.27
Weighted average maturity	(years)	1.10	0.6

EXCHANGE RATE RISK MANAGEMENT

Saipem enters into various types of foreign exchange contracts to manage its exchange rate risk. For contracts involving the exchange of two foreign currencies, both the amount received and the amount sold are indicated.

(€ million)	Notional amount at Dec. 31, 2009	Notional amount at Dec. 31, 2010
Forward foreign exchange contracts	2,386	3,505

The table below show forward foreign exchange contracts and other instruments used to manage the exchange rate risk for the principal currencies.

(€ million)	Notional amount at Dec. 31, 2009		Notional amount at Dec. 31, 2010	
	Purchase	Sell	Purchase	Sell
AUD	21	59	16	30
CNY	59	-	57	-
EUR	71	11	79	-
GBP	463	50	378	127
JPY	49	17	10	7
KWD	45	103	100	131
NOK	89	16	80	49
PLN	-	-	-	52
USD	2,654	5,581	3,238	7,067
Total	3,451	5,837	3,958	7,463

COMMODITY PRICE RISK

Saipem only enters into commodity contracts to manage its commodity price risk exposure.

The table below shows notional amounts for forward commodity contracts entered into.

(€ million)	Notional amount at Dec. 31, 2009		Notional amount at Dec. 31, 2010	
	Purchase	Sell	Purchase	Sell
Forward commodity contracts	58	-	65	-

Legal proceedings

Saipem is involved in civil and administrative proceedings and legal actions connected with the ordinary course of its business. Based on the information available to date, and taking into account the provisions made for contingencies, Saipem believes that the foregoing will not have significant adverse effects on its consolidated financial statements.

A brief summary of the most important ongoing proceedings is provided hereafter. Unless otherwise stated, no provision has been made in relation to these proceedings because Saipem deems an adverse outcome to be unlikely.

CEPAV (Consorzio Eni per l'Alta Velocità) Due

With regard to the arbitration proceedings brought by the CEPAV Due Consortium (in which Saipem holds a 52% stake) against 'Treno ad Alta Velocità' (High Speed Train, hereafter TAV) to recover damages for delays attributable to TAV, which began on December 28, 2000, the Arbitration Panel recognised the consortium's right to damages with a partial award issued on January 4, 2007. TAV appealed against the partial award before the Rome Court of Appeal, pleading the previous termination of the relevant agreement. Decree Law No. 7 of January 31, 2007 – subsequently converted into law – did in fact revoke the concession awarded by Ferrovie dello Stato to TAV SpA for the construction of the Milan-Verona line, and this revocation would have also affected the agreement that CEPAV Due signed with TAV SpA on October 15, 1991, leading to its termination. The judgment on appeal is currently ongoing. The hearing of the conclusions has been scheduled for January 28, 2011.

The first proceeding was concluded on February 23, 2010 with the delivery of the arbitration award, which ordered TAV to pay to CEPAV Due Consortium an amount of €44,176,787 plus legal interest and compensation for inflation accrued from the date of the request for arbitration until the date of payment of damages. The court also ordered TAV to pay an additional €1,115,000 plus interest and compensation for inflation accrued from October 30, 2000 until the date of payment of damages.

In February 2007, after Decree Law No. 7 of January 31, 2007 entered into force, the CEPAV Due Consortium notified TAV of a second request for arbitration aimed at recovering damages for breaches of contract committed by TAV before the issue of the decree and for damages resulting from the revocation of the agreement. TAV has rejected all liability.

Subsequent to the commencement of this second arbitration proceeding, Article 12 of Decree Law No. 112 of June 25, 2008, converted into Law No. 133 of August 6, 2008, provided for the 'Annulment of the revocation of the TAV concessions' and for the continuation without interruption of the agreement signed by CEPAV Due with TAV SpA on October 15, 1991, with RFI (Rete Ferroviaria Italiana) SpA. The arbitration proceeding is continuing to determine the damages suffered by the Consortium. The Arbitration Panel scheduled a hearing for September 22, 2009 for the appointment of a court-appointed expert, but this hearing was postponed until November 23, 2009. At the November 23 hearing, the Arbitration Panel agreed to the request of both parties to suspend the decision with regard to the appointment of the court-appointed expert and thus suspended the proceeding in view of the fact that talks were due to take place to reach a settlement in connection with both the concluded arbitration proceeding and the pending one. The intention of the parties is to sign a possible settlement when finalising the supplemental agreement to the 1991 Agreement relating to the construction of the Treviglio-Brescia section of the High Speed Train link.

CEPAV (Consorzio Eni per l'Alta Velocità) Uno - TAV SpA

The CEPAV Uno Consortium (Eni Consortium for the High-Speed Railway Line), consisting of Saipem SpA having a 50.36% stake; Consorzio Cooperative Costruzioni - CCC, a 21.34% stake; Grandi Lavori - Fincosit and Impresa Pizzarotti & C a 14.15% stake each, signed a contract with TAV SpA on October 15, 1991 and, subsequently, a supplemental contract on August 3, 2000 and an addendum on June 27, 2003, for the construction of the Milan-Bologna high-speed railway line. These agreements were also signed by Eni SpA, acting as guarantor, to ensure the Consortium's timely and complete fulfilment of all the obligations included in the contract, the subsequent supplemental contract and addendum as well as any ensuing addenda/modifications. The Consortium has asked for an extension to the completion dates for the works and additional fees (€1,770 million as at December 31, 2007).

An attempt by CEPAV Uno and TAV to reach an amicable settlement ended unsuccessfully on March 14, 2006. For this reason, on April 27, 2006, notification of arbitration was sent to TAV. The evidence acquisition phase is currently underway. Following the filing of the report of the court-appointed expert on July 30, 2010, which were partially favourable for the company, at the subsequent hearings, briefs and responses were filed with regard to the preliminary questions. At the next hearing on March 20, 2011, comments on the report of the court-appointed expert are due to be filed. The deadline for the Arbitration Panel to file the arbitration award was originally set for June 29, 2010 and was subsequently extended, for the purpose of acquiring further evidence, to June 12, 2011 and then December 27, 2011.

On March 23, 2009, the Arbitration Panel, replying to a specific question submitted to it by one of the parties, issued a partial award which in substance allowed TAV to carry out checks on accounting records including with regard to subcontracts awarded by the Consortium and by contractors. The Consortium, assuming that this partial award was vitiated, summoned TAV on April 8, 2010 in order to challenge the award before the Rome Court of Appeal so as to have it annulled.

TSKJ Consortium - Investigations by the U.S., Italian and other overseas Authorities

Snamprogetti Netherlands BV has a 25% participation in the TSKJ Consortium companies. The remaining participations are held in equal shares of 25% by Halliburton/KBR, Technip and JGC. Beginning in 1994 the TSKJ Consortium has been involved in the construction of natural gas liquefaction facilities at Bonny Island in Nigeria.

Snamprogetti SpA, the holding company of Snamprogetti Netherlands BV, was a wholly owned subsidiary of Eni until February 2006, when an agreement was entered into for the sale of Snamprogetti to Saipem SpA. Snamprogetti was merged into Saipem as of October 1, 2008. As part of the sale of

Snamprogetti to Saipem, Eni agreed to indemnify Saipem for potential losses resulting from the investigations into the TSKJ matter, including in connection with its subsidiaries.

The U.S. Securities and Exchange Commission (SEC), the U.S. Department of Justice (DoJ) and other authorities, including the Public Prosecutor's office of Milan, have investigated alleged improper payments made by the TSKJ Consortium to certain Nigerian public officials.

