Financial Report at December 31, **2006**

MISSION STATEMENT

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

OUR CORE VALUES

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

Countries in which Saipem operates

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

AMERICAS
Argentina, Brazil, Canada, Dominican Republic, Ecuador, Mexico, Peru, United States, Venezuela

CSI
Azerbaijan, Georgia, Kazakhstan, Russia, Turkmenistan

AFRICA
Algeria, Angola, Cameroon, Congo, Egypt, Gabon, Ivory Coast, Libya, Morocco, Nigeria, Tunisia

MIDDLE EAST
Iran, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates

FAR EAST AND OCEANIA
Australia, China, India, Indonesia, Malaysia, Singapore, Thailand

Following the acquisition of Snamprogetti, the Saipem Group is organised into three Business Units: Offshore, Onshore and Drilling. The former LNG business unit is now part of the Onshore unit, whilst Leased FPSO is now part of the Offshore unit. MMO has been partitioned into the Onshore and Offshore business units. For each of these business units, the information provided includes main financial data to operating profit level. Information pertaining to the Drilling Business unit has been subdivided into Offshore Drilling and Onshore Drilling.
With regard to the provisions of IAS 14 'Segment Reporting', the segments presented have been reduced from seven to four. This method of collation complies with IAS 14 'Segment Reporting' both in terms of adherence to the new internal organisation (paragraph 14.27) and the relevance of aggregated segments (paragraph 14.36). Figures relating to the corresponding periods 2005 have been reclassified accordingly (paragraph 14.43).

Financial Report at December 31, **2006**

Ordinary and Extraordinary Shareholders' Meeting of April 30, 2007

Notice of Shareholders' Meeting was published in the daily newspapers Il Sole 24 Ore, Corriere della Sera and La Repubblica on March 29, 2007

Saipem Group consolidated financial report

Pietro Franco Tali
Chairman

Hugh James O'Donnell
Managing Director

Jacques Yves Léost
Director of Saipem SpA and Chairman of Saipem sa

Angelo Caridi
Director of Saipem SpA and Managing Director of Snamprogetti SpA

Letter to the Shareholders

Messrs. Shareholders,

in 2006 your Company achieved record results, income and new contract acquisitions.
Following the acquisition of Snamprogetti, the entire Group structure was reviewed, with particular emphasis placed on engineering competencies, now organised in three main hubs: Milan, Paris and Fano, and streamlining business operations, now divided into three business units: Onshore, Offshore and Drilling.
The integration with Snamprogetti is all but complete, with engineering and project management competencies enhanced and strengthened.
Operational activities focused on the execution of various turnkey projects both in the offshore and onshore sectors, some of which extremely large, and the supply of specialised services.
The level of operational efficiency achieved has placed your Company, once again, at the top of its industry. In terms of safety the LTIFR (Lost Time Injury Frequency Rate) index stood at 0.84 (1.21 in 2005) and the TRIFR (Total Recordable Incident Frequency Rate) index was equal to 2.34 (4.70 in 2005).

Operational successes were accompanied by new contract acquisitions amounting to €7.8 billion (€4.7 billion in 2005) by Saipem stand-alone, plus €3.2 billion worth of new contracts awarded to Snamprogetti. The total new contracts awarded to the Group in 2006 amounted therefore to €11 billion.
The backlog at December 31, 2006, inclusive of Snamprogetti, totalled €13 billion.
Revenues for Saipem stand-alone amounted to €5.2 billion (€4.5 billion in 2005), operating profit stood at €504 million (€365 million in 2005) and net profit reached €337 million (€255 million in 2005); Snamprogetti's revenue contribution over the nine-month period of consolidation amounted to €2.3 billion, operating profit to €95 million and net profit to €47 million.
In 2006, the Saipem Group as a whole achieved revenues of €7.5 billion, operating profit of €599 million and net profit of €384 million.

Revenues and margin distribution across the various business units of your Company are as follows: the onshore sector accounted for 49% of revenues and 27%

of margins; the offshore sector generated 43% of revenues and 50% of margins; Drilling accounted for 8% of revenues and 23% of margins.
Investments made during the year went on maintenance and upgrading of existing vessels and equipment (€155 million), the construction of project-specific vessels and equipment (€115 million), the strengthening of operational bases/yards in Kazakhstan and West Africa (€48 million); the first phase for the construction of a new semi-submersible deep-reach drilling rig (€55 million), the start of the conversion of two FPSO units, on behalf of Petrobras and Sonangol respectively (€214 million) and investments carried out by Snamprogetti in the second, third and fourth quarters 2006 (€18 million).

Global spending by the oil industry has grown significantly in recent years and is set to increase further in 2007, creating particularly favourable market conditions for contractors.
Your Company is expected to reap the benefits of this trend: in the offshore sector, where it enjoys a long-standing leading position, particularly for complex projects in frontier areas; in the onshore sector, also on account of the distinctive expertise brought by Snamprogetti; and in the Drilling sector, where higher rates have been negotiated on the renewal of several contracts.
The strong overall market performance and Saipem's reliability underpin management's expectations of new contract awards for 2007, so as to further boost the exceptionally high level of backlog achieved at 2006 year end.
With regard to financial performance, revenues for 2007 are expected to exceed €9 billion and net income, before one-off income from disposals, is due to grow by at least 20% versus the record net income achieved in 2006.
Capital expenditure for 2007 is estimated at approximately €1.2 billion and will include:

- expansion of the fleet: for the Drilling business unit, the construction of a new deep-water semi-submersible drilling vessel (completion is due in third quarter 2009), and a tender barge; for the Offshore business unit, the construction of a new pipelay vessel (completion is due in second quarter 2010), the conclusion of works on FPSO Cidade de Vitoria, and preparation of FPSO Gimboa;
- commencement of development for a new fabrication yard specialising in large offshore structures;

- further expansion of existing yards in Kazakhstan and West Africa;
- construction of new smaller vessels; and
- additional project-specific equipment; maintenance and upgrading of the existing asset base.

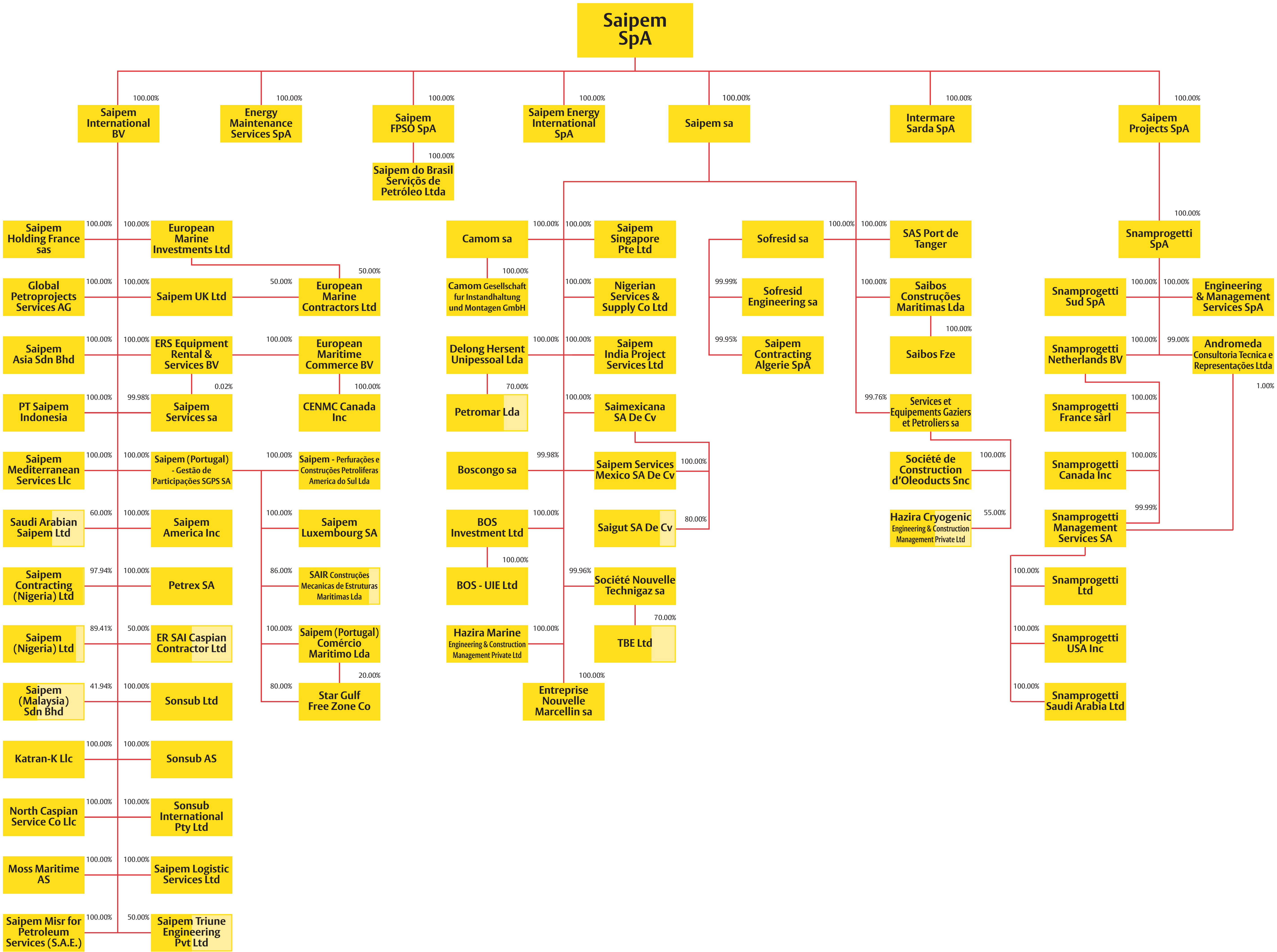
Depreciation and amortisation for 2007 is expected to total around €280 million.
Saipem is planning the disposal of some non-core assets in 2007; the effects of these disposals on the balance sheet, which cannot be quantified at this stage, are expected to be positive.

The Board of Directors, bearing out the policy of distributing approximately one third of the consolidated net income, proposes to the Shareholders' Meeting a dividend of €0.29 per ordinary share and €0.32 per savings share (2005: €0.19 and €0.22 respectively).

On behalf of the Board of Directors

The Chairman Pietro Franco Tali

Saipem is a subsidiary of Eni SpA


Saipem SpA
Saipem International BV 100.00%
Energy Maintenance Services SpA 100.00%
Saipem FPSO SpA 100.00%
Saipem do Brasil Serviços de Petróleo Ltda 100.00%
Saipem Energy International SpA 100.00%
Saipem sa 100.00%
Intermare Sarda SpA 100.00%
Saipem Projects SpA 100.00%
Saipem Holding France sas 100.00%
European Marine Investments Ltd 100.00%
Global Petroprojects Services AG 100.00%
Saipem UK Ltd 100.00%
European Marine Contractors Ltd 50.00% 50.00%
Saipem Asia Sdn Bhd 100.00%
ERS Equipment Rental & Services BV 100.00%
European Maritime Commerce BV 100.00%
PT Saipem Indonesia 100.00%
Saipem Services sa 99.98% 0.02%
CENMC Canada Inc 100.00%
Saipem Mediterranean Services Llc 100.00%
Saipem (Portugal) - Gestão de Participações SGPS SA 100.00%
Saipem - Perfurações e Construções Petroliferas America do Sul Lda 100.00%
Saudi Arabian Saipem Ltd 60.00%
Saipem America Inc 100.00%
Saipem Luxembourg SA 100.00%
Saipem Contracting (Nigeria) Ltd 97.94%
Petrex SA 100.00%
SAIR Construções Mecanicas de Estruturas Maritimas Lda 86.00%
Saipem (Nigeria) Ltd 89.41%
ER SAI Caspian Contractor Ltd 50.00%
Saipem (Portugal) Comércio Maritimo Lda 100.00%
Saipem (Malaysia) Sdn Bhd 41.94%
Sonsub Ltd 100.00%
Star Gulf Free Zone Co 80.00% 20.00%
Katran-K Llc 100.00%
Sonsub AS 100.00%
North Caspian Service Co Llc 100.00%
Sonsub International Pty Ltd 100.00%
Moss Maritime AS 100.00%
Saipem Logistic Services Ltd 100.00%
Saipem Misr for Petroleum Services (S.A.E.) 100.00%
Saipem Triune Engineering Pvt Ltd 50.00%
Camom sa 100.00%
Camom Gesellschaft fur Instandhaltung und Montagen GmbH 100.00%
Saipem Singapore Pte Ltd 100.00%
Nigerian Services & Supply Co Ltd 100.00%
Delong Hersent Unipessoal Lda 100.00%
Petromar Lda 70.00%
Saipem India Project Services Ltd 100.00%
Saimexicana SA De Cv 100.00%
Boscongo sa 99.98%
Saipem Services Mexico SA De Cv 100.00%
BOS Investment Ltd 100.00%
BOS - UIE Ltd 100.00%
Saigut SA De Cv 80.00%
Société Nouvelle Technigaz sa 99.96%
TBE Ltd 70.00%
Hazira Marine Engineering & Construction Management Private Ltd 100.00%
Entreprise Nouvelle Marcellin sa 100.00%
Sofresid sa 100.00%
Sofresid Engineering sa 99.99%
Saipem Contracting Algerie SpA 99.95%
SAS Port de Tanger 100.00%
Saibos Construções Maritimas Lda 100.00%
Saibos Fze 100.00%
Services et Equipements Gaziers et Petroliers sa 99.76%
Société de Construction d'Oleoducts Snc 100.00%
Hazira Cryogenic Engineering & Construction Management Private Ltd 55.00%
Snamprogetti SpA 100.00%
Snamprogetti Sud SpA 100.00%
Engineering & Management Services SpA 100.00%
Snamprogetti Netherlands BV 100.00%
Andromeda Consultoria Tecnica e Representações Ltda 99.00% 1.00%
Snamprogetti France sarl 100.00%
Snamprogetti Canada Inc 100.00%
Snamprogetti Management Services SA 99.99%
Snamprogetti Ltd 100.00%
Snamprogetti USA Inc 100.00%
Snamprogetti Saudi Arabia Ltd 100.00%

Saipem Group structure
(main companies)

Saipem

Directors' Report

Saipem SpA share performance

On December 31, 2006, Saipem's ordinary shares were traded on the Milan Stock Exchange at €19.708. Comparing this to the closing price the previous year, the share increased by 42.9%. In the 2004-2006 period, the share price increased by over 205% and the market capitalisation grew from €2.8 to €8.7 billion. In 2006 the S&P MIB index rose by 16%.

Throughout the year Saipem's share benefited both from the sustained level of investments made by oil companies and, as occurred in 2005, the rise in oil & gas prices, which was due in part to international geo-political tension.
The share performance over the first five months of the year was characterised by an almost constant growth, assisted also by the acquisition of Snamprogetti (finalised on March 27, 2006), which enabled Saipem to offer a complete range of services to its clients.
In this period, the share price reached an all-time high of €21.14. A correction in the market between May and September saw the share softening to below €16; however, in the last quarter, a steady rise saw the share price stabilising just below the 20-euro threshold once again.

Share liquidity increased during 2006, with an average daily trade of 3.8 million shares (up 20% versus 2005) and a trade over the entire year of approximately 950 million shares, exceeding by far the 811 million recorded in 2005, with a total value of €16,900 million, versus €9,300 million in 2005.

Savings shares, which represent a very limited number (159,101) and are convertible at par with ordinary shares, closed the year, in line with ordinary shares, at €19.62, an increase of 31% versus the 2005 year-end quotation. Volumes traded were minimal.

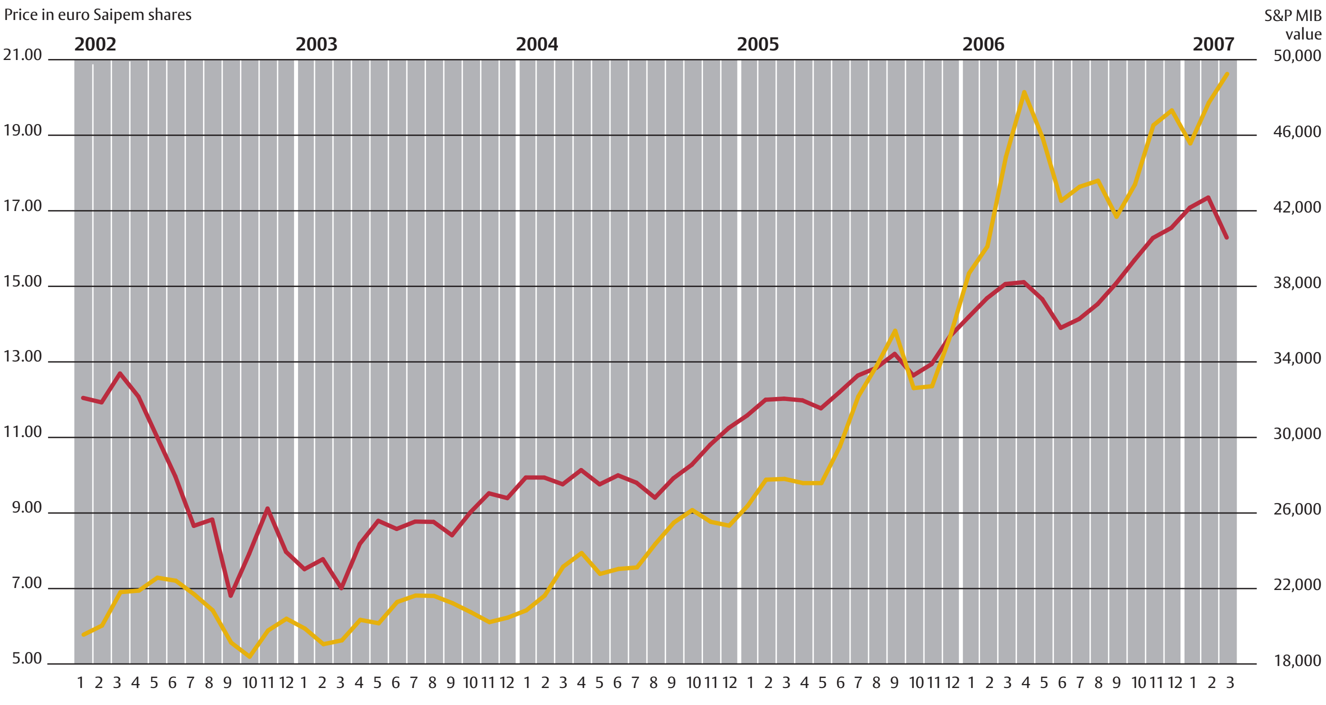
On May 22, 2006, a dividend of €0.19 per ordinary share (€0.15 per share in 2005) and €0.22 per savings share (€0.18 in 2005) was distributed to shareholders.

Stock exchange data and indices		Dec. 31, 2002	Dec. 31, 2003	Dec. 31, 2004	Dec. 31, 2005	**Dec. 31, 2006**
Share capital	(€)	440,697,000	440,713,700	441,177,500	441,410,900	**441,410,900**
Ordinary shares		440,482,732	440,499,432	440,987,734	441,239,414	**441,251,799**
Savings shares		214,268	214,268	189,766	171,486	**159,101**
Market capitalisation	(€ million)	2,821	2,847	3,909	6,087	**8,699**
Gross dividend per share:						
- ordinary shares	(€)	0.144	0.148	0.150	0.190	**0.290** (1)
- savings shares	(€)	0.174	0.178	0.180	0.220	**0.320** (1)
Price/earning ratio per share: (2)						
- ordinary shares		14.88	14.68	19.84	23.87	**22.65**
- savings shares		16.72	15.86	19.57	25.97	**22.55**
Price/cash flow ratio per share: (2)						
- ordinary shares		6.34	6.27	8.94	13.41	**14.17**
- savings shares		7.12	6.77	8.82	14.58	**14.11**

(1) To be approved by the Shareholders' Meeting to be held on April 28 or 30, 2007, first and second summons respectively.
(2) Figures pertain to the consolidated financial statements.

Share prices on the Milan Stock Exchange	(€)	2002	2003	2004	2005	**2006**
Ordinary shares:						
- maximum		7.66	7.31	9.42	14.34	**21.14**
- minimum		4.68	5.24	6.16	8.69	**13.79**
- average		6.41	6.30	7.93	11.40	**17.85**
- year-end		6.40	6.46	8.86	13.79	**19.71**
Savings shares:						
- maximum		13.71	7.48	9.45	15.52	**21.50**
- minimum		5.05	5.80	6.60	8.74	**14.42**
- average		7.38	6.71	8.14	11.95	**18.24**
- year-end		7.19	6.98	8.74	15.00	**19.62**

Saipem and S&P MIB - Average monthly prices January 2002-March 2007



Glossary

FINANCIAL TERMS

Contribution from operations Operating profit before general and administrative expenses.

IFRS International Financial Reporting Standards issued by IASB (International Accounting Standards Board) and adopted by the European Commission. They comprise of: International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), 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 principles issued after May 2003. Principles issued before May 2003 have maintained the denomination IAS.

Leverage The degree to which the company is utilising borrowed money. It is the ratio between net financial debt and shareholders' equity inclusive of minority interest.

ROACE Return on average capital employed. The ratio between net income before minority interest plus after-tax net financial expenses deriving from net financial debt, over average net 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.

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.

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.

Drillship Vessel equipped with self-propulsion system, capable of carrying out drilling operations in deep waters.

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

EPIC (Engineering, Procurement, Installation, Construction) A 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 to the start-up of operations.

Facilities Auxiliary services, structures and installations required to support the main systems.

Flare Tall metal structure used to burn off gas produced by the oil/gas separation in oil fields, when it is not possible to utilise it onsite or ship it elsewhere.

Floatover Type of module installation onto 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.

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.

Hydrocracking (plant) Installation for process separation of large oil molecules.

Hydrotesting Operation involving high pressure (higher than operational pressure) water being pumped into a pipeline to ensure that it is devoid of defects.

Hydrotreating Refining process aimed at improving the characteristics of oil fractions.

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.

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. One tonne of LNG equates to 1,500 cubic metres of gas.

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.

Offshore/Onshore The term offshore indicates a portion of open sea and, by induction, the activities carried out in such area, while onshore refers to land operations.

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 and 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 the water pressure.

Pre-commissioning Comprises pipeline cleaning out and drying.

Pre-drilling template Support structure for a drilling platform.

Pulling Minor operations on oil wells due to maintenance or marginal replacements.

Rig Drilling installation comprising the derrick, the drill deck, which supports the derrick, and ancillary installations that enable the descent, ascent and rotation of the drill unit as well as mud extraction.

Riser Manifold connecting the subsea wellhead to the surface.

ROV (Remotely Operated Vehicle) unmanned vehicle, piloted and powered via umbilical, used for subsea surveys and operations.

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.

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.

Surf facility Pipelines and equipment connecting the well or subsea system to a floating unit.

Template Rigid and modular subsea structure where the oilfield well-heads are located.

Tender assisted drilling unit 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 used 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/Downstream The term upstream relates to exploration and production operations. The term downstream relates to all those operations that follow exploration and production operations in the oil sector.

Vacuum Second stage of oil distillation.

Wellhead Fixed structure separating the well from the outside environment.

Workover Major maintenance operation on a well or replacement of subsea equipment used to transport the oil to the surface.

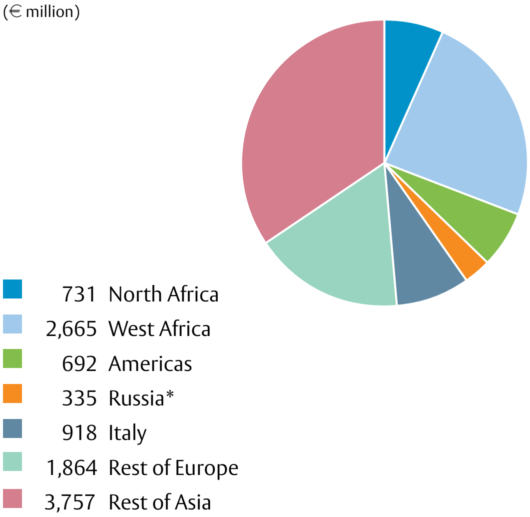
Operating review

NEW CONTRACTS AND BACKLOG

Saipem Group - Contracts awarded to the Saipem Group

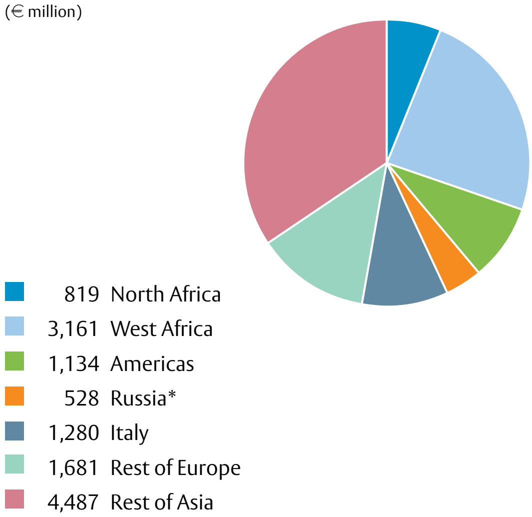
(€ million)	2005		**2006**	
	Amount	%	Amount	%
Saipem SpA	583	12	**2,807**	**26**
Group companies	4,152	88	**8,155**	**74**
Total	**4,735**	**100**	**10,962**	**100**
of which Snamprogetti	-		***3,154***	
Offshore	3,096	65	**3,653**	**34**
Onshore	1,060	22	**4,741**	**43**
Offshore Drilling	367	8	**2,230**	**20**
Onshore Drilling	212	5	**338**	**3**
Total	**4,735**	**100**	**10,962**	**100**
Italy	218	5	**918**	**8**
Abroad	4,517	95	**10,044**	**92**
Total	**4,735**	**100**	**10,962**	**100**
Eni Group	450	10	**2,573**	**23**
Third parties	4,285	90	**8,389**	**77**
Total	**4,735**	**100**	**10,962**	**100**

New contracts by geographical area
(€ million)



(*) Russia includes Kazakhstan and Azerbaijan.

Backlog by geographical area
(€ million)



(*) Russia includes Kazakhstan and Azerbaijan.

New contracts awarded to the Saipem Group in 2006, inclusive of contracts won by Snamprogetti in the last nine months of the year, amounted to €10,962 million. 43% of all contracts awarded are in the Onshore sector, 34% in the Offshore sector, 20% in the Offshore Drilling sector and 3% in the Onshore Drilling sector.
New contracts to be carried out outside Italy make up 92% and contracts awarded by Eni Group companies represented 23% of the overall figure. Finally, orders awarded to the parent company Saipem SpA amounted to 26% of the overall total.

The backlog of the Saipem Group at December 31, 2006 stands at a record level of €13,090 million. Breakdown of activities by sector is as follows: 48% in the Onshore sector, 32% in the Offshore sector, 17% in Onshore Drilling and 3% in the Onshore Drilling sector. 90% of all orders are on behalf of overseas clients, whilst orders from Eni Group companies represent 20% of the overall figure. Finally, the parent company, Saipem SpA accounts for 22% of the total order backlog.

Saipem Group - Order backlog at December 31

(€ million)	2005		2006	
	Amount	%	Amount	%
Saipem SpA	999	18	**2,916**	**22**
Group companies	4,514	82	**10,174**	**78**
Total	**5,513**	**100**	**13,090**	**100**
of which Snamprogetti	-		***5,001***	
Offshore	3,721	68	**4,182**	**32**
Onshore	1,112	20	**6,285**	**48**
Offshore Drilling	382	7	**2,247**	**17**
Onshore Drilling	298	5	**376**	**3**
Total	**5,513**	**100**	**13,090**	**100**
Italy	21	-	**1,280**	**10**
Abroad	5,492	100	**11,810**	**90**
Total	**5,513**	**100**	**13,090**	**100**
Eni Group	217	4	**2,602**	**20**
Third parties	5,296	96	**10,488**	**80**
Total	**5,513**	**100**	**13,090**	**100**

CAPITAL EXPENDITURE

Capital expenditure in 2006 amounted to €605 million (compared to €355 million in 2005), whilst the acquisition of company interests amounted to €9 million (€7 million in 2005). Investments in vessels and equipment consisted mainly of the following: maintenance and upgrading of the existing asset base (€210 million); investments in vessels and equipment for specific projects, mainly Kashagan and the upgrades to the jack-up Perro Negro 4 (€115 million); capex to strengthen the operating bases/yards in Kazakhstan and West Africa (€48 million); conversion of two tankers into FPSO units, due to operate respectively on Petrobras' Golfinho 2 field in Brazil and on behalf of Sonangol P&P in Angola (€214 million); and investments carried out by Snamprogetti in the second, third and fourth quarters 2006 (€18 million).

The following table provides a breakdown of capital expenditure:

Capital expenditure (€ million)	2005	2006
Breakdown by company		
Saipem SpA	61	**58**
Other Group companies	301	**556**
Total	**362**	**614**
Breakdown by business unit		
Offshore	281	**405**
Onshore	20	**70**
Offshore Drilling	47	**102**
Onshore Drilling	14	**37**
Total	**362**	**614**
Breakdown by nature		
Acquisition of company interests	7	**9**
Technical	262	**391**
FPSO	93	**214**
Total	**362**	**614**

Details of capital expenditure for the individual business units are provided in the paragraphs to follow.

OFFSHORE

The Offshore Business Unit includes the former Offshore Construction, Leased FPSO and the offshore part of MMO. Figures for the corresponding periods 2005 have now been reclassified accordingly.

General overview

The Saipem Group possesses a strong, technologically advanced and highly-versatile fleet in addition to a comprehensive spread of sector-leading engineering and project management expertise.
These unique capabilities and competences, along with a long-standing presence in strategic frontier markets, ensure an industrial model that is particularly well suited to EPIC (Engineering, Procurement, Installation and Construction) projects.
Amongst the semi-submersible fleet equipped with the most advanced state-of-the-art technologies, the vessel most worthy of note is Saipem 7000 thanks to its dynamic positioning system, 14,000-tonne lifting capacity and its 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 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 and a 600-tonne lifting capacity crane, in addition to a vertical pipelaying system able to work in water depths of up to 2,000 metres and the vessel 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 boasts a strong position in the subsea market, operating highly sophisticated and technologically advanced vehicles, such as subsea ROVs (Remotely Operated Vehicles), i.e. purposely-equipped robots, able to carry out complex deep-water pipeline interventions.
Furthermore, Saipem's strengthening of its design expertise in the floating production sector and its ability to manage turnkey projects enabled the Group to successfully market itself as a new operator in the Leased FPSO sector, with a fleet comprising FPSO-Firenze and FPSO-Mystras.

Market conditions

The growth trend in exploration and production spending by the oil majors in recent years increased even further during 2006. Strong confidence in the future of the offshore market has caused contractors to embark on the construction of new vessels, a significant number of which will begin operating in 2007 and 2008. These investments involve mainly vessels that combine lifting and pipelaying capabilities in deep-waters, in addition to the sectors for large-diameter pipe laying and heavy-lifting capacities.
In 2006, the global pipelaying market enjoyed record levels of activity.
Sustained operations in the North Sea spurred world-wide growth both in the small-diameter and large-diameter segments.
Other than the North Sea, the main areas of operations were the Gulf of Mexico, the world's main market for small-diameter pipes, and the Asia-Pacific region, which staged a strong recovery.
Areas that have recorded increased activities compared to previous years are the Middle East and Latin America, thanks to the small-diameter segment, a market that has also grown in West Africa, mostly in deep-waters.
The fixed platform market experienced a certain amount of growth, more pronounced for the segment of structures with medium-low topside weight. The most dynamic geographical area was the Middle East, with a significant share in this segment.
A positive trend was also recorded in the Gulf of Mexico and West Africa, with encouraging prospects also for the medium-term. The segment for heavier structures saw a contraction, ascribed to a long-term declining trend.
In this field, operations in Asia-Pacific have fallen whilst in the North Sea they have been modest.
Subsea installations have recorded very strong growth, especially in the deep-water segment.
The deep-water installation sector has attained record levels, experiencing one of the most dynamic growth phases, with excellent prospects also in the long-term.
Driving areas were West Africa, which established itself as the dominant area at global level, and the US sector of the Gulf of Mexico, whose operations exceeded by far Brazilian offshore activities, which in turn remained unchanged as opposed to the previous year.
Operations for shallow-water installations have recovered from the contraction experienced over the recent years, thanks to the positive performance of the North Sea, an area that accounts for more than half of the world market.
In 2006, FPSO installations at global level, that is both the Lease and Sale FPSOs, have remained stable at the same levels as the previous year. Prospects are extremely positive: new orders have by far exceeded the number of installations carried out, raising the backlog at the end 2006 to an all-time record of 40 units. It is therefore reasonable to expect that, over the next two years, world-wide production capacity, in terms of units, will grow by approximately one third.
The very favourable current market trend is also borne out by an exceptionally high number of speculative orders – i.e. without an existing contract – and the increase in shipyards, in Asia in particular, that are building or converting FPSOs.
Considering all Leased FPSO contracts signed during 2006 and due to begin start installation mainly in 2008, the Asia-Pacific market leads the way in terms of number of contracts, followed by Brazil.

New contracts

The most important contracts awarded to the Saipem Group during 2006 were:
- on behalf of Eni E&P, a contract for the exclusive provision of maintenance services for all offshore oil plants located in Italy; these services, comprising both ordinary and extraordinary maintenance works, will be provided through the first quarter 2012;
- on behalf of Sonangol P&P, the 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;
- on behalf of Burullus Gas Co, an EPIC-type contract for the Phase IV development of the West Delta Deep

Concession, in Egypt, comprising the design, engineering, procurement, construction, installation and commissioning of subsea systems for eight new wells and the expansion of the production system for the Scarab/Saffron and Simiam fields;
- on behalf of CNR International (Olowi) Ltd, the EPIC-type project for the development of the Olowi field in Gabon, comprising three wellhead towers, a support platform, and interconnecting pipelines and umbilicals;
- on behalf of Cabinda Gulf Oil Co, the EPIC-type 'FARM' project in Angola, comprising the modification to the gas combustion and discharge systems in Block 0, which is located off the coast of Cabinda province;
- on behalf of the Chinese Petroleum Corp, the EPIC-type contract for the Taishung/Tungshiao/Tatan pipeline, off the coast of Taiwan, comprising engineering, part procurement, pipelaying, testing and pre-commissioning for a pipeline provided by the client;
- on behalf of Eni Congo SA, the EPIC-type project for the Awa Paloukou facilities, in Congo, comprising engineering, procurement, construction, transport, installation, hook-up and pre-commissioning of the platform, in addition to the laying of an interconnecting pipeline linking the platform to the Djeno terminal;
- on behalf of PTT Public Co Ltd and Trans Thai-Malaysia (Thailand) Ltd, the EPIC-type contract for the new PTT-TTM gasline, in Thailand, comprising engineering, transport and installation of a pipeline provided by the client;
- on behalf of Total Exploration & Production UK, the EPIC-type contract for the Dunbar project, in the British sector of the North Sea, comprising the replacement of an interconnecting pipeline and spools linking the Dunbar and Alwyn platforms;
- on behalf of Maersk Olie og Gas AS, a contract for the Halfdan Northeast Phase 3 Sealines project, in Denmark, comprising the laying of two pipelines and an interconnecting flowline linking three existing platforms;
- on behalf of Devon Energy, a contract in connection with the decommissioning of three platforms in the United States, following the damage caused by Hurricane Rita;
- on behalf of Maersk Olie og Gas AS, the EPC-type contract Halfdan Northeast Phase 3, in Denmark, comprising construction engineering, procurement, construction, testing and commissioning of two jackets, one deck and an interconnecting gangway, in addition to transport and installation of three new platforms;
- on behalf of Companhia Mexilhao do Brasil, the Mexilhao contract in Brazil, comprising the transport and installation of a jacket, piles and topsides for the PMXL-1 platform, as part of the development of the Mexilhao field, in the Santos basin, approximately 140 kilometres offshore the State of San Paolo;
- on behalf of Eni Congo SA, the Ikalou South Fields Development project in Congo, comprising the installation of two platforms, Ikalou & Ikalou Sud, in addition to various interconnecting flowlines and cabling between the newly-installed and existing platforms;
- on behalf of Total Exploration & Production Angola Ltd, the EPIC-type project Block 17 Gas Gathering System, in Angola, comprising engineering, procurement, construction, transport, installation and pre-commissioning of a subsea pipeline, umbilical and associated facilities;
- on behalf of Talisman Energy UK, the EPIC-type project Tweedsmuir Subsea, in the British sector of the North Sea, comprising engineering, procurement, installation and commissioning of various subsea structures.

Capital expenditure

The most significant investments in this sector include:
- the completion of construction works for the new operating base in Kuryk on the shores of the Caspian Sea, in Kazakhstan, due to be used for the fabrication of offshore structures and as a logistical base for operations in the area;
- for the Kashagan project, all activities related to the construction of new flat-keel vessels, suitable for operations in shallow waters;
- the continuation of construction works on the new yard in Soyo, Angola, due to be used for the fabrication of structures and modules for ongoing projects;
- the conversion of the tanker Margaux into an FPSO unit, to be named Cidade de Vitoria, which will operate in Brazil on the Petrobras field Golfinho 2 from early 2007 as part of the nine-year contract, with an option of a further 3 years on behalf of Petrobras;
- the conversion of the tanker Magdaleine into an FPSO unit;
- upgrading and maintenance works to the fleet's main vessels.

Work performed

Activities in 2006 consisted in the laying of approximately 1,514 kilometres of pipelines and the installation of 120,453 tonnes of plant and equipment. Main projects were as follows.

In the Adriatic Sea:
- the installation was completed for the interconnecting pipeline between the **Katarina** and **Marica** platforms on behalf of InAgip;
- various structures were installed and a pipeline laid as part of the **Campagna mare** project on behalf of Eni Exploration & Production, in the Tea, Amalia and Brenda fields.

In Libya, Saipem carried out the following:
- operation and maintenance services were provided on the EPIC project **NC41 Platform (Sabratha)**, completed in December 2005 on behalf of Eni Gas BV. The project comprised the project management, the fabrication of the jacket, accommodation deck and the flare stack. The contract was carried out by a consortium comprising Saipem SpA (leader) and Hyundai Heavy Industries;
- the **Mellitah** project was completed on behalf of Eni Oil. It comprised the installation, utilising the vessel Saipem 3000, of a single buoy mooring and tanker loading facility.

In the Mediterranean Sea, Saipem carried out the following works:
- trenching operations, testing and commissioning are progressing in Sicily on the **Gela** project on behalf of Raffineria di Gela SpA, comprising the design, procurement and installation for the replacement of an existing pipeline;
- the **Temsah North West** project was completed in Egypt on behalf of Petrobel. It comprised transport and installation, utilising the vessel Saipem 3000, of one jacket, one deck and associated piles;
- the first phase of the **Gupco Sealine** project was completed in Egypt on behalf of Gupco. It comprised the installation of new pipeline systems for oil export, utilising the derrick lay barge Crawler. During the second half of the year, preparatory activities and vessel mobilisation were completed for Phase II of the project, comprising installation of risers, spools and various pipelines;
- the project team was mobilised and detail engineering and procurement activities were started for the EPIC-type project **West Delta Deep Concession Phase IV**, on behalf of Burullus Gas Co, in Egypt, comprising design, engineering, procurement, construction, installation and commissioning of subsea systems for the development of eight new wells on the production fields Scarab/Saffron and Simiam. This contract, for the development of a gas field in deep-waters, is the first of its kind to be awarded to Saipem.