The proceedings in the U.S.: since June 2004, Saipem/Snamprogetti and Eni have been voluntarily providing information in response to requests by the SEC and the DoJ in connection with the investigations. In February 2009, KBR and its former parent company Halliburton, announced that they had reached a settlement with the SEC and the DoJ with respect to the TSKJ matter, as well as other unspecified matters. KBR/Halliburton pleaded guilty to Foreign Corrupt Practices Act (FCPA) charges, for the conduct stemming from their involvement in the TSKJ matter and agreed to pay a criminal fine of US \$402 million to the DoJ and a civil penalty of US \$177 million to the SEC.

In a press release issued on June 28, 2010, Technip also announced that they had reached a settlement with the U.S. Authorities under which the company paid a criminal penalty of US \$338 million (US \$240 million to the DoJ and US \$98 million to the SEC) and agreed to retain an independent corporate monitor (selected in agreement with the DoJ) for a two-year period to review the design and implementation of Technip's system of internal controls. KBR was also required to retain an independent monitor for a period of three years.

On July 7, 2010, Snamprogetti Netherlands BV, currently a subsidiary of Saipem and a former indirect subsidiary of Eni, entered into a deferred prosecution agreement with the DoJ. Pursuant to the agreement, the DoJ filed charges against Snamprogetti Netherlands BV for violation of certain provisions of the U.S. Foreign Corrupt Practices Act. Eni paid a criminal penalty of US \$240 million on behalf of Snamprogetti Netherlands BV. If Snamprogetti Netherlands BV satisfies the terms of the agreement, the charges against it will be dismissed after a period of 2 years (extendable to 3 years).

Saipem and Eni have also agreed to guarantee the obligations of Snamprogetti Netherlands BV towards the DoJ.

Snamprogetti Netherlands BV and Eni (as parent company and NYSE listed company) have also entered into a consent order with the SEC in which, without admission of liability, they consented to the filing of a complaint and the entry of a final judgment that alleges that Snamprogetti Netherlands BV and Eni violated certain sections of the Securities Exchange Act of 1934. Under the consent order, Eni and Snamprogetti Netherlands BV have jointly agreed to pay the SEC a penalty of US \$125 million proportionate to the alleged profit gained. This agreement was also signed in July 2010.

In connection with the sale of Snamprogetti to Saipem, Eni agreed to indemnify Saipem for losses resulting from the investigation. Therefore, neither penalty will impact the Saipem consolidated income statement and balance sheet.

Snamprogetti Netherlands BV, Saipem and Eni cooperated with the U.S. Authorities' investigations and have made substantial enhancements to their existing compliance systems. Specifically, on February 10, 2010, Saipem issued a procedure containing new anti-corruption guidelines and principles. The guidelines enhanced the company's anti-corruption system, which was already in line with international best practices and optimised the compliance system to ensure maximum observance by Saipem and its personnel with the Code of Ethics, Model 231 and national and international anti-corruption laws.

Following the adoption of the new procedures, the agreements reached with the U.S. Authorities recognised the soundness of the compliance system and did not require the implementation of any independent compliance monitor unlike for both KBR and Technip and in other similar cases. Saipem and its subsidiaries have an ongoing commitment to achieving continuous improvement in internal compliance.

The proceedings in Nigeria: on December 10, 2010, Snamprogetti Netherlands BV entered into a settlement and non-prosecution agreement with the Federal Government of Nigeria to resolve an investigation into the activities of Snamprogetti Netherlands BV, as member of the TSKJ Consortium. The Federal Government had previously filed charges against the TSKJ Consortium and its four shareholders, including Snamprogetti Netherlands BV. Pursuant to the agreement, Snamprogetti Netherlands BV agreed to pay a criminal penalty of US \$30 million as well as US \$2.5 million as reimbursement for legal costs and expenses incurred by the Nigerian Federal Government, and the legal proceedings were dismissed. As with those imposed by the U.S. Authorities, the penalties were paid by Eni. The Federal Government of Nigeria agreed to dismiss all charges against Snamprogetti Netherlands BV, its parent companies and subsidiaries and to renounce to any civil claims and criminal charges in any jurisdiction. In the agreement, the Nigerian Authorities indicate that the criminal activity with which Snamprogetti Netherlands BV was charged ceased by June 15, 2004.

The proceedings in Italy: beginning in 2004, the TSKJ matter has prompted investigations by the Milan Public Prosecutor's office against unknown persons. Since March 10, 2009, the company received requests to produce documents from the Milan Public Prosecutor's office. On July 31, 2009, a decree issued by the Judge for Preliminary Investigation at the Court of Milan was served on Saipem SpA (as legal entity incorporating Snamprogetti SpA). The decree scheduled for September 22, 2009 a hearing in camera in relation to proceedings pursuant to Legislative Decree No. 231 of June 8, 2001, under which the Milan Public Prosecutor is investigating Saipem SpA and Eni SpA for liability of legal entities arising from offenses involving international corruption alleged against two former managers of Snamprogetti SpA.

The Milan Public Prosecutor requested that Saipem SpA and Eni SpA be debarred from activities involving – directly or indirectly – any agreement with the Nigerian National Petroleum Corp and its subsidiaries.

The Milan Public Prosecutor's request for precautionary measures related to TSKJ Consortium practices between 1995 and 2004. In this regard, the Public Prosecutor claimed the inadequacy and violation of the organisational, management and control model adopted to prevent the commission of the alleged offenses by persons subject to direction and supervision. In actual fact, a time of the events under investigation, the company had in place a code of practice and internal procedures based on best practices. Subsequently, the code and internal procedures were improved with a view to achieving the continuous improvement of internal compliance, including with regard to Anti-Corruption. Furthermore, on July 14, 2008, Saipem approved a new Code of Ethics and a new Model 231, which reaffirmed that the belief that one is acting in favour or to the advantage of Saipem can never, in any way, justify – not even in part – any behaviours that conflict with the principles and contents of the Code, while, as mentioned above, in the light of the investigations into the TSKJ matter, Saipem made substantial enhancements to its existing compliance system, in particular issuing a procedure containing new anti-corruption guidelines and principles on February 10, 2010.

On November 17, 2009, the Judge for the Preliminary Investigation rejected the request for precautionary measures of disqualification filed by the Milan Public Prosecutor. The Milan Public Prosecutor appealed against the decision of the Judge for Preliminary Investigation. 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 Public Prosecutor and upheld the decision of the Judge for the Preliminary Investigation. The Public Prosecutor of Milan filed an appeal against the decision. On September 30, 2010, the appeal was upheld by the Court of Cassation. The Supreme Court decided that the request for precautionary measures was also admissible pursuant to Law 231/2001 in cases of alleged international corruption. The decision relating to the Milan Public Prosecutor's request for precautionary measures returned to the judicial review court, which scheduled a hearing for February 22, 2011. On February 18, 2011, following payment by Snamprogetti Netherlands BV of a deposit of €24,530,580, which was also on behalf of Saipem SpA, the Milan Public Prosecutor's office withdrew its appeal against the decision with which the judge for the preliminary investigation had rejected the request for precautionary measures of disqualification, with regard to both Eni SpA and Saipem SpA. At the hearing of February 22, 2011, the judicial review court acknowledged the withdrawal, and declared the Milan Public Prosecutor's office appeal inadmissible. The proceeding connected with the request for precautionary measures of disqualification for Saipem SpA and Eni SpA therefore concluded.

Following the receipt on November 3, 2010 of the notice of conclusion of investigations, 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. The document contains accusations against five former Snamprogetti SpA employees (now Saipem) and against Saipem SpA as a legal person as the company that absorbed Snamprogetti. The accusations regard presumed acts of corruption in Nigeria allegedly committed 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 January 26, 2011, at the conclusion of the hearings, the Judge for the Preliminary Hearing ordered Saipem SpA and the five former Snamprogetti SpA employees to stand trial at a hearing scheduled for April 5, 2011. In the event of an acquittal, the above-mentioned deposit of €24,530,580 will be refunded to Snamprogetti Netherlands BV. The deposit will be confiscated by the authorities in the event of conviction. In connection with the sale of Snamprogetti to Saipem, Eni agreed to indemnify Saipem for a variety of matters, including potential losses resulting from the investigations into the TSKJ matter referred to above.

Algeria

On February 4, 2011, the Milan Public Prosecutor's office, through Eni, requested the transmission of documentation pursuant to Article 248 of the Penal Procedure Code relating to the activities of Saipem Group companies in Algeria in connection with an allegation of international corruption. The crime of 'international corruption' mentioned in the request is sanctioned by Legislative Decree No. 231 of June 8, 2001. In compliance with the request, the collection of documentation was commenced promptly and on February 16, 2011, the documents collected up until that point were transmitted, with Saipem reserving the right to deposit further documentation when available. Saipem continues to collaborate fully with the Public Prosecutor.

EniPower - Enquiries by the Judiciary

As part of the inquiries commenced by the Milan Public Prosecutor (criminal proceedings 2460/03 R.G.N.R. pending at the Milan Public Prosecutor's office) into contracts awarded by EniPower to various companies, Snamprogetti 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 231/2001. Preliminary investigations ended in August 2007, with a favourable outcome for Snamprogetti, which was not included among the parties still under investigation for whom committals for trial have been 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 (now Saipem SpA) presented themselves as plaintiffs in the preliminary hearing. In the preliminary hearing related to the main proceeding of April 27, 2009, the judge for the preliminary hearing requested that all parties that did not request the application of settlement procedures stand trial, excluding Romeo Franco Musazzi and ABB Instrumentation SpA as a result of the statute of limitations.

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 proceedings continues and are now at the witness examination phase.

Revenues

The following is a summary of the main components of revenues. The most significant changes in operating expenses are analysed in the 'Financial and economic results' section of the 'Directors' report'.

32 Net sales from operations

Net sales from operations were as follows:

(€ million)	2009	2010
Net sales from operations	10,581	11,526
Change in contract work in progress	(289)	(366)
Total	10,292	11,160

Net sales by geographical area were as follows:

(€ million)	2009	2010
Italy	1,139	792
Rest of Europe	860	1,139
CIS	1,186	1,232
Rest of Asia	2,226	1,998
North Africa	1,791	2,546
West Africa	2,315	2,678
Americas	598	719
Australia, Oceania and rest of the world	177	56
Total	10,292	11,160

Information required by IAS 11 is provided by segment in Note 44.

Revenues from Eni companies amounted to €2,655 million.

33 Other income and revenues

Other income and revenues were as follows:

(€ million)	2009	2010
Gains on disposal of assets	5	1
Indemnities	8	9
Other	14	7
Total	27	17

Operating expense

The following is a summary of the main components of operating expenses. The most significant changes in operating expenses are commented on in the 'Financial and economic results' section of the 'Directors' report'.

34 Purchases, services and other

Purchases, services and other miscellaneous operating expenses included the following:

(€ million)	2009	2010
Production costs - raw, ancillary and consumable materials and goods	2,445	2,484
Production costs - services	4,045	4,569
Operating leases and other	682	768
Net provisions for contingencies	19	(33)
Other expenses	117	80
less:		
- capitalised direct costs associated with self-constructed assets	(50)	(79)
- changes in inventories of raw, ancillary and consumable materials and goods	(25)	(75)
Total	7,233	7,714

Production costs for services included agency fees of €26 million (€79 million at December 31, 2009).

Costs incurred in connection with research and development activities recognised in profit and loss as they do not meet the requirements to be capitalised amounted to €13 million (€17 million at December 31, 2009).

'Operating leases and other' included operating lease payments of €763 million (€633 million in 2009).

Future minimum lease payments expected to be paid under non-cancellable operating leases amounted to €329 million (€276 million in 2009), of which €135 million was due within one year, €159 million between 2-5 years and €35 million due after 5 years.

Net provisions for contingencies are detailed in Note 21 'Provisions for contingencies'.

Other expenses of €80 million included indirect taxes of €42 million, mainly related to foreign direct and indirect subsidiaries of Saipem SpA.

Purchase services and other expenses towards Eni subsidiaries amounted to €102 million.

35 Payroll and related costs

Payroll and related costs were as follows:

(€ million)	2009	2010
Wages and salaries	1,228	1,320
Social security contributions	197	203
Contributions to defined benefit plans	37	42
Employee termination indemnities	4	3
Accrual to provision for employee termination indemnities recognised as a contra-entry to pension plans or Inps fund	19	23
Other costs	17	56
less:		
- capitalised direct costs associated with self-constructed assets	(19)	(20)
Total	1,483	1,627

Net accruals to provisions for employee benefits are shown under Note 22 'Provisions for employee benefits'.

Stock-based compensation

Until 2008, Saipem maintained stock option grant programs with the aim of improving the motivation and loyalty of its senior managers.

No new stock-based compensation schemes for Saipem senior managers were started in 2010.

STOCK OPTIONS

The following table shows changes in the stock option plans:

(€ thousand)	2009			2010		
	Number of shares	Average strike price	Market price ^(a)	Number of shares	Average strike price	Market price ^(a)
Options as of January 1,	6,144,650	19.17	72,630	4,769,014	21.045	114,933
New options granted	-	-	-	-	-	-
(Options exercised during the year)	(686,753)	9.794	11,826	(1,940,675)	17.668	53,555
(Options cancelled during the year)	(688,883)	-	11,668	(489,789)	-	11,951
Options outstanding as of December 31,	4,769,014	21.045	114,933	2,338,550	23.564	88,062
Of which exercisable at December 31,	1,721,739	14.393	41,494	899,575	19.742	33,140

(a) The market price relating to new options granted, options exercised in the year and options cancelled in the year corresponds to the average market value. The market price of shares underlying options outstanding at the beginning and end of the year is the price recorded at January 1 and December 31.

The following table shows stock options outstanding as of December 31, 2010 and the number of assignees:

Year ⁽¹⁾	No. of managers	Strike price ⁽²⁾	No. of shares
Options granted			
2002	213	6.187	2,105,544
2003	58	6.821	1,283,500
2004	58	7.594	1,166,000
2005	56	11.881	980,500
2006	91	17.519	1,965,000
2007	91	26.521	1,332,500
2008	93	25.872	1,339,000
			10,172,044
Options exercised			
2002			(1,847,097)
2003			(1,185,500)
2004			(1,096,000)
2005			(811,500)
2006			(1,116,475)
2007			(430,400)
2008			(4,200)
			(6,491,172)
Options cancelled			
2002			(258,447)
2003			(78,000)
2004			(20,500)
2005			(33,000)
2006			(540,125)
2007			(334,625)
2008			(77,625)
			(1,342,322)
Options outstanding			
2002			-
2003			20,000
2004			49,500
2005			136,000
2006			308,400
2007			567,475
2008			1,257,175
			2,338,550

(1) The last Stock Option Plan was approved in 2008.

(2) Official average of prices recorded on the Italian stock market in the month preceding assignment.