In the Far East:
- operations have reached completion on the EPIC-type project **Third Transmission Pipeline** in Thailand on behalf of PTT Public Co Ltd, which comprised engineering, procurement, construction, transport and installation of production facilities (jacket, tripods, flare booms, topsides); pipelaying operations were carried out by the derrick pipelay ship Castoro Otto;
- the **Weizhou Pipeline** project was completed in China on behalf of Offshore Oil Engineering Co. It comprised the installation of three subsea pipelines utilising the trench barge Castoro 10;
- pre-commissioning and commissioning activities have reached completion on the EPIC-type **Lamma** project on behalf of Hong Kong Electric Co Ltd. Offshore works were carried out by the trench barge Castoro 10;
- installation operations were completed on the EPIC-type **Sakhalin II Pipelines** project, in Russia, on behalf of Sakhalin Energy Investment Co Ltd (SEIC), comprising engineering, procurement, installation and construction of a pipeline system connecting the Lunskoye and Piltun-Astkhskoye platforms to the island of Sakhalin; working on site were the semi-submersible pipelay vessel Semac 1 and the trench barge Castoro 10; the pipelines were handed-over to the client, whilst flowline tie-in operations are currently ongoing;
- works are progressing for the **Sakhalin II Topsides** project, in Russia, on behalf of Samsung Heavy Industries, comprising the transport and installation of topsides for the Lunskoye and Piltun-Astkhskoye B platforms, the latter being the largest platform ever installed using the float-over method by the derrick pipelay ship Castoro Otto;
- engineering, procurement and construction activities were completed on two EPIC-type contracts as part of the **Tangguh LNG Project** in Indonesia on behalf of BP Berau Ltd, comprising engineering, procurement, construction and installation of two platforms and two subsea pipelines. The two platforms were transported to site and installed by the derrick pipelay ship Castoro Otto, whilst the laying of the first pipeline and onshore works are still ongoing;

- detail engineering and procurement activities were completed on the **Thai Oil** project on behalf of Thai Oil Public Co Ltd; this EPIC-type contract comprises the construction of oil offloading facilities for the Sri Racha refinery in the Gulf of Siam. The contract comprises engineering, procurement, construction, installation and commissioning of a buoy mooring system, a subsea pipeline and associated shore facilities.

Still in the Far East, operations have started on four new projects awarded to the Group during 2006:
- on behalf of Chinese Petroleum Corp, engineering and procurement activities are ongoing for the **Taishung/Tungshiao/Tatan pipeline** project, off the Taiwanese Coast, comprising engineering, part of the procurement, pipelaying, testing and pre-commissioning for a pipeline provided by the client;
- on behalf of PTT Public Co Ltd , the **PTT-TTM New Gasline** project in Thailand, comprising engineering, transport, installation, pre-commissioning and commissioning of a pipeline provided by the client. Engineering and procurement activities were completed, whilst laying operations have begun utilising the semi-submersible pipelay vessel Semac 1 and the trench barge Castoro 10;
- on behalf of Kencana HL Sdn Bhd, the **Bumi, Bulan & Suriya** project in Malaysia, comprising transport and installation of three wellhead platform, the laying of three pipelines and installation of a gas compression module onto an existing platform; engineering activities are currently ongoing;
- on behalf of Offshore Oil Engineering Co Ltd, engineering activities are progressing on the **Wenchang Oil Field Development** project, in China, for the installation of two pipelines.

In West Africa:
- testing and commissioning activities were completed as part of the EPIC-type project **East Area EPC2** on behalf of ExxonMobil in Nigeria; the project comprised engineering, procurement, construction and installation of three platforms, in addition to the laying of subsea pipelines. The project was carried out utilising the derrick pipelay vessel Saipem 3000 and the work lay barges Saibos 230 and S355;
- installation of the jacket of the **Amenam 2** platform was successfully completed in 2005 on behalf of Elf Petroleum Nigeria Ltd; fabrication and installation of the deck which were completed utilising the float-over method; and fabrication of the interconnecting bridge has been completed between the new platform and an existing platform, utilising the derrick pipelay vessel Saipem 3000. Hook-up completion and commissioning works are due to be closed out in the first half 2007. This EPIC-type project is being carried out in joint venture with Technip-Coflexip;
- operations were completed on the EPIC-type project **Erha**, on behalf of ExxonMobil, involving the engineering, procurement, construction, transport and commissioning of an FPSO installation on the Erha field in Nigeria;
- the final phase of topsides hook-up and commissioning has reached completion on the EPIC-type project **Yoho** in Nigeria, on behalf of ExxonMobil, involving project management, engineering, procurement, construction, transport, installation and commissioning of the Yoho platform;
- topsides installation and commissioning are progressing for the EPIC-type **Dalia** project on behalf of Total Exploration & Production Angola, in Angola, comprising engineering, procurement, construction and assembly of the topsides for the FPSO system due to operate on the Dalia field. The contract was awarded in joint venture with Technip-Coflexip, Stolt Offshore and the Korean companies Samsung HI and DSME;
- the EPIC-type **West Espoir** project was completed on behalf of CNR International (Côte d'Ivoire) sarl in the Ivory Coast; the project comprised engineering, procurement, construction, commissioning, transport and installation of a wellhead and associated facilities, in addition to three flowlines and risers, connecting spools and trunklines;
- pipelaying operations were completed, utilising the vessel Saibos FDS, and the riser was installed. The second phase got underway for the EPIC-type **Rosa Surf** project on behalf of Total Exploration & Production Angola, in Angola, comprising engineering, procurement, construction, installation and commissioning of subsea pipelines, umbilicals and risers at water depths of approximately 1,400 metres. These works will facilitate the tie-back of the Rosa field to the Girassol FPSO;
- installation and shallow-water pipelaying operations were completed by the work lay barge S355, as part of the EPIC-type contract **AKPO** in Nigeria on behalf of Total Upstream Nigeria Ltd, comprising engineering, procurement, construction, installation and commissioning of subsea pipelines, umbilicals and risers, in addition to the construction of an oil offloading system, the installation of an FPSO mooring system and the laying of a gas pipeline between the FPSO and the Amenam AMP2 platform;

- engineering, procurement and construction activities started as part of the EPIC-type **Awa Paloukou** project, on behalf of Eni Congo SA in Congo, comprising engineering, procurement, construction, transport, installation, hook-up and pre-commissioning of the platform, in addition to the laying of an interconnecting pipeline linking the platform to the Djeno terminal;
- engineering, procurement and construction activities started as part of the **Ikalou South Fields Development** project, on behalf of Eni Congo SA, in Congo, comprising installation of two platforms, Ikalou & Ikalou South, and various flowlines and cabling connecting the newly-installed pipelines to the existing ones;
- engineering, procurement and construction activities are ongoing as part of the EPIC-type **Marimba** project, for the development of the Marimba oil field on behalf of Esso Exploration Angola Ltd, in Block 15 off the coast of Angola. The contract comprises engineering, procurement, construction and installation of subsea pipelines at depths of approximately 1,200 metres, linking the Marimba field to the existing facilities of the Kizomba A field;
- engineering, procurement and construction activities are ongoing on the EPIC-type **Block 17 Gas Gathering System** project, on behalf of Total Exploration & Production Angola Ltd, in Angola, comprising engineering, procurement, construction, transport, installation and pre-commissioning of a subsea pipeline, umbilical and associated facilities aimed at developing a connection network between the Dalia and Girassol fields.

In the North Sea, Saipem carried out the following works utilising the vessel Saipem 7000:

- various structures were installed as part of the **Buzzard Platform** project on behalf of Nexen in the British sector; the project comprises the transport and installation of three jackets, two decks, a wellhead deck and two interconnecting gangways;
- umbilicals and the production modules were installed as part of the **Buzzard Sealine** project on behalf of Nexen in the British sector; the project comprises the construction of subsea structures for a twin pipeline system.

Again in the North Sea, Saipem continued preparatory works for installation and various other operations, for which the vessel Saipem 7000 was utilised in the second half 2006, on the following projects:

- the **Frigg and MCP-01 Decommissioning** project on behalf of AKOP (Aker Kvaerner Offshore Partners), comprising the removal and transport of a jacket and seven platforms on the Frigg and MCP-01 gas fields, in the North Sea;
- the **Ormen Lange** project on behalf of Norsk Hydro in the Norwegian sector, comprising transport and installation of two subsea pipelines at depths of approximately 900 metres;
- the **Skinfaks/Rimfaks** project on behalf of Statoil, in the Norwegian sector, comprising transport and installation of two subsea pipelines, umbilicals, spools and other subsea facilities.

In the North Sea, utilising the vessel Castoro Sei, the laying of a pipeline was successfully completed as part of the **Gas Unie** project on behalf of BBL Co (a partnership between Gasunie, E.ON Ruhrgas and Fluxys), comprising the laying of a pipeline to transport gas from Balgzand in the Netherlands to Bacton in the United Kingdom.

Moreover, operations are also ongoing on the following projects:

- the **Tweedsmuir** project on behalf of Talisman Energy UK, in the British sector of the North Sea, comprising the laying of a pipeline and a pipe-in-pipe flowline for a piggy-backed gas pipeline. Installation of facilities started in the second half 2006 utilising Castoro Sei;
- **Colomba E Water Injection**, on behalf of Canadian Natural Resources, in the British sector of the North Sea, comprising installation, trenching and tie-in of an umbilical connecting the Colomba E well to the topsides on the Ninian South platform;
- the EPIC-type **Dunbar** project, on behalf of Total Exploration & Production UK in the British sector of the North Sea, comprising the replacement of an interconnecting pipeline and spools linking the Dunbar and Alwyn platforms;
- the **Halfdan Northeast Phase 3** project, on behalf of Maersk Olie og Gas AS, in Denmark, comprising construction engineering, procurement, construction, testing and commissioning of two jackets, one deck and an interconnecting gangway.

On behalf of AIOC (Azerbaijan International Operating Co), activities involving the construction, transport and installation of various structures continued as part of the development of the **Azeri-Chirag-Gunashli** field, comprising three separate contracts and involving the construction of six jackets, three templates and piles in addition to transport and installation of five drilling templates, four drilling platforms and two production platforms.

In Kazakhstan, on behalf of Agip KCO, as part of the programme for the development of the Kashagan field in the Kazakh waters of the Caspian Sea:
- engineering and procurement activities as well as onshore and offshore pipelaying operations have progressed as part of the **Kashagan Trunkline and Production Flowlines** project. The contract comprises engineering, procurement of materials, coating, laying and commissioning of pipelines, fibreoptic cables and umbilicals. The pipe is to be supplied by the client;
- engineering and procurement activities were completed and installation operations were started utilising the construction barge Ersai 1 and other support vessels as part of the **Kashagan Piles and Flares** project. The contract comprises construction, assembly, transport and installation of piles and flares in addition to sixteen barges to accommodate plant modules; the scope of works also includes the procurement, fabrication and installation of associated mooring and protection structures.

On behalf of Dolphin Energy Ltd, installation operations were completed and testing activities were started as part of the EPIC-type **Dolphin** project in Qatar, comprising engineering, procurement, transport and installation of a gas export pipeline linking Ras Laffan to the onshore terminal of Taweelah (UAE), all associated facilities at Taweelah and two subsea pipelines connecting the platform wellheads to the onshore terminal at Ras Laffan. The export pipeline was laid utilising the pipelay vessel Castoro Sei, whilst the sealine is being laid by the derrick lay barge Castoro II.

On behalf of ExxonMobil Canada, activities were completed on the EPIC-type **Sable Compression Platform** project in Canada, comprising engineering, procurement, construction and installation of a compression platform and associated facilities. Installation was carried out utilising the vessel Saipem 7000. The contract is being carried out in partnership with Daewoo Shipbuilding and Marine Engineering.

On behalf of Pemex Exploracion y Produccion, activities are ongoing on the **Ku-Maloob-Zaap** project, comprising the transport and installation of six platforms as part of the development of the Ku-Maloob-Zaap oil field in Campeche Bay, Mexico.

On behalf of Companhia Mexilhao do Brasil, engineering and installation operations are ongoing as part of the **Mexilhao** contract in Brazil, comprising 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 kilometres off the coast of the State of San Paolo.

The **FPSO - Firenze** carried out production operations on the Aquila 2 and 3 wells, in the southern part of the Adriatic Sea (Italy) until the beginning of April, when it suspended operations to undergo maintenance works.

The **FPSO Mystras** operated continuously throughout the year in Nigeria on the Okono/Okpoho fields, at depths ranging from 60 to 130 metres.

Moreover, during the 2006, **maintenance operations** progressed on behalf of Eni Exploration & Production on their oil and gas production plants in Italy.

Offshore fleet at December 31, 2006

Saipem 7000	Semi-submersible pipelay and dynamically positioned derrick vessel capable of lifting structures of up to 14,000 tonnes and of 'J-laying' pipelines at depths of up to 3,000 metres.
Saibos FDS	Multi-purpose mono-hull dynamically positioned crane and pipelay (J-lay) 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 Otto	Mono-hull derrick pipelay ship capable of laying pipes of up to 60" diameter and lifting structures of up to 2,200 tonnes.
Saipem 3000	Mono-hull, self-propelled D.P. derrick crane ship, capable of laying flexible pipes and umbilicals in deep waters and lifting structures of up to 2,200 tonnes.
Bar Protector	Dynamically positioned dive support vessel used for deep-water diving operations and works on platforms.
Semac 1 (Bar 420)	Semi-submersible pipelay vessel capable of laying large diameter pipes 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 barge capable of burying pipes of up to 60" diameter and laying pipes in shallow waters.
Castoro 12	Shallow-water pipelay barge, capable of laying pipe up to 40" diameter in waters of up to 1.4 metres.
Bos 355	Derrick lay barge capable of laying pipe up to 45" 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.
Saipem Trenching Barge	Post-trenching and back-filling barge for up to 40" diameter pipes in ultra-shallow waters (1.4 metres).
Saibos 230	Work barge equipped with a mobile crane for piling, marine terminals and fixed platforms.
Ersai 1	Technical pontoon 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 1,600 tonnes respectively.
Castoro XI	Heavy-duty cargo barge.
Castoro 9	Cargo barge, for structures of up to 5,000 tonnes.
S42	Cargo barge, for structures of up to 8,000 tonnes.
S44	Launch cargo barge, for structures of up to 30,000 tonnes.
S45	Launch cargo barge, for structures of up to 20,000 tonnes.
Bos 600	Launch cargo barge, for structures of up to 30,000 tonnes.
Saibos 103	Lightweight cargo barge.

ONSHORE

The Onshore Business Unit includes the former Onshore Construction, LNG and the onshore part of MMO business unit.

General overview

The Group's strengths in the Onshore sector are its construction capabilities allied to its engineering and project management competencies, which allow the Group to focus on challenging projects such as the laying of large diameter pipelines and the construction of upstream plants in difficult environments. Following the acquisition of Snamprogetti, a world-leading engineering and construction company, active in the international market for the design and execution of large-scale onshore plants for the production and treatment of hydrocarbons and the monetization of natural gas, Saipem will have a position of primacy at the high-end of the market for the provision of engineering, procurement, project management and construction services for the oil & gas industry, with a strong bias towards especially challenging activities in deep waters and remote areas, with significant technological competence.

The regions in which the Group has a long-term presence and operates consistently are the Arabian Peninsula, Nigeria, Russia and Algeria. The Group is also engaged in Kazakhstan, where it operates in joint

venture with another international contractor. Moreover, the Group operates in Oman and France. Over the last few years, the Saipem Group has strengthened its presence in the LNG sector, focusing mainly in the Mediterranean Sea, in addition to two particularly challenging and demanding projects currently underway in India and China. Additionally, two new projects are starting up in the United States and Mexico.
The Saipem Group has also recently started operating in the maintenance sector, which completes the range of services offered to oil companies. Saipem currently provides services mainly in Western Europe and Russia, in petrochemical plants and refineries, and in West Africa in upstream oil infrastructure.

Market conditions

Global spending in the Onshore sector (upstream, transport and downstream) is expected to grow even further when compared to the already high levels of 2006, boosted as it is by ever-increasing energy demand and consistently high oil & gas prices. Specifically, spending in exploration and production is forecast to increase by 10% in 2007, having already risen by 30% in 2006. Main areas of operations will be the Middle East, the Caspian region, Libya and Algeria. Also, over the next few years, new fields are due to be developed in geographical areas that pose important technological and productive challenges, namely oil sands in Canada and Venezuela.
LNG is the energy source with the highest potential in terms of future growth: technology advancements and consequent lower production and transport costs have brought into play remote gas resources that were until recently deemed beyond development.
The number of new LNG (Liquefied Natural Gas) projects will continue to rise steadily over the next few years. The reasons for the growth in LNG development, alongside an increasing demand in natural gas, are its flexibility, the constant cost reduction thanks to large economies of scale (the capacity of new trains currently under design is almost double that of recent years) and the improved experience of the sector in terms of technology, construction and finance. The cost reduction affecting each link in the production chain (liquefaction, transport and regassification) makes it possible for LNG to be transported over ever increasing distances.
Simultaneously, an increasing number of LNG regassification plants is expected to be constructed close to the large markets in Europe, the United States and Asia: however, the construction of these plants clashes with ever more stringent restrictions of a bureaucratic and environmental nature (obtainment of permits and authorisation, local opposition on environmental grounds), as well as the current shortage of skilled workforce, materials and critical equipment. Strong growth in investments in regassification plants will have a positive impact on the infrastructure sector (maritime works).
Thanks to technological advancements, gas-to-liquids plants (GTL) may become a viable alternative to the development of remote natural gas fields or a diversification in the methods of gas field development in countries that are particularly rich in reserves (Qatar), especially for those final markets that require large quantities of middle distillates (i.e. Europe and Asia). However, these plants are still very costly and their profitability is still strongly dependent on the natural gas price. The critical factor for the future will be the reduction in costs, attainable through experience and technological development.
Natural gas is also the raw material for the synthesis of numerous products (methanol, fertilisers, etc.) which, in specific cases, could represent a valid means to exploitation. These plants will be on a world-wide scale, and will be located in areas where the cost of natural gas is low (Middle East, North and West Africa and Latin America) and/or will experience strong growth in demand (China, Pakistan).
The refinery sector underwent a strong recovery in 2006 and will continue to thrive thanks to a gradual increase in demand and a reduction in the spare capacity, resulting from a scarcity of investment over recent years and the impact of new environmental regulations. Another key element is the progressive change in types of crude oil available on the market, with growing quantities of low-grade, sulphur-rich and very heavy crude oil or oil obtained from the development of tar sands from Canada or Venezuela. Refineries will need to adapt existing plants or build new ones (resid hydro-cracking or coking) to treat increasing quantities of these crudes.
Furthermore, several new refineries for export are planned to be built in areas of high interest for Saipem, namely the Middle East (Kuwait and Saudi Arabia), North Africa, Asia, Asia-Pacific and Latin America. High levels of investment are expected in future years; in 2007, global spending in this sector is estimated to exceed US$ 20 billion.
Production in the chemical and petrochemical sectors will continue to move from areas of consumption (North America and Europe) to areas of low-cost raw materials (Middle East and Africa) or areas of consumption undergoing strong development (China

and India). Over the next few years, high levels of investment are expected to be made in new ethylene plants, and the plastic sector (polyethylene, polypropylene, polystyrene).
The market outlook is also positive for the MMO sector, which will be driven by key factors, namely new and very stringent environmental regulations, the search for improved plant efficiency and installation of new, increasingly complex and sophisticated processes.
The progressive depletion of reserves and the gradual reduction in oil & gas production in traditional western areas (North America and Europe) has resulted in the majority of new investments moving to frontier areas, firstly to the Middle East and subsequently to Russia, the steppes of Kazakhstan and Uzbekistan, Northern Canada and Scandinavia, some areas in Latin America, Nigeria and Northern Australia. These areas are far removed from the markets and traditional labour and material sources. Moreover, they are often inhospitable in terms of climate and/or politically unstable.
The aforementioned factors will continue to pose great challenges for those engineering and construction companies that will operate in remote and dangerous environments.
The staggering economic growth of developing countries and sustained investment in many sectors has further increased the demand, in 2006, for main raw materials (for instance steel and cement), materials in general and the majority of equipment. All this has caused the cost of supplies to rise sharply, resulting in increased costs of investment in new plants versus budget estimates and delayed delivery times. Moreover, the impact of this strong growth in demand in the engineering and construction sector in terms of energy is leading towards a shortage in skilled human resources (services and engineering). This situation could slow down the development of several large projects, which could be postponed, or cause problems during their execution.

New contracts

The most important contracts awarded to the Group during the year include:

- on behalf of Saudi Aramco, the EPC-type Khursaniyah project, in Saudi Arabia, comprising engineering, procurement and construction of a gas-oil separation plant. The contract includes the construction of two gas-oil separation trains in addition to a series of production infrastructure facilities;
- on behalf of Saudi Aramco, the EPC-type contract for the realisation of the gas-oil separation plant (GOSP), as part of the programme for the development of the Khurais oil field in Saudi Arabia, approximately 180 kilometres North-East of Riyadh. The contract comprises the engineering, procurement and construction of four gas-oil separation trains, in addition to a number of production infrastructure facilities;
- on behalf of Shell Petroleum Development Co of Nigeria, the EPC-type Gbaran project, in Nigeria, comprising engineering, procurement and laying of pipelines, flowlines and composite fibre optic and high voltage electrical cables. The contract was won in consortium with Desicon Engineering Ltd;
- on behalf of Canaport Lng, the EPC-type Canaport project, in Canada, comprising design, engineering, construction and commissioning of a regassification terminal, inclusive of auxiliary facilities for gas offloading, pumping, vapourisation and transmission, in addition to two storage tanks. The contract was won in consortium with the Canadian company SNC-Lavalin;
- on behalf of the DBP Group, the EPC-type Alinta Gas project, in Australia, involving phase 5-A of the DBNGP pipeline expansion project, connecting Dampier to Bunbury, crossing North to South-West the State of Western Australia;
- on behalf of Shell Petroleum Development Co of Nigeria, the EPC-type Gbaran Logistic Base project, in Nigeria, comprising engineering, procurement, construction and commissioning of the logistics base for the Gbaran field. The contract was won in consortium with Desicon Engineering Ltd;
- on behalf of Qatar Shell Ltd, the EPC-type 'Pearl' Gas To Liquids (GTL) project in Qatar, for the construction of a waste water treatment plant in the industrial city of Ras Laffan. The contract was won in consortium with the company Al Jaber and the joint venture comprising Saipem and OTV;
- on behalf of NAOC, in Nigeria, the EPC-type OB/OB revamping project, comprising engineering, procurement, break-up, disassembly, construction and commissioning of existing and new facilities at the Obiafu/Obrikom gas treatment plant. The contract was won in consortium with Desicon Engineering Ltd;
- on behalf of Peru Lng, the Melchiorita Lng project in Peru, comprising the construction of a regassification terminal at Pampa Melchiorita, 200 kilometres South of Lima; the contract was acquired in joint venture with Constructora Norberto Odebrecht and in consortium with Jan de Nul NV;
- on behalf of Saudi Aramco, the EPC-type Khurais pipeline project, in Saudi Arabia, comprising

engineering, procurement, construction and commissioning of a pipeline;
- on behalf of Saudi Aramco, the EPC-type Ghawar pipeline project, in Saudi Arabia, comprising engineering, procurement, construction and commissioning of a pipeline.

Capital expenditure

Capital expenditure in the Onshore sector focused mainly on the acquisition and upgrading of plant and equipment necessary for the execution of the projects Gbaran in Nigeria, Sakhalin II in Russia and Khurais in Saudi Arabia, in addition to the purchase of a barge for operations in the swampy regions of West Africa. Moreover, preparatory activities have started on machinery and equipment required to carry out projects awarded to the Group during the year.

Work performed

Onshore activities during the year comprised the laying of 871 kilometres of pipe of various diameters and installation of 5,242 tonnes of equipment.
The most important works are detailed below by geographical area.

In Saudi Arabia, on behalf of Saudi Aramco:
- activities are ongoing on the **EWG-1** project, for the oil to gas conversion of the East-West pipeline which will service the industrial area of Yanbu. The project comprises operations to purge the pipeline of oil, and the construction, installation and commissioning of new sections of pipeline and associated infrastructure;
- activities are progressing on two EPC projects, **Khurais and Ghawar**, in Saudi Arabia, both comprising engineering, procurement, construction and commissioning of a pipeline.

Also in Saudi Arabia, on behalf of Jubail Chemical Industries, the Jana project was completed. It comprised engineering and project management activities for a plant.

In Nigeria, on behalf of NAOC:
- client support activities have been carried out on the **Okpai Power Plant** project, which comprised civil, mechanical and electro-instrumentation works as well as the construction of a combined-cycle power generation plant;
- the EPC-type **GTS-4** project was completed. It comprised engineering, procurement and construction of a pipeline linking Rumuji (30 kilometres North-East of Port Harcourt) to the N-LNG terminal on Bonny island. The pipeline crosses the Niger delta.

Also in Nigeria:
- on behalf of Shell Petroleum Development Co of Nigeria Ltd, the construction phase is progressing on the **Soku Debottlenecking** project, whose scope of works comprises engineering, procurement and construction of a pipeline;
- on behalf of Nigerian Lng in Nigeria, the **GTS 2/4 Slug Catcher** project is progressing, comprising the construction of a slug catcher and a pressure control unit, in addition to inspection and testing of the plant on Bonny Island. The contract was awarded in consortium with Valland International Nigeria Ltd.

In Algeria, on behalf of Sonatrach/Sonelgaz, the EPC-type **Berrouaghia** project for the construction of a gas-fired power station is reaching completion.

In Morocco, on behalf of ASTM (Agence Spéciale Tanger Méditerranée), activities were completed on phases 1 and 2 of the **Tanger Port** project, involving excavation and redevelopment works in the port of Tangiers.

In France:
- construction activities are progressing as part of the **OSBL** project, on behalf of TotalFinaElf, comprising engineering, procurement, construction and commissioning of a refinery;
- on behalf of Gaz de France, construction of the terminal is progressing as part of the **Fos Caveaou** project, comprising engineering, procurement and construction of all facilities for a regassification terminal, including three storage tanks and maritime works.

In Belgium, activities have continued on the **Zeebrugge** project, comprising engineering, procurement and construction of facilities for the extension of a re-gassification terminal, including a storage tank and re-gassification structures.

In the Principality of Monaco, the installation phase is progressing for the **Monaco Port** project entailing the construction of various large structures to be installed in the port of Monaco.

In Russia, installation activities for the **Sakhalin II** project on behalf of Sakhalin Energy Ltd are ongoing. The project comprises offshore and onshore pipelay operations and installation of compression and pumping stations, in addition to a terminal.

Also in Russia, as part of the **Blue Stream** project on behalf of Blue Stream Pipeline Co, the following operations were completed: replacement of the joints on high pressure lines, hydraulic tests, electrical and instrumentation works at the Beregovaya compression station; the station was commissioned and handed over to the client.

In China, on behalf of the consortium CNOOC/BP and other Chinese partners, the construction of a re-gassification terminal has continued as part of the **Guangdong** project.

In Canada, on behalf of Canaport Lng, operations have started on the EPC-type **Canaport** project, comprising design, engineering, construction and commissioning of a re-gassification terminal, inclusive of auxiliary facilities for gas offloading, pumping, vapourisation and transmission, in addition to two storage tanks. The contract is being carried out in consortium with the Canadian company SNC-Lavalin.

In the USA, operations relating to the **Freeport** project are progressing on behalf of Freeport LNG Development LP; the project comprises engineering and procurement of tanks for an LNG re-gassification terminal on the Quintana island in Texas.

In Mexico, installation is underway on the **Costa Azul** project on behalf of BVT LNG, comprising the construction of infrastructure for the mooring and dry-docking of tankers.

In 2006, **plant maintenance** activities have progressed in Europe and in West Africa on behalf of TotalFinaElf. In Russia and Kazakhstan, activities on behalf of Caspian Pipeline Consortium are continuing and maintenance activities are also progressing on the Sakhalin project on behalf of SEIC.

In the April-December period, Snamprogetti SpA, through its subsidiaries has carried out the following works:
In Saudi Arabia on behalf of Saudi Aramco, activities on the following EPC-type projects:

- **Khursaniyah**, comprising engineering, procurement and construction of a gas-oil separation plant. The contract, originally on a ‘cost plus’ basis and converted into a turnkey project during the second quarter, includes the construction of two gas-oil separation trains in addition to a series of production infrastructure facilities;
- **Qurayyah Seawater Treatment Plant**, comprising the expansion of the plant and injection of seawater into the oil fields to support oil production operations. The contract is on a ‘cost plus’ basis but is to be converted into a turnkey project at a later stage;
- **Khurais Utilities and WIPS**, is part of the programme for the realisation of the Khurais complex. The contract is on a ‘cost plus’ basis but is to be converted into a turnkey project at a later stage;
- **Hawiyah**, comprising the construction of a gas treatment plant, which feeds an LNG recovery unit.

In the United Arab Emirates, on behalf of Gasco, operations started on the EPC-type **Ruwais** project, comprising the construction of a fractionation train and the expansion of associated facilities, including the construction of a new loading dock and new refrigerated tanks.

In Nigeria, on behalf of ChevronTexaco, works were carried out on the EPC-type **Escravos** project. The plant will comprise two parallel trains and will utilise Haldor Topsøe technology for the reforming units and Sasol technology for the synthesis units; the contract is being carried out by in a 50-50 joint venture with the American company KBR.

In Morocco, works have started on the EPC-type project for the expansion of the **Samir** refinery, which comprises the construction of a vacuum unit, a hydro-cracking and a hydro-treating unit, in addition to sulphur recovery, amine regeneration, sour water stripper units and the development of existing refinery utilities. The contract is being carried out in consortium with the Turkish company Tekfen.

In Canada, works are progressing on the EPC-type **Horizon Oil Sands** project, on behalf of Canadian Natural Resources, comprising the construction of three hydro-treatment lines; the plant is part of a complex that produces synthetic oil from bitumen obtained from Canadian tar sands. The contract is being carried out in consortium with the Canadian company SNC-Lavalin.

OFFSHORE DRILLING

General overview

During 2006, the Group operated in the Offshore Drilling sector in West and North Africa, the Persian Gulf, Norway, Peru and India. Amongst the Group's fleet, the following vessels are of particular interest: Saipem 10000, capable of working at depths of up to 3,000 metres using its dynamic positioning system; Scarabeo 7, a semi-submersible vessel capable of operating at depths of up to 1,500 metres and 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. Besides Saipem SpA, other Group companies operating in this sector are: Saipem (Nigeria) Ltd, with headquarters in Lagos, presiding over the strategic area of West Africa; Petrex SA, operating in South America; Saudi Arabian Saipem Ltd, operating in the Persian Gulf; and Saipem (Portugal) Comércio Marítimo Sociedade Unipessoal Lda, which manages all drillships, apart from Scarabeo 5, managed directly by Saipem SpA and Perro Negro 4, owned by the newly-incorporated Egyptian company Saipem Misr. Also active in this sector is Sonsub Ltd, supporting operations by providing its remotely operated vehicles (ROVs).

Market conditions

In 2006, the Offshore Drilling market continued a phase of particularly positive growth. Demand registered a

rising trend in all geographical areas, contributing to very high utilisation rates.
Consequently, day-rates, on the rise since 2005, have increased further. This rise embraced all main vessel categories (drillships, semi-submersibles and jack-ups) operating both in deep and shallow waters, across all geographical areas and, in the majority of cases, was very sharp.
The only exception to the day-rate increase was the jack-up sector in the Gulf of Mexico, which is going through a phase of decline due to new regulations and environmental conditions, which have led drilling companies to move some vessels to more remunerative areas (Middle East in particular) to maximise their positive market cycle.
The growing demand together with the determination by oil companies to secure – even at higher costs – drilling vessels that would enable them to keep to their exploration and production schedules, have spurred drilling companies to invest in new vessels, and to upgrade and strengthen existing ones.

New contracts

The most important contracts awarded to the Group during the year include:
- on behalf of Eni Norge, the five-year charter of the under construction, semi-submersible platform, Scarabeo 8 in the North Sea;
- on behalf of Statoil, the forty-nine-month charter of the semi-submersible platform Scarabeo 5 in Norway;
- on behalf of Eni E&P, the three-year charter of the semi-submersible platform Scarabeo 7 in Indonesia;
- on behalf of Addax Petroleum, the twenty-seven month charter of the semi-submersible platform Scarabeo 3 in Nigeria;
- on behalf of Petrobel, the three-year extension to the lease of the jack-up Perro Negro 4 in Egypt;
- on behalf of Eni Exploration & Production, the three-year charter of the drillship Saipem 10000 in various geographical areas from the third quarter 2009;
- on behalf of ExxonMobil, the 16-month extension, following the exercising of an option, for the charter of the semi-submersible platform Scarabeo 7 in Nigeria;
- on behalf of Burullus Gas Co, the two-year charter of the semi-submersible platform Scarabeo 6 in Egypt;
- on behalf of Eni Congo SA, the five-year charter of a tender assisted drilling unit in Congo;
- on behalf of Eni Congo SA, the three-year contract for maintenance and work-over operations to be carried out using equipment owned by the client, in Congo.

Capital expenditure

The most significant items of capital expenditure within the Offshore Drilling sector were:
- expenditure on the construction of the new semi-submersible platform Scarabeo 8, which will operate in Norway on behalf of Eni Norge;
- upgrading works to the jack-up Perro Negro 4 to enable it to carry out a project in Egypt on behalf of Petrobel;
- investments made on the fleet, to ensure compliance with international regulations and to customise vessels to client-specific requirements.

Work performed

Activities in 2006 consisted of the drilling of 75 wells, totalling approximately 126,125 metres drilled.

The deep-water drillship **Saipem 10000** continued operations of behalf of Total Exploration & Production Angola, as part of a two-year contract.

The semi-submersible platform **Scarabeo 3** performed drilling operations off the Nigerian coast on behalf of Addax, as part of a contract that has been extended until April 2008.

The semi-submersible platform **Scarabeo 4** operated in Egypt on behalf of IEOC until August, before being transferred to Libya where is begun operations on behalf of Eni North Africa.

The semi-submersible platform **Scarabeo 5** continued to carry out HP/HT (high pressure /high temperature) operations in Norwegian waters on behalf of Statoil, as part of a contract that has been extended until December 2010.

The semi-submersible platform **Scarabeo 6** continued drilling operations in Egypt as part of a two-year contract on behalf of Burullus Gas Co.

The semi-submersible platform **Scarabeo 7** continued operations on the Erha field in Nigeria, as part of a three-year contract on behalf of ExxonMobil Nigeria.

The jack-up **Perro Negro 2** continued drilling activities in the Persian Gulf on behalf of Saudi Aramco.

The jack-up **Perro Negro 3** continued to perform drilling and workover operations off the coast of India on behalf of GSPC (Gujarat State Petroleum Co), as part of a contract due to end in December 2007.

The jack-up **Perro Negro 4**, having completed preparatory and upgrading works in Sharjah, transferred to Egypt, where it started operations as part of a new three-year contract on behalf of Petrobel.

The jack-up **Perro Negro 5** continued operations as part of a three-year contract in Saudi Arabia on behalf of Saudi Aramco.

The self-lift platform **Shahid Rajaie**, owned by NIDC (National Iranian Drilling Contractor) but managed by Saipem, continued drilling operations in Iranian waters on behalf of Eni Iran BV until the end of May.

The **package 5820** installation continued operations on behalf of Compagnie des Pétroles Total sa, as part of a one-year contract, with two options of a further year each, in Libyan waters.

In Congo, workover and maintenance works continued on the fixed platforms owned by Eni Congo SA as part of a contract that was renewed for a further three years.

In Peru, two rigs, leased on behalf of Petrotech, performed 148 workover and pulling operations, while a tender assisted rig, leased on behalf of BPZ, performed the drilling of one well.

Utilisation of vessels

Utilisation of vessels was as follows:

Vessel	Days under contract
Semi-submersible platform Scarabeo 3	365
Semi-submersible platform Scarabeo 4	365
Semi-submersible platform Scarabeo 5 (*)	350 (a)
Semi-submersible platform Scarabeo 6	346 (a)
Semi-submersible platform Scarabeo 7	358 (a)
Drillship Saipem 10000	365
Jack-up Perro Negro 2	365
Jack-up Perro Negro 3	365
Jack-up Perro Negro 4	26 (b)
Jack-up Perro Negro 5	365

(*) Leased by Saipem SpA.
(a) For the remaining days (to 365), the vessel underwent class reinstatement works.
(b) For the remaining days (to 365), the vessel underwent upgrading works in readiness for a new contract.

ONSHORE DRILLING

General overview

In the Onshore Drilling sector, the Group operates in Italy, Algeria, Egypt, Nigeria, Saudi Arabia, Georgia, Kazakhstan, Turkmenistan, Ecuador, Peru and Venezuela through the parent company as well as Saipem (Nigeria) Ltd, Petrex SA, Saudi Arabian Saipem, Sadco (an Indian company jointly owned and managed with the Indian company Aban Drilling Co) and SaiPar (jointly owned and managed with Parker Drilling Co operating in Kazakhstan).

Market conditions

In 2006, the market has continued to expand in all main geographical areas. Latin America, North Africa and above all the Middle East are the regions that have recorded the sharpest growth (the following countries in particular: Argentina and Venezuela in Latin America, Algeria and Egypt in North Africa and Saudi Arabia in the Middle East).
Growth was more restrained in the Asia-Pacific region, while Europe plateaued at the levels of the previous year, with a slow-down in the declining trend of recent years.
Due to the extremely positive market conditions, main contractors have undertaken the construction of new vessels and/or re-activated existing ones, in line with the ongoing trend in the Offshore Drilling sector.

New contracts

The most significant contracts awarded to the Group include:
- on behalf of PDVSA, the lease of three rigs in Venezuela, one rig for five-years, one rig for one year and one rig for four months;
- on behalf of PDVSA, the five-year lease of a newly constructed rig in Venezuela;
- on behalf of Saudi Aramco, the three-year lease of a rig in Saudi Arabia;
- on behalf of Zhaikmunai, the lease of two rigs in Kazakhstan, one rig for thirty-one months and the other for thirty-six months;
- on behalf of Enirepsa, the lease of a rig in Saudi Arabia, due to perform the drilling of four wells, plus the option of a further two wells; the duration of this contract is approximately two years;
- on behalf of PDVSA, the seventeen-month lease of a rig in Venezuela;
- on behalf of Groupement Sonatrach Agip, the one-year lease of a rig in Algeria;
- on behalf of Agip Oil Ecuador, the six-month lease of a rig in Ecuador;
- on behalf of Groupement Sonatrach Agip, the two-year lease of a rig in Algeria;
- on behalf of Repsol YPF, the lease of two rigs in Algeria, each of a one-year duration;
- on behalf of First Calgary, the two-year lease of a rig in Algeria;
- on behalf of Sonatrach, the two-year lease of a rig in Algeria due to perform workover operations.

Capital expenditure

Capital expenditure in the Onshore Drilling sector included:
- investment for the construction of a new rig due to operate in Venezuela as part of a five-year contract on behalf of PDVSA;
- upgrading works to a rig to enable it to carry out operations in Saudi Arabia on behalf of Enirepsa;
- upgrading and improvement works to rigs and installations, necessary to ensure continuous operational efficiency.

Work performed

Activities comprised the drilling of 236 wells, totalling approximately 602,024 metres drilled.
In **Italy**, onshore drilling operations were performed on behalf of Eni Exploration & Production, utilising two deep-reach drilling and workover rigs.
In particular:
- one deep-reach drilling rig completed workover operations in the Novara area and was transferred to the province of Milan where it started drilling a new well;
- one medium/deep-reach drilling rig completed workover operations in the province of Caltanissetta, Sicily, and in June was transferred to the province of Messina, Sicily where it is currently drilling one well on behalf of Enimed.

Nine rigs have been operating in **Saudi Arabia**: eight rigs as part of a three-year contract with an option of an additional year on behalf of Saudi Aramco. The ninth started drilling operations in September as part of a three-year contract on behalf of Enirepsa.

Five medium/deep-reach rigs are currently operating in **Algeria**. Specifically:
- a rig is operating on behalf of Repsol as part of a contract for the drilling of four wells;
- a drilling rig is operating on behalf of First Calgary Petroleum as part of a contract that was extended until March 2009;
- one rig started drilling operations on behalf of Petrocanada as part of a contract due to expire in April 2007;
- one rig is operating on behalf of Groupement Sonatrach Agip as part of a contract for the drilling of three wells plus the option of a further four wells;
- one rig continues to carry out drilling operations on behalf of ConocoPhillips as part of a contract due to expire in March 2007.