At December 31, 2010, No. 2,338,550 options had been assigned for the purchase of No. 2,338,550 ordinary shares of Saipem SpA with a nominal value of € 1. The options relate to the following plans:

	Number of shares	Strike price (€)	Average remaining life (years)	Fair value (€) for assignees resident in Italy	Fair value (€) for assignees resident in France
2002 plan	-	6.187	-	-	-
2003 plan	20,000	6.821	1	1.1929	1.1806
2004 plan	49,500	7.594	1	2.0935	2.0085
2005 plan	136,000	11.881	2	3.1029	2.9795
2006 plan	308,400	17.519	2	5.7208	6.1427
2007 plan	567,475	26.521	3	8.8966	9.5320
2008 plan	1,257,175	25.872	4	8.2186	8.7734
Total	2,338,550				

The fair value of stock options granted in 2002 is not available, as it was not calculated at the time of assignment. The fair value valuation of options granted in 2003, 2004 and 2005 considers the stock options as European until September 30, 2006, August 23, 2007 and July 27, 2008, respectively, for assignees resident in Italy and until September 30, 2007, August 23, 2008 and July 27, 2009 for those resident in France; subsequently they are considered American. The fair value was therefore calculated using a combination of the Black-Scholes and Merton method for European options and the Roll, Geske and Whaley method for American options. The fair value of 2006, 2007 and 2008 stock option rights was calculated based on the trinomial trees method, which considers the stock as American-type call options with dividend entitlement.

The following assumptions were made for the 2008 plan:

- for assignees resident in Italy:

	2008
Risk-free interest rate (%)	4.926
Expected life (years)	6
Expected volatility (%)	34.700
Expected dividends (%)	2.090

- for assignees resident in France:

	2008
Risk-free interest rate (%)	4.918
Expected life (years)	7
Expected volatility (%)	34.700
Expected dividends (%)	2.090

The cost of stock grant and stock option plans in 2010 amounted to € 4 million (€ 7 million in 2009).

See Note 41 for the compensation of key management personnel, directors and statutory auditors.

Average number of employees

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

(number)	Dec. 31, 2009	Dec. 31, 2010
Senior managers	436	428
Junior managers	4,034	4,253
White collars	15,726	16,710
Blue collars	15,765	16,750
Seamen	263	287
Total	36,224	38,428

The average number of employees was calculated as the arithmetic mean of the number of employees at the beginning and end of the year. 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)	2009	2010
Depreciation and amortisation:		
- tangible assets	427	506
- intangible assets	11	8
	438	514
Impairment:		
- tangible assets	-	2
- intangible assets	2	1
Total	440	517

37 Finance income (expense)

Finance income (expense) was as follows:

(€ million)	2009	2010
Finance income (expense)		
Finance income	1,101	851
Finance expense	(1,116)	(995)
	(15)	(144)
Derivatives	(85)	34
	(100)	(110)

Net finance income and expense was as follows:

(€ million)	2009	2010
Exchange gains (losses)	41	(89)
Exchange gains	1,072	842
Exchange losses	(1,031)	(931)
Finance income (expense) related to net borrowings	(58)	(56)
Interest and other income from Group financial companies	13	1
Interest from banks and other financial institutions	14	7
Interest and other expense due to Group financial companies	(56)	(53)
Interest and other expense due to banks and other financial institutions	(29)	(11)
Other finance income (expense)	2	1
Other finance income	2	1
Total finance income (expense)	(15)	(144)

Gains (losses) on derivatives consisted of the following:

(€ million)	2009	2010
Exchange rate derivatives	(82)	43
Interest rate derivatives	(3)	(9)
	(85)	34

The net gain on derivatives of € 34 million (net loss of € 85 million in 2009) was primarily due to the recognition in the income statement of the change in fair value of derivatives that do not qualify as hedging instruments under IFRS and changes in the value of the forward component of derivatives that qualify for hedge accounting.

38 Income (expense) from investments**Effect of accounting using the equity method**

The share of profit (loss) of investments accounted for using the equity method consisted of the following:

(€ million)	2009	2010
Share of profit of investments accounted for using the equity method	14	16
Share of losses of investments accounted for using the equity method	(7)	(4)
Net additions to (deductions from) the provisions for losses on investments	-	(12)
Total	7	-

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

Other income (expense) from investments

Other income and revenues were as follows:

(€ million)	2009	2010
Dividends	2	-
Gain on disposals	-	20
Loss on disposals	-	-
Other income (expense)	(2)	10
Total	-	30

Gains on disposal relating to 2010 of €20 million related mainly to the sale of Doris Engineering sa (€17 million) and Consorzio Venezia Nuova (€3 million).

Other income (expense) includes the use of excess provisions for losses on investments accounted for using the cost method.

39 Income taxes

Income taxes consisted of the following:

(€ million)	2009	2010
Current taxes:		
- Italian subsidiaries	138	140
- foreign subsidiaries	153	169
Net deferred taxes:		
- Italian subsidiaries	47	(9)
- foreign subsidiaries	(50)	45
Total	288	345

Current taxes amounted to €309 million and related to Ires (€130 million), Irap (€10 million) and other taxes (€169 million).

The effective tax rate was 27.8% (27.1% in 2009), compared with a statutory tax rate of 29.3% (30.1% in 2009), calculated by applying a 27.5% tax rate (Ires) to profit before income taxes and a 3.9% tax rate (Irap) to the net value of production as provided for by Italian laws.

The difference between the statutory and effective tax rate was due to the following factors:

(%)	2009	2010
Statutory tax rate	30.1	29.3
Items increasing (decreasing) statutory tax rate:		
- change in regional production tax	0.2	0.1
- lower foreign subsidiaries tax rate	(12.4)	(9.8)
- permanent differences and other factors	9.2	8.2
Total changes	(3.0)	(1.5)
Effective tax rate	27.1	27.8

(€ million)	2009	2010
Income taxes recognised in consolidated income statement	288	345
Income taxes recognised in statement of comprehensive income	(26)	16
Tax on total comprehensive income	262	361

40 Minority interest

Minority interest's share of profit amounted to €50 million.

41 Amounts paid to members of management and control bodies, general managers and senior managers with strategic responsibilities

Pursuant to Article 78 of Consob Resolution 11971 of May 14, 1999 and subsequent addenda and communication DEM/11012984 of February 24, 2011, the following table indicates amounts paid to members of management and control bodies, directors, general managers and senior managers with strategic responsibilities. All persons who held the above-mentioned positions during 2010 are included in the table, even if they only held such office for a part of the year.

In accordance with Consob requirements, 2010 compensation is indicated on an accruals basis, i.e. showing the total compensation pertaining to 2010. The table also shows, in separate columns, the total compensation actually paid in 2010, compensation pertaining to 2010 but not yet paid and compensation paid in 2010 which regards prior years.

Specifically:

- the column 'Remuneration for office held in Saipem SpA' shows the fixed remuneration of the Chairman and CEO, the fixed compensation of directors and the compensation of the Chairman of the Board of Statutory Auditors and Statutory Auditors. Lump sum reimbursements of expenses, attendance fees and profit shares are not paid;
- the column 'Compensation for participation in committees' shows the compensation paid to directors for participation in Committees created by the Board;
- the column 'Non-monetary benefits' shows fringe benefits and insurance policies;
- the column 'Bonuses and other incentives' indicates the variable compensation of directors, the remuneration of the Chairman, the remuneration and salary for services rendered as an employee of the CEO and other senior managers with strategic responsibilities. The deferred monetary incentive and the long-term monetary incentive are considered as pertaining to the year in which they become payable for the purposes of the table;

- the column 'Other compensation' shows the fixed part and other components of the salary for services rendered as an employee of the CEO and other senior managers with strategic responsibilities, compensation paid for offices held at subsidiaries and sums paid following termination of employment. The column also shows compensation paid to Statutory Auditors for offices held at subsidiaries;
- the column 'Total compensation pertaining to 2010' shows the total of the preceding items.

(€ thousand)

Names and surname	Office held	Term of office	Expiry of term ⁽¹⁾	Remuneration for office held in Saipem SpA	Compensation for participation in committees	Non-monetary benefits	Bonuses and other incentives	Other compensation	Total compensation attributable to 2010	Unpaid compensation pertaining to 2010	Compensation paid in 2010 pertaining to prior years	Total compensation paid in 2010
Board of Directors												
Marco Mangiagalli	Chairman	01.01 - 31.12	04.11	200 ⁽²⁾	-	-	-	-	200	-	-	200
Pietro Franco Tali	Deputy Chairman and CEO	01.01 - 31.12	04.11	841 ⁽³⁾	-	13	1,235	-	2,089	-	-	2,089
Hugh James O'Donnell	Deputy CEO	01.01 - 31.12	04.11	447 ⁽³⁾	-	9	554	190 ⁽⁶⁾	1,200	-	-	1,200
Jacques Léost	Director	01.01 - 18.08	-	25 ⁽⁴⁾	-	-	549	860 ⁽⁷⁾	1,434	-	1,469	2,903
Ian Wybrew-Bond	Director	01.01 - 31.12	04.11	40 ⁽⁵⁾	-	-	-	-	40	27	16	29
Pierantonio Nebuloni	Director	01.01 - 31.12	04.11	40 ⁽⁵⁾	-	-	-	-	40	40	-	-
Luca Anderlini	Director	01.01 - 31.12	04.11	40 ⁽⁵⁾	-	-	-	-	40	40	40	40
Anna Maria Artoni	Director	01.01 - 31.12	04.11	40 ⁽⁵⁾	-	-	-	-	40	40	40	40
Salvatore Sardo	Director	01.01 - 31.12	04.11	40 ⁽⁴⁾	-	-	-	-	40	-	-	40
Umberto Francesco Vergine	Director	27.10 - 31.12	04.11	7 ⁽⁴⁾	-	-	-	-	7	-	-	7
Board of Statutory Auditors												
Fabio Venegoni	Chairman	01.01 - 31.12	04.11	60 ⁽⁵⁾	-	-	-	45 ⁽⁸⁾	105	105	105	105
Fabrizio Gardi	Statutory Auditor	01.01 - 31.12	04.11	40 ⁽⁵⁾	-	-	-	-	40	40	40	40
Adriano Propersi	Statutory Auditor	01.01 - 31.12	04.11	40 ⁽⁵⁾	-	-	-	-	40	40	40	40
Other senior managers with strategic responsibilities ⁽⁹⁾												
						217	2,332	3,283	5,832	-	-	5,832
				1,860	-	239	4,670	4,378	11,147	332	1,750	12,565

(1) Term of office expires at Shareholders' Meeting convened to approve the financial statements at December 31, 2010.

(2) Amount relating to remuneration under contract of employment for position of Chairman. The compensation of € 40,000 fixed by the Shareholders' Meeting of April 28, 2008, constitutes an integral part of the total remuneration indicated.

(3) Amount relating to remuneration under contract of employment. The compensation of € 40,000 fixed by the Shareholders' Meeting of April 28, 2008, constitutes an integral part of the total remuneration indicated.

(4) Amount fixed by the Shareholders' Meeting. Compensation is based on individual employment contracts, is paid directly to the organisation the individual works for and is commensurate with the term of office.

(5) Amount fixed by the Shareholders' Meeting of April 28, 2008 and paid based on term of office.

(6) Amount represents remuneration for the office of Chairman of Saipem UK.

(7) Includes remuneration under contract of employment with French subsidiary Saipem sa which expired on August 29, 2010 and sums paid following termination of employment.

(8) Remuneration relating to office of Chairman of the Board of Statutory Auditors of the subsidiary Saipem Energy Services SpA from January 1, 2010 to December 31, 2010.

(9) 12 senior managers as at December 31, 2010.

Compensation of key management personnel

Compensation due to senior managers responsible for Group results or holding positions of strategic interest (i.e. key management personnel) amounted to € 18 million and was as follows:

(€ million)	2009	2010
Wages and salaries	7	11
Employee termination indemnities	7	3
Other long-term benefits	-	2
Cost related to stock options	4	2
Total	18	18

Deferred monetary incentive to directors, general managers and senior managers with strategic responsibilities

Under the 2006-2008 deferred monetary incentive scheme, a basic incentive is allocated each year. The incentive becomes payable after three years at a percentage rate of 0 to 170 based on achievement of EBITDA targets in the three-year reference period approved by the Board of Directors (see the Corporate Governance Report and Shareholding Structure).

In the event, during the vesting period, of: (i) consensual employment termination of the beneficiary; (ii) demise of the assignee; (iii) Saipem's loss of control in the company that employs the assignee; (iv) sale of the company (or branch) that employs the assignee to a non-Group company; the latter or their heirs retain the right to a proportion of the incentive corresponding to the time elapsed between allocation of the basic incentive and the occurrence of the event. In the event of unilateral termination of employment during the vesting period, the incentive is not paid out.

The following table shows the basic incentives allocated in 2010 to the Deputy Chairman and CEO, the Managing Director for Business Support and Transversal Activities (Deputy CEO) and to (as an aggregated figure) senior managers with strategic responsibilities.

(€)	
Name and surname	Basic incentive allocated
Pietro Franco Tali	443,000
Hugh James O'Donnell	176,000
Other senior managers with strategic responsibilities ⁽¹⁾	886,500

(1) 12 senior managers as at December 31, 2010.

Long-term monetary incentive

In order to enhance the competitiveness of the overall remuneration package for critical managerial resources (managers occupying positions in which they are directly responsible for Saipem Group results or positions of strategic interest), the Board of Directors approved a new long-term monetary scheme to replace the stock option plan which as of 2009 is no longer implemented. Under the scheme, a basic incentive is allocated each year. The incentive becomes payable after three years at a percentage rate of 0 to 130 based on the average variation from 2009 figures in the 'adjusted net profit + depreciation and amortisation' of Saipem over the three-year period compared with a panel of competitors identified by the Board. In the event, during the vesting period, of: (i) consensual employment termination of the assignee; (ii) demise of the assignee; (iii) Saipem's loss of control in the company that employs the assignee; (iv) sale of the company (or branch) that employs the assignee to a non-Group company; the latter or their heirs retain the right to a proportion of the incentive corresponding to the time elapsed between allocation of the basic incentive and the occurrence of the event. In the event of unilateral termination of employment during the vesting period, the incentive is not paid out.

The following table shows the basic incentives allocated in 2010 to the Deputy Chairman and CEO, the Managing Director for Business Support and Transversal Activities (Deputy CEO) and (as an aggregated figure) to senior managers with strategic responsibilities.

(€)	
Name and surname	Basic incentive allocated
Pietro Franco Tali	426,000
Hugh James O'Donnell	189,000
Other senior managers with strategic responsibilities ⁽¹⁾	1,033,000

(1) 12 senior managers as at December 31, 2010.

Indemnification of directors in the event of resignation, unilateral termination without just cause or termination following a public purchase offer

There are no agreements indemnifying directors in case of dismissal/revocation of their appointment without just cause, resignation or termination following a public purchase offer.

42 Stock options allocated to directors, general managers and senior managers with strategic responsibilities

Pursuant to article 78 of Consob resolution 11971 of May 14, 1999 and subsequent addenda, the following table indicates stock options allocated to directors and other senior managers with strategic responsibilities exercisable after three years from the date of allocation relating to stock option schemes currently in place, the last of which was implemented in 2008.

All persons who held the above-mentioned positions during 2010 are included in the table, even if they only held such office for a part of the year.