In **Egypt**, an innovative installation continued drilling operations on behalf of Agiba, as part of an eighteen-month contract.

In **South America**:
- a deep-reach drilling rig drilled five wells on behalf of Pluspetrol in the area of Teniente Lopez (Peru);
- a drilling rig drilled three exploration wells on behalf of Pluspetrol in Block 8 of the Amazon Forest (Peru);
- a rig performed drilling operations on thirty-nine wells on behalf of Petrobras Peru in the Talara area (Peru);
- a rig drilled a two exploration wells on behalf of Repsol YPF in the Amazon Forest area (Peru), in addition to two exploration wells on behalf of Petrobras in the Talara area (Peru);
- three rigs drilled thirty-two wells on behalf of PDVSA in the Bare area (Venezuela);

- a rig completed heavy workover operations on behalf of Repsol YPF in the Barinas area (Venezuela) and subsequently started drilling a gas well on behalf of Pluspetrol in the Tiznado & Barbacoas area (Venezuela);
- a new-concept hydraulic installation drilled twenty-three exploration wells on behalf of Eni Dación BV and on behalf of PDVSA in the Dación area (Venezuela);
- a rig drilled three wells on behalf of PDVSA in the Anaco area (Venezuela).

With regard to onshore workover and pulling operations:

- fifty-two pulling and workover operations were carried out in the Trompetero area (Peru) on behalf of Pluspetrol;
- a total of forty-four pulling and workover operations were carried out in the area of Teniente Lopez (Peru) on behalf of Pluspetrol;
- six hundred and twenty two pulling and workover operations were carried out in the Talara area (Peru) on behalf of Petrobras Peru.

In **Kazakhstan**, workover operations continued on behalf of Karachaganak Petroleum Operating (KPO) in the province of Uralsk. In 2006, three rigs were utilised: one chartered from the local company Kazburgas and two owned by the US company Parker.
One medium/deep-reach rig continued drilling operations in the Uralsk province on behalf of Zhaikmunai Llp as part of a contract due to end in December 2009.

After completing preparatory activities, which started in 2005, in the second half 2006, drilling operations began on the 'D' Island project on behalf of Agip KCO in the Northern areas of the **Caspian Sea**, comprising drilling operations lasting approximately five years in Block D of the Kashagan field, to be carried out utilising two rigs owned by the client.

In **Georgia**, a medium/deep-reach rig continued drilling operations of the third and last well, as per contract.

Utilisation of equipment

Onshore drilling activities resulted in an average rig utilisation of 94.3% (90% in 2005). The geographical breakdown is as follows: 13 rigs operated in Peru, 9 in Saudi Arabia, 6 in Venezuela, 2 in Italy, 5 in Algeria, 1 in Egypt, 1 in Kazakhstan, 1 in Georgia, 1 in Ecuador and 1 in Turkmenistan.
Additionally, 5 third-party rigs have been operating in Peru and 3 third-party rigs operated in joint venture with SaiPar in Kazakhstan.
Finally, 1 rig has been operated jointly with third parties in Kazakhstan.

Financial and economic results

As stated in the section 'Basis of presentation', the Consolidated Financial Statements at December 31, 2006 were prepared in compliance with the new International Financial Reporting Standards (IFRS) or International Accounting Standards.

RESULTS OF OPERATIONS

Saipem Group - Income statement

Year 2005	(€ million)	Year 2006 Saipem stand alone	Snamprogetti	Effects of acquisition	Saipem Consolidated	% Ch.
4,528	**Operating revenues**	**5,228**	**2,289**		**7,517**	**66.0**
11	Other revenue and income	9	-	-	**9**	
(3,156)	Purchases, services and other costs	(3,606)	(1,931)	4	**(5,533)**	
(819)	Payroll and related costs	(912)	(257)	5	**(1,164)**	
564	**Gross operating profit**	**719**	**101**	**9**	**829**	**46.9**
(199)	Amortisation, depreciation and write-downs	(215)	(15)	-	**(230)**	
365	**Operating profit**	**504**	**86** (2)	**9**	**599**	**64.1**
(54)	Financial expenses	(77) (1)	(2)	(21)	**(100)**	
24	Income from investments	34	11 (3)	-	**45**	
335	**Profit before income taxes**	**461**	**95**	**(12)**	**544**	**62.4**
(76)	Income taxes	(121)	(40)	4	**(157)**	
259	**Net profit before minority interest**	**340**	**55**	**(8)**	**387**	**49.4**
(4)	Minority interest	(3)	-	-	**(3)**	
255	**Net profit**	**337**	**55**	**(8)**	**384**	**50.6**

(1) Includes €10 million resulting from the application of IAS 39 to contracts whose execution is yet to start.
(2) Includes indemnification amounting to €82 million, recognised by Eni, resulting from the application of the loss indemnity provision included in the Snamprogetti purchase agreement.
(3) Includes indemnification amounting to €7 million, recognised by Eni, resulting from the application of the loss indemnity provision included in the Snamprogetti purchase agreement.

Saipem stand alone
Operating revenues for 2006 amounted to €5,228 million, an increase of €700 million versus 2005, mainly due to greater volumes generated in the Onshore and Offshore sectors.
Gross operating profit amounted to €719 million, a 27.5% increase versus 2005.
Depreciation and amortisation of tangible and intangible assets amounted to €215 million.
Operating profit for 2006 stood at €504 million, a €139 million increase versus 2005, as analysed hereafter under the various business units.
Information pertaining to Snamprogetti is provided under the Onshore business unit.

Saipem consolidated
Net financial expenses increased by €46 million versus 2005, due mainly to higher interest rates and greater average debt associated with the acquisition of Snamprogetti in addition to the distribution of dividends.
Income from investments amounted to €45 million, an increase of €21 million over the previous year.

Profit before income taxes stood at €544 million, a 62.4% increase versus 2005.
Taxes amounted to €157 million, an increase of €81 million versus the previous year, due to an increase in taxable income and a tax rate rising from 23% in 2005 to 29% in 2006.
Net profit reached €384 million, an increase of 51% versus 2005.

Operating profit and costs by destination

Year 2005	(€ million)	Year 2006 Saipem stand alone	Snamprogetti	Effects of acquisition	Saipem Consolidated	% Ch.
4,528	**Operating revenues**	**5,228**	**2,289**		**7,517**	**66.0**
(3,914)	Production costs	(4,446)	(2,111)	8	**(6,549)**	
(57)	Idle costs	(59)	(2)		**(61)**	
(62)	Selling expenses	(78)	(31)		**(109)**	
(7)	Research and development costs	(9)	(14)		**(23)**	
(3)	Other operating income (expenses)	(1)			**(1)**	
485	**Contribution from operations**	**635**	**131**	**8**	**774**	**59.6**
(120)	General and administrative expenses	(131)	(45)	1	**(175)**	
365	**Operating profit**	**504**	**86**	**9**	**599**	**64.1**

In 2006, the Saipem Group stand-alone achieved operating revenues of €5,228 million, an increase of €700 million versus the previous year.
Production costs, which include direct costs of sales and depreciation of vessels and equipment, amounted to €4,446 million (€3,914 million in 2005), an increase of 13.6%, in line with the increase in operations.
Idle/downtime costs rose by €2 million.
Selling expenses of €78 million show a €16 million increase versus the same period the previous year, mainly due to the positive trend experienced by all reference markets.

Research and development costs increased by €2 million.
Contribution from operations increased by 30.9%, reaching €635 million, with profit levels at 12.1%, versus 10.7% in 2005.
General and administrative expenses amounted to €131 million, an increase of €11 million versus 2005, due mainly to the acceleration of the implementation of the integrated SAP package in Kazakhstan and the full-scale operations of the Sarbanes-Oxley Act project.

Analysis by business sector:

Offshore (1)

(€ million)	Year 2005	**Year 2006**
Revenues	2,795	**3,192**
Selling expenses	(2,458)	**(2,784)**
Depreciation and amortisation	(96)	**(108)**
Operating profit	241	**300**

(1) The Offshore Business Unit includes the former Offshore Construction, Leased FPSO and the offshore part of MMO. Figures for the corresponding periods 2005 have now been reclassified accordingly. Data and information for the Offshore Business Unit have not been affected by the acquisition of Snamprogetti.

Revenues for 2006 amounted to €3,192 million, representing a 14% increase compared to 2005, which is mainly due to higher levels of activity in Kazakhstan and Azerbaijan.
Selling expenses, amounting to €2,784 million, increased by 13.2% in line with the rise in volumes during the year.
Depreciation and amortisation increased by €12 million versus 2005, following the conclusion of projects that had required project-specific equipment.
Operating profit for 2006 amounted to €300 million, equal to 9.4% of revenues, versus €241 million, equal to 8.6% of revenues in 2005. This increase in margin is attributable to improved contractual conditions and strong operational performance.

Onshore (1)

(€ million)	Year 2005	Year 2006		
	Saipem stand alone	Saipem stand alone	Snamprogetti	Saipem Consolidated
Revenues	1,221	1,411	2,289	**3,700**
Selling expenses	(1,137)	(1,304)	(2,183)	**(3,487)**
Depreciation and amortisation	(35)	(34)	(15)	**(49)**
Operating profit	49	73	91 (2)	**164**

(1) The Onshore Business Unit includes the former Onshore Construction, LNG and the onshore part of MMO. Figures for the corresponding periods 2005 have now been reclassified accordingly. Data and information for the Onshore Business Unit have been affected by the acquisition of Snamprogetti, whose income statement has been consolidated from April 1, 2006.
(2) Includes indemnification amounting to €82 million, recognised by Eni, resulting from the application of the loss indemnity provision included in the Snamprogetti purchase agreement

Saipem stand alone
Revenues in 2006 amounted to €1,411 million, a 15.6% increase versus 2005, due to the full-scale activity on projects in Mexico and Canada.
The rise in volumes resulted in selling expenses increasing by 14.7%. Conversely, depreciation and amortisation fell by €1 million, equal to 2.9%.
Operating profit in 2006 amounted to €73 million, versus €49 million in 2005, with margins rising from 4% in 2005 to 5.2% in 2006. This increase in margin is attributed to improved operational efficiency and contractual rates.

Snamprogetti
Revenues generated by Snamprogetti in the period April-December 2006 amounted to €2,289 million, largely related to projects under execution in the Middle East and Italy. Operating profit totalled €91 million, with a margin of 4%.

Offshore Drilling

(€ million)	Year 2005	Year 2006
Revenues	302	**365**
Selling expenses	(199)	**(209)**
Depreciation and amortisation	(49)	**(53)**
Operating profit	54	**103**

Revenues for 2006 amounted to €365 million, a 20.9% increase versus 2005, due to increased activities by the drillship Saipem 10000 and the jack-up Perro Negro 5, and higher contractual rates.
Selling expenses increased by 5% versus 2005, in line with the increase in volumes experienced during the period.
Depreciation and amortisation rose by €4 million due to the full-scale operations of vessels, which had undergone preparatory works during the corresponding period 2005.
Operating profit in 2006 amounted to €103 million, versus €54 million of 2005, with margins rising from 17.9% to 28.2%. This growth both in absolute terms and in terms of profitability is due to higher margins on rates and increased utilisation of rigs.

Onshore Drilling

(€ million)	Year 2005	**Year 2006**
Revenues	210	**260**
Selling expenses	(170)	**(208)**
Depreciation and amortisation	(19)	**(20)**
Operating profit	21	**32**

Revenues for 2006 amounted to €260 million, a 23.8% increase versus 2005, due mainly to increased activity in North Africa and Kazakhstan.
The rise in volumes resulted in selling expenses increasing by 22.4% versus the previous year.

Operating profit in 2006 amounted to €32 million, versus €21 million in 2005, with margins rising from 10% to 12.3%. This increase both in absolute terms and in terms of profitability is due to higher margins on rates and increased utilisation of rigs.

CONSOLIDATED BALANCE SHEET AND FINANCIAL POSITION

Saipem Group - Reclassified consolidated balance sheet(1)

The reclassified consolidated balance sheet aggregates the amount of assets and liabilities derived from the statutory balance sheet in accordance with functional criteria which consider the enterprise conventionally divided into the three fundamental areas focusing on resource investments, operations and financing.
Management believes that the reclassified consolidated balance sheet provides useful information in assisting investors to assess the capital structure and to analyse its sources of funds and investments in fixed assets and working capital.
Management uses the reclassified consolidated balance sheet to calculate key ratios such as return on capital employed (ROACE) and the proportion of net borrowings to shareholders' equity (leverage) intended to evaluate whether Saipem's financing structure is sound and well-balanced.

(€ million)		Dec. 31, 2005		**Dec. 31, 2006** (2)
Net tangible assets		1,903		**2,345**
Net intangible assets		837		**849**
		2,740		**3,194**
- Offshore	*1,437*		***1,720***	
- Onshore	*487*		***603***	
- Offshore Drilling	*729*		***776***	
- Onshore Drilling	*87*		***95***	
Financial investments		40		**153**
Non-current assets		**2,780**		**3,347**
Net current assets		**(37)**		**(176)**
Employee termination indemnities		(88)		**(169)**
Capital employed		**2,655**		**3,002**
Saipem shareholders' equity		1,630		**1,581** (3)
Minority interest		13		**4**
Net debt		1,012		**1,417**
Cover		**2,655**		**3,002**
Leverage		**0.62**		**0.90**
Shares issued and outstanding		441,410,900		**441,410,900**

(1) Restatement to the statutory scheme is provided under the section 'Restatement of reclassified balance sheet and income statement to statutory schemes' on page 73.
(2) Includes the effects of the acquisition of Snamprogetti.
(3) Includes a decrease of €442 million, corresponding to the difference between the price paid for Snamprogetti and its net equity at March 31, 2006.

Non-current assets at December 31, 2006 stood at €3,347 million, an increase of €567 million versus December 31, 2005. This increase is attributed to the combination of investments in plant and equipment of €614 million, depreciation and amortisation of €230 million, disposals of €9 million, the consolidation of Snamprogetti of €211 million and the translation effect on financial statements in foreign currencies and other variations of €19 million.

Net current assets decreased by €139 million, going from minus €37 million at the end of 2005 to minus €176 million at December 31, 2006.

Employee termination indemnities amounted to €169 million, an increase of €81 million versus December 31, 2005.

As a result of the above, **capital employed** increased by €347 million, reaching €3,002 million at December 31, 2006, versus €2,655 million at the end of 2005.

Shareholders' equity, inclusive of minority interest, decreased by €58 million, to €1,585 million at December 31, 2006, versus €1,643 million at the end of 2005. This decrease is the result of: the surplus price paid for the acquisition of Snamprogetti (€442 million), dividend distribution (€82 million), treasury shares bought back in order to service the company's incentive schemes (€22 million), the purchase of 50% of the holding in Energy Maintenance Services SpA (€12 million), the stock grant fund and the translation effect and other variations (€39 million) only partially offset by net profit for the period of €387 million and the fair value of hedging operations (Interest Rate Swaps) and exchange rates of €152 million.
The decrease in shareholders' equity together with the increase in net capital employed, determined an increase in **net debt**, which, at December 31, 2006, stood at €1,417 million, versus €1,012 million at December 31, 2005; a rise of €405 million.

Breakdown of net financial debt

(€ million)	Dec. 31, 2005	**Dec. 31, 2006**
Receivables due after one year	-	**(3)**
Payables to banks due after one year	299	**543**
Payables to other financial institutions due after one year	185	**342**
Net medium/long-term financial debt	**484**	**882**
Accounts c/o bank, post and Eni Group finance companies	(868)	**(1,225)**
Cash in hand and cash equivalents	(9)	**(58)**
Current financial receivables for non-operational purposes due within 90 days	-	**(39)**
Marketable securities	-	**(4)**
Other receivables due within one year	(17)	**(45)**
Payables to banks due within one year	125	**176**
Payables to other financial institutions due within one year	1,297	**1,730**
Net short-term financial debt	**528**	**535**
Net financial debt	**1,012**	**1,417**

Assets/liabilities associated to the fair value of derivatives are detailed under Note 6 'Other assets' and Note 17 'Other current liabilities'. Net financial debt includes assets/liabilities relating to the fair value of IRS.

A breakdown by currency of financial liabilities, amounting to €2,791 million, is provided in Note 14 'Short-term financial liabilities' and Note 18 'Long-term financial liabilities and current portion of long-term debt'.

Saipem Group - Reclassified statement of cash flow and variation in net debt [1]

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

(€ million)	2005	2006
Group net income	255	**384**
Third party income	4	**3**
Adjustments to reconcile cash generated from operating income before changes in working capital:		
Depreciation, amortisation and other non-monetary items	204	**253**
Net gains (losses) on sales of assets	-	**(1)**
Dividends, interests, extraordinary income/expenses and income taxes	101	**187**
Cash generated from operating income before variation in working capital	**564**	**826**
Variation in working capital relating to operations	(178)	**(33)**
Dividends, interests, extraordinary income/expenses and income taxes received (paid)	(60)	**(190)**
Net cash flow from operations	**326**	**603**
Investments in tangible and intangible fixed assets	(355)	**(605)**
Investments in acquisition of consolidated companies	(7)	**(9)**
Disposals	3	**9**
Other investments and disposals	-	**4**
Free cash flow	**(33)**	**2**
Net investments related to financing activities	(12)	**(35)**
Variation in financial debt	408	**791**
Buy-back of treasury shares	(30)	**(36)**
Cash flow from capital and reserves	(65)	**(82)**
Variations in scope of consolidation and exchange rate differentials on cash and equivalents	14	**(195)**
NET CASH FLOW	**282**	**445**
Free cash flow	**(33)**	**2**
Buy-back of treasury shares	(30)	**(36)**
Cash flow from capital and reserves	(65)	**(82)**
Exchange rate differentials and other variation concerning net financial debt	(18)	**(289)** [2]
VARIATION IN NET DEBT	**(146)**	**(405)**

(1) Restatement to the statutory scheme is provided under the section 'Restatement of reclassified balance sheet and income statement to statutory schemes' on page 73.
(2) Includes the effects of the acquisition of Snamprogetti, amounting to minus €298 million.

Net cash flow from operations (€603 million), combined with disposals of assets that are no longer functional to operational requirements, fully financed net investments in tangible and intangible fixed assets and acquisition of company interests, generating a free cash flow of €2 million.

Cash flow from share capital and reserves showed a negative balance of €82 million, as a result of the payment of dividends; the buy-back of treasury shares for allocation to the management incentive schemes, generated a negative cash flow of €36 million, the effect on net financial debt, deriving from the

translation of financial statements in foreign currencies, and other variations amounted to minus €289 million, of which €298 million are ascribed to the acquisition of Snamprogetti.
Therefore, net financial debt increased by €405 million. In particular:
Cash generated from operating income before variation in working capital (€826 million) derives from:
- net profit of €387 million, inclusive of third party income of €3 million;
- depreciation and amortisation (€230 million), a variation in employee termination indemnities (€27 million) and a variation in provisions for contingencies (€27 million); conversely, net appreciations had a negative effect (€31 million);
- net losses (gains) on sales of assets had a negative effect (€1 million);
- net financial expenses (€30 million) and income taxes (€157 million).

The increase in working capital related to operations (€33 million) is attributed to greater volumes generated during the year.

Dividends, interest and income tax paid in 2006 (€190 million) comprise mainly of interest payments and financial expenses (€4 million) and payment of taxes (€186 million).
Investments in tangible and intangible assets amounted to €614 million. Details of investments by sector are as follows: Offshore (€405 million), Offshore Drilling (€102 million), Onshore (€70 million) and Onshore Drilling (€37 million).
Additional information concerning capital expenditure can be found in the 'Operating review' section at the beginning of this report.

Cash flow generated by disposals amounted to €9 million.

Research and development

During 2006, all activities focused on Technology Innovation were reorganised following the acquisition of Snamprogetti.
Coordination and guidelines for research and technology development activities are now under the responsibility of the Strategy and Development Department; the latter ensures that projects are consistent with company strategies, presides over the composition and evolution of the technology portfolio and promotes proprietary technologies.
Technology protection, the analysis of the technology environment, and the identification and development of new technological initiatives are the responsibility of three separate hubs:
- the Saipem SpA hub, dedicated to ‘Asset Technology’, i.e. the technological development of company vessels and equipment;
- the Saipem sa hub, specialising in ‘Offshore Technology’, which manages projects focused on meeting clients’ requirements and devising solutions for tenders and negotiations during the commercial phase;
- the Snamprogetti SpA hub, responsible for ‘Onshore Technology’, focusing on the development of know-how and proprietary, process and product technologies.

Research and development operations involved a total financial outlay amounting to €23 million, posted entirely to the income statement.
Five new patent applications have been lodged relating to Assets, three relating to Offshore technologies and four relating to Onshore technologies.

Asset Technology

A new Knowledge Management project was launched to replace the current system with an innovative semantic search engine, which will manage technological data based on conceptual ‘categories’. Moreover, the new system will improve the cooperation of the various company departments through the identification of communities of experts.
A new welding system was commissioned for use on an operational project. Also, new welding heads were successfully tested and a new control system identified for auxiliary systems located in pipelines under construction, which eliminates the need for radioactive sources.
The trenching system for the Kashagan project was completed and commissioned; it comprises the Saipem trenching barge and all associated auxiliary facilities required for pipeline trenching. Moreover, on the same project, all equipment was prepared for the so-called transition zone, an ultra-shallow water area where the pipeline string is towed, onshore tie-in operations occur as well as the trenching and burying of the line. This equipment was used on the project during the summer months.
A new project has begun for the functional set-up and general configuration of a new pipelaying vessel equipped with a dynamic-positioning system; an evaluation of requisites and performance was carried out and the pipelaying system to be used was identified.
Studies are progressing on operations in remote areas and special operations in ultra-deep waters (pipeline abandonment and recovery).
With regard to drilling, studies have progressed as well as technical support activities to operations and commercial tenders; in particular, those relating to riser fatigue, for which a state-of-the-art analysis was completed and the scope of works defined.

Finally, support was provided to the lay-out project for the new semi-submersible drilling rig Scarabeo 8.

Offshore technology

The project for the development of deep-water architectures and technologies, begun in recent years, progressed rapidly during 2006, with the aim of improving solutions for the development of deep-water fields and prepare Saipem for entry into the ultra-deep water market. These activities were supported by clients' interest and financial contribution.
Main areas of activity included:

- subsea station architecture and associated components for water/oil process separation in deep waters (over 1,500 metres) before pumping to an FPSO;
- feasibility studies for the new concept deep-water water/gas/oil process separators to prevent water being pumped back to the FPSO and consequent surface separation;
- new flowline and riser architectures, their numeric simulation and associated methods of fabrication and installation;
- thermal insulation and anti-corrosion technologies.

Activities are also progressing on the development of offshore LNG systems, both in terms of production and terminal facilities. Two solutions are currently under consideration: one relates to shallow water installations and is based on concrete structures; the other targets deep waters and is based on an FSRU or LNG FPSO. Several architectures have already reached maturity and have been proposed in tenders submitted during 2006.
Activities also progressed in the sector of renewable energy sources, with ongoing studies to determine the feasibility of harnessing wave energy and sea currents, in addition to projects relating to offshore wind farm systems, focusing specifically on their support structures and installation methods in order to minimise costs.
Finally, Saipem is also carrying out research studies in the field of CO_2 management, partially financed by public bodies and in conjunction with industrial and academic partners.

Onshore technology

Main technological innovation activities were carried out by Snamprogetti, which in 2006 continued supporting its technological portfolio, as part of various development projects on behalf of Eni.
These innovative projects aim to improve proprietary technologies which have already been marketed, optimising partner/supplier technologies and developing new ones. Moreover, projects were developed to improve tools used in engineering design and the computerisation of work processes. During the year, efforts focused on the identification of technology that can be marketed in the short-term.

In 2006, efforts were focused mainly on development projects for proprietary technologies and projects on behalf of Eni:

- trials reached completion on the demo plant in Freeport (Texas - USA) for the 'Snow' technology – production of monomer styrene, developed jointly with Dow Chemical;
- improvements to the technology for the production of isooctane and ETBE, high-octane components replacing MTBE in high-quality fuel. These new technologies enable the conversion of existing MTBE plants;

- development of the oil upstream sector, especially for heavy oils, through the complete hydro-conversion of residue in distilled form using the innovative Eni Slurry Technology (EST). In 2006, the first phase of testing was successfully completed at the Eni Refining & Marketing demo plant in Taranto, producing 1,200 barrels a day. Trials will continue in 2007;
- high-pressure long-distance transportation of large quantities of natural gas in onshore and deep-water subsea pipelines. The majority of testing was carried out in 2006 at the pilot plant of Perdasdefogu (Sardinia). Trials will be completed in February 2007 and will be followed by blast simulation and other testing.

Quality Assurance, Health, Safety, the Environment and Sustainability

Quality Assurance

Quality Assurance is deemed to be a critical success indicator in the complex market in which Saipem operates. This is one of the reasons why, in 2006, Saipem continued to invest considerable resources to ensure the achievement of company targets, client satisfaction and improvement in the efficiency and effectiveness of internal processes.
In 2006, Saipem continued to focus on satisfying the requirements of its clients, obtaining the International Standard ISO 9001:2000 and improving performance both in terms of technical operations and managerial control.
Activities progressed in 2006 on the development of Quality Management Systems at group companies; positive results were achieved at Petrex SA in Peru, Petromar Lda in Angola, Saipem FPSO in Italy, Saipem Mediterranean Service in Croatia and Saipem America Inc in the United States.
During the year, the Corporate office promoted its guidelines and control measures towards main operative companies, strengthening data gathering and analysis tools, spreading information on lessons-learned and best practices across the Group; this was done through the 'Operating Company Quality Periodical Reporting' and the 'Project Quality Monthly Report' issued for the various Group operating companies.
Also, the integration of procedures and systems for Saipem and Snamprogetti was launched, to capitalise on mutual expertise and potential.
In 2006, activities continued on client satisfaction monitoring for major clients, through the analysis of information gathered at project level, the evaluation of strengths and weaknesses of existing tools and the implementation of preventative and improvement measures.
For all of these projects, efforts relating to Quality played a relevant part and committed Saipem to the continuous coordination and supervision of the work carried out by its numerous subcontractors and suppliers, an effort of global relevance in the Oil & Gas sector.
Moreover, 2006 saw renewed commitment of the entire department towards:

- the consolidation of instruments and methods to control and measure Quality Assurance processes, and analyse reference trends;
- specific training and information sessions, in line with past polices, on issues and methods concerning control, Quality Assurance and management;
- the consolidation of instruments for control and validation, and updating of management and review tools used during the design phase;
- the creation of an IT platform for the storage of engineering documents and the sharing of know-how and lessons learned;
- the consolidation of web-based IT platforms for the management, amendment and automated filing of project documentation;
- the enhancement of the Integrated Management System, to support Corporate policy activities and strengthen knowledge sharing across the Group;
- review of standards and methods for the monitoring of clients' satisfaction;
- continuous monitoring of activities carried out by suppliers with the cooperation of the Procurement Department, utilising newly developed tools to help ascertain whether suppliers comply with minimum quality requirements set by the company;
- supporting the coordination of projects on new vessels;
- the improvement of quality control for drilling projects, by monitoring Key Performance Indicators of operational processes.

Health

In 2006, Saipem confirmed its commitment to maintaining and improving on its Health and Safety Standards. This bears out the importance that the Health Management model holds for Saipem.
Several medical-scientific initiatives have been undertaken, namely the development of IT programs aimed at evaluating and eliminating health risk factors for employees; Health Risk Assessment (HRA), a system that identifies biological, chemical, physical, ergonomic, climatic and psycho-social risks associated with an operational unit or department, with specific emphasis on preventative measures; Medicines Management, a programme that monitors the inventory, consumption and expiry of medicines at the various on-site infirmaries.
A new pilot programme was implemented to reduce cardio-vascular risks. Following the pilot scheme taking place in Milan, and an accurate evaluation of its results, the programme is to be extended to peripheral and operational offices.
To guarantee that the health of employees with chronic conditions is constantly monitored and provide assistance in emergency cases, a tele-cardiology system was implemented at strategic operating sites, which enables the local doctor to obtain advice and support 24*7 from the cardiology centre of excellence in Milan.
Communication remains one of the strategic responsibilities of the medical service. The department has created specific 'Country sheets', containing information (not exclusively of a medical nature) aimed at employees due to work in geographical areas with specific hygiene and/or medical requirements; in 2005, these sheets were handed out together with ad-hoc leaflets, which have been further optimised in 2006.
Monitoring of epidemics was carried out with the support of the world's major medical organisations and ensured that the management was informed about the outbreak or evolution of infectious diseases, through periodical IT medical bulletins.
An increased commitment was made on the prevention of infectious diseases, by means of:
- the capillary vaccination programme, specific to each country and work risk;
- flu vaccination campaigns during the autumn period;
- the Sexually Transmitted Diseases and Malaria Control Programmes, raising the awareness and training personnel at risk to ensure prevention of these diseases.

Following acquisition, the corporate service responding to calls for medical emergencies was extended, to our colleagues in Snamprogetti, who will now be able to phone a dedicated doctor.

Safety

Safety at work is of paramount importance and this is why Saipem dedicates the highest level of importance to ensure the safety of its employees.
Despite strong efforts, a significant number of serious accidents did occur. In 2006, six fatal accidents took place in Peru, China, the United Arab Emirates, Russia, Austria and Italy; two of the fatalities were Saipem employees and four subcontractors' personnel.
For the 2006-2007 safety plan, the following top level safety objective had been identified and approved:
- zero fatal accidents;
- reduction of serious accidents (15% LTIFR/10% TRIFR);
- improvement in the Group's safety culture.

Unfortunately we failed in our first objective; however, we cannot but strive to eliminate fatal accidents.
Saipem believes it can achieve this over the course of the next four years, having set itself the ambitious target of being one of the safest oil & gas contractors in the world by 2010.
With regard to the target for the reduction of serious accidents, data for 2006 (LTI frequency rate = 0.84/TRI frequency rate = 2.34) shows a vast improvement versus 2005 (LTI frequency rate = 1.21/TRI frequency rate = 4.70).
Activities carried out in 2006, which contributed to the partial achievement of targets, include:
- preparation, formalisation and implementation of the Corporate Inspection Plan to take place on site, onboard vessels, on projects and at operating companies;
- addition of two new Corporate Standards: HSE Training and HSE Risk Assessment;
- a contract was signed with a new supplier for technical safety training, targeted specifically at offshore vessels;
- particular attention paid to diving and review of the existing management system with new measures being implemented to improve the vetting and supervision of subcontractors during subsea operations;
- focus on personnel involved in lifting of materials, to ensure that operations comply with the highest safety standards;
- various internal safety training courses aimed at Saipem's new recruits;

- meetings with the most important clients in order to share experiences and objectives;
- Saibos' attainment of OHSAS 18001 certification;
- ISM and OHSAS certifications were maintained at other Group companies;
- development and implementation of the safety management system at ERS-Schiedam and EMS-Congo;
- Saibos' initiatives: rating supervisors onboard vessels by using tailored questionnaires; analysing and evaluating the safety culture onboard vessels;
- preparing and distributing quarterly Corporate Safety Bulletins detailing lesson learned following serious accidents;
- training sessions on accident investigation techniques (i.e. TapRoot).

The Environment

In 2006, Saipem distinguished itself once again for its commitment to protecting the environment: we are aware of the fact that our presence affects the availability of natural resources, that is why we are committed to a strong environmental management system to minimise the potential impact of our operations.
Saipem was awarded important international safety awards in 2006, bearing out the achievement of very high safety standards in environmental protection.
Important upgrading works were made to our vessels operating in the Caspian Sea, which are furnished with technologically-advanced sewage and refuse treatment equipment.
In 2006 several operating companies received renewed ISO 14001 certification, namely Saipem UK, Energy Maintenance Service and PT Saipem Indonesia; a feasibility study was launched to obtain the same certification for the Italian company Intermare Sarda SpA.
With regard to environmental data management, a series of initiatives were undertaken to improve the reliability and accuracy of information. Specifically, surveys were carried out to ascertain if issues existed with regard to data gathering by the software. This also presented the opportunity to provide the necessary support and training to new personnel on methods of environmental accounting and subsequent data utilisation.
Furthermore, all projects involved in environmental accounting were provided with an internal benchmarking system, aimed at analysing data in view of achieving continuous improvement through a direct comparison of environmental performance data from the various operating companies.
In 2006, the integration process was launched for the consolidation into the Saipem Group of environmental data for Snamprogetti operating sites.

Sustainability

The commitment to involve operating companies of the Saipem Group in the sustainability project continued in 2006.
Saipem's approach to local content (both in terms of personnel and procurement of goods and services needed for local operations) and environmental protection was borne out by: (i) the issue of new Sustainability Case Studies for Asia-Pacific, Oman and Angola; (ii) the publication of a document describing a sustainable approach at ER SAI Caspian Contractor Llc; (iii) an analysis from of the long-term social, financial and environmental impact of projects on the island of Sakhalin, in Kazakhstan and in Angola.
To improve environmental accounting activities and subsequent external communication, a work team was created at Saipem Corporate in Milan comprising representatives of QHSE, Human Resources, AFC and Procurement departments. In 2006, this team has strived to identify and share the representative indicators for Saipem's sustainability, from the social, financial and environmental standpoint.
A new Corporate standard will formalise methods and responsibilities of sustainability accounting to allow the identification, by geographical area, of strengths and areas of improvement for operations both at Group and local level.

Human resources

In 2006, activities relating to the management and development of human resources were influenced by the strong growth in the oil & gas market and sustained demand for highly-skilled personnel for the strategic and operational development of this industry. Saipem invested heavily in initiatives aimed at attracting and retaining the most critical resources, both at local and international level, by promoting the company's culture and solid image, developing professional competencies and the personal expertise of individual resources.
Work relating to the HR development was affected by the acquisition of Snamprogetti. Integration plans were first identified and later implemented; these involved the recruitment, training, development and compensation processes and were aimed at sharing common tools and methods within the sector.
Saipem's strategic policy centred on the development of local resources is progressing; the first cycle of initiatives was completed, involving a group of young Kazakh engineers, who, following a course at University of Bologna and intense on-the-job training at Group sites, started full-time employment in the areas of construction, fabrication and HSE. Additional Kazakh engineers were recruited during 2006 to participate in another cycle of initiatives focused on developing local content, with the same training schedule.
The training centre at the ER SAI yard in Kuryk has become fully operational, offering both classroom-based and vocational courses.
In Nigeria, activities are progressing with the selection and recruitment of young local resources.
In support of the Gimboa project in Angola, initiatives were launched to develop local engineers to work in the FPSO sector. These resources have followed a comprehensive training and development programme which assigned them work placements at various Group companies, so as to increase their professional capabilities and to improve their knowledge of Saipem's business. The next phase of their training will take place in India and the United Arab Emirates.
Compensation policies saw large extraordinary investments being made at various foreign companies to improve the level of personnel retention in this period of buoyant international competition. Measures were taken in India, Indonesia, the United Kingdom, Gulf of Mexico, Norway, Nigeria and business units like the Offshore business unit and the Drilling business unit, the latter having been particularly affected by the current market situation and being highly vulnerable to aggressive competitors.
The use of project incentives was promoted to support construction, whose greater complexity posed increasingly challenging technical and operational targets in terms of profitability and logistical environments. The use of this tool contributed to the achievement of very high operational and safety standards for many projects.
The management incentive scheme, although maintaining its base structure, has been reviewed to ensure the balanced development of the compensation package by updating parameters and increasing incentive opportunities.
The application of methods and tools aimed at identifying young talent is progressing at international level.
The recruitment of graduates, carried out with the support of Eni Corporate University, has continued with selective employer branding initiatives towards major Italian Universities, including the University of Aquila, the Milan Polytechnic, the University of Bologna and the University Federico II of Naples; these initiatives aim at promoting the company brand and optimising time-frames and methods of recruitment.
During 2006, Saipem succeeded in achieving its

recruitment target, attracting experienced professionals and engineers despite the critical market climate and strong competition in the engineering sector following the revival in Italy of civil works and, generally, the global boom in the oil & gas sector. On the whole, the number of critical resources who left the company was low when compared to 2005, resulting in a satisfactory turnover ratio, albeit in difficult market conditions.
Specific attention was paid to raising the awareness of the staff to Law Decree 626/1994, with the aim of illustrating the provisions of current legislation in matters of Health and Safety at work, especially for those personnel who have the responsibility of managing other staff.
In 2006, following the acquisition of Snamprogetti, the Organisation department focused its efforts on reviewing the entire organisational structure of the Saipem Group, in order to define the most suitable organisational models to ensure the best possible integration between Saipem and Snamprogetti.
The review and development of new organisational solutions for commercial, operational and engineering processes as well as all support functions have resulted in a comprehensive overhaul of the organisational structure and business mechanisms. Specifically, the need to reorganise and harmonise the new Group led to an assessment of main support processes with a view to centralising certain services and identify those which could be shared by the Group. The following services have been centralised within Saipem: coordination, leadership and control; whereas operative companies have retained responsibility for all activities related to the management of their operational business.
The various segments in which the Group operates also require a tailored organisational approach: centralisation for projects involving large plants and decentralisation for other types of projects.
At international level and consistent with the will to maintain the focus on specific geographical areas of interest to the Group, new positions were created for resident managers in Kazakhstan, Nigeria, Egypt, Rumania, Angola, Congo, India and Asia-Pacific countries: the resident manager is entrusted with representing Saipem both locally and across the business units; this role was created to ensure maximum efficiency of local operations, utilising shared services at country level and also identifying a clear reporting line for the execution of works in the various countries.
The tools for labour cost analysis were expanded, contributing to the consolidation of uniform processes across the Group and improving the efficiency of control and development activities for the various labour components.
The overall workforce of the Saipem Group increased by 5,808 resources on average versus 2005, due to the acquisition of Snamprogetti (3,330 average personnel), the consolidation of the operational phase of the Kashagan project in Kazakhstan and the award of new contracts.
With regard to the review of the Italian personnel qualitative mix, 449 graduates were taken on (196 Saipem and 253 Snamprogetti), 128 of which on a vocational contract (66 Saipem and 62 Snamprogetti); also 357 diploma-qualified personnel were taken on (173 Saipem and 184 Snamprogetti).

(units)	Average workforce 2005	**Average workforce 2006**
Saipem SpA [1]	3,303	**3,492**
Saipem sa [1]	8,145	**8,633**
Other Group companies [2]	11,907	**17,038**
Total	**23,355**	**29,163**
of which Snamprogetti	-	***3,330***
Offshore	8,249	**9,410**
Onshore	9,749	**13,399**
Offshore Drilling	1,055	**1,166**
Onshore Drilling	2,313	**2,755**
Staff positions	1,989	**2,433**
Total	**23,355**	**29,163**
Italian personnel	2,536	**5,397**
French personnel	3,730	**3,742**
Other nationalities	17,089	**20,024**
Total	**23,355**	**29,163**
Italian personnel under open-ended contract	2,280	**4,475**
Italian personnel under fixed-term contract	256	**922**
Total	**2,536**	**5,397**

(units)	Dec. 31, 2005	**Dec. 31, 2006**
Number of engineers	3,684	**6,868**

(1) Includes personnel employed at joint venture companies for the proportion of the quota held.
(2) Includes all personnel of consolidated companies; for those companies consolidated using the proportional method, the personnel number included is equal to the proportion of the consolidated quota.

Sound practices of consolidated industrial relations enabled Saipem to open and successfully complete the following negotiations with national energy, engineering and maritime trade unions:

- the operation for the acquisition of Snamprogetti. Saipem was engaged with the trade unions of the oil & gas sector to ensure adherence to all information requirements set by the National Contract of Employment, the industrial relations system and the Eni protocol on industrial relations;
- negotiations have begun on the renewal of the contract for Master Mariners, Chief Engineers and maritime personnel working onboard special-purpose vessels. This new contract will be effective from 2007 to 2010;
- in October, an agreement was reached with the engineering trade unions and the Trade Union Representatives Organisation of Intermare Sarda, which provided for a 50-hour week from Monday to Thursday during the period September 2006-January 2007, in order to cope with increased activities on ongoing projects at the Arbatax yard in Sardinia;
- meetings were held with the energy sector's national union representatives regarding EMS; a comparison was launched on the regulations and participation in the annual production bonus, in order to identify specific productivity indicators for the maintenance sector;
- at the start of the second half 2006, a supplementary redundancy fund was set up and the reallocation of surplus personnel was completed in the drilling sector. These measures were necessary as a result of the completion of operations by a rig.