Stock options

	Deputy Chairman and CEO Pietro Franco Tali	Managing Director for Business Support and Transversal Activities (Deputy CEO) Hugh James O'Donnell	Director Jacques Yves Léost ⁽¹⁾	Other senior managers with strategic responsibilities
Options held as of January 1, 2010:				
- number of options (1)	402,900	198,000	264,000	780,600
- average strike price (2)	(€) 23.0836	22.1090	20.1828	21.015
- date of maturity (3)	26.7.2012	26.7.2012	27.7.2012	26.7.2012
	24.7.2013	24.7.2013	26.7.2013	24.7.2013
	29.7.2014	29.7.2014	24.7.2014	27.7.2013
			29.7.2015	29.7.2014
Options granted during the year:				
- number of options (4)	-	-	-	-
- average strike price (5)	(€) -	-	-	-
- date of maturity (6)	-	-	-	-
Options exercised during the year:				
- number of options (7)	144,400	74,000	66,000	40,000
	108,375	-	74,000	115,500
	-	-	-	187,600
	-	-	-	51,850
	252,775	74,000	140,000	394,950
- average strike price (8)	(€) 17.519	17.519	11.881	7.594
	26.521	-	17.519	11.881
	-	-	-	17.519
	-	-	-	26.521
	21.3785	17.519	14.861	16.0468
- average strike price (9)	(€) 29.784	28.4874	25.8929	29.0326
Options cancelled during the year:				
- number of options (10)	19,125	9,150	124,000	28,350
Options held as of December 31, 2010:				
- number of options (11) = 1+4-7-10	131,000	114,850	-	357,300 ⁽²⁾
- average strike price (12)	(€) 25.872	26.165	-	26.070
- date of maturity (13)	29.7.2014	24.7.2013		24.7.2013
		29.7.2014		29.7.2014

(1) Board Director of Saipem SpA from January 1, 2010 to August 18, 2010 and Chairman and General Manager of Saipem sa from January 1, 2010 to August 29, 2010. As of August 29, 2010 Mr. Léost no longer holds any office within the Group.

(2) The number of options includes directors that took office after December 31, 2009 and directors that were no longer in office at December 31, 2010.

43 Earnings per share

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

The average number of ordinary shares outstanding used for the calculation of the basic earnings per share outstanding for 2010 and 2009 was 437,355,728 and 435,388,476, respectively.

Diluted earnings per share are calculated by dividing net profit for the year attributable to Saipem's shareholders by the weighted average of fully-diluted shares issued and outstanding during the year, with the exception of treasury shares and including the number of shares that could potentially be issued. At December 31, 2010, 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 2009 and 2010 was 440,302,786 and 439,834,726, respectively. Reconciliation of the average number of shares used for the calculation of basic and diluted earnings per share is as follows:

	Dec. 31, 2009	Dec. 31, 2010
Average number of shares used for the calculation of the basic earnings per share	435,388,476	437,355,728
Number of potential shares following stock option plans	4,769,014	2,338,550
Number of savings shares convertible into ordinary shares	145,296	140,448
Average number of shares used for the calculation of the diluted earnings per share	440,302,786	439,834,726
Saipem's net profit	(€ million) 732	844
Basic earnings per share	(€ per share) 1.68	1.93
Diluted earnings per share	(€ per share) 1.66	1.92

44 Segment information, geographical information and construction contracts

Segment information

(€ million)	Offshore	Onshore	Offshore Drilling	Onshore Drilling	Unallocated	Total
December 31, 2009						
Net sales from operations	5,824	5,815	804	688	-	13,131
less: intersegment sales	1,483	984	238	134	-	2,839
Net sales to customers	4,341	4,831	566	554	-	10,292
Operating profit	615	290	192	59	-	1,156
Depreciation, amortisation and impairment	195	48	95	102	-	440
Net income from investments	-	7	-	-	-	7
Capital expenditure	697	28	690	200	-	1,615
Property, plant and equipment	2,672	144	2,748	731	-	6,295
Investments	35	85	-	-	-	120
Current assets	2,007	2,823	243	294	1,420	6,787
Current liabilities	2,287	3,134	259	282	2,386	8,348
Provisions for contingencies	43	82	2	1	72	200
December 31, 2010						
Net sales from operations	5,990	6,168	985	831	-	13,974
less: intersegment sales	1,504	932	235	143	-	2,814
Net sales to customers	4,486	5,236	750	688	-	11,160
Operating profit	613	370	258	78	-	1,319
Depreciation, amortisation and impairment	219	39	144	115	-	517
Net income from investments	30	-	-	-	-	30
Capital expenditure	713	25	553	254	-	1,545
Property, plant and equipment	3,187	118	3,202	896	-	7,403
Investments	35	82	-	-	-	117
Current assets	1,827	2,772	310	487	1,220	6,616
Current liabilities	2,104	3,076	307	476	1,602	7,565
Provisions for contingencies	42	62	2	-	58	164

Intersegment sales were conducted on an arm's length basis.

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.

(€ million)	Italy	Rest of Europe	CIS	Rest of Asia	North Africa	West Africa	Americas	Unallocated	Total
2009									
Capital expenditure	106	11	95	82	4	61	45	1,211	1,615
Tangible and intangible assets	143	12	256	255	17	465	663	5,240	7,051
Identifiable assets (current)	759	1,029	434	1,200	1,216	1,121	436	592	6,787
2010									
Capital expenditure	116	6	216	116	9	38	49	995	1,545
Tangible and intangible assets	117	22	491	317	49	495	906	5,766	8,163
Identifiable assets (current)	474	916	473	1,054	1,360	1,429	510	400	6,616

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); (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 are recognised in accordance with IAS 11.

(€ million)	2009	2010
Construction contracts - assets	748	395
Construction contracts - liabilities	(1,636)	(1,632)
Construction contracts - net	(888)	(1,237)
Cost and margins (completion percentage)	9,398	10,354
Progress billings	(10,269)	(11,589)
Change in provision for future losses	(17)	(2)
Construction contracts - net	(888)	(1,237)

45 Transactions with related parties

Saipem SpA is a subsidiary of Eni SpA. Transactions with related parties entertained 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 and entering into derivative contracts with other Eni SpA subsidiaries or associated companies. These transactions are an integral part of the 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. All transactions were carried out for the mutual benefit of the companies involved.

The tables below shows the value of transactions of a trade, financial or other nature entered into with related parties. 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 associates;
- other related parties.

Trade and other transactions

Trade transactions as of and for the year ended December 31, 2009 consisted of the following:

(€ million)