At Saipem sa, consistent with corporate guidelines and pursuant to the French labour code, the collective contract 'accord d'intéressement' was signed, based on business development and performance parameters which are calculated annually. Also, the company union representatives were re-elected and an agreement was reached for the management of the reduced-hour timetable set by French legislation at 35 hours per week.

Information technology

In 2006, IT activities centred mainly on the assessment and implementation of the integration project with Snamprogetti for IBIS (Integrated Business Information System) applications. The assessment took place between June and August: synergies were identified as well as the operational best practices in place at Snamprogetti. A project integration team was selected in October 2006, comprising process owners for the main areas involved in the detail analysis at the two companies, with the aim of achieving convergence into the Group system during 2007.
Meanwhile, with regard to applications, many activities were undertaken to integrate ICT structures, benefiting from the synergies that were identified and that have already enabled the reorganisation and sharing, at both companies, of authentication systems for network access and main central applications.
During the year, roll-outs progressed at Group companies and new operational sites. Specifically, the ERP SAP R/3 system was implemented at Saipem Energy Nigeria Ltd, Petromar Lda and Kwanda with activation in January 2007, and at companies in the Kazakhstan area and Egypt.
The personnel management GHRS application was introduced at Saipem Engineering Nigeria, while the FLEXY application was implemented at several Saipem SpA branches and companies in Azerbaijan.
The New BGPE System, a module for the collection of data to use for statutory consolidation at international level, was rolled-out at all Group companies. All activities on the IFRS project were completed: this system manages the implementation of the new International Financial Reporting Standards in the SAP CFM system, handling all functions associated with the hedging of currency risks pursuant to hedge management and accounting regulations.
The IBIS model was enhanced with the implementation of the material tracking support systems (MARIAN) and the project & asset document management system (DOCUMENTUM). The Document System was released at the end of the year.
With regard to our IT infrastructure, the development of the new international network continued with the activation of links to new operative sites and vessels and the expansion of existing sites. Specifically, satellite links were used to connect: the new fleet in the Caspian Sea, the sites of Aktau, Atyrau, Kuryk, Algeri, Hass Massaoud, Bonny Island, Onne Port and Gbaran; and terrestrial links were used to reach Rio de Janerio, Cairo and Singapore.
Finally, the project for the continuous improvement of safety policies and standards has progressed. Their review was boosted by the technical and procedural upgrades set by the ICT department to meet the requirements of the Sarbanes Oxley Act in compliance with the General Computer Control methods. Many operational processes, both in terms of infrastructure and applications, were reviewed to ensure conformity with the control standards that have been identified.

Corporate Governance report

Fair practice

Saipem believes that the creation of value for its shareholders, especially in the medium to long term, should be attained through fair practice towards all its stakeholders, comprising, besides the shareholders; employees, suppliers, clients, commercial and financial partners as well as the communities the Group comes into contact with.
The Board of Directors deems it important to clearly define the values that Saipem recognises and accepts, to identify the responsibilities the company assumes both internally and externally to ensure that all Group activities are carried out in compliance with the law, in fairness, honesty, integrity, correctness and in good faith, respecting the legitimate interests of shareholders, employees, suppliers, clients, commercial and financial partners as well as the communities of those countries in which Saipem operates.
These values are stated in the Code of Practice, which all employees are required to adhere to and whose violations are examined by the Board of Directors, upon notification from the annual report by the Guarantor of the Code of Practice.

Principles
All personnel working for Saipem, without distinction and/or exceptions, are committed to observing and enforcing the following principles, within their own function and responsibilities.
The belief of acting in Saipem's interests cannot in any way justify the adoption of practices contravening these principles.

Business ethics
Saipem's activities, anywhere in the world, are carried out in fairness, honesty and in compliance with the law.
Specifically, Saipem applies the OECD guidelines for multinational companies.

Stakeholders
Saipem is committed to respecting all the stakeholders with whom it interacts in business, as it believes that they are an important asset to the company.

Labour protection and equal opportunities
Saipem respects the universally recognised core labour standards contained in the Fundamental Conventions of ILO (International Labour Organisation); it guarantees the freedom to form a union and the right of collective bargaining; it repudiates any form of forced or juvenile labour and/or discrimination. In addition, Saipem is an equal opportunity employer and guarantees its employees equal treatment based on merit.

Development of professional skills
Saipem values and promotes the development of skills and competencies of each employee in addition to team work, so that energy and creativity of the individual can realise its full potential.

Diversity
Saipem's business conduct is inspired by the respect it affords to cultures, religions, traditions, ethnic diversity and the communities in which it operates, and strives to preserve their biological, environmental, social, cultural and economic identities.

Human rights
Worldwide, Saipem is committed to supporting and respecting the principles contained in the UN Universal Declaration of Human Rights.

Cooperation
Saipem is committed to promoting the quality of life and the social and economic development of the communities in which the Group operates.

Health and safety
Saipem ensures ever-increasing health and safety standards for its employees and the communities in all areas of the world where it operates.

Environmental protection
Saipem is committed to protecting the environment and ecosystems involved in its business operations and strives to achieve the sustainability goals set by the international conventions Italy endorses.

Corporate Governance

The Board of Directors of Saipem SpA, at their meeting of November 9, 2000, resolved to adopt the 'Corporate Governance Code of listed companies' (hereafter Code) and has updated its Corporate Governance to include the amendments made to the Code in July 2002.
The Company is effectively in line with the provisions of the Corporate Governance Code of listed companies issued by the Corporate Governance Committee of listed companies of Borsa Italiana SpA, revision dated March 14, 2006. The Board of Directors, at their meeting of December 14, 2006, resolved to adopt the recommendations contained in the Code and to promptly undertake the necessary actions to comply with those new provisions yet to be implemented by the Company.
In compliance with the guidelines and recent recommendations issued by the Italian Stock Exchange, specifically the 'Annual Corporate Governance report guidelines' of February 12, 2003, information on Saipem's Corporate Governance system is provided hereafter.

Saipem's structure

Saipem's structure is based on the traditional model where the Board of Directors is solely responsible for the company's management, the Board of Statutory Auditors carry out supervisory and control duties and the External Auditors are responsible for auditing the accounts.
The Board of Directors has vested the Managing Director and the Chairman with the power to represent the Company, pursuant to Article 21 of the company's articles of association.
In compliance with the most widely internationally adopted Governance principles, the Board of Directors has set up internal corporate bodies, with consultative and advisory functions.

The Board of Directors: responsibilities, powers, composition, operation and compensation

The Board of Directors is the central body within the Corporate Governance system of Saipem SpA and the Saipem Group. Article 20 of articles of association states that the management of the Company is exclusively the responsibility of the Board of Directors. Article 2365 of the Italian civil code grants the Board the power, normally the responsibility of the Extraordinary Shareholders' Meeting, to resolve on motions concerning:

- merger by incorporation of companies whose shares or stakes are owned entirely by the Company, pursuant to Article 2505 of the Italian civil code;
- merger by incorporation of companies whose shares or stakes are at least 90% (ninety per cent) owned by the Company, pursuant to Article 2505-*bis* of the Italian civil code;
- the proportional de-merger of companies whose shares or stakes are entirely or at least 90% (ninety per cent) owned by the Company, pursuant to Article 2506-*ter* of the Italian civil code;
- transfer of the Company's headquarters within Italy;
- incorporation, transfer and closure of secondary offices;
- share capital decreases in case of shareholder's withdrawals;
- the issue of corporate bonds and other debentures, barring the issue of bonds convertible into Company's shares.

In addition to the powers granted by Article 2381 of the Italian civil code, the Board of Directors is responsible for reviewing and approving the company's long-term strategic plans; it resolves on the most significant economic and financial Company operations, and reviews the most relevant Group industrial and financial operations, specifically, it approves all operations relating to the incorporation of holding companies and branches, the purchase, transfer and sale/financial lease of land and buildings worth in excess of €2,500,000. The Board of Directors is also exclusively responsible for approving contracts for the purchase or sale or goods and services exceeding €1 billion and those whose duration is over 20 years; it defines, based on indications provided by the relevant committee, guidelines for the internal control system and ascertains their adequacy, ensuring that main business risks are identified and properly managed; it reviews and approves the guidelines supporting the company and Group structure ensuring they suit the administrative and accounting model of the Company and strategic subsidiaries; it evaluates the general management and performance of the company, paying particular attention to situations of potential conflict of interests; it is promptly informed by Directors with executive powers regarding: activities within their responsibilities carried out during the year; major operations (having previously set down criteria for their identification); atypical and/or unusual operations or operations with related parties. The Board of Directors approves all motions put forward for approval to the

Shareholders' Meetings; vests Board Directors with particular powers; appoints General Managers and grants them powers; appoints the members of the Audit Committee, the Compensation Committee and the Compliance Committee; approves Corporate Governance procedures; approves the company's management incentive schemes; approves the remuneration of Directors vested with executive powers; approves the Preliminary financial statements, the Budget, the Quarterly and Six-monthly Reports, preliminary results; approves and enters into agency agreements; approves all donations (main subsidiaries and subsidiaries of strategic importance as identified by the Board of Directors are Snamprogetti SpA and Saipem sa).
Pursuant to Article 2391 of the Italian civil code, Directors shall inform the other Directors and the Statutory Auditors of interests they may have, on their own behalf and on behalf of third parties, in any specific Company operation.
The Board of Directors, in compliance with the recommendation contained in the new Corporate Governance Code, utilises a qualified external consultant to carry out an annual review of its size, composition and operation of the Board itself and its Committees.
This year's review, carried out by Egon Zehnder International, has highlighted that, in general terms, Saipem's Board of Directors is ranked at the top of the market with regard to:
- high levels of motivation by Directors in terms of a sense of belonging;
- positive and constructive climate at meetings;
- operational efficiency;
- Board leadership by the Chairman and complementarity with the Managing Director;
- size and composition are deemed adequate.

The Board vested the Chairman with all ordinary and extraordinary powers to manage the Company, except for the undelegable powers and those of the Board itself, and granted the Managing Director the powers to manage the Company's commercial and operational activities.
The Board of Directors, comprising nine Directors, was appointed by the Shareholders' Meeting on April 29, 2005 for three years, its mandate expiring at the Shareholders' Meeting called to approve the Financial statements at December 31, 2007. The appointment of Directors occurs pursuant to Article 19 of articles of association, through voting from a list, so as to allow the appointment of minority interest representatives.
Lists are filed at the Company's registered headquarters at least 20 days prior to the Shareholders' Meeting (first summons) and are published in three national newspapers. It is a matter of procedure for the voting lists to enclose a professional résumé for all candidates. Lists can be presented by Shareholders, who, individually or with others, hold voting shares representing at least 2% of the share capital. Two thirds of Directors are appointed from the list that has obtained the majority of votes. Directors shall meet the honourability requirements prescribed by regulations, possess the professional expertise and experience to carry out their mandate efficiently and effectively and be able to dedicate sufficient time and resources to their offices. Pursuant to Article 1.c.2 of the Code, information regarding offices of Directors or Auditors held by members of the Board of listed companies, financial or insurance companies or companies of considerable size is provided below under 'Offices held by Board Directors'.
Pursuant to items 1.c.2 and 1.c.3 of the Corporate Governance Code, to ensure that Directors can devote enough time to their office, the Chairman proposes the adoption of the following guideline on the number of offices Directors may hold:
- an executive Director shall not hold: i) the office of executive Director in other listed companies, either in Italy or abroad, in financial companies, banks, insurance companies or companies with net equity in excess of €1 billion; and ii) the office of non-executive Director or Statutory Auditor (or member of other control body) in more than three aforementioned companies;
- beside the appointment at this Company, a non-executive Director shall not hold: i) the office of executive Director in more than one of the aforementioned companies and the office of non-executive Director or Statutory Auditor (or member of other control body) in more than three aforementioned companies; and/or ii) the office of non-executive Director or Statutory Auditor in more than six of the aforementioned companies.

Offices held at companies of the same Group are excluded from the limit of cumulation.
Should the aforementioned limits be exceeded, Directors shall immediately inform the Board of Directors, who, after assessing the position and, in light of the Company's interests, shall invite the Director to take the relevant decisions.
The Code recommends that public companies set up a Committee for appointment proposals comprising a majority of non-executive directors, 'specifically when

the Board of Directors notices that Shareholders are finding it difficult to put forward appointment proposals'. This Committee has not been implemented since, as previously stated, it is customary for lists to enclose a professional résumé for all candidates.
The Board comprises the Chairman, Pietro Franco Tali, the Managing Director, Hugh James O'Donnell, and the Directors Francesco Gatti, Angelo Caridi (replacing Roberto Jaquinto from April 29, 2006), Jacques Yves Léost, Marco Mangiagalli, Pierantonio Nebuloni, Gesualdo Pianciamore and Ian Wybrew-Bond.
Francesco Gatti, Pierantonio Nebuloni and Gesualdo Pianciamore have been nominated from the list put forward by institutional investors coordinated by ARCA SGR SpA.
Pietro Franco Tali, Hugh James O'Donnell, Jacques Yves Léost, Marco Mangiagalli, Ian Wybrew-Bond and Angelo Caridi have been nominated from the list put forward by Eni.
The following are executive Directors: Pietro Franco Tali, Hugh James O'Donnell, Angelo Caridi (Managing Director of Snamprogetti SpA) and Jacques Yves Léost (Chairman of Saipem sa).
The Board of Directors, pursuant to the provisions of the Code and the provisions of Law 262/2005, ascertained that the Directors comply with the independence and honourability requirements. Specifically it confirmed as independent four non-executive Directors (Francesco Gatti, Pierantonio Nebuloni, Gesualdo Pianciamore and Ian Wybrew-Bond), based on information provided by the interested parties. They are considered independent following the evaluation carried out by the Board based on the parameters contained in Article 3 of the Corporate Governance Code.
Directors who do not comply with the independence requirement are executive Directors Pietro Franco Tali, Hugh James O'Donnell, Angelo Caridi, Jacques Yves Léost and the non-executive Director Marco Mangiagalli, CFO of Eni SpA.
The Board of Statutory Auditors has checked the correct application of criteria and procedures adopted by the Board of Directors to ascertain the independence of its members.
The Company's articles of association do not specify how often the Board should meet, although Article 21 states it has to occur at least quarterly as follows: 'The Directors inform the Board of Directors and the Board of Statutory Auditors promptly or at least every quarter on Company activities, major economic and financial transactions involving the Company or its subsidiaries; in particular they report those operations in which they have an interest, on behalf of themselves or third parties, or those operations that are subject to the influence of the controlling party'.
In 2006, the Board of Directors met on ten occasions; three meetings have been scheduled to take place in the first half of 2007. The general public is informed of the dates of Board Meetings when periodical statements and reports, required by current legislation, are to be approved.
The Board of Directors sets down the formalities pertaining to the calling of Board Meetings; in particular, meetings are convened by the Chairman, who also prepares the agenda for the meeting, through notices sent by mail, fax or e-mail at least five days prior to the date of the meeting; in exceptional circumstances, notice is sent at least 24 hours prior to the time of the meeting. The articles of association allow for meetings to be held via video-conference link. Directors and Statutory Auditors are provided in advance with documents pertaining to items to be discussed and/or resolved on at the meeting.
In 2006, on average 85% of Board Directors and 75% of independent Directors attended Board Meetings.
Director's remuneration is approved by the Shareholders' Meeting; the remuneration of the Chairman and the Managing Director is set by the Board of Directors at the proposal of the Compensation Committee, having previously conferred with the Statutory Auditors. Pursuant to Consob regulations, the Directors' Report in the Financial statements, i.e. the Notes to the financial statements, contain the following: (i) amounts paid to the Directors, Statutory Auditors, General Managers and senior managers with strategic responsibilities; (ii) number of stock grants and stock options allocated to the Chairman and the Managing Director, General Managers and senior managers with strategic responsibilities; (iii) number of shares held by the Directors, Statutory Auditors, General Managers and senior managers with strategic responsibilities of Saipem and its controlled companies.
The Shareholders' Meeting of April 29, 2005 set at €25,000 the remuneration for each Director for every year of office. Directors are also entitled to €1,000 for attending each meeting of Statutory Boards, in addition to reimbursement of expenses incurred. The Directors do not receive additional compensation for serving on the committees.
The remuneration of the Chairman and the Managing Director, as well as that of the General Manager and senior managers with strategic responsibilities comprises a fixed component, a variable component and a long-term incentive.

The fixed remuneration of the Chairman and the Managing Director is set based on the powers vested in them. The fixed remuneration of the General Manager and senior managers with strategic responsibilities is based on their position and strategic responsibilities, in line with comparable positions in the market of large national and international companies, with annual adjustments based on merit (continuity of individual performance) or promotion (progression of position/responsibilities).
The variable remuneration is paid annually in cash and is linked to the achievement of specific economic, operational and/or strategic objectives and individual targets (for the single business units or departments) set the previous year.
The variable part of the Chairman's and the Managing Director's remuneration is linked to the achievement of company objectives. The variable remuneration paid in 2006 was based on Saipem's targets for the year 2005, approved by the Board of Directors at the proposal of the Compensation Committee.
In 2006, the Board of Directors approved, at the proposal of the Compensation Committee, a new long-term incentive system applicable to senior managers of Saipem, in order to improve the management's motivation and loyalty and set a close correlation between achieved targets/company results and incentives.
The new system, to be applied from 2006 to 2008, comprises a deferred monetary incentive focused on business growth and operational efficiency (replacing the stock grant scheme), and a stock option scheme focused on return on investment for the shareholder, which had been approved by the Shareholders' Meeting of April 28, 2006. This policy is aimed at balancing the monetary and stock-based components of the remuneration package, as well as integrating over the long-term the financial-operational performance with that of the stock. The deferred monetary incentive granted in 2006 will be paid after three years based on the achievement of annual EBITDA targets (actual vs budget results) set for the years 2006-2008. Stock options allocated in 2006 will be eligible for exercise after three years based on the Total Shareholders' Return achieved by Saipem's share versus its competitors, calculated on an annual basis over the years 2006-2008. After every three-year period, the results of long-term incentive schemes will be reviewed by the Compensation Committee and approved by the Board of Directors.

Offices held by Board Directors

Based on the information received, we list hereunder additional directorships or auditor posts held by Saipem's Board Directors in other listed companies, either in Italy or abroad, in financial companies, banks, insurance companies or companies of relevance (Article 1.c.2 of the Code).

MARCO MANGIAGALLI
Board Director of Snam Rete Gas SpA and Polimeri Europa SpA.

GESUALDO PIANCIAMORE
Board Director of Sirefid SpA, Finanziaria Fiduciaria Milano, ESG Compagnia di Riassicurazione Dublino, Assicurazioni Generali Amsterdam, Società Assicurativa La Estrella SA Madrid, Intesa Private Banking SpA.

PIERANTONIO NEBULONI
Management Board Vice-chairman of Management & Capitali SpA.

The Directors' professional résumés are posted on Saipem's website.

Board Committees

In order to carry out its responsibilities more efficiently, the Board has set up two committees: the Audit Committee, comprised exclusively of non-executive independent Board members, and the Compensation Committee, comprising a majority of independent Board members, all of whom are non-executive Directors.
All Audit Committee members are accounts and finance experts.
The Audit Committee comprises Francesco Gatti; Pierantonio Nebuloni and Gesualdo Pianciamore; the Compensation Committee comprises Marco Mangiagalli, Pierantonio Nebuloni and Francesco Gatti.

Audit Committee
The Audit Committee, in compliance with the Board resolution of November 9, 2000, fulfils a preparatory, consultative and propositive role regarding the general management of the Company. In compliance with the amendments made to the Code in July 2002, the Committee approved the 'Audit Committee Regulations' on February 25, 2003. In accordance with the Regulations, the Chairman of the Board of Auditors, or an Auditor appointed by the Chairman takes part in the Committee's activities; meetings can be attended

by Saipem's Chairman. The Internal Audit Manager (being the person in charge of the Internal Control System) assists the Audit Committee and carries out duties assigned as part of his/her role. The Internal Audit department, reporting to the Chairman, is responsible for the following: (i) assessing the conformity of accounting and non-accounting criteria and principles, the efficiency of administrative procedures and control systems; (ii) ensuring the implementation and updating of the risk assessment, mapping and classification systems for auditing purposes.
The Audit Committee's responsibilities are: (i) assisting the Board of Directors in the following areas: (a) setting guidelines for the internal control system; (b) periodically checking that it is adequate and operates effectively; (c) ensuring that major risks facing the company are suitably identified and properly managed; (ii) evaluates together with the CFO and the external Auditors, the adequacy of accounting principles adopted and their consistency throughout the consolidated financial statements; (iii) assesses together with the external Auditors: (a) accounting principles considered 'critical' for the correct financial and economic representation of Saipem's position; (b) alternative accounting standards provided for by the accounting principles and reviewed with the management, the consequences of the application of said alternative standards and related information in addition to the methods considered preferential by the external auditors; (c) contents of every relevant written exchange between the external auditors and the company's management; (d) issues relating to statutory and consolidated financial statements of major Group Companies; (iv) evaluates the work programme prepared by the Internal Audit Manager and receives from the latter reports, al least quarterly, on work performed; (v) evaluates issues raised through Internal Audit reports, communications from the Board of Auditors or individual Auditors, reports and the management letter issued by the external Auditors, the annual report issued by the Guarantor of the Internal Code of Practice, inquiries and studies by third parties; (vi) assesses offers received from external auditing firms for the award of the auditing contract, the work programmes put forward and works carried out by said auditing firms, also in terms of their independence; (vii) verifies independence of the external Auditors; (viii) evaluates requests advanced by departmental managers to utilise the auditing firm appointed to audit the financial statements for non-audit service and presents proposals to the Board of Directors.
The Audit Committee convened eight times during 2006 and once in the period from January 1 to March 22, 2007. It examined the audit programmes issued by the Internal Auditors; it examined and evaluated internal audit activities; met with the Director of the company Administrative Department, the Chairman of the Board of Statutory Auditors, the partners of the External Auditing firm to examine the main issues pertaining to the 2005 and 2006 financial statements; it monitored the development of the operating model of the Internal Audit Department; acknowledged Company activities relating to Law Decree 231/2001 particularly those activities relating to compliance, training and the analysis of sensitive processes; studied in-depth the model for the risk analysis and risk management of the Saipem Group; acknowledged the Company's organisational structure and the powers of attorney and proxy systems at the basis of the Saipem Group decision making mechanism; monitored Company activities related to the implementation of accounting processes necessary to implement the new International Financial Reporting Standards (IFRS). The Audit Committee reports to the Board of Directors every six months, providing a detailed account of work carried out and the adequacy of the internal control system.
The Board of Directors has appointed the Internal Audit Manager as the person in charge of the internal control system, with the responsibilities provided by the new Corporate Governance Code.

Compensation Committee
The Compensation Committee is responsible for proposing to the Board of Directors incentive schemes for the company's top management, the annual remuneration of the Chairman and the Managing Director and reviewing the remuneration policy of the Group top management.
In 2006, the Compensation Committee convened on four occasions and carried out the following: it reviewed the 2006 Group performance and incentive schemes as well as results of the 2005 schemes, in view of the allocation of the annual and deferred monetary incentives to Group senior managers; it proposed the remuneration of the Chairman and the Managing Director; it proposed the 2006 stock option, annual and long-term monetary incentive allocations.

Board of Statutory Auditors

The Board of Statutory Auditors, pursuant to Article 149 of Law Decree 58/1998, monitors: compliance to the law and the articles of association; that management principles are correctly adhered to; the adequacy of the company organisational structure, the internal control system and the administrative/accounting system, and the reliability of the latter to clearly reflect the company position.
The Board comprises three Statutory Auditors and two alternate Auditors, appointed by the Shareholders on April 29, 2005. The term of office for Statutory Auditors is three years and will expire at the Shareholders' Meeting called to approve the Financial Statements at December 31, 2007. The appointment of Statutory Auditors occurs pursuant to Article 27 of articles of association, through voting from a list, so as to allow the appointment of minority interest representatives. The Auditors operate autonomously and independently of the shareholders who appointed them. It is procedural for voting lists to include a professional résumé for all candidates. Lists are filed at the company's registered headquarters at least 20 days prior to the Shareholders' Meeting (first summons) and are published in three national newspapers.
The Board of Auditors comprises the Chairman Paolo Andrea Colombo, the Statutory Auditors Fabrizio Gardi and Fabio Venegoni and the alternate auditors Giulio Gamba and Luca Giovanni Caretta.
Article 27 of articles of association states that statutory auditors must be in possession of the requisites as per current legislation, in particular Decree 162/2000; in compliance with the Decree, the articles of association provide that the following fields are pertinent to the Company's activities: commercial law, business administration and management, the engineering and geology sectors. All Saipem's Statutory Auditors are members of the Register of certified auditors.
Statutory Auditors are provided in advance with documents pertaining to items to be discussed and/or resolved on at Board meetings.
Meetings of the Board of Statutory Auditors may be held via video-conference link.
The Shareholders' Meeting of April 29, 2005 set at €37,500 the annual remuneration of the Chairman of Statutory Auditors and at €25,000 that of the Auditors. They are also entitled to €1,000 for attending each meeting of Statutory bodies, in addition to reimbursement of expenses incurred.
In compliance with the law, Audits of accounts are entrusted to an external auditing company registered in the Roll of Auditors, appointed by the Shareholders' Meeting. The current auditing company is PricewaterhouseCoopers SpA, appointed by the Shareholders' Meeting of April 29, 2004 for three years.
Pursuant to Article 27 of articles of association, candidates already holding the office of statutory auditors at five listed companies may not be appointed as auditors.
Paolo Andrea Colombo, Fabrizio Gardi and Giulio Gamba have been nominated by Eni SpA; Fabio Venegoni and Luca Giovanni Caretta have been nominated by institutional investors coordinated by Arca SGR SpA
The Statutory Auditors' professional résumés are posted on Saipem's website.

Saipem's Shareholders

At December 31, 2006, the share capital of Saipem SpA amounted to €441,410,900; it is fully paid up and comprises No. 441,251,799 ordinary shares of the nominal value of €1 each and No. 159,101 savings shares of the nominal value of €1 each. Shares cannot be divided and each share carries the entitlement to one vote. Saipem's shareholders enjoy, and are limited by, all relevant rights afforded by law. Savings shares are convertible at par with ordinary shares; they enjoy a higher dividend than ordinary shares equal to 3% of the share nominal value. The Savings Shareholders' Meeting appointed Mr Roberto Ramorini as their collective representative on October 31, 2006.
Based on information available and received, and pursuant to Consob resolution 11971/99, Shareholders owning a stake in Saipem SpA in excess of 2% are:

Shareholders	**Number of shares**	**% of capital**
Eni SpA	189,423,307	42.91
GE Asset Management Inc	13,938,753	3.16
Capital Research and Management Co	8,950,998	2.03

Based on information received from the banks responsible for dividend payments in 2005, the Shareholders' breakdown by geographical area and size of holding is as follows:

Shareholders breakdown by geographical area based on 2005 dividend payments

Shareholders	Number of Shareholders	Number of shares	% of capital
Italy	25,107	272,094,878 (*)	61.64
Other EU member States	538	70,978,911	16.09
Americas	380	59,165,806	13.4
UK and Ireland	248	29,530,078	6.69
Other European countries	80	2,884,396	0.65
Rest of the World	113	6,756,831	1.53
Total	**26,466**	**441,410,900**	**100.00**

(*) Includes treasury shares with no dividend entitlement.

Shareholders breakdown by size of holding (**)

Shareholders	Number of Shareholders	Number of shares	% of capital
> 10%	1	189,423,307	42.91
> 2%	1	12,412,820	2.81
1% - 2%	7	44,851,310	10.16
0.5% - 1%	7	22,642,232	5.09
0.3% - 0.5%	21	35,642,379	8.08
0.1% - 0.3%	63	46,921,645	10.63
≤ 0.1%	26,367	89,517,207	20.32
Total	**26,466**	**441,410,900**	**100.00**

(**) Source: Saipem's Shareholders' Register.

Shareholders' Meetings

The Shareholders' Meeting represents the institutional meeting point of the Company's management and its shareholders. At these meetings, Shareholders may ask questions pertaining to items on the agenda or the company's management at large. The information provided shall comply with the provisions applicable to inside information.
Ordinary Shareholders' Meetings are regulated by Article 2364 of the Italian civil code, extraordinary Shareholders' Meetings by Article 2365.
Notices of Shareholders' Meeting are published in various national Italian newspapers, in order to promote Shareholder attendance. The Shareholders' Meeting of January 30, 2001 approved the Shareholders' Meetings regulations (available on Saipem's website) to ensure smooth and effective meetings proceedings and, specifically, to safeguard every shareholders' right to intervene on items under discussion.
On March 28, 2007, the Board of Directors called an extraordinary Shareholders' Meeting to align the Company's articles of association to the provisions of Law 262/2005. Main amendments include the following provisions:

- Consob shall lay down by regulation the limits to the cumulation of management and control positions that members of the internal control bodies of listed companies may hold in public companies;
- the Chairman of the Board of Statutory Auditors shall be appointed by the Shareholders' Meeting from among the auditors elected by the minority shareholders;
- introduction of the appointment of a manager charged with preparing the company's financial reports, subject to the mandatory opinion of the internal control body and based on the procedures set by the articles of association.

Operations with related parties

Saipem, with regard to Article 11 of the Corporate Governance Code, drafted a procedure named 'Code of practice regulating operations with related parties', which was approved by the Board of Directors on July 7, 2003. This procedure identifies the related parties and details all operations carried out amongst them; it lists criteria of application, operations that require prior consent by the Board of Directors and those that are to

be notified to the Board of Statutory Auditors as well as the Board of Directors.
This procedure is posted on the Company's website (www.saipem.eni.it).

Investor relations and data protection

Saipem has adopted a policy of information supporting a constant dialogue with institutional investors, the Shareholders and the market in order to guarantee the timely disclosure of comprehensive information on Company activities, and is limited only by the confidentiality requirements afforded to certain information. Information to investors, the market and the media takes place through press releases, periodic meetings with institutional investors, the financial community and the press, in addition to the comprehensive information made available and constantly updated on the Company website.
Relations with investors and financial analysts are maintained by the head of the Investor Relations Department. Information of interest to them is posted on Saipem's website or can be requested via email from: investor.relations@saipem.eni.it.
Relations with Shareholders are maintained by the head of the Secretary's Office. Information of interest to Shareholders is posted on Saipem's website or can be requested via email from:
segreteria.societaria@saipem.eni.it.
Information pertaining to the periodic financial reports, relevant operations and newly-issued corporate governance procedures, are communicated immediately to the public also via publication on the website, where all press releases and Shareholders' notices are also posted.
Saipem's commitment to providing investors and markets with financial information that is true, comprehensive, transparent, timely and non-selective is stated in the Code of Practice, which identifies the values it applies in its business operations and the relations with third parties: namely, disclosure of complete and clear information, the formal and essential legitimacy of practices by its employees at all levels, clarity and veracity of its accounting practices in compliance with current legislation and internal procedures.
On March 23, 2006, the Board of Directors updated the 'Procedure regulating market notification of documents and information pertaining to activities of the Company and its controlled companies' (posted on Saipem's website), which was approved on December 12, 2002.
This procedure – which implements the provisions contained in the 'Guide on information to the market' issued by 'Forum Ref' in June 2002 and the provisions of the European Directive on Market Abuse – defines the requirements to be applied to the disclosure of sensitive information to the market (materiality, clarity, homogeneity, symmetry, consistency and timeliness) and regulates the flow of information from controlled companies aimed at obtaining comprehensive and timely information for the Board of Directors and the market on events that may become sensitive information. This procedure also identifies measures to be taken in case of violation of its provisions, also in light of the penal and administrative sanctions introduced by Law 262/2005. The Code of Practice also defines the duty of confidentiality that Group employees are required to adhere to, in compliance with data protection legislation.

Law Decree 231/2001

On March 22, 2004, the Board of Directors approved the Organisational, managerial and control model, pursuant to Law 231/2001 and established a Compliance Committee. The Model comprises a comprehensive set of procedures and control processes aimed at preventing the offences detailed in the aforementioned Law Decree, as well as Law Decrees 61/2002 and 7/2003. The Chairman is responsible for devising and implementing initial activities, updating and upgrading the Model.
A plan was defined detailing activities aimed at improving the control system based on the results of the gap analysis and mapping all organisational requirements necessary to implement the Model.
The introduction of this plan entails the following:
(i) update/upgrade of company regulations;
(ii) definition of organisational actions consistent with the findings of the gap analysis; (iii) alignment of power allocation in compliance with the model;
(iv) planning training of personnel and promoting the knowledge of the model; (v) alignment of the company's IT systems to guarantee flow of information towards the Public Administration.
In 2006 the Compliance Committee convened on eight occasions and has: monitored the dissemination of the document 'Principles of the Model' to all Saipem SpA employees to ensure the adequate knowledge of the Model; it identified the Compliance Programme for the year and ensured that it was implemented alongside the scheduled and ad-hoc control activities;

set up communication channels to and from the Compliance Committee.

Internal dealing

On March 23, 2006, the Board of Directors approved the procedure for the 'Upkeep and update of the List of persons having access to inside information', in compliance with the provisions of Article 115-*bis* of Law 58/1998, which states that 'Listed issuers and persons in a control relationship with them and persons acting on their behalf or for their account shall draw up, and keep regularly updated, a list of the persons who, in the exercise of their employment, profession or duties, have access to information referred to in Article 114, comma 1 (editor's note: inside information)'. This procedure, which contains the provisions of Chapter 1 (Lists of insiders) of Title VII of Consob Regulation No. 11971/1999 implementing the provisions on issuers of Legislative Decree 58/1998, identifies: (i) methods and terms applicable to listing and/or cancellation of personal data relating to persons, who in the exercise of their employment, profession or duties, have regular or occasional access to inside information; (ii) notification to the interested party of their listing and/or cancellation from the list and reasons thereof. This procedure is effective from April 1, 2006.

The Board of Directors also approved the 'Procedure regulating the identification of relevant parties and operations carried out by them, directly or through third parties, involving shares of Saipem SpA or other associated financial instruments (Internal Dealing Procedure)', which replaces the Internal Dealing Code approved by the Board on December 12, 2002.

This procedure complies with the provisions of Article 114 (Information to be provided to the public), comma 7 of Law 58/1998, according to which 'persons performing administrative, supervisory and management functions in a listed issuer and managers who have regular access to inside information referred to in paragraph 1 and the power to make managerial decisions affecting the future development and prospects of the issuer, persons who hold shares amounting to at least 10 per cent of the share capital, and any other persons who control the issuer must inform Consob and the public of transactions involving the issuer's shares or other financial instruments linked to them that they have carried out directly or through nominees. Such disclosures must also be made by the spouse, unless legally separated, dependent children, including those of the spouse, cohabitant parents and relatives by blood or affinity of the persons referred to above and in the other cases identified by Consob in a regulation implementing Commission Directive 2004/72/EC of April 29, 2004'. This procedure, which contains the provisions of Chapter II (Transactions concluded by relevant persons and persons closely associated with such persons) of Title VII of Consob Regulation No. 11971/1999 implementing the provisions on issuers of Legislative Decree 58/1998: (i) identifies relevant persons; (ii) identifies operations involving shares issued by Saipem or other associated financial instruments; (iii) sets methods and conditions of disclosure involving transactions and their notification to the public; (iv) states sanctions to be applied in case of non-compliance of the provisions stated in the procedure. This procedure is effective from April 1, 2006 and is posted on Saipem's website.

The following tables are taken from the document 'Guidelines for the compilation of the Corporate Governance report' issued by Assonime and Emittenti Titoli SpA in March 2004.

Structure of the Board of Directors and its Committees

	Board of Directors					Audit Committee		Compensation Committee	
Members	executive	non executive	independent	% attendance	no. of other offices	member	% attendance	member	% attendance
Chairman									
Pietro Franco Tali	X			100	-				
Managing Director									
Hugh James O'Donnell	X			100	-				
Directors									
Angelo Caridi (1)	X			100					
Francesco Gatti (2)		X	X	60		X	100	X	100
Jacques Léost	X			100					
Marco Mangiagalli		X		70				X	75
Pierantonio Nebuloni (2)		X	X	50		X	100	X	75
Gesualdo Pianciamore (2)		X	X	100		X	50		
Ian Wybrew-Bond		X	X	90					
Number of meetings held in 2006			10			8		4	

(1) The Shareholders' Meeting of April 28, 2006 appointed Mr. Angelo Caridi, current Managing Director of Snamprogetti, replacing Mr. Roberto Jaquinto who retired and had been appointed from the list presented by Eni at the Shareholders' Meeting of April 29, 2005.
(2) Appointed from the list of minority shareholders.

Board of Statutory Auditors

Members	% attendance to meetings of the Board of Statutory Auditors	% attendance to meetings of the Board of Directors	No. of other offices (1)
Chairman			
Paolo Andrea Colombo	100	100	5
Statutory Auditors			
Fabrizio Gardi	100	90	3
Fabio Venegoni (2)	100	90	2
Alternate Auditors			
Luca Giovanni Caretta (2)	-	-	1
Giulio Gamba	-	-	1
Number of meetings held in 2006	**12**	**10**	

(1) Number of Directorships or Auditor's posts at other listed companies.
(2) Appointed from the list of minority shareholders.

Other provisions of the Corporate Governance Code

	Yes	No
Powers and operations with related parties		
The Board of Directors has allocated the following powers:		
a) thresholds	X	
b) exercise of powers	X	
c) disclosure of information	X	
Has the Board of Directors the power to review and approve the most significant economic and financial operations (including operations with related parties)?	X	
Has the Board of Directors defined guidelines and criteria that identify operations as 'significant'?	X	
Have the aforementioned guidelines and criteria been detailed in the report?	X	
Has the Board of Directors set appropriate procedures for the review and approval of operations with related parties?	X	
Have the aforementioned procedures for the approval of operations with related parties been detailed in the report?	X	
Procedures pertaining to the most recent appointment of Directors and Statutory Auditors		
Have candidacies to the offices of Directors been filed at least ten days prior to their appointment?	X	
Did the candidacies to the offices of Directors contain sufficient information?	X	
Did the candidacies to the offices of Directors enclose a statement indicating the requirement of independence?	X	
Have candidacies to the offices of Statutory Auditors been filed at least ten days prior to their appointment?	X	
Did the candidacies to the offices of Statutory Auditors contain sufficient information?	X	
Shareholders Meetings		
Has the company approved Shareholders' Meeting's Regulations?	X	
Are these Regulations enclosed in the Report (or information as to where they can be obtained/downloaded)?	X	
Audit Committee		
Has the company appointed internal auditors?	X	
Do these internal auditors not report to managers of operational areas?	X	
Internal Audit Department (pursuant to Article 9.3 of the Code)	Internal Audit	
Investor relations		
Has the company appointed an investor relations manager?	X	
Investor Relations Department: contact details (address/fax/email) of the Manager	Investor Relations (*)	

(*) Saipem SpA - Via Martiri di Cefalonia, 67 - San Donato Milanese (Milan) 20097 Italy - Tel. +39 02 520 34653 - Fax +39 02 520 54295.

Risk management

Main risks identified and managed by Saipem are the following:

(i) market risks deriving from the exposure to the fluctuations of interest rates, of exchange rates between the euro and the other currencies used by the Company, as well as the volatility of commodity prices;

(ii) the credit risk deriving from the possible default of a counterparty;

(iii) the liquidity risk deriving from the lack of financial resources to face short-term commitments;

(iv) the operational risk deriving from the occurrence of accidents, malfunctioning, failures with injury to persons and damage to the environment affecting operating and financial results;

(v) country risk of operations.

Market risk

Saipem operates worldwide in business sectors that are exposed to market risks resulting from changes in interest rates, exchange rates and price of materials. The risk of fluctuations in prices and financial flows is strictly linked to the nature of this business and can only be partially offset through appropriate risk management policies.
The market risk also includes exchange and interest rate risks.

Risk of price variations and financial flows
Saipem's results are influenced by variations in oil prices, insurance premia and price of raw materials. Furthermore, Saipem's financial flows are exposed to fluctuations in interest and exchange rates.

Exchange rate risk
Saipem is exposed to exchange rate fluctuations because the Group operates in non-euro areas, revenues from operational contracts are denominated in or linked to the US dollar, and because of the time lag between the occurrence of revenues and costs denominated in a currency different from that of the financial statements and their financial realisation.
Saipem's strategy to reduce the market risk exposure arising from exchange rate fluctuations by utilising derivatives. Planning and management for this activity is the responsibility of the 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.

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, as they also ensure a balanced relation between debt at fixed and variable interest rates.

Credit risk

Credit risk represents Saipem's exposure to incur a loss in the event of non-performance by a counterparty. Credit risk related to the ordinary course of trade activities is managed by the business units and the administration department on the basis of standardised procedures and periodic reporting. As for financial investments and the utilisation of financial instruments, including derivatives, companies adopt the guidelines issued by the Treasury Department of Saipem SpA. At present, Saipem has no significant concentrations at credit risk.

Liquidity risk

Liquidity risk is the risk that suitable sources of funding for business activities may not be sufficient to cover commitments. At present, through the management of flexible credit lines suitable with business requirements, Saipem believes it has access to sufficient funding and has also both committed and uncommitted borrowing facilities to meet currently foreseeable borrowing requirements.

Operational risks

Saipem's activities present industrial and environmental risks and are therefore subject to extensive government regulations concerning environmental protection and industrial security in most countries.
Saipem adopted the most stringent standards for the evaluation and management of industrial and environmental risks, complying with the industry best practices. Business units evaluate through specific procedures the related industrial and environmental risks in addition to taking into account the regulatory requirements of the countries where these activities are located. In 2005, Saipem has further strengthened its commitment to HSE activities, the prevention of environmental risks, health and safety.

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. Saipem constantly monitors the political, social and economic risk of the approximately 100 countries where it invested or intends to invest. Country risks are mitigated by means of appropriate guidelines for risk management that Saipem defined in its procedure for 'Project Risk Assessment and Management'.

Risk and opportunity and knowledge management

In 2006, the Risk and opportunity and knowledge management department was formally created to:
- promote the use of risk and opportunity knowledge management in tenders and projects driven by the various Business Units;
- ensure the spread of a risk and opportunity and knowledge management culture within Saipem focused on projects, improvement and contingency management;
- provide advice, support and guidelines to the Business Units and projects in identifying and evaluating risks and opportunities in addition to all activities related to the implementation of mitigation and improvement measures, for risk management and optimisation of opportunities;
- define, develop and update tools and methods so as to collate and organise information on lessons learned and make them available to projects;
- ensure adequate training and the necessary support to risk engineers;
- ensure the constant update of guidelines, procedures and Corporate standards, promoting their adherence within Saipem and subsidiary companies.

Additional information

BUY-BACK OF TREASURY SHARES

The Shareholders' Meeting of April 28, 2006 authorised the Board of Directors to buy-back up to 2,400,000 treasury shares on the open market, for a total amount not exceeding €48,000,000, to implement the 2006 stock option scheme.
From January 1 to December 31, 2006, the number of treasury shares purchased amounted to 1,919,355.

With regard to the 2003, 2004 and 2005 stock grant schemes, No. 530,000 treasury shares were transferred to assignees; with regard to stock option schemes approved in 2002, 2003, 2004 and 2005, No. 1,045,813 treasury shares were allocated to assignees.
As of March 28, 2007, the Company holds No. 5,851,196 treasury shares.

Period	**No. of shares**	**Average cost** (€)	**Total cost** (€ thousand)	**Share capital** (%)
Treasury shares bought back				
Year 2003 (from May 2)	2,125,000	6.058	12,873	0.48
Year 2004	1,395,000	7.044	9,826	0.32
Year 2005	3,284,589	10.700	35,146	0.74
Year 2006	1,919,355	18.950	36,371	0.43
Treasury shares bought back as of March 28, 2007	**8,723,944**	**10.800**	**94,216**	**1.97**
Minus:				
- stock grants	630,200			
- stock options	2,242,548			
Treasury shares held as of March 28, 2007	**5,851,196**	**11.913**	**69,703**	**1.33**

The share capital at March 28, 2007 amounted to €441,410,900. On the same day, the number of shares in circulation is 435,559,704.

INCENTIVE SCHEMES

In the 2006 incentive schemes, stock grants were replaced by a deferred monetary incentive. The latter, allocated in 2006, may be paid out after three years depending on the achievement of EBITDA annual targets (actual results versus targets) set for the years 2006-2008.

Stock options
In order to implement the 2006 stock option scheme, on July 26, 2006, the Board of Directors of Saipem SpA approved the allocation of No. 1,965,000 stock options at the price of €17.519 per share (i.e. the greater price between the shares official price average recorded by the Telematic Stock Market over the month preceding allocation and the average cost of treasury shares held on the day preceding stock options allocation). Stock will be allocated to Saipem Group Executive Managers directly responsible for Group results or holding strategic positions.
Options can be exercised after three years from the date of allocation and no later than July 27, 2012 for

assignees resident in Italy; assignees resident in France, in compliance with local regulations, will be able to exercise the stock after four years from date of allocation and no later than July 26, 2013.
Shares for allocation to the stock option scheme will be bought back on the open market, as per Ordinary Shareholders' Meeting resolution of April 28, 2006.

EVENTS SUBSEQUENT TO YEAR END

New contracts

During January and February 2007, new contracts were awarded to the Saipem Group and changes to existing contracts were renegotiated totalling approximately €1,500 million. The most important contracts awarded to the Saipem Group include:

Offshore

- on behalf of Medgaz, the EPIC-type project, comprising installation of a subsea pipeline system which will enable the transport of natural gas from Algeria to Spain across the Mediterranean Sea.

Onshore

- on behalf of Saudi Aramco, the EPC-type contract for the expansion of the Qurayyah plant, which is part of the Khurais field facilities, located 250 kilometres South-West of Dhahran, and is used to treat sea-water for subsequent injection into the well. The contract, originally awarded on a cost plus basis during the second quarter 2006, has been converted to a turnkey contract and comprises engineering, procurement and construction of nine new sea-water treatment modules. Works are due to reach completion in the fourth quarter 2008;
- on behalf of Scogat, the Trans Tunisian Pipeline contract, in Tunisia, comprising engineering, procurement, construction and commissioning of two new gas compression stations in addition to the expansion of existing compression facilities. Works are due to reach completion in the second quarter 2008.

Capital expenditure

In February 2007, a commitment was made with Yantai Raffles yard in Yantai (China) for the construction of a new pipelay vessel. This new pipelayer will be 290 metres in length, 39 metres wide and 24 metres high; it will be equipped with a dynamic-positioning system, and is designed to lay large-diameter pipelines (up to 48 inch). Its maximum cruising speed will be 14 knots; the vessel will be capable of operating in harsh environments and have pipe storage capacity of 25,000 tonnes, and will be fitted with a 600-tonne capacity lifting crane. Accommodation will cater for up to 450 personnel. The new pipelayer is expected to start operating in the second quarter of 2010 and overall capital expenditure amounts to approximately €530 million.

MANAGEMENT OUTLOOK

Global spending by the oil industry has grown significantly in recent years and is forecast to increase further in 2007, creating particularly favourable market conditions for contractors.
Saipem is expected to reap the benefits of this trend: in the offshore sector, where it enjoys a long-standing leading position, particularly for complex projects in frontier areas; in the onshore sector, also on account of the distinctive expertise brought by Snamprogetti; and in the Drilling sector, where higher rates have been negotiated on the renewal of several contracts.
The strong overall market performance and Saipem's reliability underpin management's expectations of new contract awards for 2007, so as to further boost the

exceptionally high level of backlog achieved at 2006 year end.
With regard to financial performance, revenues for 2007 are expected to exceed €9 billion and net income, before one-off income from disposals, is due to grow by at least 20% versus the record net income achieved in 2006.
Capital expenditure for 2007 is estimated at approximately €1.2 billion and will include:
- expansion of the fleet: for the Drilling business unit, the construction of a new deep-water semi-submersible drilling vessel (completion is due in third quarter 2009), and a tender barge; for the Offshore business unit, the construction of a new pipelay vessel (completion is due in second quarter 2010), the conclusion of works on FPSO Cidade de Vitoria, and preparation of FPSO Gimboa;
- commencement of development for a new fabrication yard specialising in large offshore structures;
- further expansion of existing yards in Kazakhstan and West Africa;
- construction of new smaller vessels and additional project-specific equipment;
- maintenance and upgrading of the existing asset base.

Depreciation and amortisation for 2007 is expected to total around €280 million.
Saipem is planning the disposal of some non-core assets in 2007; the effects of these disposals on the balance sheet, which cannot be quantified at this stage, are expected to be positive.

Forward-looking statements are based on a number of assumptions and expectations that could ultimately prove inaccurate, as they are subject to risks and variables outside the company's control. These include: currency fluctuations, interest rate fluctuations, the level of capital expenditure in the oil and gas industry, as well as other industries, political instability in areas where the Group operates, and actions by competitors. Moreover, contract execution is also subject to variables outside the company's control, such as weather conditions. Actual results could therefore differ materially from the forward-looking statements.

Restatement of reclassified balance sheet and income statement to statutory schemes

Reclassified balance sheet

The only items of the reclassified balance sheet which differ from the statutory scheme are those stated in the following table (when not stated otherwise, items comply with the statutory scheme).

(€ million)	Dec. 31, 2005		**Dec. 31, 2006**	
	Partial amounts from statutory scheme	Amounts from reclassified scheme	Partial amounts from statutory scheme	Amounts from reclassified scheme
A) Net tangible fixed assets		1,903		**2,345**
Note 7 - Property, plant and machinery	*1,903*		***2,345***	
B) Net intangible fixed assets		837		**849**
Note 8 - Intangible fixed assets	*837*		***849***	
C) Financial investments		40		**153**
Note 9 - Investments accounted for with the equity method	*38*		***146***	
Note 10 - Other investments	*4*		***9***	
Recl. from E) - Provisions for losses related to investments	*(2)*		***(2)***	
D) Working capital		60		**-**
Note 3 - Trade and other receivables	*1,523*		***3,306***	
Recl. to I) - Financing receivables not related to operations	*(17)*		***(45)***	
Note 4 - Inventories	*490*		***1,053***	
Note 5 - Income tax receivables	*122*		***228***	
Note 6 - Other assets	*89*		***171***	
Note 11 - Other financial assets	*-*		***40***	
Recl. to I) - Financing receivables not related to operations	*-*		***(3)***	
Note 12 - Deferred tax assets	*68*		***47***	
Note 13 - Other non-current assets	*17*		***11***	
Note 15 - Trade and other payables	*(2,005)*		***(4,434)***	
Note 16 - Current tax liabilities	*(140)*		***(187)***	
Note 17 - Other current liabilities	*(66)*		***(103)***	
Note 21 - Deferred tax liabilities	*(20)*		***(83)***	
Note 22 - Other non-current liabilities	*(1)*		***(1)***	
E) Provisions for contingencies		(97)		**(176)**
Note 19 - Provisions for contingencies	*(99)*		***(178)***	
Recl. to C) - Provisions for losses related to investments	*2*		***2***	
F) Employee termination indemnities		(88)		**(169)**
Note 20 - Provisions for employee termination indemnities	*(88)*		***(169)***	
CAPITAL EMPLOYED		**2,655**		**3,002**
G) Net equity		1,630		**1,581**
Note 24 - Saipem shareholders' equity	*1,630*		***1,581***	
H) Minority interest		13		**4**
Note 23 - Minority interest	*13*		***4***	
I) Net debt		1,012		**1,417**
Note 1 - Cash and cash equivalents	*(877)*		***(1,322)***	
Note 2 - Other financial assets for trading or available for sale	*-*		***(4)***	
Note 14 - Current financial liabilities	*1,192*		***1,865***	
Note 18 - Long-term debt	*484*		***885***	
Note 18 - Current portion of long-term debt	*230*		***41***	
Recl. from D) - Financing receivables not related to operations (Note 3)	*(17)*		***(45)***	
Recl. from D) - Financing receivables not related to operations (Note 11)	*-*		***(3)***	
COVER		**2,655**		**3,002**

Reclassified income statement

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

- revenues related to reimbursements for non-core business services, insurance claims and costs paid by the client which feature under the statutory scheme as 'other revenues and income' are featured under the corresponding entries of the reclassified income statement;
- items 'financial income' and 'financial expenses', which are indicated separately under the statutory statement, are stated under the item 'net financial expenses' under the reclassified income statement;
- items 'effect of accounting for using the equity method' and 'other income/(expenses) from investments' which are indicated separately under the statutory statement, are stated under the item 'net income from investments' under the reclassified income statement.

All other items are unchanged.

Reclassified cash flow statement

The reclassified cash flow statement differs from the statutory cash flow statement on the following item:

- items 'granting of short-term financial credits' and 'collection and assignment of short-term financial credits' stated separated under 'net cash flow from investments' under the statutory statement, are stated under the item 'net investments relating to financing activities' under the reclassified cash flow statement.

All other items are unchanged.

Saipem Group consolidated financial statements at December 31, 2006

Balance sheet

(€ million)	Note	31.12.2005	of which towards related parties	31.12.2006	of which towards related parties
ASSETS					
Current assets					
Cash and cash equivalents	(1)	877	544	1,322	602
Marketable securities	(2)	-		4	
Receivables	(3)	1,523	233	3,306	650
Inventories	(4)	490	43	1,053	23
Income tax receivables	(5)	122		228	
Other current assets	(6)	89	35	171	130
Total current assets		**3,101**		**6,084**	
NON-CURRENT ASSETS					
Property, plant and machinery	(7)	1,903		2,345	
Intangible assets	(8)	837		849	
Investments accounted for using the equity method	(9)	38		146	
Other investments	(10)	4		9	
Other financial assets	(11)	-		40	3
Deferred tax assets	(12)	68		47	
Other non-current assets	(13)	17		11	
Total non-current assets		**2,867**		**3,447**	
TOTAL ASSETS		**5,968**		**9,531**	
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities					
Short-term financial liabilities	(14)	1,192	1,046	1,865	1,703
Current portion of long-term debt	(18)	230	155	41	3
Trade and other payables	(15)	2,005	38	4,434	123
Current tax liabilities	(16)	140		187	
Other current liabilities	(17)	66	60	103	87
Total current liabilities		**3,633**		**6,630**	
NON-CURRENT LIABILITIES					
Long-term financial liabilities	(18)	484	12	885	95
Provisions for contingencies	(19)	99		178	
Provisions for employee benefits	(20)	88		169	
Deferred tax liabilities	(21)	20		83	
Other non-current liabilities	(22)	1		1	
Total non-current liabilities		**692**		**1,316**	
TOTAL LIABILITIES		**4,325**		**7,946**	
SHAREHOLDERS' EQUITY					
Minority interest in net equity	(23)	13		4	
Saipem's shareholders' equity:	(24)	1,630		1,581	
- share capital	(25)	441		441	
- share premium reserve	(26)	49		55	
- other reserves	(27)	37		142	
- retained earnings		899		632	
- net profit		255		384	
Treasury shares	(28)	(51)		(73)	
Total Group shareholders' equity		**1,643**		**1,585**	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**5,968**		**9,531**	

Income statement

(€ million)	Note	Year 2005	of which towards related parties	Year 2006	of which towards related parties
REVENUES					
Turnover	(30)	4,528	685	7,517	698
Other revenues and income	(31)	11		50	3
Total revenues		**4,539**		**7,567**	
Operating costs					
Procurement, services and other costs	(32)	(3,156)	(93)	(5,574)	(103)
Payroll and related costs	(33)	(819)		(1,164)	
Amortisation, depreciation and write-downs	(34)	(199)		(230)	
Total operating costs		**(4,174)**		**(6,968)**	
OPERATING PROFIT		**365**		**599**	
Financial income (expenses)					
Financial income		196	38	609	142
Financial expenses		(250)	(149)	(709)	(156)
Total financial income (expenses)	(35)	**(54)**		**(100)**	
Income (expenses) from investments					
Effect of accounting for using the net equity method		24		34	
Other income from investments		-		11	
Total income from investments	(36)	**24**		**45**	
INCOME BEFORE INCOME TAX		**335**		**544**	
Income tax	(37)	(76)		(157)	
NET PROFIT		**259**		**387**	
Pertaining to:					
- Saipem		255		384	
- minority interest	(38)	4		3	
Earnings per share pertaining to Saipem (€ per share)					
Basic	(39)	0.59		0.88	
Diluted	(39)	0.59		0.89	

Variation in shareholders' equity

(€ million)	Share capital	Share premium reserve	Other reserves	Legal reserve	Reserve for treasury shares held	Reserve for buy-back of treasury shares	Reserve for cash flow hedge	Reserve for exchange rate differences	Retained earnings	Net income	Treasury shares	Total	Minority interest	Total shareholders' equity
Balance at December 31, 2004	**441**	**62**	**2**	**55**	**22**	**21**	**-**	**(12)**	**706**	**197**	**-**	**1,494**	**9**	**1,503**
Effect of first time IAS adoption	-	-	-	-	-	-	-	-	4	38	-	42	-	42
Annulment of exchange differences	-	-	-	-	-	-	-	12	(12)	-	-	-	-	-
Adjusted balance at December 31, 2004	**441**	**62**	**2**	**55**	**22**	**21**	**-**	**-**	**698**	**235**	**-**	**1,536**	**9**	**1,545**
Effect of IAS 32 and 39 adoption	-	-	-	-	(22)	-	58	-	5	-	(22)	19	-	19
Adjusted balance at January 1, 2005	**441**	**62**	**2**	**55**	**-**	**21**	**58**	**-**	**703**	**235**	**(22)**	**1,555**	**9**	**1,564**
Net profit 2005	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**255**	**-**	**255**	**4**	**259**
Net profit (expenses) recognised directly in equity														
Variation of the fair value of cash flow hedge derivatives, net of effect of taxations	-	-	-	-	-	-	(109)	-	-	-	-	(109)	-	(109)
Exchange differences from translation of financial statements in foreign currencies	-	-	-	-	-	-	-	14	-	-	-	14	-	14
Total	**-**	**-**	**-**	**-**	**-**	**-**	**(109)**	**14**	**-**	**-**	**-**	**(95)**	**-**	**(95)**
Transactions with Shareholders														
Distributed dividends	-	-	-	-	-	-	-	-	-	(65)	-	(65)	-	(65)
Retained earnings and allocation to legal reserve	-	-	-	3	-	-	-	-	167	(170)	-	-	-	-
Buy-back of treasury shares	-	(13)	-	-	-	(11)	-	-	24	-	(29)	(29)	-	(29)
Other variations in shareholders' equity														
Cost of stock options/grants	-	-	-	-	-	-	-	-	5	-	-	5	-	5
Exchange differences from dividend distribution	-	-	-	-	-	-	-	4	-	-	-	4	-	4
Total	**-**	**(13)**	**-**	**3**	**-**	**(11)**	**-**	**4**	**196**	**(235)**	**(29)**	**(85)**	**-**	**(85)**
Balance at December 31, 2005	**441**	**49**	**2**	**58**	**-**	**10**	**(51)**	**18**	**899**	**255**	**(51)**	**1,630**	**13**	**1,643**
Net profit 2006										**384**		**384**	**3**	**387**
Net profit (expenses) recognised directly in equity														
Variation of the fair value of cash flow hedge derivatives, net of effect of taxations	-	-	-	-	-	-	116	-	-	-	-	116	-	116
Exchange differences from translation of financial statements in foreign currencies	-	-	-	-	-	-	-	(19)	-	-	-	(19)	-	(19)
Total	**-**	**-**	**-**	**-**	**-**	**-**	**116**	**(19)**	**-**	**-**	**-**	**97**	**-**	**97**
Transactions with Shareholders														
Distributed dividends	-	-	-	-	-	-	-	-	-	(82)	-	(82)	-	(82)
Retained earnings and allocation to legal reserve	-	-	5	7	-	-	-	-	161	(173)	-	-	-	-
Buy-back of treasury shares	-	6	-	-	-	6	-	-	(12)	-	(22)	(22)	-	(22)
Other variations in shareholders' equity														
Effect of acquisition of Snamprogetti	-	-	-	-	-	-	-	-	(442)	-	-	(442)	-	(442)
Reopening of Snamprogetti's reserves	-	-	-	-	-	-	(34)	3	-	-	-	(31)	-	(31)
Variation in Snamprogetti's reserves	-	-	-	-	-	-	36	(9)	29	-	-	56	-	56
Acquisition of 50% of EMS SpA	-	-	-	-	-	-	-	-	-	-	-	-	(12)	(12)
Cost of stock options/grants	-	-	-	-	-	-	-	-	(3)	-	-	(3)	-	(3)
Exchange differences from dividend distribution	-	-	-	-	-	-	-	(6)	-	-	-	(6)	-	(6)
Total	**-**	**6**	**5**	**7**	**-**	**6**	**2**	**(12)**	**(267)**	**(255)**	**(22)**	**(530)**	**(12)**	**(542)**
Balance at December 31, 2006	**441**	**55**	**7**	**65**	**-**	**16**	**67**	**(13)**	**632**	**384**	**(73)**	**1,581**	**4**	**1,585**

Cash flow statement

(€ million)	Year 2005		Year 2006	
Group net income	255		384	
Minority interest	4		3	
Depreciation and amortisation	196		230	
Write-downs (appreciations)	(22)		(31)	
Net change in provisions for contingencies	25		27	
Net change in provisions for employee benefits	5		27	
Losses from disposals	-		2	
Losses (gains) on accounts receivable in relation to disposables	-		(3)	
(Dividends)	-		(5)	
(Interest earned)	(22)		(37)	
Interest paid	35		68	
Unrealised (gains) losses on foreign currency exchange	12		4	
Current and deferred income taxes	76		157	
Operating profit before changes to working capital		564		826
Changes:				
- inventories	(88)		(197)	
- trade and other receivables	(233)		(849)	
- other assets	14		109	
- trade and other payables	83		894	
- other liabilities	46		10	
Cash flow from operations		**386**		**793**
Dividends received	4		28	
Interest received	22		40	
Interest paid	(35)		(68)	
Income taxes paid	(57)		(218)	
Income tax refunds and credits	-		32	
Exchange rate differences gained on dividends	6		(4)	
Net cash flow from operations		**326**		**603**
Investments:				
- intangible fixed assets	(5)		(5)	
- tangible fixed assets	(350)		(600)	
- acquisition of consolidated company holdings	(7)		(9)	
- short-term financing loans	(12)		(37)	
- long-term financing loans	-		(4)	
Outflows from investments		(374)		(655)
Disposals:				
- tangible fixed assets	3		9	
- consolidated company holdings	-		4	
- collection and transfer of short-term loans	-		6	
Inflows from disposals		3		19
Net cash flow from investments		**(371)**		**(636)**
Short-term financial loans	-		259	
Long-term financial loans	50		432	
Repayment of short-term debts	-		(351)	
Repayment of long-term debts	-		(2)	
Increase (decrease) in short-term current account debts	358		453	
Dividends paid	(65)		(82)	
Net cash flow from financing		**343**		**709**
Buy-back of treasury shares		(30)		(36)
Effect of exchange rate gains and losses		10		(22)
Effect of changes to the scope of consolidation and other changes		4		(173)
Net cash flow		**282**		**445**
Cash available at the beginning of the year		**595**		**877**
Cash available at the end of the year		**877**		**1,322**

Basis of presentation

The consolidated financial statements of Saipem have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and adopted by the European Commission following the procedure contained in Article 6 of the EC Regulation No. 1606/2002 of the European Parliament and Council of July 19, 2002.
The consolidated financial statements have been prepared by applying the cost method except for items that under IFRS must be recognised at fair value as described in the evaluation criteria.
The consolidated financial statements include the statutory accounts of Saipem SpA and 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 jointly managed companies by way of agreements with the other partners. Companies held exclusively for subsequent sale, those in liquidation and minor investment, if considered immaterial, are excluded from the consolidation. Companies are considered immaterial if they do not exceed two of the following parameters: (i) total assets or liabilities: €3,125 thousand; (ii) total revenues: €6,250 thousand; (iii) average workforce: 50 employees.
Moreover, companies, for which the consolidation does not produce significant economic and financial effects are not included in the scope of consolidation. The effects of these exclusions are not relevant[1].
Subsidiaries excluded from consolidation, joint ventures, affiliated companies and other interests are accounted for as described below under the heading 'Financial fixed assets'.
Consolidated companies, non-consolidated controlled companies, affiliated companies and relevant interests as set forth in Article 126 of Consob Resolution 11971 of May 14, 1999 and subsequent addenda, are indicated under the heading 'Scope of consolidation'.
Financial statements of consolidated companies are audited by auditing companies that examine and certify the information required to be disclosed when preparing the consolidated financial statement.
Considering their materiality, amounts of the financial statements and related disclosures are expressed in millions of euro.

Principles of consolidation

Interests in companies included in the scope of consolidation

Companies owned fully are consolidated using the full consolidation method; therefore assets and liabilities, expenses and income related to fully consolidated companies are wholly incorporated into the consolidated balance sheet; the accounting value of these interests is eliminated against the corresponding fraction of the shareholders' equity of the companies owned.
Companies controlled jointly with third parties are consolidated using the proportional method; therefore the accounting value of interests in these companies is eliminated against the corresponding fraction of the shareholders' equity of the companies owned; assets and liabilities, expense and income related to consolidated companies are incorporated into the balance sheet proportionally to the interest held.
The shareholders' equity in owned companies is determined by attributing to each item of the balance sheet the current value at the date of acquisition of control. Any positive residual difference is recognised as 'Goodwill'. Negative residual differences are charged against income.
Income or expenses deriving from the disposal of interests in consolidated companies are charged against income, i.e. the difference between the sale price and the corresponding fraction of shareholders' equity sold.
Fractions of shareholders' equity and of net income of minority interest are recognised under specific items in the income statement. Minority interest is determined based on the current value attributed to assets and liabilities at the date of the acquisition of control, excluding any related goodwill.
Dividends, revaluations, write-downs and losses on interests in consolidated companies, in addition to gains and/or income on inter-company disposals of shareholdings in consolidated companies are eliminated.

(1) According to the dispositions of the Framework of international accounting standards, 'information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements'.

Inter-company transactions

Income deriving from inter-company transactions unrealized towards third parties is eliminated. Receivables, payables, revenues and costs, guarantees, commitments and risks among consolidated companies are also eliminated. Inter-company losses are not eliminated, since they reflect an actual decrease in the value of divested assets.

Foreign currency translation

Financial statements of consolidated companies denominated in currencies other than the euro are converted into euros applying: (i) exchange rates prevailing at year-end to assets and liabilities; (ii) the historical exchange rates to equity accounts and (iii) the average rates for the period to profit and loss account (source: Ufficio Italiano Cambi).

Exchange rate differences from the conversion deriving from the application of different exchange rates for assets and liabilities, shareholders' equity and profit and loss account are recognised under the item 'Reserve for exchange rate differences' within shareholders' equity for the portion relating to the Group and under the item 'Minority interest' for the portion related to minority shareholders.

The financial statements which have been translated into euros are those compiled in the functional currency, i.e. the local currency or the currency in which most of the financial transactions as well as assets and liabilities are denominated.

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

Currency	Exchange rate at 31.12.2005	Exchange rate at 31.12.2006	2006 average exchange rate
US Dollar	1.1797	1.317	1.2556
UK Pound Sterling	0.6853	0.6715	0.68173
Algerian Dinar	86.0380	93.6974	91.4361
Angolan Kwanza	95.2956	105.733	100.955
Saudi Arabian Riyal	4.4244	4.93915	4.70888
Australian Dollar	1.6109	1.6691	1.66681
Azerbaijan Manat	5,442.2300	1.15	1.12338 (*)
Brazilian Real	2.7432	2.81333	2.73313
Canadian Dollar	1.3725	1.5281	1.42369
Congo Franc cfa	655.9500	655.957	655.952
Croatian Kuna	7.3715	7.3504	7.32468
Indian Rupee	53.1679	58.2975	56.9098
Indonesian Rupee	11,596.5000	11,844.4	11,512.4
Kazakhstan Tenghè	157.7980	167.233	158.114
Malaysian Ringgit	4.4584	4.649	4.60437
Nigerian Naira	153.2750	169.344	161.287
Norwegian Kroner	7.9850	8.238	8.04719
Peruvian New Sol	4.0558	4.20974	4.11016
Russian Rouble	33.9200	34.68	34.1117
Singaporean Dollar	1.9628	2.0202	1.99415
Swiss Franc	1.5551	1.6069	1.57288
UAE Dirham	4.3331	4.8371	4.61173

(*) From January 1, 2006 it was replaced by the Azerbaijan New Manat.

Accounting policies

The most significant accounting policies used for the preparation of the consolidated financial statements are shown below.

Non-current assets

Tangible assets

Tangible assets, including investment properties, are recognised using the cost model and stated at their purchase or production cost including ancillary costs which can be directly attributed to them as are required to make the asset ready for use. In addition, when a substantial amount of time is required to make the asset ready for use, the purchase price or production cost includes the financial expenses incurred that would have theoretically been saved had the investment not been made. The purchase or production costs are net of Government grants that are recorded in a contra asset account when authorised, if all the required conditions have been met.

In the case of current obligations for the dismantling and removal of assets and the reclamation 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. Revisions of estimates for these provisions, for the passage of time and for changes in the discount rate are recognised under 'Provisions for contingencies'.

No revaluation is made even in application of specific laws.

Assets carried under financial leasing are included within the tangible assets, with a corresponding entry to the financial payable to the lessor, and depreciated using the criteria detailed below. When the renewal is not reasonably certain, assets carried under financial leasing are depreciated over the period of the lease if shorter than the useful life of the asset.

Tangible assets are depreciated systematically based on straight-line method over the duration of their useful life taken as an estimate of the period for which the assets will be used by the company. When tangible assets are comprized of more than one significant element with different useful lives, the depreciation is carried out for each component. The amount to be depreciated is represented by the book value reduced by the presumable net realisable value at the end of the useful life, if it is significant and can be reasonably determined. Land is not depreciated, even if purchased together with a building. Tangible assets held for sale are not depreciated but are valued at the lower of the book value and fair value less costs of disposal.

Assets that can be used free of charge are depreciated over the shorter term of the duration of the concession and the useful life of the asset.

Renewals, improvements and transformations which extend asset lives are capitalised.

The costs for the substitution of identifiable components in complex assets are capitalised and depreciated over their useful life; the residual book value of the component that has been substituted is charged to the profit and loss account. Ordinary maintenance and repair costs are expensed when incurred.

When events occur that lead to a presumable reduction in the book value of tangible assets, their recoverability is checked by comparing their book value with the realisable value, represented by the greater of fair value less costs of disposal and value in use.

In the absence of a 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 determined by discounting the expected cash flows deriving from the use of the asset and, if significant and reasonably determinable, the cash flows deriving 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 takes into account the implicit risk in the sectors where the entity operates.

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, the so called 'cash generating unit'. When the reasons for their impairment cease to exist, Saipem reverses previously recorded impairment charges and records as income of an asset revaluation in the profit and loss account of the relevant year. This asset revaluation is the lower of the fair value and the book value increased by the amount of previously incurred impairments net of related amortisation that would have been made if the impairment had not been made.

Tangible assets destined for specific operating projects, for which no further future use is envisaged due to the peculiarities of the asset itself or the high usage sustained during the execution of the project, are amortised over the duration of the project.

Intangible assets

Intangible assets include assets which lack identifiable physical qualities, controlled by the company and able to produce future economic benefits, and goodwill acquired in business combinations. An asset is classified as intangible when the management is able to distinguish it clearly from goodwill. This condition is normally met when: (i) the intangible asset can be traced back to a legal or contractual right, 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 power to obtain the future economic benefits deriving from the underlying resource and to restrict the access of others to those benefits. Intangible assets are stated at cost as determined with the criteria used for tangible assets. No revaluation is made even in application of specific laws.
Intangible assets with a defined useful life are amortised systematically over the duration of their useful life taken as an estimate of the period for which the assets will be used by the company; the recoverability of their book value is checked using 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 checked at least annually and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. With reference to goodwill, this check is performed at the level of the smallest aggregate on which the company, directly or indirectly, evaluates the return on the capital expenditure that included said goodwill. When the carrying amount of the cash generating unit, including goodwill attributed thereto, exceeds the cash generating unit's recoverable amount, the difference is recognized as impairment and it is primarily charged against goodwill up to its amount; any amount in excess is charged on a prorate basis against the book value of the assets that form the cash generating unit. Impairment charges against goodwill are not revalued. Negative goodwill is recognized in the profit and loss account.

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.

Grants

Grants are recorded in a contra asset account when authorised, if all the required conditions have been met and as a reduction of purchase price or production cost of the relevant assets. Grants of the year are recognised in the profit and loss account.

Financial fixed assets

INVESTMENTS

Investments in subsidiaries excluded from consolidation, joint ventures and affiliates are accounted for using the equity method. If it does not result in a misrepresentation of the company's financial condition and consolidated results, subsidiaries, joint ventures and affiliates excluded from consolidation may be accounted for at cost, adjusted for permanent impairment of value.
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 charged to the profit and loss account item 'Other income (expense) from investments'.
Other investments are recognised at their fair value and their effects are included in shareholders' equity. When fair value cannot be reasonably ascertained, investments are accounted for at cost, adjusted for permanent impairment of value; impairment of value may not be revalued.
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 FINANCIAL ASSETS TO BE HELD TO MATURITY

Receivables and financial assets that must be 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 to agents or consultants, etc.). The initial carrying value is then corrected 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 internal rate of return represented by the rate that equalises, at the moment of the initial revaluation, the current value of expected cash flows to the initial carrying value (so-called amortised cost method). The economic effects of the valuation according to the amortised cost method are charged as ‘Financial income (expenses)’.

Current assets

Inventories

Inventories, with the exception of contract work-in-progress, are stated at the lower price between the purchase or production price calculated according to the criteria for intangible assets and the market value.

The cost for inventories is determined by applying the weighted-average cost method. As inventories mostly consist of spare parts, the market value thereof is represented by their replacement cost or by their net realisable value, if lower.

Contract work-in-progress relating to long-term contracts is stated on the basis of accrued contractual revenues, agreed with the customers using the percentage of completion method and complying with the principle of prudence.

Given the nature of the contracts and the type of work, the percentage of completion is calculated on the basis of the work performed, being the percentage of costs incurred with respect to the total estimated costs (cost-to-cost method).

Adjustments made for the economic effects of using this method with respect to the revenues invoiced are included under ‘work-in-progress’ if positive or under ‘commercial payables’ if negative.

The agreed revenues, where expressed in a foreign currency, are calculated by taking into account the exchange rate fixed by the designated hedge, if any, or alternatively the exchange rate at the end of the period; the same method is used for any costs in a foreign currency.

The valuation of work-in-progress considers all directly related costs, contractual risks and contractual price revisions, where they can be objectively determined.

Modifications to original contracts for additional works, are acknowledged when their realisation is likely and can reasonably be quantified. Contract losses are charged entirely to the period in which they are expected.

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

Current financial assets

Financial assets held for trading and financial assets available for disposal are stated at fair value and the economic effects charged, respectively, to the income statement item ‘Financial income/(expenses)’ and the balance sheet item ‘Other reserves’. The fair value of financial instruments is represented 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 the market operators and the prices obtained in similar actual transactions in the market.

When the conditions for the purchase or sale of financial assets provide for the settlement of the transaction and the delivery of the assets within a given number of days determined by entities controlling the market or by agreements (e.g. purchase of securities on regulated markets), the transaction is entered at the date of settlement.

Receivables are stated at their amortised cost (see above ‘Financial fixed assets’).

Transferred financial assets are eliminated when the transaction, together with the cash flows deriving from it, lead to the substantial transfer of all risks and benefits associated to the property.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown within borrowings on the balance sheet in the ‘Current liabilities’ caption.

Treasury shares

Treasury shares are recorded at cost and as a reduction of shareholders' equity. Income from the subsequent sale of treasury shares are recorded as an increase in shareholders' equity.

Financial liabilities

Debt is shown at the amortised cost (see above 'Financial fixed assets').

Provisions for contingencies

Provisions for contingencies concern risks and charges of a definite nature and whose existence is certain or probable but for which at year-end the amount or date of occurrence remains uncertain. Provisions are made when: (i) there is a current obligation, either legal or implicit, deriving from a past event; (ii) it is probable that the fulfilment of that obligation will be expensive; (iii) the amount of the obligation can be accurately estimated. Provisions are stated at the value that represents the best estimate of the amount that the company would reasonably pay to fulfil the obligation or to transfer it to third parties at year-end. When the financial effect of time is significant and the payment date of the obligations can be reasonably estimated, the provisions are discounted; the increase in the provision linked to the passing of time is charged to the income statement in the item 'Financial income/(expenses)'.
When the liability regards a tangible asset (e.g. site restoration and abandonment), the provision is stated as a contra to the asset to which it refers; the income statement charge is made with the amortisation process.
The costs that the company expects to bear to carry out restructuring plans are recognised in the year in which the company formally defines the plan and the interested parties have developed the reasonable expectation that the restructuring will happen.
The provisions are periodically updated to show the variations of estimates of costs, production times and actuarial rates; the estimate revisions of the provisions are recognised in the same income statement item that had previously held the provision, or, when the liability regards tangible assets (i.e. site restoration and abandonment) as a contra to the assets to which they refer.
In the Notes to the financial statements the following potential liabilities are described: (i) possible, but not probable obligations deriving from past events, whose existence will be confirmed only when one or more future events beyond the company's control occur; (ii) current obligations deriving from past events whose amount cannot be reasonably estimated or whose fulfilment will probably not be expensive.

Employee post-employment benefits

Post-employment benefit plans are defined on the basis of plans, even if not formalised, which due to their mechanisms feature defined contribution plans or defined benefit plans. In the first case, the company's obligation, consisting of making payments to the State or to a trust or a fund, is determined on the basis of due contributions, minus any sums already paid.
The liabilities related to defined benefit plan[2], net of any plan assets, are determined on the basis of actuarial assumptions[3] and charged to the relevant year consistently with the employment period required to obtain the benefits; the evaluation of liabilities is made by independent actuaries.
The actuarial gains and losses of defined benefit plans, deriving from a change in the actuarial assumptions used or from a change in the conditions of the plan, are charged to the income statement, in the limits of the share of the discounted profit/loss not charged beforehand, that exceeds the greater of 10% of liabilities and 10% of the fair value of the plan assets (corridor method).
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.

Revenues

Revenues from sales of products and services rendered are recognised upon transfer of risks and benefits associated with the property or upon settlement of the transaction.
The allowances of revenues related to partially rendered services are recognised with respect to the accrued considerations, if it is possible to reasonably determine the state of completion and there are no relevant uncertainties concerning the amounts and the existence of the revenue and related costs; differently they are recognised within the limits of the recoverable costs incurred.

(2) Given the uncertainties related to their payment date, employee termination indemnities are considered as a defined benefit plan.
(3) Actuarial assumptions concern, among other things, the following variables: (i) level of future salaries; (ii) employee mortality rate; (iii) employee turnover rate; (iv) share of participants with successors entitled to benefits (e.g. spouses and children); (v) for medical assistance plans, frequency of reimbursement claims and future changes in medical costs; (vi) interest rates.

The revenues related to contract work-in-progress are recognised on the basis of contractual considerations by reference to the stage of completion of a contract measured on the cost-to-cost basis. 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 hedge accounting.
Advances are recognised at the exchange rate on the date of payment.
Requests for additional revenues, deriving from a change in the scope of the work, are included in the total amount of revenues when it is probable that the customer will approve the variation and the relevant amount; claims deriving for instance from additional costs incurred for reasons attributable to the client are included in the total amount of considerations when it is probable that the counterpart will accept them. Work that has not yet been agreed is recognised at the year-end exchange rate.
Revenues are stated net of returns, discounts, rebates and bonuses, as well as directly related taxation.