Company	Dec. 31, 2009			2009			
	Receivables	Payables	Guarantees	Costs		Revenues	
				Goods	Services	Goods and services	Other
Unconsolidated associates and jointly-controlled companies							
CEPAV (Consorzio Eni per l'Alta Velocità) Due	54	1	77	-	1	2	-
Kwanda Suporto Logistico Lda	72	-	-	-	-	20	-
Saipem Taqa Al Rushaid Fabricators Co Ltd	1	-	-	-	-	4	-
Total unconsolidated associates and jointly-controlled companies	127	1	77	-	1	26	-
Eni consolidated subsidiaries							
Eni SpA	6	8	4,854	5	4	2	-
Eni SpA Exploration & Production Division	192	1	-	1	1	372	-
Eni SpA Gas & Power Division	3	-	-	-	1	2	-
Eni SpA Refining & Marketing Division	65	4	-	3	6	73	-
Agip Energy & Natural Resources (Nigeria) Ltd	6	-	-	-	-	27	-
Agip Karachaganak BV	2	-	-	-	-	5	-
Agip Oil Ecuador BV	1	-	-	-	-	1	-
Banque Eni SA	-	-	-	-	1	-	-
Burren Energy Services Ltd	-	-	-	-	-	1	-
Ecofuel SpA	1	1	-	-	1	1	-
Eni Adfin SpA	2	-	-	-	5	-	-
Eni Algeria Production BV	1	-	-	-	-	2	-
Eni Angola SpA	19	-	-	-	-	72	-
Eni Australia BV	-	13	-	-	-	107	-
Eni Congo SA	55	-	-	-	-	105	-
Eni Coordination Center SA	5	-	-	-	-	-	-
Eni Corporate University SpA	-	2	-	-	5	-	-
Eni Denmark BV	7	-	-	-	-	7	-
Eni Hewett Ltd	5	-	-	-	-	8	-
Eni Iran BV	4	-	-	-	-	1	-
Eni Mediterranea Idrocarburi SpA	19	-	-	-	-	33	-
EniPower SpA	2	-	-	-	1	3	-
EniServizi SpA	2	8	-	-	46	3	-
Eni Tunisia BV	21	-	-	-	-	71	-
First Calgary Petroleum Ltd	64	105	-	-	-	109	-
GreenStream BV	2	-	-	-	-	4	-
Ieoc Production BV	-	2	-	-	2	1	-
Naoc - Nigerian Agip Oil Co Ltd	113	48	-	-	-	64	-
Nigerian Agip Exploration Ltd	-	-	-	-	-	1	-
Polimeri Europa SpA	14	-	-	-	1	26	-
Raffineria di Gela SpA	40	-	-	-	-	37	-
Serfactoring SpA	-	54	-	-	1	-	-
Servizi Aerei SpA	-	-	-	-	1	-	-
Snam Rete Gas SpA	63	-	-	-	-	70	-
Società EniPower Ferrara Srl	7	-	-	-	-	17	-
Société pour la Construction du Gazoduc Transtunisien SA - Scogat SA	6	-	-	-	-	4	-
Stoccaggi Gas Italia SpA	25	-	-	-	-	37	-
Syndial SpA	53	-	-	-	-	49	-
Total Eni consolidated subsidiaries	805	246	4,854	9	76	1,315	-
Unconsolidated Eni subsidiaries							
Agip Kazakhstan North Caspian Operating Co NV	169	7	-	-	-	440	-
Total Eni subsidiaries	974	253	4,854	9	76	1,755	-
Eni associated and jointly-controlled companies	57	1	-	-	-	94	-
Total Eni companies	1,031	254	4,854	9	76	1,849	-
Total transactions with related parties	1,158	255	4,931	9	77	1,875	-
Overall total	4,040	5,735	6,706	2,445	4,727	10,292	27
Incidence (%)	28.66	4.45	73.53	0.37	1.63	18.22	-

Trade transactions as of and for the year ended December 31, 2010 consisted of the following:

(€ million)

Company	Dec. 31, 2010			2010			
	Receivables (*)	Payables (*)	Guarantees	Costs		Revenues	
				Goods	Services	Goods and services	Other
Unconsolidated associates and jointly-controlled companies							
CEPAV (Consorzio Eni per l'Alta velocità) Due	55	3	76	-	3	5	-
Kwanda Suporto Logistico Lda	51	1	-	-	-	17	-
Rosetti Marino Group	3	-	-	-	-	5	-
Saipem Taqa Al Rushaid Fabricators Co Ltd	3	1	-	-	1	4	-
Saipem Triune Engineering Private Ltd	-	-	1	-	-	-	-
Total unconsolidated associates and jointly-controlled companies	112	5	77	-	4	31	-
Eni consolidated subsidiaries							
Eni SpA	1	6	5,688	6	7	3	-
Eni SpA Exploration & Production Division	102	2	-	2	1	231	-
Eni SpA Gas & Power Division	2	1	-	-	6	1	-
Eni SpA Refining & Marketing Division	58	3	-	5	8	96	-
Agip Energy & Natural Resources (Nigeria) Ltd	13	-	-	-	-	32	-
Agip Karachaganak BV	2	-	-	-	-	4	-
Agip Oil Ecuador BV	2	-	-	-	-	9	-
Burren Energy Services Ltd	2	-	-	-	-	7	-
Eni Adfin SpA	2	1	-	-	4	-	-
Eni Algeria Production BV	1	-	-	-	-	2	-
Eni Angola SpA	9	-	-	-	-	93	-
Eni Australia BV	-	-	-	-	-	82	-
Eni Canada Holding	234	63	-	-	-	550	-
Eni Congo SA	38	-	-	-	-	132	-
Eni Corporate University SpA	-	2	-	-	5	-	-
Eni Denmark BV	2	-	-	-	-	5	-
Eni Finance Usa	17	-	-	-	-	-	-
Eni Hewett Ltd	1	-	-	-	-	6	-
Eni Indonesia	-	-	-	-	-	20	-
Eni Iraq BV	1	2	-	-	-	22	-
Eni Mediterranea Idrocarburi SpA	18	-	-	-	-	22	-
Eni Muara Bakau BV	8	-	-	-	-	41	-
Eni Norge AS	1	-	-	-	-	1	-
EniPower SpA	5	-	-	-	-	10	-
EniServizi SpA	-	9	-	-	41	-	-
Eni Timor Leste SpA	12	-	-	-	-	11	-
Eni Trading & Shipping SpA	-	-	-	14	-	-	-
Eni Tunisia BV	5	-	-	-	-	25	-
Eni Venezuela BV	1	-	-	-	-	1	-
leoc Production BV	-	-	-	-	-	12	-
Naoc - Nigerian Agip Oil Co Ltd	57	23	-	-	-	92	-
Nigerian Agip Exploration Ltd	-	-	-	-	-	1	-
Polimeri Europa France	-	-	-	-	-	1	-
Polimeri Europa SpA	14	-	-	-	2	18	-
Raffineria di Gela SpA	21	-	-	-	-	31	-
Serfactoring SpA	-	87	-	-	1	-	-
Snam Rete Gas SpA	95	-	-	-	-	148	-
Società Adriatica Idrocarburi SpA	3	-	-	-	-	12	-
Società EniPower Ferrara Srl	8	-	-	-	-	8	-
Società Ionica Gas SpA	3	-	-	-	-	8	-
Stoccaggi Gas Italia SpA	16	-	-	-	-	32	-
Syndial SpA	38	-	-	-	-	33	-
Total Eni consolidated subsidiaries	792	199	5,688	27	75	1,802	-
Unconsolidated Eni subsidiaries							
Agip Kazakhstan North Caspian Operating Co NV	140	14	-	-	-	853	-
Total Eni subsidiaries	932	213	5,688	27	75	2,655	-
Eni associated and jointly-controlled companies	29	126	-	-	-	40	-
Total Eni companies	961	339	5,688	27	75	2,695	-
Total transactions with related parties	1,073	344	5,765	27	79	2,726	-
Overall total	4,330	5,814	7,387	2,484	5,337	11,160	17
Incidence (%)	24.78	5.92	78.04	1.09	1.48	24.43	-

(*) 'Receivables' and 'Payables' consist of the items 'Trade and other receivables' and 'Trade and other payables'.

The totals shown in the tables refer to the items 'trade receivables', 'trade payables', 'production costs - raw, ancillary and consumable materials and goods' and 'production costs - services' described in Notes 3, 16 and 34.

The Saipem Group provides services to Eni Group companies in all sectors in which it operates, both in Italy and abroad. Revenues from Eni associates amounted to €39 million, of which €29 million from Mellitah Oil & Gas BV. Receivables from Eni associates amounted to €29 million, of which €22 million from Mellitah Oil & Gas BV.