Costs

Costs are recognised when the related goods and services are sold, consumed or allocated, or when their future useful lives cannot be determined.
Operating lease payments are recognised in the profit and loss account 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.
Labour costs include stock grants and stock options granted to managers from January 1, 2003, consistently with their actual remunerative nature. The cost is determined based on the fair value of the rights awarded to the employee, plus any charges borne by the employer (social contributions and employee termination indemnities); the portion relevant to the year is calculated pro rata over the period to which the incentive refers (vesting period)[4]. The fair value of stock grants is represented by the current value of the shares at the date of the award, reduced by the current value of the expected dividends in the vesting period. The fair value of stock options is the value of the option calculated with the Black-Scholes method that takes into account the exercise conditions, current price of the shares, expected volatility and the risk-free rate.
The fair value of stock grants and stock option plans for Saipem SpA employees is shown in the item ‘Labour costs’ and as a contra to ‘Other reserves’. The allowance for employee termination indemnities and social contributions calculated on the fair value is recognised in a contra account in the item ‘Provision for employee benefits’.
The fair value of stock grant plans for employees of controlled companies is shown at the date of option allocation in the item ‘Financial expenses’ and as a contra to ‘Other reserves’ and is subsequently recharged to the various companies in a contra account in the item ‘Financial income - other’.
Costs related to personnel on secondment are charged pro rata to the companies for which said personnel are working.
The fair value of stock option plans is shown as a contra-entry in the 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, in any case, costs borne 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’ (please refer to item described above).

Exchange rate differences

Revenues and costs concerning transactions in foreign currencies are stated at the exchange rate on the date that the transaction is completed.
Monetary assets and liabilities in foreign currencies are converted into euros by applying the year-end exchange rate and the effect is stated in the income statement. Non-monetary assets and liabilities in foreign currency valued at cost are stated at the initial exchange rate; when they are evaluated at fair value, at recoverable value or realisable value, the exchange rate applied is that of the day of recognition.

Dividends

Dividends are recognised at the date of the general shareholders’ meeting in which they were declared.

(4) For stock grants, the period between the date of the award and the date of allocation of stock; for stock options, the period between the date of the award and the date on which the option can be exercised.

Income taxes

Current income taxes are determined on the basis of the estimated taxable income; the estimated liability is recognised in the item 'Current tax liabilities'. Current 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 financial reporting and tax bases of assets and liabilities. Deferred tax assets are recognised when their realisation is probable.
Deferred tax assets and liabilities are recorded under non-current assets and liabilities and are offset at single entity level if referred to offsettable taxes. The balance of the offset, if positive is recognised in the item 'Deferred tax assets' and if negative in the item 'Deferred tax liabilities'.
When the results of transactions are recognised directly in the shareholders' equity, current taxes, deferred tax assets and liabilities are also charged to the shareholders' equity.

Derivatives

Derivatives are assets and liabilities recognised at their fair value.
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 checked periodically. When hedging instruments cover the risk of variation of the fair value of the hedged item (fair value hedge; e.g. hedging of the variability on the fair value of fixed interest rate assets/liabilities), the derivatives are stated at fair value and the effects charged to the income statement; consistently the hedged items are adjusted to reflect the variability of fair value associated with the hedged risk.
Cash flow hedges cover the cash flow variation risks that may affect the profit and loss account in the future; these risks are usually associated with a balance sheet asset or liability (such as future payables of debts at variable interest rates) or highly probable forecast transactions, for instance project income/costs.
The effective portion of variations in fair value of derivatives, as defined as hedging contracts by IAS 39, are posted to a hedging reserve and are charged as income over the period when the hedge affects the profit and loss account.
The ineffective portion of variations in fair value of derivatives, as well as the entire variations in fair value of those derivatives that have not been defined as hedging contracts by IAS 39, are charged directly to the income statement in the item 'Financial income/(expenses)'.

Risk management

Main risks identified and managed by Saipem are the following:
(i) market risks deriving from exposure to fluctuations in interest rates, exchange rates between the euro and the other currencies used by the company, as well as volatility in commodity prices;
(ii) the credit risk deriving from possible default by a counterparty;
(iii) the liquidity risk deriving from the lack of financial resources to face short-term commitments;
(iv) the operational risk deriving from the occurrence of accidents, malfunction, failures with injury to persons and damage to the environment affecting operating and financial results;
(v) country risk of operations.

MARKET RISK

Saipem operates worldwide in business sectors that are exposed to market risks resulting from changes in interest rates, exchange rates and price of materials. The risk of fluctuations in prices and financial flows is closely linked to the nature of this business and can only be partially offset through appropriate risk management policies.
The market risk also includes exchange and interest rate risks.

Risk of price variations and financial flows

Saipem's results are influenced by variations in oil prices, insurance premia and price of raw materials. Furthermore, Saipem's financial flows are exposed to fluctuations in interest and exchange rates.

Exchange rate risk
Saipem is exposed to exchange rate fluctuations because the Group operates in non-euro areas, revenues from operational contracts are denominated in or linked to the US dollar, and because of the time lag between the occurrence of revenues and costs denominated in a currency different from that of the financial statements and their financial realisation. Saipem's strategy to reduce the market risk exposure arising from exchange rate fluctuations by utilising derivatives. Planning and management for this activity is the responsibility of the 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.

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, as they also ensure a balanced relation between debt at fixed and variable interest rates.

CREDIT RISK
Credit risk represents Saipem's exposure to incur a loss in the event of non-performance by a counterparty. Credit risk related to the ordinary course of trade activities is managed by the business units and the administration department on the basis of standardised procedures and periodic reporting. As for financial investments and the utilisation of financial instruments, including derivatives, companies adopt the guidelines issued by the Treasury Department of Saipem SpA. At present, Saipem has no significant concentrations of credit risk.

LIQUIDITY RISK
Liquidity risk is the risk that suitable sources of funding for business activities may not be sufficient to cover commitments. At present, through the management of flexible credit lines suitable with business requirements, Saipem believes it has access to sufficient funding and has also both committed and uncommitted borrowing facilities to meet currently foreseeable borrowing requirements.

OPERATIONAL RISKS
Saipem's activities present industrial and environmental risks and are therefore subject to extensive government regulations concerning environmental protection and industrial security in most countries.
Saipem adopted the most stringent standards for the evaluation and management of industrial and environmental risks, complying with the industry best practices. Business units evaluate through specific procedures the related industrial and environmental risks in addition to taking into account the regulatory requirements of the countries where these activities are located. Saipem's values, as indicated in the HSE section of this report, are the prevention of environmental risks and the health and safety of all its employees.

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. Saipem constantly monitors the political, social and economic risk of countries where it operates or intends to invest. Country risks are mitigated by means of appropriate guidelines for risk management that Saipem defined in its procedure for 'Project Risk Assessment and Management'.

Financial statements
Assets and liabilities of the balance sheet are classified as current and non-current. Items of the profit and loss account are presented by nature.
Statements of cash flow are presented using the 'indirect method', whereby net profit is adjusted for the effects of transactions of a non-cash nature.
Statements of changes in shareholders' equity present profit and loss for the year and other changes of the shareholders' equity.

Changes in accounting principles

Starting from 2006, Saipem applies: (i) the requirements of IFRIC 4 'Determining whether an arrangement contains a lease' that provide guidance for determining whether arrangements that do not take the legal form of a lease but which convey rights to use assets in return for a payment or series of payments should be treated as a lease; (ii) the amendments to IAS 39 'Financial instruments: recognition and measurement' that are related to: (a) the possibility to qualify as hedging instruments, in relation to cash flow operations, the intercompany transactions expected and highly probable on condition that these transactions are denominated in a functional currency of the entity that carries out the operation and the exposure to the exchange rate risk determines some effects in consolidated profit and loss account; (b) the recognition and measurement of financial guarantees that are recorded when they are issued, as liability valued at the market value and, then, in relation to the execution risk, at the greater between the best estimates of the charge to be sustained to fulfil the obligation and the initial amount reduced of premiums collected; (iii) the requirements of IFRIC 5 'Rights to interests arising from decommissioning, restoration and environmental funds' that provide guidance for determining the recognition and measurement for the contribution to decommissioning, restoration and environmental rehabilitation funds that have the following features: (a) the assets are held or administered by a separate legal entity; and (b) contributor's right to access the assets of the fund is restricted. The contributor recognises its obligation to pay decommissioning costs as a liability and its interest in the fund separately. In the case that the interest means having control, having joint control or significant influence over the fund, the entity contributor must recognise the interest in the fund as an investment in a subsidiary, associate or jointly controlled venture.
The adoption of these principles did not generate a significant effect.

Use of accounting estimates

The application of generally accepted accounting standards in the preparation of these consolidated financial statements requires management to apply accounting methods and policies that are based on difficult or subjective judgments, estimates based on past experience and assumptions determined to be reasonable and realistic based on the related circumstances. The application 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 the accounting estimates that require more subjective judgment by our management. Such assumptions or estimates regard the effects of matters that are inherently uncertain and for which changes in conditions may significantly affect future results.

CONTRACT WORK IN PROGRESS

The determination of contract work in progress is based on estimated revenues and costs over the full life of the contract in case of long-term contracts, whose appreciation is subject, by its nature, to significant evaluation criteria. Contract work in progress includes extra revenues from additional works following modifications to the original contracts where their realisation is likely and they can be reasonably quantified. Owing to the ever-increasing volumes generated by EPIC (Engineering, Procurement, Installation and Construction) type projects, which are intrinsically highly complex, large-scale, long-term and involve a high level of unpredictability, the periodic statements include expected additional revenues even before a formal agreement with the counterpart is reached.

IMPAIRMENT OF ASSETS

Fixed assets and intangible assets are written down whenever events and changes in circumstances indicate that the carrying amount may not be recoverable. The amount of an impairment charge is determined by comparing the book value of an asset with its recoverable amount. The recoverable amount is the greater of fair value, net of disposal costs and value in use, net of disposal costs. The estimated fair value is usually based on the present values of expected future cash flows using assumptions commensurate with the risks involved in the asset group. The expected future cash flows used for impairment reviews are based on judgmental assessments of future production volumes, prices and costs, considering available information at the date of review and are discounted by using a rate related to the activity involved.

BUSINESS COMBINATION

Accounting for the acquisition of a business requires the allocation of the purchase price to the various assets and liabilities of the acquired business at fair value. Any positive residual difference is recognised as goodwill. Negative residual differences are charged against profit and loss account. Management uses all available information to make these fair value determinations and, for major business acquisitions, typically engages an outside appraisal firm to assist in the fair value determination of the acquired assets and liabilities .

CONTINGENCIES

Saipem makes accruals for contingencies primarily related to employee benefits, litigation and tax issues. Determining appropriate amounts for accrual is a complex estimation process that includes subjective judgements.

EMPLOYEE BENEFITS

Post-retirement benefits resulting from defined benefit plans are evaluated with reference to uncertain events and based upon actuarial assumptions including, among others, discount rates, expected rates of return on any plan assets, expected rates of salary increases, medical cost trend rates, estimated retirement dates, 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. Indications 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). 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, promotion and other factors; (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; (v) determination of expected rates of return on assets is made through compound averaging. For each plan, the distribution of investments among bonds, equities and cash and the expected rates of return on bonds, equities and cash are taken into account. A weighted-average rate is then calculated.

Differences between projected and actual costs and between the projected return and the actual return on plan assets routinely occur and are called actuarial gains and losses. Saipem applies the corridor method to amortise its actuarial losses and gains. This method amortises on a pro-rata basis the net cumulative actuarial gains and losses 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

With Regulation No. 108/2006 issued on January 11, 2006 the European Commission approved IFRS 7 ‘Financial instruments: disclosures’. IFRS 7 establishes the disclosures to be given regarding financial instruments and the exposure and management of financial risks. The requirements of IFRS 7 include some disclosures currently contained in IAS 32 ‘Financial instruments: exposures and additional disclosures’. IFRS 7 went into effect on January 1, 2007.

Saipem is presently analysing the statements and, at the moment, cannot determine if adoption of the standard will have a significant effect on its consolidated financial statements.

Scope of consolidation at December 31, 2006

Company	Registered office	Currency	Share capital	Shareholders	% held	Saipem's consolidation (%)	Method of consolidation or accounting principle (*)
CONSOLIDATING COMPANY							
Saipem SpA	San Donato Milanese	EUR	441,410,900	Eni SpA Saipem SpA Third parties	42.92 1.40 55.68		
CONTROLLED COMPANIES							
ITALY							
Bos Italia Srl (**)	Milan	EUR	10,000	Saipem sa	100.00	100.00	F.C.
Consorzio Ras - Realizzazioni Attraversamenti Sotterranei (**)	Udine	EUR	10,329	Snamprogetti SpA Third parties	51.00 49.00		E.M.
Consorzio Sapro	San Giovanni Teatino	EUR	10,329	Saipem SpA Third parties	51.00 49.00		Co.
Energy Maintenance Services SpA	San Donato Milanese	EUR	9,020,216	Saipem SpA	100.00	100.00	F.C.
Engineering & Management Services SpA	San Donato Milanese	EUR	309,600	Snamprogetti SpA	100.00	100.00	F.C.
Intermare Sarda SpA	Tortolì	EUR	6,708,000	Saipem SpA	100.00	100.00	F.C.
Saipem Energy International SpA	San Donato Milanese	EUR	2,550,000	Saipem SpA	100.00	100.00	F.C.
Saipem FPSO SpA (ex Sonsub SpA)	San Donato Milanese	EUR	884,000	Saipem SpA	100.00	100.00	F.C.
Saipem Projects SpA	San Donato Milanese	EUR	216,500,000	Saipem SpA	100.00	100.00	F.C.
Snamprogetti SpA	San Donato Milanese	EUR	103,200,000	Saipem Projects SpA	100.00	100.00	F.C.
Snamprogetti Sud SpA	Vibo Valentia	EUR	5,000,040	Snamprogetti SpA	100.00	100.00	F.C.
ABROAD							
Andromeda Consultoria Tecnica e Representações Ltda	Rio de Janeiro (Brazil)	BRL	231,150,000	Snamprogetti SpA Snamprogetti Management Services SA	99.00 1.00	100.00	F.C.
Boscongo sa	Pointe Noire (Congo)	XAF	200,000,000	Saipem sa Third parties	99.98 0.02	100.00	F.C.
BOS Investment Ltd	London (United Kingdom)	GBP	5,000,000	Saipem sa	100.00	100.00	F.C.
BOS-UIE Ltd	London (United Kingdom)	GBP	3,300,000	BOS Investment Ltd	100.00	100.00	F.C.
Camom Gesellschaft fur Instandhaltung und Montagen GmbH	Frankfurt (Germany)	EUR	25,565	Camom sa	100.00	100.00	F.C.
Camom Industrie Instandhaltung GmbH & Co Kg (**)	Spergau (Germany)	EUR	25,565	Camom Gesellschaft fur Instandhaltung und Montagen GmbH	100.00		Co.
Camom Industrie Instandhaltung Verwaltungs GmbH (**)	Spergau (Germany)	EUR	25,565	Camom Gesellschaft fur Instandhaltung und Montagen GmbH	100.00		Co.
Camom sa	Montigny le Bretonneux (France)	EUR	2,897,500	Saipem sa	100.00	100.00	F.C.
CENMC Canada Inc	Montreal (Canada)	CAD	100	European Maritime Commerce BV	100.00	100.00	F.C.
Delong Hersent - Estudos, Construções Maritimas e Participações, Unipessoal Lda	Funchal (Portugal)	EUR	5,000	Saipem sa	100.00	100.00	F.C.
Entreprise Nouvelle Marcellin sa	Marseille (France)	EUR	1,018,700	Saipem sa	100.00	100.00	F.C.
ER SAI Caspian Contractor Llc	Almaty (Kazakhstan)	KZT	1,105,930,000	Saipem International BV Third parties	50.00 50.00	50.00	F.C.

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

Company	Registered office	Currency	Share capital	Shareholders	% held	Saipem's consolidation (%)	Method of consolidation or accounting principle (*)
ERS - Equipment Rental & Services BV	Amsterdam (Netherlands)	EUR	90,760	Saipem International BV	100.00	100.00	F.C.
European Marine Contractors Ltd	London (United Kingdom)	GBP	1,000,000	European Marine Investments Ltd Saipem UK Ltd	50.00 50.00	100.00	F.C.
European Marine Investments Ltd	London (United Kingdom)	USD	20,000,000	Saipem International BV	100.00	100.00	F.C.
European Maritime Commerce BV	Amsterdam (Netherlands)	EUR	18,000	ERS - Equipment Rental & Services 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.
Guangdong Contractor Snc	Montigny le Bretonneux (France)	EUR	1,000	Entreprise Nouvelle Marcellin sa Third parties	60.00 40.00	60.00	P.C.
Hazira Cryogenic Engineering & Construction Management Private Ltd	Mumbai (India)	INR	100,000	Services et Equipements Gaziers et Petroliers sa Third parties	55.00 45.00	55.00	F.C.
Hazira Marine Engineering & Construction Management Private Ltd	Mumbai (India)	INR	100,000	Saipem sa Sofresid sa	99.99 0.01	100.00	F.C.
Katran-K Llc	Krasnodar (Russian Federation)	RUB	1,603,800	Saipem International BV	100.00	100.00	F.C.
Moss Arctic Offshore AS	Lysaker (Norway)	NOK	100,000	Moss Maritime AS	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	100.00	F.C.
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	37,319,045	Saipem International BV	100.00	100.00	F.C.
Petromar Lda	Luanda (Angola)	USD	357,143	Delong Hersent - Estudos, Construções Maritimas e Participações, Unipessoal Lda Third parties	70.00 30.00	70.00	F.C.
PT Saipem Indonesia	Jakarta (Indonesia)	USD	30,290,000	Saipem International BV	100.00	100.00	F.C.
Sagio - Companhia Angolana de Gestão de Instalações Offshore Lda	Luanda (Angola)	AOA	1,600,000	Saipem (Portugal) Gestão de Participações SGPS SA Third parties	60.00 40.00		E.M.
Saibos Akogep Snc	Montigny le Bretonneux (France)	EUR	39,000	Saipem sa Third parties	70.00 30.00	70.00	P.C.
Saibos Construções Maritimas Lda	Funchal (Portugal)	EUR	27,551,052	Saipem sa	100.00	100.00	F.C.
Saibos FZE	Dubai (United Arab Emirates)	AED	1,000,000	Saibos Construções Maritimas Lda	100.00	100.00	F.C.
Saigut SA de Cv	Ensenada (Mexico)	MXN	50,000	Saimexicana SA de Cv Third parties	80.00 20.00	80.00	F.C.
Saimexicana SA de Cv	Mexico City (Mexico)	MXN	50,000	Saipem sa	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.

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

Company	Registered office	Currency	Share capital	Shareholders	% held	Saipem's consolidation (%)	Method of consolidation or accounting principle (*)
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 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 Sociedade Unipessoal 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 Samicy F. (***)	Buenos Aires (Argentina)	ARS	150,000	Saipem International BV Third parties	98.77 1.23		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 Algerie SpA	Hassi Messaoud (Algeria)	DZD	10,000,000	Sofresid sa Saipem sa Third parties	99.94 0.01 0.05	100.00	F.C.
Saipem do Brasil Serviçõs de Petroleo Ltda	Rio de Janeiro (Brazil)	BRL	10,502,327	Saipem FPSO SpA	100.00	100.00	F.C.
Saipem Engineering Nigeria Ltd	Lagos (Nigeria)	NGN	72,000,000	Saipem International BV Third parties	98.96 1.04		E.M.
Saipem Holding France sas	Montigny le Bretonneux (France)	EUR	40,000	Saipem International BV	100.00	100.00	F.C.
Saipem India Project Services Ltd	Chennai (India)	INR	2,000,000	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 Logistics Services Ltd	Lagos (Nigeria)	NGN	55,000,000	Saipem International BV	100.00	100.00	F.C.
Saipem Luxembourg SA	Luxembourg (Luxembourg)	EUR	31,002	Saipem (Portugal) Gestão de Participações SGPS SA	100.00	100.00	F.C.
Saipem Mediterranean Services Llc	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 European Maritime Commerce BV	99.92 0.04 0.04	100.00	F.C.
Saipem Perfurações e Construções Petroliferas Lda	Funchal (Portugal)	EUR	224,459	Saipem (Portugal) Gestão de Participações SGPS SA	100.00	100.00	F.C.
Saipem sa	Montigny le Bretonneux (France)	EUR	26,488,695	Saipem SpA	100.00	100.00	F.C.
Saipem Services México SA de Cv	Mexico City (Mexico)	MXN	50,000	Saimexicana SA de Cv	100.00	100.00	F.C.
Saipem Services SA	Bruxelles (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	25,000	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 Venezuela SA	Caracas (Venezuela)	VEB	20,000,000	Saipem sa Third parties	99.95 0.05		Co.

(*) F.C. = full consolidation, P.C. = proportional 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 (*)
SAIR Construções Mecanicas de Estruturas Maritimas Lda	Funchal (Portugal)	EUR	5,000	Saipem (Portugal) Gestão de Participações SGPS SA Third parties	86.00 14.00	86.00	F.C.
SAS Port de Tanger	Montigny le Bretonneux (France)	EUR	37,000	Saipem sa	100.00	100.00	F.C.
Saudi Arabian Saipem Ltd	Al Khobar (Saudi Arabia)	SAR	5,000,000	Saipem International BV Third parties	60.00 40.00	100.00	F.C.
Services et Equipements Gaziers et Petroliers sa	Donges (France)	EUR	38,125	Saipem sa Third parties	99.76 0.24	100.00	F.C.
Shipping and Maritime Services Ltd	Lagos (Nigeria)	NGN	13,000,000	ERS - Equipment Rental & Services BV	100.00		E.M.
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	1,000	Snamprogetti Netherlands BV	100.00	100.00	F.C.
Snamprogetti Engineering BV	Amsterdam (Netherlands)	EUR	18,151	Snamprogetti Netherlands BV	100.00		E.M.
Snamprogetti France sarl	Paris (France)	EUR	22,867	Snamprogetti Netherlands BV	100.00	100.00	F.C.
Snamprogetti Kazakhstan Llp (**)	Almaty (Kazakhstan)	KZT	15,000,000	Snamprogetti Netherlands BV Snamprogetti Management Services SA	99.00 1.00		E.M.
Snamprogetti Ltd	Basingstoke (United Kingdom)	GBP	15,000,000	Snamprogetti Management Services SA	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	50,000,000	Snamprogetti Netherlands BV Third parties	99.99 0.01	100.00	F.C.
Snamprogetti Netherlands BV	Amsterdam (Netherlands)	EUR	92,117,340	Snamprogetti SpA	100.00	100.00	F.C.
Snamprogetti Romania Srl	Bucharest (Rumania)	ROL	4,075,150	Snamprogetti Netherlands BV Snamprogetti Management Services SA	99.00 1.00		E.M.
Snamprogetti Saudi Arabia Ltd	Al Khobar (Saudi Arabia)	SAR	10,000,000	Snamprogetti Management Services SA Snamprogetti Netherlands BV	95.00 5.00	100.00	F.C.
Snamprogetti USA Inc	Dover (USA)	USD	2,000	Snamprogetti Management Services SA	100.00	100.00	F.C.
SNC Saipem - Bouygues TP	Monaco (Principality of Monaco)	EUR	10,000	Saipem sa Third parties	70.00 30.00	70.00	P.C.
Société de Construction d'Oleoducs Snc	Donges (France)	EUR	39,000	Services et Equipements Gaziers et Petroliers sa Camom sa	99.90 0.10	100.00	F.C.
Société Nouvelle Technigaz sa	Montigny le Bretonneux (France)	EUR	228,750	Saipem sa Third parties	99.96 0.04	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	Randaberg (Norway)	NOK	1,882,000	Saipem International BV	100.00	100.00	F.C.

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

Company	Registered office	Currency	Share capital	Shareholders	% held	Saipem's consolidation (%)	Method of consolidation or accounting principle (*)
Sonsub International Pty Ltd	Sydney (Australia)	AUD	13,157,570	Saipem International BV	100.00	100.00	F.C.
Sonsub Ltd	Aberdeen (United Kingdom)	GBP	5,901,028	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	80.00	100.00	F.C.
				Sofresid sa			
				Saipem (Portugal) Comércio Marítimo Lda	20.00		
STTS Snc	Montigny le Bretonneux (France)	EUR	1,000	Saipem sa	57.00	60.00	P.C.
				Société Nouvelle Technigaz sa	3.00		
				Third parties	40.00		
Sud Est Cie sa	Aix en Provence (France)	EUR	152,704	Sofresid sa	99.62		Co.
				Third parties	0.38		
TBE Ltd	Damietta (Egypt)	EGP	50,000	Société Nouvelle Technigaz sa	70.00	70.00	F.C.
				Third parties	30.00		
Varisal - Serviços de Consultadoria e Marketing Lda	Funchal (Portugal)	EUR	5,000	Saipem (Portugal) Gestão de Participações SGPS SA	100.00		E.M.

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

Company	Registered office	Currency	Share capital	Shareholders	% held	Saipem's consolidation (%)	Method of consolidation or accounting principle (*)
ASSOCIATED COMPANIES							
ITALY							
ASG Scarl	San Donato Milanese	EUR	50,864	Snamprogetti SpA Third parties	55.41 44.59	55.41	P.C.
Bormida 2005 Scarl	Cesena	EUR	10,000	Snamprogetti SpA Third parties	45.00 55.00		E.M.
CEPAV (Consorzio Eni per l'Alta Velocità) Uno	San Donato Milanese	EUR	51,646	Snamprogetti SpA Saipem SpA Third parties	50.10 0.26 49.64	50.36	P.C.
CEPAV (Consorzio Eni per l'Alta Velocità) Due	San Donato Milanese	EUR	51,646	Snamprogetti SpA Saipem SpA Third parties	40.00 12.00 48.00		E.M.
Consorzio Bonifica Aree e Siti Inquinati	Milan	EUR	20,658	Snamprogetti SpA Third parties	50.00 50.00		E.M.
Consorzio Controlli Integrati in Agricoltura (**)	Rome	EUR	51,646	Snamprogetti SpA Third parties	22.50 77.50		E.M.
Consorzio Snamprogetti Abb Lg Chemicals	San Donato Milanese	EUR	50,000	Snamprogetti SpA Third parties	50.00 50.00	50.00	P.C.
Consorzio U.S.G. (**)	Parma	EUR	25,823	Saipem SpA Third parties	40.00 60.00		Co.
ITA - Consorzio Italiano per il Telerilevamento dell'Ambiente e dell'Agricoltura	Rome	EUR	12,395	Snamprogetti SpA Third parties	49.00 51.00		E.M.
Modena Scarl	San Donato Milanese	EUR	400,000	Snamprogetti SpA Third parties	59.33 40.67	59.33	P.C.
Rodano Consortile Scarl	San Donato Milanese	EUR	250,000	Snamprogetti SpA Third parties	53.57 46.43	53.57	P.C.
Rosbos Scrl (**)	Ravenna	EUR	10,400	Saipem sa Third parties	50.00 50.00		E.M.
Rosfin Srl	Ravenna	EUR	9,649,200	Saipem sa Third parties	33.30 66.70		Co.
SP - TKP Fertilizer Srl	San Donato Milanese	EUR	50,000	Snamprogetti SpA Third parties	50.00 50.00	50.00	P.C.
TSKJ Italia Srl	San Donato Milanese	EUR	50,000	Snamprogetti SpA Third parties	25.00 75.00		E.M.
ABROAD							
02 Pearl snc	Montigny le Bretonneux (France)	EUR	1,000	Saipem sa Third parties	50.00 50.00	50.00	P.C.
Africa Oil Services sa	Guyancourt (France)	EUR	37,500	Services et Equipements Gaziers et Petroliers sa Third parties	44.90 55.10		E.M.
Ateliers Ferroviaires d'Artix sas	Artix (France)	EUR	80,000	Camom sa Third parties	49.48 50.52		Co.
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	10,000,000	Star Gulf Free Zone Co Third parties	50.00 50.00	50.00	P.C.
Charville - Consultores e Serviços, Lda	Funchal (Portugal)	EUR	5,000	Snamprogetti Netherlands BV Third parties	50.00 50.00	50.00	P.C.
CMS&A Wll	Doha (Qatar)	QAR	500,000	Snamprogetti Netherlands BV Third parties	20.00 80.00	50.00	P.C.

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

Company	Registered office	Currency	Share capital	Shareholders	% held	Saipem's consolidation (%)	Method of consolidation or accounting principle (*)
Dalia Floater Angola Snc	Courbevoie (France)	EUR	0.1	Entreprise Nouvelle Marcellin sa Third parties	27.50 72.50	27.50	P.C.
Doris Development Canada Ltd	St. John's (Canada)	CAD	10,000	Doris Engineering sa	100.00		Co.
Doris Engineering sa	Paris (France)	EUR	3,571,440	Sofresid sa Third parties	40.00 60.00		E.M.
Doris USA Inc	Houston (USA)	USD	1,500,000	Doris Engineering sa	100.00		E.M.
Fertlizantes Nitrogenados de Oriente CEC	Caracas (Venezuela)	VEB	9,667,827,216	Snamprogetti Netherlands BV Third parties	20.00 80.00		E.M.
Fertlizantes Nitrogenados de Oriente SA	Caracas (Venezuela)	VEB	286,549	Snamprogetti Netherlands BV Third parties	20.00 80.00		E.M.
Fertlizantes Nitrogenados de Venezuela CEC	Josè - Edo. Anzategui (Venezuela)	VEB	312,214,634,511	Fertlizantes Nitrogenados de Oriente CEC	100.00		Co.
Fertlizantes Nitrogenados de Venezuela Srl	Josè - Edo. Anzategui (Venezuela)	VEB	287,000	Fertlizantes Nitrogenados de Oriente CEC	100.00		Co.
FPSO Firenze Produção de Petròleo, Lda	Funchal (Portugal)	EUR	50,000	Saipem (Portugal) Gestão de Participações SGPS SA Third parties	50.00 50.00	50.00	P.C.
FPSO Mystras (Nigeria) Ltd	Lagos (Nigeria)	NGN	15,000,000	FPSO Mystras Produção de Petroleo Lda	100.00	50.00	P.C.
FPSO Mystras - Produção de Petròleo, Lda	Funchal (Portugal)	EUR	50,000	Saipem (Portugal) Gestão de Participações SGPS SA Third parties	50.00 50.00	50.00	P.C.
Gaztransport et Technigaz sas	Saint Remy Les Chevreuse (France)	EUR	370,288	Société Nouvelle Technigaz sa Saipem sa Third parties	22.22 7.78 70.00		E.M.
Haldor Topsøe AS	Lyngby (Denmark)	DKK	55,000,000	Snamprogetti Management Services SA Third parties	50.00 50.00	50.00	P.C.
Haldor Topsøe Inc USA	Houston (USA)	USD	5,000,000	Haldor Topsøe AS	100.00	50.00	P.C.
Haldor Topsøe India Private Ltd	New Delhi (India)	INR	100,000	Haldor Topsøe Int AS Third parties	99.99 0.01	50.00	P.C.
Haldor Topsøe Int AS	Lyngby (Denmark)	DKK	500,000	Haldor Topsøe AS	100.00	50.00	P.C.
Kazakhoil Bouygues Offshore Sarl	Almaty (Kazakhstan)	KZT	1,000,000	Saipem sa Third parties	50.00 50.00		Co.
Kwanda Suporto Logistico Lda	Luanda (Angola)	AOA	25,510,204	Delong Hersent - Estudos, Construções Maritimas e Participações, Unipessoal Lda Third parties	40.00 60.00		E.M.
Lipardiz - Construção de Estruturas Maritimas, Lda	Funchal (Portugal)	EUR	5,000	Saipem (Portugal) Gestão de Participações SGPS SA Third parties	50.00 50.00	50.00	P.C.
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	Snamprogetti Netherlands BV Third parties	50.00 50.00	50.00	P.C.
Moss Mosvold II Management Lda	Funchal (Portugal)	EUR	5,000	Saipem (Portugal) Gestão de Participações SGPS SA Third parties	50.00 50.00		E.M.

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

Company	Registered office	Currency	Share capital	Shareholders	% held	Saipem's consolidation (%)	Method of consolidation or accounting principle (*)
Offshore Design Engineering Ltd	London (United Kingdom)	GBP	100,000	Saipem sa Doris Engineering	50.00 50.00	50.00	P.C.
OOO Moss Krylov Maritime	St. Petersburg (Russian Federation)	RUB	98,000	Moss Maritime AS Third parties	50.00 50.00		E.M.
PMS - Petrochemicals Maintenance Services GmbH	Leuna (Germany)	EUR	200,000	Camom Gesellschaft fur Instandhaltung und Montagen GmbH Third parties	25.00 75.00		E.M.
RPCO Enterprises Ltd	Nicosia (Cyprus)	CYP	10,000	Snamprogetti Netherlands BV Third parties	50.00 50.00	50.00	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 Aban Drilling Co Private Ltd	Chennai (India)	INR	50,000,000	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 Triune Engineering Private Ltd	New Delhi (India)	INR	200,000	Saipem International BV Third parties	50.00 50.00	50.00	P.C.
SEA Tank Co sa	Paris (France)	EUR	46,800	Doris Engineering sa Third parties	99.62 0.38		Co.
Servicios de Construçiones Caucedo sa	Santo Domingo (Dominican Republic)	DOP	100,000	Saipem sa Third parties	49.70 50.30	49.70	P.C.
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	Snamprogetti Netherlands BV Third parties	50.00 50.00	50.00	P.C.
SPF - TKP Omifpro Snc	Paris (France)	EUR	50,000	Snamprogetti France Sarl Third parties	50.00 50.00	50.00	P.C.
SSS-Capital Llc	Moscow (Russian Federation)	RUB	100,000	Starstroi Security Llc Third parties	99.00 1.00		E.M.
Starstroi Llc	Krasnodar (Russian Federation)	RUB	7,699,490	Saipem sa Third parties	50.00 50.00	50.00	P.C.
Starstroi - Sakhalin - Bezopasnost sarl	Yuzhno (Russian Federation)	RUB	300,000	Starstroi Security Llc	100.00		E.M.
Starstroi Security Llc	Krasnodar (Russian Federation)	RUB	300,000	Starstroi Llc	100.00		E.M.
Subcontinental Ammonia Investment Co ApS	Lyngby (Denmark)	DKK	1,000,000	Haldor Topsøe AS	100.00	50.00	P.C.
T.C.P.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	Schiedam (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	Linda a Velha Oeiras (Portugal)	EUR	700,000	Saipem sa Third parties	42.50 57.50		E.M.
Topsøe Fuel Cell AS	Lyngby (Denmark)	DKK	15,000,000	Haldor Topsøe AS	100.00	50.00	P.C.
TSKJ II - Construções Internacionais, Sociedade Unipessoal, Lda	Funchal (Portugal)	EUR	5,000	TSKJ - Serviçoes 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.

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

Company	Registered office	Currency	Share capital	Shareholders	% held	Saipem's consolidation (%)	Method of consolidation or accounting principle (*)
TSKJ - Serviços de Engenharia Lda	Funchal (Portugal)	EUR	5,000	Snamprogetti Netherlands BV	25.00		E.M.
				Third parties	75.00		
TSKJ - US Llc	Wilmington (USA)	USD	1,000	Snamprogetti USA Inc	25.00		E.M.
				Third parties	75.00		
TSS Dalia Snc	Courbevoie (France)	EUR	0	Saipem sa	27.50	27.50	P.C.
				Third parties	72.50		
TZS Llc (NV)	Reno (USA)	USD	10,000	Saipem America Inc	20.00	20.00	P.C.
				Third parties	80.00		
TZS Llc (TX)	San Antonio (USA)	USD	5,000	Saipem America Inc	20.00	20.00	P.C.
				Third parties	80.00		
Upstream Constructors International Fz Co	Jebel Ali (United Arab Emirates)	AED	600,000	Saibos Construções Maritimas Lda	50.00	50.00	P.C.
				Third parties	50.00		
ZAO Haldor Topsøe	Moscow (Russian Federation)	RUB	3,500,000	Haldor Topsøe AS	100.00	50.00	P.C.

The Saipem Group comprises 180 companies: 83 are consolidated using the full consolidation method, 42 the proportional method; 42 the equity method and 13 the cost method.

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

Acquisition of the Snamprogetti Group

On March 27, 2006, Saipem Project SpA purchased from Eni SpA 100% of the holding in **Snamprogetti SpA** and consequently of all of its holdings, which are listed hereafter based on the consolidation criteria:

Companies consolidated using the full consolidation method:
- Andromeda Consultoria Tecnica e Representações Ltda, Engineering & Management Services SpA, Snamprogetti Canada Inc, Snamprogetti France sarl, Snamprogetti Ltd, Snamprogetti Lummus Gas Ltd, Snamprogetti Management Services SA, Snamprogetti Netherlands BV, Snamprogetti Sud SpA, Snamprogetti Saudi Arabia Ltd, Snamprogetti USA Inc.

Companies consolidated using the proportional method:
- ASG Scarl, CEPAV (Consorzio Eni per l'Alta Velocità) Uno, Charville - Consultores e Serviços, Lda, CMS&A Wll, Consorzio Snamprogetti Abb Lg Chemicals, Haldor Topsøe AS, Haldor Topsøe Inc USA, Haldor Topsøe India Private Ltd, Haldor Topsøe Int AS, Mangrove Gas Netherlands BV, Modena Scarl, Rodano Consortile Scarl, RPCO Enterprises Ltd, Southern Gas Constructors Ltd, SPF - TKP Omifpro Snc, SP - TKP Fertilizer Srl, Subcontinental Ammonia Investment Co ApS, Topsøe Fuel Cell AS, ZAO Haldor Topsøe.

Companies consolidated using the equity method:
- Bonny Project Management Co Ltd, Bormida 2005 Scarl, CEPAV (Consorzio Eni per l'Alta Velocità) Due, Consorzio Controlli Integrati in Agricoltura, Consorzio Ras - Realizzazioni Attraversamenti Sotterranei, Fertlizantes Nitrogenados de Oriente CEC, Fertlizantes Nitrogenados de Oriente SA, ITA - Consorzio Italiano per il Telerilevamento dell'Ambiente e dell'Agricoltura, LNG - Serviços e Gestão de Projectos Lda, Snamprogetti Africa (Nigeria) Ltd, Snamprogetti Engineering BV, Snamprogetti Kazakhstan Llp, Snamprogetti Romania Srl, TSKJ II - Construções Internacionais Sociedade Unipessoal Lda, TSKJ Italia Srl, TSKJ Nigeria Ltd, TSKJ - Serviçōes de Engenharia Lda, TSKJ - US Llc.

Companies consolidated using the cost method:
- Fertlizantes Nitrogenados de Venezuela CEC, Fertlizantes Nitrogenados de Venezuela Srl.

The acquisition of Snamprogetti SpA entailed the consolidation of its accounts on the date of acquisition (April 1, 2006), as follows:

(€ million)

Intangible assets	6	Share capital and reserves	240
Tangible assets	91	Provisions for contingencies	42
Investments	114	Provisions for employee benefits	61
Inventories	524	Financial debt	100
Receivables	936	Trade and other payables	1,624
Cash	484	Other liabilities	88
Total assets	**2,155**	**Total liabilities**	**2,155**

The consolidated financial statements include the effects of the consolidation of Snamprogetti from the date of Saipem's acquisition of control, i.e. from April 1, 2006.
The acquisition required a total financial outlay of €682 million.
This operation is considered a business combination under common control and therefore lies outside the scope of IFRS 3.
In compliance with paragraphs 10, 11 and 12 of IAS 8, the management has deemed it necessary to apply an accounting policy that was relevant, reliable, representative of the operation and prudent. The management took into account the provisions and criteria set forth in the IFRS as well as the contents of other accounting principles, as they did not clash.
The Saipem's accounting policy has been applied on a predecessor carry over basis versus the previous accounting in the financial statement of Eni SpA; the surplus price paid for Snamprogetti versus its net equity at March 31, 2006, equal to €442 million, was recorded as a decrease in Saipem Group's consolidated net equity.

The consolidated financial position of Snamprogetti and its subsidiaries at December 31, 2006 (comprising of the income statement for the period April 1-December 31, 2006) included in Saipem's consolidated position is as follows:

BALANCE SHEET

(€ million)

Intangible assets	6	Share capital and reserves	272
Tangible assets	91	Provisions for contingencies	101
Investments	104	Provisions for employee benefits	61
Inventories	565	Financial debt	91
Receivables	1,542	Trade and other payables	2,355
Cash	654	Other liabilities	82
Total assets	**2,962**	**Total liabilities**	**2,962**

INCOME STATEMENT (excluding first quarter)

(€ million)

Turnover	2,288
Operating costs	(2,236)
Contributions from operations	**52**
Amortisation, depreciation and write-downs	(15)
Operating profit	**37**
Financial income/expenses and income from investments	11
Income before income taxes	**48**
Income taxes	(41)
Net profit before minority interest	**7**
Minority interest	-
Net profit	**7**

Contract for the purchase of Snamprogetti - loss indemnity provision

The consolidated financial statements of the Saipem Group at December 31, 2006 include indemnification amounting to €89 million to be paid by Eni in application of the loss indemnity provision stipulated by Saipem in the contract for the purchase of Snamprogetti.

During 2006, Saipem informed Eni of events that have resulted in an estimated reduction in the value of the company and losses on certain projects being carried out by Snamprogetti and/or its subsidiaries. Based on the estimated losses, Saipem has launched a request for indemnification, albeit without questioning the claims made by the seller Eni at the time of the sale of its share in Snamprogetti.

The indemnification recognised by Eni derives from the will to indemnify the buyer from negative variations that could not have been foreseen at the time of the transfer of ownership.

Taking into account the financial substance of this operation, this indemnification must be seen as the levying of a guarantee issued by Eni on the contract value for projects of Snamprogetti and its subsidiaries.

Therefore, in application of the relevant accounting principles, the levying of a guarantee or risk thereof determines a loss for the guarantor and a gain for the counterpart. In terms of book entries in Saipem's financial statements, these gains were accounted for consistently with the entries that have recorded a loss in value or losses on the relevant projects.

Other variations to the scope of consolidation

Variations to the scope of consolidation, with respect to the consolidated financial statements at December 31, 2005, are detailed hereunder in date order.

New incorporations, disposals, liquidations and changes to the consolidation method:
- on February 14, 2006, the Canadian company **CENMC Canada Inc** was incorporated and is consolidated using the full integration method;
- on March 1, 2006, the company **Camom Turbines Services sa**, which had previously been put into liquidation, was delisted from the Register of Companies;
- on March 7, 2006, the Italian company **Saipem Projects SpA** was incorporated and is consolidated using the full consolidation method;
- on March 14, 2006, the company **Consorzio Saitre**, consolidated using the cost method, was delisted from the Register of Companies;
- on March 15, 2006, the Nigerian company **Saipem Engineering Nigeria Ltd** was incorporated and is consolidated using the equity method;
- on March 27, 2006, the company **SB Construction and Maritime Services BV**, consolidated using the full consolidation method, was put into liquidation and delisted from the Register of Companies on June 29, 2006;
- on March 31, 2006, the company **Snamprogetti Kazakhstan Llp**, consolidated using the equity method, was put into liquidation;
- on April 20, 2006, 100% of the share capital in the Kazakh company **North Caspian Service Co Llp** was bought from third parties; the company is consolidated using the full consolidation method;
- on May 9, 2006, Snamprogetti Services sa and Snamprogetti Netherland BV purchased from third parties 20% and 5% respectively of the share capital in **Snamprogetti Saudi Arabia Ltd**. At December 31, 2006 the company is therefore fully owned by the Group;
- on May 12, 2006, the Angolan company **T.C.P.I. Angola Tecnoprojecto Internacional sa** was incorporated (35% is owned by Petromar Lda and 65% by third parties) and is consolidated using the equity method;
- on May 17, 2006, the Egyptian company **Saipem Misr for Petroleum Services (S.A.E.)** was incorporated and is consolidated using the full consolidation method;
- on June 29, 2006, 50% of the share capital in **Energy Maintenance Services SpA** was purchased from Eni SpA; at December 31, 2006, the company is therefore fully owned by Saipem SpA;
- on July 17, 2006, the company **Bos Italia Srl** consolidated using the full consolidation method, was put into liquidation and delisted from the Register of Companies on February 21, 2007;
- on September 8, 2006, the Indian company **Haldor Topsøe India Private Ltd** was incorporated (99.99% owned by Haldor Topsøe Int AS and 0.01% owned by third parties) and is consolidated using the proportional method;
- on September 13, 2006, the company **Consorzio UMA**, consolidated using the full consolidation method, was put into liquidation and delisted from the Register of Companies;
- on September 19, 2006, the company **Kellogg Brown & Root - Snamprogetti Ltd**, consolidated using the equity method, was put into liquidation and delisted from the Register of Companies;
- on September 22, 2006, Saipem International BV purchased 50% of the share capital in the Indian company **Saipem Triune Engineering Private Ltd**, from third parties. The company is consolidated using the proportional method;
- on October 2, 2006, the Angolan company **SAGIO - Companhia Angolana de Gestão de Instalações Offshore Lda** was incorporated (60% owned by Saipem (Portugal) - Gestão de Participações SGPS SA and 40% owned by third parties) and is consolidated using the equity method;
- on October 13, 2006, the company **Saipem Energy International Ltd**, consolidated using the equity method, which had previously put into liquidation, was delisted from the Register of Companies;
- on October 23, 2006, the French company **02 Pearl snc** was incorporated (50% owned by Saipem sa and 50% owned by third parties) and is consolidated using the proportional method;
- on October 26, 2006, 100% of the share capital in the Portuguese company **Varisal - Serviços de Consultadoria e Marketing Lda** was purchased from third parties. The company is consolidated using the equity method;
- on October 28, 2006, the company **SASP Offshore Engineering UK Ltd**, consolidated using the equity method, which had previously put into liquidation, was delisted from the Register of Companies;

- on October 30, 2006, the UAE company **Saipem Kharafi National MMO Fz Co** was incorporated and is consolidated using the equity method;
- on December 28, 2006, the company **Consorzio Saipem Energy International - Tecnomare SpA**, consolidated using the proportional, was put into liquidation and delisted from the Register of Companies;
- on December 31, 2006, the company **Saipem Logistics Services Ltd**, previously consolidated using the equity method, was consolidated using the full consolidation method, since it has reached relevant size;
- on January 4, 2007, the company **Conception Maintenance Petrochimique de l'Ouest**, consolidated using the equity method, which had previously put into liquidation, was delisted from the Register of Companies.

Change of company names or transfer of holdings between group companies, not affecting the scope of consolidation:
- on January 1, 2006, the company Mipact - Consultores e Serviços Lda changed its name to **Moss Mosvold II Management Lda**;
- on June 30, 2006, the company Saipem International BV sold its entire holding in **Star Gulf Free Zone Co** 60% of the share capital was sold to Saipem (Portugal) - Gestão de Participações SGPS SA and the remaining 20% to Saipem (Portugal) Comércio Marítimo Lda. At December 31, 2006, Star Gulf Free Zone Co is therefore 80% owned by Saipem (Portugal) - Gestão de Participações SGPS SA and 20% owned by Saipem (Portugal) Comércio Marítimo Lda;
- on August 3, 2006, the company Saipem Perfurações e Construções America do Sul Petrolíferas Lda has changed its name to **Saipem Perfurações e Construções Petrolíferas Lda**;
- on August 31, 2006, the company PT Sofresid Engineering was merged into the company **PT Saipem Indonesia**;
- on August 31, 2006, the company Saibos sas was merged into the company **Saipem sa**.

Information required by IAS 31 relating to the financial data of jointly controlled companies consolidated using the proportional method is provided under Note 41.

Reference date
The reference date for the consolidated financial statements coincides with the closing date for the statutory financial statements of Saipem SpA and companies included in the scope of consolidation, based on the financial statements that concur to the preparation of the Group consolidated financial statements.

Variation of functional currency
The company **North Caspian Service Co Llp** changed its functional currency from tenghè to euros from April 20, 2006, the date of holding acquisition.
The company **BOS Shelf Ltd Society** changed its functional currency from US dollar to new azeri manat from January 1, 2006.

Notes to the consolidated financial statements

Current activities

1 Cash and cash equivalents

Cash and cash equivalents amounted to €1,322 million (€877 million at December 31, 2005), an increase of €445 million versus the previous year, mainly due to the consolidation of cash from Snamprogetti and its subsidiaries.
Cash and cash equivalents at the end of December, 50% of which are denominated in euros, 36% in US dollars and 14% in other currencies, earned an average interest rate of 2.61%; €602 million thereof are on deposit with Eni Group financial companies, whilst €297 million relate to Snamprogetti.
Cash and cash equivalents do not include financial receivables due within 90 days of €39 million.
The breakdown of cash and cash equivalents of Saipem and other Group companies at December 31, 2006 by geographical area (based on the country of domicile of the relevant company) is as follows:

(€ million)	
Italy	313
Rest of Europe	575
CSI	10
Rest of Asia	122
Africa	109
Americas	193
Total	**1,322**

Cash and cash equivalents deriving from the consolidation of Snamprogetti and its subsidiaries amount to €654 million.

2 Marketable securities

This caption, amounting to €4 million, refers entirely to bonds issued by the Italian State and arise following Snamprogetti becoming part of the scope of consolidation.

3 Trade and other receivables

Trade and other receivables of €3,306 million (€1,523 million at December 31, 2005) consist of the following:

(€ million)	31.12.2005	31.12.2006
Trade receivables	1,265	2,929
Financing receivables	17	45
Other receivables	241	332
Total	**1,523**	**3,306**

Receivables are recorded net of the allowance for doubtful accounts of €81 million:

(€ million)	31.12.2005	Increases	Utilisations	Exchange rate differences	Other variations	31.12.2006
Trade receivables	40	2	(1)	-	22	63
Other receivables	16	2	(1)	-	1	18
Total	**56**	**4**	**(2)**	**-**	**23**	**81**

Trade receivables amounted to €2,929 million, an increase of €1,664 million; €275 million of trade receivables are due from Eni and its divisions (€72 million at December 31, 2005).

Trade receivables related to the consolidation of Snamprogetti and its subsidiaries amounted to €1,237 million.
Trade receivables from Eni Group companies amounted to €650 million.
Trade receivables include advances paid as a guarantee of contract work in progress for €70 million (€4 million at December 31, 2005), of which €6 million are due in 2006 and €64 million are due after 2006; these relate to the consolidation of Snamprogetti SpA.
Financing receivables of €45 million (€17 million at December 31, 2005) consist mainly of receivables not related to operational activities that Saipem SpA holds towards the CEPAV Due Consortium and funds held in time deposit accounts at financial institutions.
Receivables from jointly controlled companies, with regard to the non-consolidated portion, are as follows:

(€ million)	**31.12.2005**	**31.12.2006**
Haldor Topsøe AS	-	3
CEPAV (Consorzio Eni per l'Alta Velocità) Uno	-	86
RPCO Enterprises Ltd	-	18
ASG Scarl	-	2
CMS&A Wll	-	88
SP - TKP Fertilizer Srl	-	1
SPF - TKP Omifpro Snc	-	2
Charville - Consultores e Serviços, Lda	-	7
Mangrove Gas Netherlands BV	-	85
Lipardiz - Construção de Estruturas Maritimas, Lda	9	7
FPSO Firenze Produção de Petróleo, Lda	-	1
Saipem Aban Drilling Co Private Ltd	23	13
BOS Shelf Ltd Society	1	-
Total	**33**	**313**

Other receivables of €332 million consist of the following:

(€ million)	**31.12.2005**	**31.12.2006**
Receivables from:		
- insurance companies	28	8
- employees	16	13
- foreign financial management other than tax receivables	9	-
- national insurance/social security contributions	6	1
- non-financial public administrations	1	4
Receivables from Eni Group companies	2	-
Pre-payments for services	84	210
Receivables from joint ventures	63	19
Guarantee deposits	4	7
Current bills	8	16
Other receivables	20	54
Total	**241**	**332**

Other receivables of Snamprogetti and its subsidiaries amount to €125 million.

Receivables in currencies other than euro amounted to €1,195 million (€1,055 at December 31, 2005) and their breakdown per currency is as follows:
- US Dollars 59%;
- Saudi Arabian Ryal 8%;
- British Pounds Sterling 7%;
- Norwegian Kroner 2%;
- other currencies 24%.

Receivables from related parties are provided in Note 41.

4 Inventories

Inventories of €1,053 million (€490 million at December 31, 2005) consist of the following:

	31.12.2005			31.12.2006		
(€ million)	Contract work in progress	Other	Total	Contract work in progress	Other	Total
Raw and auxiliary materials and consumables	-	186	186	-	278	278
Contract work in progress	304	-	304	488	-	488
Advances	-	-	-	287	-	287
Total	**304**	**186**	**490**	**775**	**278**	**1,053**

Inventories are net of the valuation allowance of €2 million.

(€ million)	31.12.2005	Increases	Utilisations	Other variations	31.12.2006
Inventories valuation allowance	3	-	(1)	-	2
	3	**-**	**(1)**	**-**	**2**

Contract work in progress, amounting to €488 million (€304 million at December 31, 2005) includes sums associated with requests for payments not yet formally accepted by clients, but whose recovery is deemed likely, and reasonably ascertained.

Inventories in raw and auxiliary materials and consumables, including the consolidation of Snamprogetti and its subsidiaries, amounted to €278 million.

Advances of €287 million refer to sums paid to third party suppliers to purchase materials and services relating to contract work in progress on long-term jobs and concern Snamprogetti and its subsidiaries.

Work in progress on behalf of Eni Group companies amounted to €23 million.

5 Income tax receivables

Income tax receivables of €228 million (€122 million at December 31, 2005) consist of the following:

(€ million)	31.12.2005	31.12.2006
- Italian tax authorities:	41	93
. VAT credits	36	65
. income tax credits	3	12
. other	2	16
- Foreign tax authorities:	81	135
. VAT credits	43	60
. income tax credits	32	52
. other	6	23
Total	**122**	**228**

The increase in income tax receivables of €106 million is mainly due to sums to be received by foreign group companies from local tax authorities (€54 million), Italian VAT tax credits (€29 million), income tax credits from Italian tax authorities (€9 million) and other receivables (€14 million).
Income tax receivables of Snamprogetti amounted to €41 million.

6 Other assets

Other assets of €171 million (€89 million at December 31, 2005) consist of the following:

(€ million)	31.12.2005	31.12.2006
Fair value of non-hedging derivatives	6	19
Fair value of cash flow hedge derivatives	17	84
Other assets	66	68
Total	**89**	**171**

At December 31, 2006, the fair value evaluation of derivatives showed gains of €53 million for the portion relating to the Saipem Group stand-alone (at December 31, 2005, the fair value evaluation of derivatives showed gains of €23 million) and gains of €50 million for the portion relating to Snamprogetti.
In-depth analysis of the fair value evaluation of derivative contracts can be found under Note 17 'Other current liabilities'.
Other assets at December 31, 2006 amounted to €68 million, an increase of €2 million versus the previous year and comprised: costs to be incurred in future periods of €27 million (€41 million at December 31, 2005); insurance premia of €13 million (€15 million at December 31, 2005), costs of office leases of €10 million and other assets of €18 million.
Current assets of Snamprogetti amounted to €11 million.
Current assets towards Eni Group companies amounted to €130 million.

Non-current assets

7 Property, plant and machinery

Property, plant and machinery amounting to €2,345 million (€1,903 million at December 31, 2005) consist of the following:

(€ million)	Net value at the beginning of the period	Investments	Depreciations	Disposals	Variation to the scope of consolidation	Translation differences	Other variations	Net value at the end of the period	Gross value at end of period	Provisions for amortisation and write-downs
Land	5	9	-	-	1	(1)	-	14	14	-
Buildings	82	29	(25)	(1)	36	(7)	58	172	322	150
Plant and machinery	1,522	122	(153)	(5)	40	(15)	93	1,604	3,434	1,830
Industrial and commercial equipment	27	31	(24)	(1)	2	(3)	35	67	350	283
Other assets	18	12	(17)	-	10	-	1	24	134	110
Assets under construction and payments on account	249	397	-	-	4	(3)	(183)	464	464	-
Total	**1,903**	**600**	**(219)**	**(7)**	**93**	**(29)**	**4**	**2,345**	**4,718**	**2,373**

Vessels employed in Offshore and Offshore Drilling activities are included under the caption 'Plant and machinery'.
Capital expenditure made during the period, amounting to €600 million (€349 million at December 31, 2005), was mainly in the Offshore sector (€390 million), Onshore (€67 million), Offshore Drilling (€101 million) and Onshore Drilling (€36 million).
In particular, main items of capital expenditure included:
- conversion of a tanker into an FPSO unit due to operate on the Golfinho 2 field in Brazil on behalf of Petrobras (€205 million);
- conversion of a second tanker into an FPSO unit due to operate in the Gimboa field in Angola on behalf of P&P (€8.5 million);
- the launch of the construction of a new semi-submersible platform, to be called Scarabeo 8, equipped to operate in deep-waters, and upgrading to the jack-up Perro Negro 4 (€72.9 million);
- maintenance and upgrading of the existing asset base (€206 million);
- investments in vessels and equipment for the project in the Kashagan area of Kazakhstan (€30 million);
- capex to strengthen the operating bases/yards in Kazakhstan and West Africa (€35 million);
- investments carried out by Snamprogetti amounting to €18 million.

Buildings, plant and machinery include assets carried under finance lease amounting to €39 million and refer mainly to the finance lease contract for the utilisation of the semi-submersible platform Scarabeo 5.
Financial expenses for the year, calculated using an average interest rate of 5.80%, amounted to €14 million (€2 million at December 31, 2005).
Main depreciation rates used are within the following percentage bands:

(%)	
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

Exchange rate differences due to the translation of financial statements prepared in currencies other than euro of €29 million mainly relate to companies whose functional currency is the US dollar.
The gross carrying value of fully depreciated property, plant and equipment that is still in use amount to €93 million (€130 million at December 31, 2005) and concern mainly project-specific equipment which has been fully amortised over the life of the project.
No government grants are recorded as a decrease of property, plant and machinery (€3 million at December 31, 2005).
The total commitment on current items of capital expenditure at December 31, 2006 amounted to €395 million.

Finance lease

At December 31, 2006, the value of assets carried under finance lease is as follows:

(€ million)

Assets under finance lease	Value at 31.12.2005	Value at 31.12.2006	Charges	Residual leasing charges at 31.12.2006	From 1 to 2 years	From 2 to 5 years	Average rate (%)
Semi-submersible platform Scarabeo 5	40	37	2	7	7	-	3.60
Onshore drilling rigs	3	2	1	2	2	-	3.84
Total	**43**	**39**	**3**	**9**	**9**	-	

The value of the semi-submersible platform Scarabeo 5 includes residual costs, to be amortised, of upgrading and major inspections that have been carried out, which amount to a total of €9 million at December 31, 2005 and 2006.

8 Intangible assets

Intangible assets of €849 million (€837 million at December 31, 2005) consist of the following:

(€ million)	Net value at the beginning of the year	Investments	Depreciations	Variation to the scope of consolidation	Other variations	Net value at year end	Gross value at year end	Provisions for amortisation and write-downs
Intangible assets with a definite life								
Development costs	6	-	(1)	-	-	5	10	5
Industrial patent rights and intellectual property rights	6	5	(8)	1	2	6	90	84
Concessions, licenses and trademarks	-		(1)	2	-	1	38	37
Intangible assets in progress and advances	2	1	-	-	(1)	2	2	-
Other intangible assets	-	-	-	1	-	1	18	17
Intangible assets with an indefinite life								
Goodwill	823	8	(1)	1	3	834	834	-
Total	**837**	**14**	**(11)**	**5**	**4**	**849**	**992**	**143**

Development costs of €5 million pertain mainly to the implementation of software and equipment to improve ultra-deep water operations (€6 million in 2005).

Industrial patent rights and intellectual property rights of €6 million consist mainly of costs for the roll-out of SAP modules at subsidiary companies (€6 million in 2005).

Goodwill of €834 million refers to the difference between the purchase price, inclusive of related charges, and the net equity of Saipem sa (€783 million), Sofresid sa (€21 million), the Moss Maritime Group (€15 million), Snamprogetti SpA (€3 million), Saipem India Project Services Ltd (€2 million), Saipem Energy International SpA (€2 million), Energy Maintenance Services SpA (€1 million) and Saipem Triune (€7 million).

To determine the recoverable amount, goodwill has been allocated to the following cash-generating units:

(€ million)	**31.12.2006**
Offshore	425
Onshore	409
Total	**834**

The recoverable amount of cash-generating units is determined based on expected cash flow estimated by using the strategic lines of Saipem's 2007-2010 plan and discounted by using current market rates of the time value of money and the risks specific to the asset and terminal growth rates in line with the inflation level implicit in discount rates.
Main depreciation rates used are within the following percentage bands:

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

9 Investments accounted for using the equity method

Investments accounted for using the equity method of €146 million (€38 million at December 31, 2005) consist of the following:

(€ million)	Net value at the beginning of the year	Acquisitions and subscriptions	Gains from the valuation of investments using the equity method	Losses from the valuation of investments using the equity method	Deductions for dividends	Variation to the scope of consolidation	Exchange rate differences	Other variations	Net value at year end	Provisions for write-downs
Investments in controlled companies	2	1	1	(1)	(1)	1	-	(1)	2	-
Investments in associated companies	36	-	36	(3)	(22)	107	(10)	-	144	-
Total	**38**	**1**	**37**	**(4)**	**(23)**	**108**	**(10)**	**(1)**	**146**	**-**

Interests in controlled and associated companies at December 31, 2006 are analysed in detail under the section 'Scope of consolidation'.
Gains on investments accounted for using the equity method of €37 million refer mainly to the companies Gaztransport et Technigaz sas (€27 million), Fertlizantes Nitrogenados de Oriente CEC (€4 million) and Doris Engineering sa (€3 million).
Losses on investments accounted for using the equity method of €4 million refer mainly to TSKJ - Serviços de Engenharia Lda (€3 million).
Deduction for dividends of €23 million refer mainly to Gaztransport et Technigaz sas (€18 million) and Tchad Cameroon Maintenance BV (€2 million).
Variations to the scope of consolidation, amounting to €108 million, refer to the inclusion of investments resulting from the consolidation of Snamprogetti at December 31, 2006. The company Saipem Logistics Services Ltd was consolidated using the full consolidation method (in 2005 it had been consolidated using the equity method), which determined a variation of €1 million.

The net carrying value of investments accounted for using the equity method relates to the following companies:

(€ million)	Group interest (%)	Net value at 31.12.2005	Net value at 31.12.2006
Saipem Logistics Services Ltd	100.00	1	-
Conception Maintenance Petrochimique de l'Ouest	99.97	1	-
Saipem Engineering Nigeria Ltd	98.96	-	1
Snamprogetti Engineering BV	100.00	-	1
Total controlled companies		**2**	**2**
Gaztransport et Technigaz sas	30.00	20	29
Doris Engineering sa	40.00	7	9
Tchad Cameroon Maintenance BV	40.00	4	2
Kwanda Suporto Logistico Lda	40.00	2	3
TSKJ - Serviços de Engenharia Lda	25.00	-	8
LNG - Serviços e Gestão de Projectos Lda	25.00	-	2
Fertlizantes Nitrogenados de Oriente CEC	20.00	-	88
Tecnoprojecto Internacional Projectos e Realizações Industriais SA	42.50	-	1
Starstroi Security Llc	50.00	-	1
Other minority interest		3	1
Total associated companies		**36**	**144**

Provisions for losses related to investments of €2 million (€2 million at December 31, 2005), included in the provisions for contingencies, relate essentially to interests held by Saipem sa.
Figures for the most recent available financial statements of controlled companies accounted for using the equity method are as follows:

(€ million)	**31.12.2006**
Total assets	3
Total liabilities	1
Revenues	2
Net profit (loss) for the year	1

The total amount of assets and liabilities of controlled companies is negligible and therefore effects of exclusions from the scope of consolidation are considered immaterial.

10 Other investments

Other investments of €9 million (€4 million at December 31, 2005) consist of the following:

(€ million)	Net value at 31.12.2005	Acquisitions and subscriptions	Revaluations	Impairments	Variation to the scope of consolidation	Exchange rate differences	Other variations	Net value at 31.12.2006	Provisions for write-downs
Investments in associated companies	4	-	-	-	-	-	-	4	-
Investments in other companies	-	-	-	-	5	-	-	5	-
Total	**4**	**-**	**-**	**-**	**5**	**-**	**-**	**9**	**-**

Interests in controlled and associated companies at December 31, 2006 are analysed in detail under the section 'Scope of consolidation'.
The caption 'Investments in associated companies' refers to the company Rosfin Srl.

Variations to the scope of consolidation refer entirely to the inclusion of investments resulting from the consolidation of Snamprogetti at December 31, 2006, and specifically to the companies Chambal Fertilisers and Chemicals Ltd (€3 million), Nagarjuna Fertilisers and Chemicals Ltd (€1 million) and Karnaphuli Fertilizer Co Ltd (€1 million).

11 Other financial assets

Other financial receivables of €40 million consist of the following:

(€ million)	31.12.2005	31.12.2006
Financial receivables made for operating purposes	-	37
Financial receivables made for non-operating purposes (IRS)	-	3
Total	**-**	**40**

Financial receivables made for operating purposes relate entirely to Snamprogetti SpA.
Financial receivables made for non-operating purposes relate to the valuation of an IRS by Saipem SpA (€3 million).

12 Deferred tax assets

Deferred tax assets amounted to €47 million (€68 million at December 31, 2005). Details of deferred tax assets are provided under Note 21.

13 Other non-current assets

Other non-current assets of €11 million (€17 million at December 31, 2005) consist of the following:

(€ million)	31.12.2005	31.12.2006
Trade receivables	6	-
Other receivables	11	11
Total	**17**	**11**

Other receivables refer mainly to amounts paid, in compliance with local regulations, to government bodies to be refunded after a set period (20 years) of €4 million and receivables from foreign tax authorities of €2 million.

Current liabilities

14 Short-term financial liabilities

Short-term financial liabilities of €1,865 million (€1,192 million at December 31, 2005) consist of the following:

(€ million)	31.12.2005	31.12.2006
Banks	50	139
Other financing institutions	1,142	1,726
Total	**1,192**	**1,865**

The increase in short-term financial liabilities of €673 million is primarily due to the inclusion of Snamprogetti within the scope of consolidation and to increased financial requirements needed to implement the investment programme and payment of dividends during the period.
The current portion of long-term debt, amounting to €41 million (€230 million at December 31, 2005) are analysed under Note 18 ‘Long-term financial liabilities and current portion of long-term debt’.

The breakdown of short-term financial liabilities by issuing institution, currency, maturity and average interest rate is as follows:

(€ million)

		31.12.2005			31.12.2006		
Issuing entity	Currency	Amount	Interest rate %		Amount	Interest rate %	
			from	to		from	to
Enifin SpA	Euro	728	2.326	2.338	1,382	2.625	3.159
Enifin SpA	US Dollar	5	3.738	-	4	3.738	-
Enifin SpA	Swiss Franc	-	-	-	3	3.188	5.559
Eni Coordination Center SA	Euro	162	2.369	-	234	3.303	4.366
Eni Coordination Center SA	US Dollar	54	3.809	4.871	27	5.410	6.473
Eni Coordination Center SA	Norwegian Kroner	4	-	2.313	1	3.188	-
Eni Coordination Center SA	Swiss Franc	4	-	0.888	-	-	-
Eni Coordination Center SA	Australian Dollar	2	2.569	-	-	-	-
Eni Coordination Center SA	British Pound Sterling	-	-	-	24	4.808	-
Eni International Bank	US Dollar	55	3.621	3.871	-	-	-
Eni International Bank	Saudi Arabian Ryal	32	3.942	-	28	5.201	-
Eni International Bank	Other	-	-	-	-	-	-
Third parties	Euro	18	0.548	2.182	4	0.153	4.116
Third parties	US Dollar	70	3.854	4.621	92	5.453	6.096
Third parties	Other	58	10.100	19.100	66	variable	
Total		**1,192**			**1,865**		

At December 31, 2006, Saipem maintained unused lines of credit amounting to €739 million (€720 million at December 31, 2005). These agreements provide for interest charges based on prevailing market conditions. Commission fees on unused lines of credit are immaterial.

15 Trade and other payables

Trade and other payables of €4,434 million (€2,005 million at December 31, 2005) consist of the following:

(€ million)	31.12.2005	31.12.2006
Trade payables	1,129	2,292
Advances	659	1,826
Other payables	217	316
Total	**2,005**	**4,434**

Trade payables amounted to €2,292 million, an increase of €1,163 million, due to increased Group activities combined with the effect of the acquisition of the Snamprogetti Group.
Trade payables to the parent company (Eni Corporate and divisions) amounted to €15 million (€10 million at December 31, 2005).
Advances of €1,826 million (€659 million at December 31, 2005) comprise mainly of adjustments to revenues from long-term contracts in accordance with the accruals concept, made on the basis of the amounts contractually matured (€1,259 million, €402 million at December 31, 2005) and advances received by Saipem SpA and foreign subsidiaries for contract work in progress (€567 million).
Trade payables to Eni Group companies amounted to €123 million (€23 million at December 31, 2005).
Trade payables resulting from the consolidation of Snamprogetti and its subsidiaries amounted to €1,066 million.

Payables to jointly controlled companies, with regard to the non-consolidated portion, consist of the following:

(€ million)	31.12.2005	31.12.2006
Haldor Topsøe AS	-	8
CEPAV (Consorzio Eni per l'Alta Velocità) Uno	-	29
RPCO Enterprises Ltd	-	22
ASG Scarl	-	32
Modena Scarl	-	4
SP - TKP Fertilizer Srl	-	2
SPF - TKP Omifpro Snc	-	1
Charville - Consultores e Serviços, Lda	-	85
Rodano Consortile Scarl	-	12
Saipem Aban Drilling Co Private Ltd	19	16
Saipem Triune Engineering Private Ltd	-	15
Total	**19**	**226**

Other payables of €316 million consist of the following:

(€ million)	31.12.2005	31.12.2006
Payables due to:		
- employees	73	76
- joint venture partners	38	-
- national insurance/social security contributions	42	61
- insurance companies	8	26
- creditors relating to advances	-	55
- consultants and professionals	2	5
- agents	1	-
Cautionary deposits	16	-
Other payables	37	93
Total	**217**	**316**

Other payables of Snamprogetti and its subsidiaries amounted to €105 million.

16 Current tax liabilities

Current tax liabilities of €187 million (€140 million at December 31, 2005) consist of the following:

(€ million)	31.12.2005	31.12.2006
Income tax payables	71	100
Other tax liabilities	69	87
Total	**140**	**187**

Current tax liabilities amounted to €187 million, an increase of €47 million versus the previous year. Income tax payables consist of amounts payable to local tax authorities for income taxes (€100 million: €43 million to Italian tax authorities and €57 million to foreign tax authorities). This increase in income tax payables of €29 million is due to an increase in taxable income related to greater volumes generated by the Group during the year.
The caption 'Other tax liabilities' refers to VAT payable to local tax authorities (€39 million), withholding taxes (€19 million) and other payables (€29 million).
Current tax liabilities of the Snamprogetti Group amounted to €55 million, of which €44 million consist of tax payables and €11 million of other tax liabilities.

17 Other current liabilities

Other current liabilities of €103 million (€66 million at December 31, 2005) consist of the following:

(€ million)	31.12.2005	31.12.2006
Fair value of non-hedging derivatives	22	26
Fair value of hedging derivatives	38	52
Other current liabilities	6	25
Total	**66**	**103**

The fair value of cash flow hedge derivatives amounted to €25 million and mainly related to derivatives entered into in order to minimise the market risk exposure arising from exchange rate fluctuations on trade transactions.

(€ million)	31.12.2005	31.12.2006
Fair value assets on derivatives	23	103
Fair value liabilities on derivatives	(60)	(78)
Write-down of accrued and deferred liabilities on hedges	(31)	-
Total	**(68)**	**25**

The fair value of Interest Rate Swaps, amounting to €3 million, is detailed in Note 11 'Other financial assets'.
Fair value liabilities of €78 million are related to Saipem (€29 million) and Snamprogetti (€49 million).
Variations in the fair value of hedging contracts featured under the balance sheet item 'Other reserves' amounted to €118 million. The fair value of hedging contracts relates mainly to future transactions due to occur within 12 months.
Commitments on derivatives amounted to €8,115 million (€5,949 million at December 31, 2005) and concern commitments on exchange rates (€7,301 million, fair value of plus €27 million), interest rates (€800 million, fair value of plus €3 million) and goods (€14 million, fair value of minus €2 million).
Other liabilities amounted to €25 million (€6 million at December 31, 2005); and comprise mainly of rent charges (€1 million) and other liabilities (€24 million).
Other current liabilities of the Snamprogetti Group amount to €82 million.
Other current liabilities towards Eni Group companies amount to €87 million.
Fair value of derivatives by type are provided in the following table:

(€ million)	Fair value assets	Fair value liabilities
1) Derivative contracts not qualified for hedge accounting:		
- interest derivatives		
. interest rate swaps	3	-
- currency derivatives (Spot value)		
. purchase	4	45
. sale	80	7
Total	84	52
2) Derivative contracts not qualified for hedge accounting (Spot value):		
- currency derivatives		
. purchase	2	36
. sale	45	1
Total	47	37
3) Derivative contracts (Forward value):		
- currency derivatives		
. purchase	1	(17)
. sale	(29)	4
Total	(28)	(13)
4) Derivative contracts not qualified for hedge accounting:		
- commodities	-	2
Total	**106**	**78**

The table details the fair value of the spot and forward component of exchange rate hedging contracts, since the Group's hedging policy consists of designating only the spot price of derivatives entered into (i.e. the spot on spot difference), excluding the changes in its interest element.

Non-current liabilities

18 Long-term financial liabilities and current portion of long-term debt

Long-term financial liabilities, inclusive of the current portion of long-term debt, amounted to €926 million (€714 million at December 31, 2005) and consist of the following:

	31.12.2005			31.12.2006		
(€ million)	Short-term maturity	Long-term maturity	Total	Short-term maturity	Long-term maturity	Total
Banks	75	299	374	37	543	580
Other financing institutions	155	185	340	4	342	346
Total	**230**	**484**	**714**	**41**	**885**	**926**

Maturity terms are as follows:

(€ million)

Type	Maturity	2007	2008	2009	2010	2011	2012	After
Banks	2007-2013	37	68	-	200	-	-	275
Other financing institutions	2007-2013	4	342	-	-	-	-	-
Total		**41**	**410**	**-**	**200**	**-**	**-**	**275**

Long-term debt of €926 million increased by €212 million, due mainly to increased borrowing from banks.
Saipem has financing facilities with Interbanca SpA amounting to €75 million, which require that the company respect certain covenants based on the Saipem Group consolidated financial statements. These conditions were met in full.

Breakdown of long-term financial liabilities, inclusive of the current portion of long-term debt by issuing institution, currency, maturity and average interest rate is as follows:

(€ million)

			31.12.2005			31.12.2006		
Issuing entity	Currency	Maturity	Amount	Interest rate %		Amount	Interest rate %	
				from	to		from	to
Sofid SpA	Euro	2007	-	-	-	7	3.900	-
Eni International Bank	US Dollar	2007	-	-	-	91	5.473	-
Enifin SpA	Euro	2007	150	2.562	-	-	-	-
Serleasing SpA	Euro	2008	10	3.124	-	-	-	-
Eni Coordination Center SA	US Dollar	2009	-	-	-	-	-	-
Third parties	Danish Kroner	2007	-	-	-	-	-	-
Third parties	Euro	2007-2010	372	2.380	2.425	776	3.072	3.840
Third parties	US Dollar	2007	19	3.871	4.621	31	5.310	6.223
Third parties	British Pound Sterling	2007-2011	147	6.053	-	-	-	-
Third parties	Rouble	2007	9	10.500	-	-	-	-
Third parties	Other	2007	-	-	-	21	(*)	(*)
Enifin SpA (IRS)	Euro	2007	7	-	-	-	-	-
Total			**714**			**926**		

(*) Variable.

There are no financial liabilities guaranteed by mortgages and liens on fixed assets of consolidated companies or by pledges on securities and fixed deposits.
The market value of long-term debt, including the current portion of long-term debt, amounted to €776 million (€651 million at December 31, 2005) and was calculated by discounting future cash flows using rates within the following bands:

(%)	**2005**	**2006**
Euro	2.49-3.20	3.23-4.13
US Dollar	4.48-4.87	5.16-5.67
British Pound Sterling	4.57-4.62	5.18-5.41

Detailed analysis of net financial debt as indicated under the caption 'Financial and economic results' is as follows:

	31.12.2005			31.12.2006		
(€ million)	Current	Non-current	Total	Current	Non-current	Total
A. Cash and cash equivalents	877	-	877	1,283	-	1,283
B. Cash and cash equivalents:						
- current non-operating financial receivables due within 90 days	-	-	-	39	-	39
C. Securities available for sale and held-to-maturity investments	-	-	-	4	-	4
D. Liquidity (A+B+C)	**877**	**-**	**877**	**1,326**	**-**	**1,326**
E. Financial receivables	17	-	17	45	3	48
F. Current financial liabilities due to banks	50	-	50	139	-	139
G. Non-current financial liabilities due to banks	75	299	374	37	543	580
H. Current financial liabilities due to related parties	1,046	-	1,046	1,704	-	1,704
I. Non-current financial liabilities due to related parties	-	167	167	3	95	98
L. Other current financial liabilities	96	-	96	22	-	22
M. Other non-current financial liabilities	155	18	173	1	247	248
N. Gross financial debt (-E+F+G+H+I+L+M)	**1,405**	**484**	**1,889**	**1,861**	**882**	**2,743**
O. Net financial debt (N-D)	**528**	**484**	**1,012**	**535**	**882**	**1,417**

Net financial debt includes IRS liabilities; however it does not include fair value of derivatives as indicated in Note 6 'Other assets' and Note 17 'Other current liabilities'.
Securities available for sale and held-to-maturity investments of €4 million are made for non-operating purposes and comprise bonds issued by the Italian State resulting from the consolidation of Snamprogetti.
Non-operating financial receivables of €45 million (€17 million at December 31, 2005) consist mainly of amounts to be received by Saipem SpA from an associated company and financial receivables resulting from the consolidation of Snamprogetti.

19 Provisions for contingencies

Provisions for contingencies of €178 million (€99 million at December 31, 2005) consist of the following:

(€ million)	Opening balance	Provisions	Utilisation	Other variations	Closing balance
31.12.2005					
Income tax provisions	23	3	(1)	2	27
Provisions for contractual penalties and disputes	8	3	(6)	3	8
Provisions for losses on investments	5	-	-	(3)	2
Provisions for redundancy incentives	1	-	(1)	-	-
Other provisions	34	59	(30)	(1)	62
Total	**71**	**65**	**(38)**	**1**	**99**
31.12.2006					
Income tax provisions	27	9	-	1	37
Provisions for contractual penalties and disputes	8	2	(2)	1	9
Provisions for losses on investments	2	-	-	-	2
Provisions for redundancy incentives	-	1	-	1	2
Other provisions	62	66	(36)	36	128
Total	**99**	**78**	**(38)**	**39**	**178**

Income tax provisions amounting to €37 million refer entirely to disputes with fiscal authorities in foreign countries that, based on recent assessments, are still pending.
Income tax provisions made by Snamprogetti amounted to €1 million.
Provisions for contractual penalties and disputes amounted to €9 million and comprised entirely of accruals by a foreign subsidiary to cover a conservative estimate of current disputes.
Provisions for losses on investments amounted to €2 million and represent losses incurred to date in excess of the carrying value of investments relating to investments held by Saipem sa.
Other provisions stood at €128 million and represented an estimate of expected losses on long-term contracts in the Offshore and Onshore sectors. With respect to the foregoing liabilities, Saipem does not reasonably expect any material additional losses beyond those amounts accrued above.
Other provisions made by Snamprogetti amounted to €105 million.