Other transactions consisted of the following:

(€ million)	Dec. 31, 2009			Dec. 31, 2010		
	Other receivables	Other payables	Contract work in progress	Other receivables	Other payables	Contract work in progress
Eni SpA (formerly Enifin SpA)	158	162	-	163	113	-
Eni Exploration & Production Division	-	-	141	-	-	-
Eni Gas & Power Division	-	-	1	-	-	-
Banque Eni SA	1	-	-	1	-	-
EniServizi SpA	-	1	-	-	-	-
Eni Trading & Shipping SpA	-	32	-	1	27	-
Total transactions with related parties	159	195	142	165	140	-
Overall total	290	255	748	314	159	-
Incidence (%)	54.83	76.47	18.98	52.55	88.05	-

Financial transactions

Financial transactions as of and for the year ended December 31, 2009 consisted of the following:

(€ million)	Dec. 31, 2009			2009		
	Receivables	Payables ⁽¹⁾	Commitments	Expenses	Income	Derivatives
Eni SpA	-	966	8,876	(55)	10	54
Banque Eni SA	-	-	69	-	-	2
CEPAV (Consorzio Eni per l'Alta Velocità) Due	-	43	-	-	-	-
Eni Coordination Center SA	-	2,399	-	-	3	-
Eni Trading & Shipping SpA	-	-	-	-	-	-
Serfactoring SpA	-	-	-	(1)	-	-
Total transactions with related parties	-	3,408	8,945	(56)	13	56

(1) Shown on the balance sheet under 'Short-term debt' (€1,746 million) and inclusive of the current portion under 'Long-term debt' (€1,662 million).

Financial transactions also include hedging transactions with Eni Trading & Shipping SpA which are included in the income statement under the item 'Other operating income (expense)'.

Financial transactions as of and for the year ended December 31, 2010 consisted of the following:

(€ million)	Dec. 31, 2010			2010		
	Receivables	Payables ⁽¹⁾	Commitments	Expenses	Income	Derivatives
Eni SpA	-	1,166	11,093	(38)	-	29
Banque Eni SA	-	-	96	(1)	-	-
CEPAV (Consorzio Eni per l'Alta Velocità) Due	-	43	-	-	-	-
Eni Coordination Center SA	-	2,479	-	(13)	1	-
Serfactoring SpA	-	-	-	(1)	-	-
Total transactions with related parties	-	3,688	11,189	(53)	1	29

(1) Shown on the balance sheet under 'Short-term debt' (€875 million) and inclusive of the current portion under 'Long-term debt' (€2,813 million).

Financial transactions also include hedging 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 (formerly Enifin SpA), Eni SpA supplies 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:

(€ million)	Dec. 31, 2009			Dec. 31, 2010		
	Total	Related parties	Incidence (%)	Total	Related parties	Incidence (%)
Short term debt	1,797	1,746	97.16	1,002	875	87.33
Long-term debt including current portion	2,146	1,662	77.45	3,214	2,813	87.52

(€ million)	2009			2010		
	Total	Related parties	Incidence (%)	Total	Related parties	Incidence (%)
Finance income	1,101	13	1.18	851	1	0.12
Finance expense	(1,116)	(56)	5.02	(995)	(53)	5.33
Derivatives	(85)	56	(65.88)	34	29	85.29
Other operating income (expenses)	(7)	(7)	100.00	-	-	0.00

The main cash flows with related parties were as follows:

(€ million)	Dec. 31, 2009	Dec. 31, 2010
Revenues and other income	1,875	2,726
Costs and other expenses	(86)	(106)
Finance income (expenses) and derivatives	6	(23)
Net change in trade receivables and payables	117	174
Net cash provided by operating activities	1,912	2,771
Change in financial (payables) receivables	398	280
Net cash used in financing activities	398	280
Total cash flows with related parties	2,310	3,051

Financial transactions also include transactions with Eni Trading & Shipping SpA which are included in the income statement under the item 'Other operating income (expense)'.

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

(€ million)	Dec. 31, 2009			Dec. 31, 2010		
	Total	Related parties	Incidence (%)	Total	Related parties	Incidence (%)
Net cash provided by operating activities	967	1,912	197.72	1,324	2,771	209.29
Cash used in investing activities	(1,411)	-	-	(1,455)	-	-
Cash used in financing activities (*)	219	398	181.74	259	280	108.11

(*) Cash used in financing activities does not include dividends distributed or net purchase of treasury shares.

Information on jointly controlled entities

Information relating to jointly controlled entities, consolidated using the proportionate method, are as follows:

(€ million)	Dec. 31, 2009	Dec. 31, 2010
Capital employed, net	(116)	(125)
Total assets	447	360
Total current assets	427	333
Total non-current assets	20	27
Total liabilities	385	339
Total current liabilities	362	321
Total non-current liabilities	23	18
Total revenues	943	743
Total operating expenses	(900)	(735)
Operating profit	43	8
Net profit (loss) for the year	44	1

46 Significant non-recurring events and operations

No significant non-recurring events or operations took place in 2010.

47 Transactions deriving from atypical or unusual transactions

No significant atypical and/or unusual transactions were performed in 2009 or 2010.

48 Events subsequent to year-end

Information on subsequent events is provided in the section 'Events subsequent to year-end' of the 'Directors' report'.

Certification of the consolidated financial statements pursuant to Article 154-bis, paragraph 5 of Legislative Decree No. 58/1998 (Testo Unico della Finanza)

1. The undersigned Pietro Franco Tali and Giulio Bozzini in their quality as Deputy Chairman and 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 2010 consolidated 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 2010 consolidated financial statements 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 this 2010 consolidated annual report:

- a) was 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) corresponds to the company's evidence and accounting books and entries;
- c) fairly represents the financial condition, 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 operating and financial review provides a reliable analysis of business trends and results, including trend analysis of the parent company and the Group companies, as well as a description of the main risks and uncertainties.

March 8, 2011


Pietro Franco Tali

Deputy Chairman and CEO

Giulio Bozzini

Chief Financial Officer

Independent Auditors' Report



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**Independent auditors' report
pursuant to art. 14 and 16 of Legislative Decree n. 39 dated January 27, 2010
(Translation from the original Italian text)**

To the Shareholders
of Saipem S.p.A.

1. We have audited the consolidated financial statements of Saipem S.p.A. and its subsidiaries (the "Saipem Group") as of and for the year ended December 31, 2010, comprising the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity, the cash flows statement and the related explanatory notes. The preparation of these consolidated financial statements in compliance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Legislative Decree n. 38/2005 is the responsibility of Saipem S.p.A.'s Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.
2. Our audit was performed in accordance with auditing standards recommended by CONSOB (the Italian Stock Exchange Regulatory Agency). In accordance with such standards, we planned and performed our audit to obtain the information necessary to determine whether the consolidated financial statements are materially misstated and if such consolidated financial statements, taken as a whole, may be relied upon. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, as well as assessing the appropriateness and correct application of the accounting principles and the reasonableness of the estimates made by Directors. We believe that our audit provides a reasonable basis for our opinion.

For the opinion on the consolidated financial statements of the prior year, which are presented for comparative purposes, reference should be made to the report issued by another auditor dated April 1, 2010.
3. In our opinion, the consolidated financial statements of the Saipem Group as of December 31, 2010 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Legislative Decree n. 38/2005; accordingly, they present clearly and give a true and fair view of the financial position, the results of operations and the cash flows of the Saipem Group for the year then ended.

Recenta Ernst & Young S.p.A.
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4. The Directors of Saipem S.p.A. are responsible for the preparation, in accordance with the applicable laws and regulations, of the Directors' Report and the Corporate Governance Report and Shareholding Structure published in the section "Corporate Governance" of Saipem S.p.A.'s website. Our responsibility is to express an opinion on the consistency with the consolidated financial statements of the Directors' Report and of the information included therein in compliance with art. 123-bis of Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) in the Corporate Governance Report and Shareholding Structure, as required by law. For this purpose, we have performed the procedures required under Auditing Standard 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by CONSOB. In our opinion, the Directors' Report and the information reported therein in compliance with art. 123-bis of Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2), letter b) included in the Corporate Governance Report and Shareholding Structure, are consistent with the consolidated financial statements of the Saipem Group as of December 31, 2010.

Milan, March 29, 2011

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

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saipem

saipem Società per Azioni
Capital Stock €441,410,900 fully paid
Tax identification number and Milan Companies'
Register No. 00825790157

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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)

Sustainability Report (in English)

Also available on Saipem's website:
www.saipem.com

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