20 Provisions for employee benefits

Provisions for employee benefits of the Saipem Group concern indemnities upon termination of employment, 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 essentially concern the provisions for employee termination indemnities (TFR), regulated by Article 2120 of the Italian Civil Code. The indemnity is paid out as capital and is determined by the total of the provisions set aside, calculated in consideration of the employee's compensation during the service period, and revalued until retirement.
Effective from January 1, 2007, the Budget Law for 2007 and related decrees introduce material changes to the TFR regulation; these changes include the possibility for employees to choose the allocation of their TFR entitlement between a pension fund or having it remain in the company (in which case the company will transfer the future TFR obligation to INPS, the Italian state social security entity). At present there are uncertainties in interpretation regarding the recent changes in regulations (IAS 19). Furthermore, there is additional uncertainty arising from the revised regulations in respect to actuarial calculations on already accrued TFR provision since it is currently not possible to predict employees' choices regarding their allocation of the TFR entitlement (employees' choice shall be made before June 30, 2007). Given this level of uncertainty, there has been no change made, which may result from the new regulations, to the amount of the TFR obligation recorded at December 31, 2006.
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 the length of service and the compensation paid in the last year of service or an average annual compensation paid in a determined period preceding retirement.
Other long-term benefits essentially concern the supplementary medical reserve for managers of the Eni Group (FISDE), jubilee awards and deferred monetary incentive schemes. Liabilities and costs related to FISDE are calculated on the basis of the contributions paid by the company for retired managers. 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. The deferred monetary incentive scheme comprises estimated variable remuneration related to the company performance to be paid out in 2009 to senior managers who have achieved their individual pre-set targets.
Provisions for employee benefits, amounting to €169 million, consist of the following:

(€ million)	**31.12.2005**	**31.12.2006**
Employee termination indemnities (TFR)	35	77
Pension funds - Italy and abroad	40	62
Supplementary medical reserve (FISDE)	5	14
Deferred monetary incentive schemes	-	5
Jubilee awards	8	11
Total	**88**	**169**

Current value of employee long-term benefits consist of the following:

(€ million)	TFR	Pension plans with plan assets: Gross liability	Pension plans with plan assets: Plan assets	Pension plans with plan assets: Net liability	Other long-term benefits	Total
31.12.2005						
Current value of benefit obligation at beginning of year	**35**	**61**	**8**	**53**	**11**	**99**
Variation to the scope of consolidation	-	-	-	-	-	-
Current cost	4	4	-	4	-	8
Financial expenses	1	-	-	-	2	3
Expected return on plan assets	-	-	1	(1)	-	(1)
Contributions paid	-	-	2	(2)	-	(2)
Actuarial gains (losses)	(2)	-	-	-	(1)	(3)
Benefits paid	(3)	(8)	(2)	(6)	-	(9)
Amendments, curtailments and settlements	-	14	14	-	-	-
Exchange rate differences and other changes	-	1	-	1	-	1
Current value of benefit obligation at end of year	**35**	**72**	**23**	**49**	**12**	**96**
31.12.2006						
Current value of benefit obligation at beginning of year	**35**	**72**	**23**	**49**	**12**	**96**
Variation to the scope of consolidation	43	42	33	9	10	62
Current cost	8	23	-	23	5	36
Financial expenses	3	3	-	3	1	7
Expected return on plan assets	-	-	3	(3)	-	(3)
Contributions paid	-	(1)	3	(4)	-	(4)
Actuarial gains (losses)	3	(3)	1	(4)	-	(1)
Benefits paid	(10)	(4)	(1)	(3)	(1)	(14)
Amendments, curtailments and settlements	-	(14)	(14)	-	-	-
Exchange rate differences and other changes	-	(3)	-	(3)	2	(1)
Current value of benefit obligation at end of year	**82**	**115**	**48**	**67**	**29**	**178**

Current value of the obligation relating other long-term benefits of €29 million (€12 million at December 31, 2005) concern primarily FISDE €13 million (€5 million at December 31, 2005), jubilee awards €11 million (€6 million at December 31, 2005) and deferred monetary incentive schemes €5 million.
Reconciliation of net liabilities for long-term benefits recorded in the balance sheets is as follows:

(€ million)	**TFR**	**Pension plans with plan assets (net liability)**	**Other long-term benefits**	**Total**
31.12.2005				
Current value of the benefit obligation	**35**	**49**	**12**	**96**
Actuarial gains (losses) not recognised	-	-	1	1
Past service cost not recognised	-	(9)	-	(9)
Provisions for employee benefits	**35**	**40**	**13**	**88**
31.12.2006				
Current value of the benefit obligation	**82**	**67**	**29**	**178**
Actuarial gains (losses) not recognised	(5)	(5)	1	(9)
Provisions for employee benefits	**77**	**62**	**30**	**169**

Provisions for other long-term benefits of €30 million (€13 million at December 31, 2005) concern primarily FISDE €14 million, jubilee awards €11 million (€5 million and €8 million at December 31, 2005, respectively) and deferred monetary incentive schemes €5 million.

Costs for long-term employee benefits recorded in the profit and loss account consist of the following:

(€ million)	TFR	Pension plans with assets	Other long-term benefits	Total
Year 2005				
Current cost	4	4	-	8
Financial expenses	1	-	2	3
Expected return on plan assets	-	(1)	-	(1)
Amortisation of past service cost	-	1	-	1
Amortisation of actuarial gains/losses	-	-	1	1
Effect of curtailments and settlements	-	(1)	-	(1)
Total costs	**5**	**3**	**3**	**11**
Year 2006				
Current cost	8	23	5	36
Financial expenses	3	3	1	7
Expected return on plan assets	-	(2)	-	(2)
Expected return on reimbursement asset	-	1	-	1
Total costs	**11**	**25**	**6**	**42**

Costs for other long-term benefits of €6 million (€3 million at December 31, 2005) concern primarily deferred monetary incentives and FISDE.
Main actuarial assumptions used for the valuation of long-term employee benefits consist of the following:

(%)	TFR	Pension plans with assets	Other long-term benefits
Year 2005			
Main actuarial assumptions:			
- discount rates	4.5	4.7-7.9	4.5-6.0
- rate of compensation increase		3.0-6.8	
- expected return on plan assets		7.2	
- rate of inflation	2.1	2.0-4.9	2.0-2.3
Year 2006			
Main actuarial assumptions:			
- discount rates	4.0	4.0-13.0	4.0-4.25
- rate of compensation increase		2.0-12.0	
- expected return on plan assets		4.0-7.5	
- rate of inflation	2.0	2.0-10.0	2.0

Expected return rates on plan assets have been determined by making reference to the ratings expressed in regulated markets. With regards to Italian plans demographic tables prepared by Ragioneria Generale dello Stato (RG48) were used.
Foreign plan assets consist of the following:

(%)	Plan assets	Expected return
December 31, 2006		
Shares	13.0	7.6
Bonds	7.4	5.0
Investment property	0.5	7.6
Other	79.1	7.5

The effective return of plan assets amount to €3 million (€5 million at December 31, 2005).
With reference to medical plans, effects deriving from a 1% change in actuarial assumptions of medical costs consist of the following:

(€ million)	1% increase	1% decrease
Impact on current costs and interest costs	-	-
Impact on net benefit obligation	2	(1)

The amount of the contributions expected to be paid to the defined contribution plans for 2007 amounts to €4 million.
The analysis of changes in net actuarial liability with regard to the previous fiscal year deriving from the non-correspondence of the actuarial assumptions adopted in the previous fiscal year with the effective values recorded at the closing of the current fiscal year consists of the following:

(%)	TFR	Foreign pension plans	FISDE	Other
2005				
Impact on net benefit obligation	-	3	-	3
Impact on plan assets	-	(3)	-	(3)
2006				
Impact on net benefit obligation	4	1	-	5
Impact on plan assets	-	-	-	-

21 Deferred tax liabilities

Deferred tax liabilities of €83 million (€20 million at December 31, 2005) are net of deferred tax assets for which Saipem possesses the legal right of offset.

(€ million)	31.12.2005	Additions	Deductions	Exchange rate differences and other variations	31.12.2006
Deferred tax liabilities	20	66	(17)	14	83
Total	**20**	**66**	**(17)**	**14**	**83**

Deferred tax liabilities of Snamprogetti amounted to €30 million.
Deferred tax liabilities consist of the following:

(€ million)	**31.12.2005**	**31.12.2006**
Deferred income taxes	(30)	(188)
Deferred income taxes available to be offset	10	105
	(20)	**(83)**
Deferred income taxes not available to be offset	68	47
Net deferred tax assets (liabilities)	**48**	**(36)**

The most significant temporary differences giving rise to net deferred tax liabilities are as follows:

(€ million)	31.12.2005	Additions	Deductions	Exchange rate differences and other variations	31.12.2006
Deferred tax liabilities:					
- accelerated tax depreciation on fixed assets	(8)	(25)	-	-	(33)
- non distributed reserves held by investments	(16)	(22)	-	-	(38)
- other	(6)	(19)	17	(109)	(117)
	(30)	**(66)**	**17**	**(109)**	**(188)**
Deferred tax assets:					
- accruals for doubtful accounts and provisions for contingencies	10	4	(1)	1	14
- tax loss carry forwards	81	14	(12)	35	118
- write-downs of fixed assets and non deductible inventories	1	-	(2)	5	4
- other	36	88	(59)	66	131
	128	**106**	**(74)**	**107**	**267**
Less:					
- write-down of deferred tax assets	(50)	(1)	12	(76)	(115)
	78	**105**	**(62)**	**31**	**152**
Net deferred tax assets (liabilities)	**48**	**39**	**(45)**	**(78)**	**(36)**

The caption exchange rate differences and other variations relates mainly to the consolidation of the Snamprogetti Group.
Write-down of deferred tax assets of €115 million (€50 million at December 31, 2005) comprises mainly of fiscal losses that are not likely to be offset against future income and of temporary differences giving rise to assets which are not likely to be realised.

Fiscal losses

Under Italian fiscal laws, tax losses can be carried forward for up to five subsequent periods, excepting losses suffered in the first three periods of life of the company that can be carried forward without time limit. Tax losses of foreign companies can be carried forward on average for more than five periods and for a considerable part can be carried forward without limit. Tax recovery corresponds to a tax rate of 33% for Italian companies and to an average tax rate of 29% for foreign companies.
Tax losses amount to €398 million and can be used in the following periods:

(€ million)	Italian companies	Foreign companies
2007	-	-
2008	-	4
2009	-	13
2010	-	15
2011	-	37
Beyond 2011	-	3
Without limit	-	326
Total	**-**	**398**

22 Other non-current liabilities

Other non-current liabilities of €1 million (€1 million at December 31, 2005) consist of the following:

(€ million)	31.12.2005	31.12.2006
Trade and other payables	1	1
Total	**1**	**1**

Other non-current liabilities of €1 million consist of trade payables relating to a Group foreign subsidiary.

Shareholders' equity

23 Minority interest

At December 31, 2006, minority interest amounted to €4 million, a decrease of €9 million versus December 31, 2005, due mainly to the purchase, from Eni SpA, of 50% of the share capital in the subsidiary Energy Maintenance Services SpA.
Minority interest in profit and shareholders' equity relate to the following consolidated subsidiaries:

(€ million)	31.12.2005	31.12.2006
Energy Maintenance Services SpA	10	-
ER SAI Caspian Contractor Llc	3	3
Other	-	1
Total	**13**	**4**

24 Saipem shareholders' equity

(€ million)	31.12.2005	31.12.2006
Share capital	441	441
Share premium reserve	49	55
Legal reserve	58	65
Reserve for buy-back of treasury shares	10	16
Reserve for cash flow hedge	(51)	67
Reserve for exchange-rate differences	18	(13)
Other reserves	2	7
Retained earnings	899	632
Net profit for the period	255	384
Treasury shares	(51)	(73)
Total	**1,630**	**1,581**

25 Share capital

At December 31, 2006, the share capital of Saipem SpA amounted to €441 million, corresponding to 441,410,900 shares with a nominal value of €1 each, of which 441,251,799 are ordinary shares and 159,101 are savings shares.
On April 28, 2006, Saipem's Shareholders' Meeting approved a dividend distribution of €0.19 per ordinary share and €0.22 per savings share, with the exclusion of treasury shares. The cash dividend was made available for payment from May 25, 2006 and the ex-dividend date was May 22, 2006.

26 Share premium reserve

At December 31, 2006, this amounted to €55 million, an increase of €6 million versus December 31, 2005, attributed to the expiry of the authorisation to buy-back treasury shares granted at previous Shareholders' meetings.

27 Other reserves

At December 31, 2006, other reserves amounted to €142 million (€37 million al December 31, 2005) and consist of the following items.

Legal reserve

At December 31, 2006, the legal reserve of Saipem SpA stood at €65 million and represents the portion of profits accrued as per Article 2430 of the Italian Civil Code that cannot be distributed as dividends. The legal reserve increased by €7 million versus December 31, 2005, following the allocation to this reserve of the 2005 net profit.

Reserve for cash flow hedge

This reserve amounts to plus €67 million and relates to the fair value valuation of Interest Rate Swaps and the spot component of hedging contracts in place at December 31, 2006.
The reserve for cash flow hedge resulting from the consolidation of Snamprogetti amounted to €2 million.

Reserve for exchange rate differences

This reserve amounted to minus €13 million and relates to exchange rate differences arising from the translation into euros of those financial statements expressed in foreign currency.

Reserve for the buy-back of treasury shares

This reserve amounted to €16 million, an increase of €6 million versus December 31, 2005. This is due to the allocation of €48 million, by drawing from the 'Retained earnings', as per Shareholders' meeting resolution of April 28, 2006, which granted the Board of Directors, pursuant to Article 2357 of the Italian Civil Code to buy-back, over a period of 18 months from date of Shareholders' approval, up to No. 2,400,000 treasury shares with a nominal value of €1 each at a price not lower than their nominal value but not higher than 5% of the reference price on the day preceding each purchase, which shall take place on the Italian market in accordance with the modalities set forth by the Italian Stock Exchange, and for an overall amount not exceeding €48,000,000.
The decrease of €36 million following the buy-back of 1,919,355 treasury shares during the semester was reclassified under the caption 'Treasury shares'.
The further decrease of €6 million, as previously stated, was reclassified under the caption 'Share premium reserve'.

Other reserves

Other reserves increased by €5 million versus the previous year and refer to the allocation of part of the 2005 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.

28 Treasury shares

Treasury shares amount to €73 million (€51 million at December 31, 2005) and comprise 6,198,088 ordinary shares in Saipem SpA with a nominal value of €1 each held by Saipem SpA (No. 5,854,546 shares at December 31, 2005).
Treasury shares are for allocation to the 2002-2006 stock option schemes and stock grant schemes. Operations involving treasury shares during the year were as follows:

	Treasury shares	Average cost (€)	Total cost (€ million)	Share capital (%)
Treasury shares bought back				
Year 2003 (from May 2)	2,125,000	6.058	13	0.48
Year 2004	1,395,000	7.044	10	0.32
Year 2005	3,284,589	10.700	35	0.74
Year 2006	1,919,355	18.950	36	0.43
Total	**8,723,944**	**10.800**	**94**	**1.97**
Less treasury shares allocated:				
- as stock grants	602,400			
- as stock options	1,923,456			
Treasury shares held at December 31, 2006	**6,198,088**	**11.750**	**73**	**1.40**

At December 31, 2006, outstanding stock grants totalled 1,042,700 shares and outstanding stock options amounted to 5,404,088 shares.
The price for stock option exercise is set at €6.187 for allocations in 2002 (No. 929,088), at €6.821 for allocations in 2003 (No. 527,500), of €7.594 for allocations in 2004 (No. 1,029,500) and of €11.881 for allocations in 2005 (No. 953,000). Further information on stock option and stock grant schemes are provided in Note 33.

Movements in consolidated shareholders' equity

(€ million)	Share capital	Share premium reserve	Other reserves	Legal reserve	Reserve for treasury shares held	Reserve for buy-back of treasury shares	Reserve for cash flow hedge	Reserve for exchange rate differences	Retained earnings	Net profit	Treasury shares	Total	Minority interest	Total shareholders' equity
Balance at 31.12.2004	**441**	**62**	**2**	**55**	**22**	**21**	**-**	**(12)**	**706**	**197**	**-**	**1,494**	**9**	**1,503**
Effect of first time IAS adoption	-	-	-	-	-	-	-	-	4	38	-	42	-	42
Annulment of exchange differences	-	-	-	-	-	-	-	12	(12)	-	-	-	-	-
Adjusted balance at 31.12.2004	**441**	**62**	**2**	**55**	**22**	**21**	**-**	**-**	**698**	**235**	**-**	**1,536**	**9**	**1,545**
Effect of IAS 32 and 39 adoption	-	-	-	-	(22)	-	58	-	5	-	(22)	19	-	19
Adjusted balance at 1.1.2005	**441**	**62**	**2**	**55**	**-**	**21**	**58**	**-**	**703**	**235**	**(22)**	**1,555**	**9**	**1,564**
Net profit 2005	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**255**	**-**	**255**	**4**	**259**
Net profit (expenses) recognised directly in equity														
Variation of the fair value of cash flow hedge derivatives, net of effect of taxation	-	-	-	-	-	-	(109)	-	-	-	-	(109)	-	(109)
Exchange differences from translation of financial statement in foreign currencies		-	-	-	-	-	-	14	-	-	-	14	-	14
Total	**-**	**-**	**-**	**-**	**-**	**-**	**(109)**	**14**	**-**	**-**	**-**	**(95)**	**-**	**(95)**
Transactions with Shareholders														
Distributed dividends	-	-	-	-	-	-	-	-	-	(65)	-	(65)	-	(65)
Retained earnings and allocation to legal reserve	-	-	-	3	-	-	-	-	167	(170)	-	-	-	-
Buy-back of treasury shares	-	(13)	-	-	-	(11)	-	-	24	-	(29)	(29)	-	(29)
Other variations in shareholders' equity														
Cost of stock options/stock grants	-	-	-	-	-	-	-	-	5	-	-	5	-	5
Exchange differences from dividend distribution	-	-	-	-	-	-	-	4	-	-	-	4	-	4
Total	**-**	**(13)**	**-**	**3**	**-**	**(11)**	**-**	**4**	**196**	**(235)**	**(29)**	**(85)**	**-**	**(85)**
Balance at 31.12.2005	**441**	**49**	**2**	**58**	**-**	**10**	**(51)**	**18**	**899**	**255**	**(51)**	**1,630**	**13**	**1,643**
Net profit 2006	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**384**	**-**	**384**	**3**	**387**
Net profit (expenses) recognised directly in equity														
Variation of the fair value of cash flow hedge derivatives, net of effect of taxation	-	-	-	-	-	-	116	-	-	-	-	116	-	116
Exchange differences from translation of financial statements in foreign currencies	-	-	-	-	-	-	-	(19)	-	-	-	(19)	-	(19)
Total	**-**	**-**	**-**	**-**	**-**	**-**	**116**	**(19)**	**-**	**-**	**-**	**97**	**-**	**97**
Transactions with Shareholders														
Distributed dividends	-	-	-	-	-	-	-	-	-	(82)	-	(82)	-	(82)
Retained earnings and allocation to legal reserve	-	-	5	7	-	-	-	-	161	(173)	-	-	-	-
Buy-back of treasury shares	-	6	-	-	-	6	-	-	(12)	-	(22)	(22)	-	(22)
Other variations in shareholders' equity														
Effect of acquisition of Snamprogetti	-	-	-	-	-	-	-	-	(442)	-	-	(442)	-	(442)
Reopening of Snamprogetti's reserves	-	-	-	-	-	-	(34)	3	-	-	-	(31)	-	(31)
Variation in Snamprogetti's reserves	-	-	-	-	-	-	36	(9)	29	-	-	56	-	56
Acquisition of 50% of EMS SpA	-	-	-	-	-	-	-	-	-	-	-	-	(12)	(12)
Cost of stock options/stock grants	-	-	-	-	-	-	-	-	(3)	-	-	(3)	-	(3)
Exchange differences from dividend distribution	-	-	-	-	-	-	-	(6)	-	-	-	(6)	-	(6)
Total	**-**	**6**	**5**	**7**	**-**	**6**	**2**	**(12)**	**(267)**	**(255)**	**(22)**	**(530)**	**(12)**	**(542)**
Balance at 31.12.2006	**441**	**55**	**7**	**65**	**-**	**16**	**67**	**(13)**	**632**	**384**	**(73)**	**1,581**	**4**	**1,585**

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

	31.12.2004		31.12.2005		31.12.2006	
(€ million)	Shareholders' equity	Net profit	Shareholders' equity	Net profit	Shareholders' equity	Net profit
As reported in statutory financial statements	**700**	**61**	**693**	**121**	**762**	**156**
Difference between the equity value and results of consolidated companies and the equity value and result of consolidated companies as accounted for in Saipem SpA financial statements	361	302	511	186	394	242
Consolidation adjustments, net of effects of taxation:						
- difference between cost and underlying value of equity	770	(39)	759	(12)	676	3
- elimination of unrealized intercompany profits	(406)	(150)	(377)	32	(287)	(33)
- other adjustments	120	64	57	(68)	40	19
Total shareholders' equity	**1,545**	**238**	**1,643**	**259**	**1,585**	**387**
Minority interest	(9)	(3)	(13)	(4)	(4)	(3)
As reported in the consolidated financial statements	**1,536**	**235**	**1,630**	**255**	**1,581**	**384**

29 Guarantees, commitments and risks

Guarantees

Guarantees of €4,937 million (€2,194 million at December 31, 2005) consist of the following:

	31.12.2005			31.12.2006		
(€ million)	Unsecured	Other guarantees	Total	Unsecured	Other guarantees	Total
Associated companies	43	16	59	38	16	54
Consolidated companies	379	1,264	1,643	683	3,754	4,437
Own	-	486	486	-	443	443
Other	6	-	6	3	-	3
Total	**428**	**1,766**	**2,194**	**724**	**4,213**	**4,937**

They mainly comprise guarantees issued by banks for obligations arising from the participation in contract tenders, for the proper execution of work, for liens and credit facilities.
Guarantees resulting from the consolidation of Snamprogetti at December 31, 2006 amounted to €2,495 million.

Commitments and contingencies

Saipem SpA, for the benefit of its customers, is committed to fulfiling the contractual obligations entered into by subsidiary or associated companies where they fail to fulfil the contractual obligations themselves, as well as to pay for any damages incurred as a result of any failure to meet those obligations.
These commitments guarantee the cover for contracts whose overall value amounts to €8,533 million (€6,310 million at December 31, 2005), inclusive of the backlog quota at December 31, 2006 relating to Group companies.

Contractual penalties and disputes

Following the acquisition of Snamprogetti, Saipem is party in civil, administrative and legal proceedings associated to its business. Based on information at the company's disposal at time of printing and in consideration of the provisions made for contingencies, Saipem deems that these proceedings and actions will not have significant negative effects on its consolidated balance sheet.
A brief summary of the most important ongoing proceedings is provided hereafter. If not stated otherwise, no allocation has been made against these proceedings, since Saipem deems it unlikely for them to be unsuccessful or because the amount to be allocated is difficult to estimate.

CEPAV (Consorzio Eni per l'Alta Velocità) Due
The arbitration proceedings launched in 2000 by the Consortium against 'Treno ad Alta Velocità' (High Speed Train, hereafter TAV) to receive indemnification for damages for delays allegedly attributable to TAV, are still ongoing. On January 4, 2007 a partial arbitrator's award was issued recognising the right by the Consortium to damages.
Proceedings are currently ongoing to quantify prices and damages.
TAV has already demurred at the revocation of the framework contract. In fact, the recent Law Decree 7 of January 31, 2007 – subsequently converted into Law – has revoked the framework contract, issued by the Italian Railway company to TAV SpA, for the construction of the Milan-Verona line. Effects of this revocation apply also to the contract that CEPAV Due signed with TAV SpA on October 15, 1991.
Following the publication of the aforementioned decree, the Consortium has launched a second arbitration proceeding aimed at receiving indemnification for damages for items in breach of contract carried out by TAV occurred before the issue of the decree. TAV has rejected all requests for damages and demurred at the revocation of the agreement. Arbitrators appointed by the parties have to nominate the Chairman and thereby complete the Arbitration committee.

CEPAV (Consorzio Eni per l'Alta Velocità) Uno - TAV SpA
The Consortium CEPAV Uno (Eni Consortium for high speed trains, comprising Snamprogetti SpA (50.1%); Saipem SpA (0.26%); Consorzio Cooperative Costruzioni - CCC (21.34%); Grandi Lavori - Fincosit (14.15%) and Impresa Pizzarotti & C (14.15%), first signed a frame agreement with TAV SpA on October 15, 1991; subsequently, on August 3, 2000 an additional act was signed and on June 27, 2003 an addendum for the construction of the high speed/high capacity Milan-Bologna link. The foregoing acts have been countersigned by Eni SpA as guarantor for the Consortium to ensure timely and correctly adherence to all the provisions stated in the frame agreement, the subsequent additional act 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 (indicated, on November 30, 2005, to be in excess of €800 million). CEPAV Uno and TAV have tried to find an amicable settlement; however, on March 14, 2006 this attempt failed since the Consortium deemed the arguments put forward by TAV to be unsatisfactory. On April 27, 2006, TAV was served with a request for arbitration, in compliance with contractual agreements.
The term for lodging the arbitration is October 30, 2007.

Consortium TSKJ - SEC enquiries
In June 2004, the US Securities and Exchange Commission approached Eni requesting voluntary assistance, which was immediately granted, to gather documents and other information regarding the TSKJ consortium with regard to the construction, in Nigeria (Bonny Island), of natural gas liquefaction plants. The TSKJ consortium comprises Snamprogetti (25%, Eni 43.54%) and subsidiaries of Halliburton/KBR, Technip and JGC. SEC inquiries focus on improper payments allegedly made by TSKJ to public officials. Other Authorities have also launched investigations into this matter. Saipem and Snamprogetti are providing SEC and other Authorities with documentation and information at their disposal as well as lending their full support.
Enquires are currently ongoing.

EniPower - Enquiries by the Judiciary
The Milanese Judiciary has begun an enquiry into contracts that EniPower awarded to ABB, as well as services provided by other companies to EniPower. Snamprogetti SpA (EniPower's engineering and procurement sub-contractor) together with EniPower were served a warning to inform them that they are under investigation, pursuant to Article 25 of Law 231/2001. The penal action is currently pending at the public prosecutor's office in Milan. Preliminary enquiries have recently been concluded and records lodged. The Company was not included amongst the parties under investigation, whom will be issued with committals for trial.

Revenues

The following is a summary of the main components of 'Revenues'. Additional information about changes in revenues is provided under the caption 'Review of financial and economic results'.

30 Turnover

Turnover is broken down as follows:

(€ million)	2005	2006
Net sales from operations	4,470	7,058
Variation in contract work in progress	58	459
Total	**4,528**	**7,517**

Turnover by geographical area is as follows:

(€ million)	2005	2006
Italy	198	773
Rest of Europe	774	1,093
CSI	758	1,052
Rest of Asia	647	2,109
North Africa	482	372
West Africa	1,416	1,570
Americas	198	545
Australia, Oceania and rest of the world	55	3
Total	**4,528**	**7,517**

Information required by IAS 11, paragraphs 39, 40 and 42 is provided by business sector in Note 40.
Turnover achieved by Snamprogetti in 2006 amounted to €2,288 million.
Turnover from Eni Group companies amounted to €698 million.

31 Other revenues and income

Other revenues and income consist of the following:

(€ million)	2005	2006
Income related to personnel	-	1
Contract penalties and other trade revenues	3	5
Gains on disposal of assets	1	4
Release of provisions for doubtful accounts	1	-
Compensation for damages	-	4
Other proceeds	6	36
Total	**11**	**50**

Other revenues and income achieved by Snamprogetti amounted to €20 million.

Operating expenses

The following is a summary of the main components of 'Operating expenses'. Additional information about changes in revenues is provided under the caption 'Review of financial and economic results'.

32 Procurement, services and other costs

Procurement, services and other costs can be broken down as follows:

(€ million)	2005	2006
Raw, ancillary and consumable materials and goods	830	2,088
Services	2,091	3,075
Use of third party assets	242	418
Net provisions for contingencies	27	31
Other expenses	33	60
less:		
- capitalised direct costs associated with self-constructed assets	(32)	(59)
- variations in inventories	(35)	(37)
- grants	-	(2)
Total	**3,156**	**5,574**

Costs of services include agency fees of €26 million (€17 million at December 31, 2005).
This caption includes 'Procurement, services and other costs' of Snamprogetti and its subsidiaries amounting to €2,022 million.
Net provisions for contingencies are detailed in Note 19 'Provisions for contingencies'.
Other expenses, amounting to €60 million, comprise mainly of indirect taxes (€27 million).
Procurement, services and other costs towards Eni Group companies amounted to €103 million.

33 Payroll and related costs

Payroll and related costs are as follows:

(€ million)	2005	2006
Wages and salaries	631	875
Social security contributions	121	187
Contributions to defined benefit plans	11	31
Employee termination indemnities	4	11
Other costs	56	70
less:		
- capitalised direct costs associated with self-constructed assets	(4)	(10)
Total	**819**	**1,164**

Personnel costs incurred by Snamprogetti amount to €246 million.
Contributions to defined benefit plans are detailed in Note 20 'Provisions for employee benefits'.

Stock compensation

STOCK GRANTS

At December 31, 2006, 1,042,700 ordinary shares with a nominal value of €1 each are outstanding and concern the 2004 stock grant scheme (580,600 shares with a fair value of €7.225 per share) and the 2005 stock grant scheme (462,100 shares with a fair value of €11.756 per share for Italian residents and €11.972 per share for non-Italian residents).

STOCK OPTIONS

With the aim of improving motivation and loyalty of the managers of Saipem SpA and its subsidiaries, as per in Article 2359 of the Italian Civil Code, directly responsible for Group results or holding strategic positions within the Group, Saipem approved stock incentive schemes that provide the allocation of purchase rights of Saipem treasury shares (hereafter 'options'). Stock options give the right to purchase treasury shares (1 option to 1 share ratio) after three years from the date of allocation for managers resident in Italy and after four years for managers resident in France. The purchase price is equal to the shares official price average recorded by the Telematic Stock Market of Borsa Italiana SpA over the month preceding allocation or (from 2003), if greater, the average cost of treasury shares held by the company on the day preceding the date of stock option allocation. The strike price for 2006 stock options was €17.519. Stock option assignees can obtain advances by the Group financial company for the payment of shares acquired on condition that the assignees simultaneously underwrite an irrevocable warrant of sale to the above-mentioned financial company, regarding the shares acquired.
At December 31, 2006, No. 5,404,088 stock options have been allocated for the purchase of No. 5,404,088 shares of Saipem SpA of the nominal value of €1 each.

	Number of shares	Exercise price (€)	Average residual life (years)	Fair value (€) for assignees resident in Italy	Fair value (€) for assignees resident in France
2002 scheme	929,088	6.187	3	n.a.	n.a.
2003 scheme	527,500	6.821	4	1.1928	1.1806
2004 scheme	1,029,500	7.594	6	2.0935	2.0085
2005 scheme	953,000	11.881	7	3.1029	2.9795
2006 scheme	1,965,000	17.519	6	5.7208	6.1427
Total	**5,404,088**				

The fair value of stock options granted in 2002 is not available, as it was not calculated at the time of allocation. 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 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 assignees resident in Italy:

	2005		2006
	European portion	American portion	
Risk-free interest rate (%)	2.490	3.510	4.010
Expected life (years)	3	5	6
Expected volatility (%)	30.120	30.120	28.500
Expected dividends (%)	1.690	1.525	1.300

- for assignees resident in France:

	2005		2006
	European portion	American portion	
Risk-free interest rate (%)	2.634	3.550	4.060
Expected life (years)	4	3	7
Expected volatility (%)	30.750	30.750	28.500
Expected dividends (%)	1.890	0.915	1.300

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) amount to €26 million (€19 million in 2005) and consist of the following:

(€ million)	2005	2006
Wages and salaries	5	6
Indemnities due upon termination of employment	5	6
Stock grants/stock options	9	14
Total	**19**	**26**

Compensation of Board Directors and Statutory Auditors

Compensation of Board Directors amount to €1,360 thousand (€1,261 thousand in 2005). Compensation of Statutory Auditors amount to €154 thousand (€144 thousand in 2005). Compensation of Board Directors and Statutory Auditors include emoluments and all other retributive and social security compensations due for the office of director or statutory auditor of Saipem SpA or companies within the scope of consolidation, that are a cost to Saipem.

Average number of employees

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

(number)	31.12.2005	31.12.2006
Senior managers	291	401
Managers	1,814	2,925
White collar	8,640	11,522
Blue collar	12,371	14,076
Seamen	239	239
Total	**23,355**	**29,163**

The average number of employees is calculated using the half-sum of employees at the beginning and the end of the period. The average number of senior managers includes managers employed and operating in foreign countries, whose position is comparable to a senior manager status in Italy.

34 Depreciation, amortisation and impairments

Depreciation, amortisation and impairments consist of the following:

(€ million)	2005	2006
Depreciation and amortisation:		
- tangible assets	186	219
- intangible assets	10	10
	196	**229**
Impairments:		
- intangible assets	3	1
Total	**199**	**230**

Depreciation, amortisation and impairments of Snamprogetti amounted to €15 million.

35 Financial income (expenses)

Financial income (expenses) consist of the following:

(€ million)	2005	2006
Exchange differences, net	(41)	6
Net income (expenses) on derivatives	17	(24)
Net income (expenses) on hedging operations	-	(23)
Financial expenses (net) due to Group's financial companies	(23)	(34)
Net interest due to/from banks	1	14
Interest and other financial expenses on debt due to Group's financial companies	(3)	(42)
Other net income (expenses) due to third parties	(5)	3
Total	**(54)**	**(100)**

Financial income (expenses) of Snamprogetti are immaterial.

36 Income (expenses) from investments

Effects of investments accounted for using the equity method consist of the following:

(€ million)	2005	2006
Income from investments accounted for using the net equity method	23	34
Other income from investments	-	7
Dividends	1	4
Total	**24**	**45**

Income (expenses) from investments accounted for using the equity method relating to Snamprogetti amount to €1 million. Income from investments accounted for using the equity method are analysed under Note 9 'Investments accounted for using the equity method'.

37 Income taxes

Income taxes consist of the following:

(€ million)	2005	2006
Current taxes:		
- Italian subsidiaries	53	47
- foreign subsidiaries	52	104
Net deferred taxes:		
- Italian subsidiaries	(6)	(4)
- foreign subsidiaries	(23)	10
Total	**76**	**157**

Current taxes amounted to €151 million and concern Ires (€29 million), Irap (€18 million) and foreign taxes (€104 million). The effective tax rate is 29.0% (22.7% in 2005) compared with a statutory tax rate of 46.8% (48.0% in 2005), calculated by applying a 33% tax rate (Ires) to profit before income taxes and 4.25% tax rate (Irap) to the net value of production as provided for by Italian laws.

The difference between the statutory and effective tax rate is due to the following factors:

(%)	2005	2006
Statutory tax rate	**48.0**	**46.8**
Items increasing (decreasing) the statutory tax rate:		
- net value of production abroad (Irap)	(11.1)	(10.4)
- lower tax rates for foreign subsidiaries	(14.2)	(7.4)
Total variations	**(25.3)**	**(17.8)**
Effective tax rate	**22.7**	**29.0**

38 Minority interest

Minority interest amounts to €3 million.

39 Earnings per share

Basic earnings per share are calculated by dividing the net income for the year by the weighted-average number of shares issued and outstanding during the same period, excluding treasury shares.
The number of shares outstanding used for the calculation of the basic earnings per share was 435,253,726 and 436,905,196 in 2006 and 2005, respectively.
Diluted earnings per share are calculated by dividing the net income for the period by the weighted-average number of shares issued and outstanding during the period, excluding treasury shares, including shares that could be potentially issued. At December 31, 2006, shares that could be issued potentially concern essentially shares granted under stock grant and stock option schemes. The number of shares outstanding used for the calculation of the diluted earnings per share was 441,859,615 and 441,015,262 in 2006 and 2005, respectively. Reconciliation of the average number shares outstanding used for the calculation of the basic and diluted earning per share is as follows:

		31.12.2005	31.12.2006
Average number of shares used for the calculation of the basic earnings per share		**436,905,196**	**435,253,726**
Number of potential shares following stock grant schemes		1,589,000	1,042,700
Number of potential shares following stock option schemes		2,349,580	5,404,088
Number of savings shares convertible into ordinary shares		171,486	159,101
Average number of shares used for the calculation of the diluted earnings per share		**441,015,262**	**441,859,615**
Saipem's net profit	(€ million)	255	387
Basic earnings per share	(€ per share)	0.59	0.88
Diluted earnings per share	(€ per share)	0.59	0.89

40 Information by business sector and geographical area

Information by business sector

Following the acquisition of Snamprogetti, the Saipem Group is organised into three business units: Offshore, Onshore and Drilling. The former LNG business unit is now part of the Onshore unit, whilst Leased FPSO is now part of the Offshore unit. MMO has been partitioned into the Onshore and Offshore business units. Information pertaining to the Drilling business unit has been subdivided into Offshore Drilling and Onshore Drilling. With regard to the provisions of IAS 14 'Segment reporting', the segments presented have been reduced from seven to four.

(€ million)	Offshore	Onshore	Offshore Drilling	Onshore Drilling	Not allocated	Total
December 31, 2005						
Net sales from operations	3,811	1,331	447	232	-	5,821
less: intercompany sales	1,016	110	145	22	-	1,293
Net sales to customers	2,795	1,221	302	210	-	4,528
Operating profit	241	49	54	21	-	365
Depreciation, amortisation and write-downs	96	35	49	19	-	199
Net income from investments	3	21	-	-	-	24
Capital expenditure	281	20	47	14	-	362
Investments	14	28	-	-	-	42
Current assets	1,310	499	181	107	1,004	3,101
Current liabilities	1,439	458	110	64	1,562	3,633
Provisions for contingencies	43	10	-	-	46	99
December 31, 2006						
Net sales from operations	4,156	3,801	532	291	-	8,780
less: intercompany sales	964	101	167	31	-	1,263
Net sales to customers	3,192	3,700	365	260	-	7,517
Operating profit	300	164	103	32	-	599
Depreciation, amortisation and write-downs	108	49	53	20	-	230
Net income from investments	5	40	-	-	-	45
Capital expenditure	405	70	102	37	-	614
Investments	17	138	-	-	-	155
Current assets	1,512	2,655	226	137	1,554	6,084
Current liabilities	1,354	2,990	122	71	2,127	6,664
Provisions for contingencies	13	116	-	-	49	178

Intersegment sales are conducted on an arm's length basis.

The following table contains information required by IAS 11, paragraphs 39, 40 and 42.

(€ million)	Offshore	Onshore	Offshore Drilling	Onshore Drilling	Not allocated	Total
Net sales from operations (a)	3,192	3,700	365	260	-	7,517
Variation in provisions for future losses (b)	(22)	88	-	-	-	66
Total (a-b)	**3,214**	**3,612**	**365**	**260**	**-**	**7,451**
Advances from clients	86	481	-	-	-	567
Provisions for future losses (c)	13	115	-	-	-	128
Contract work in progress (d)	(111)	(664)	-	-	-	(775)
Deferred income (e)	443	816	-	-	-	1,259
Total (c+d+e)	**345**	**267**	**-**	**-**	**-**	**612**

Information by geographical area

Geographical allocation of operations is made difficult by Saipem's specific business, entailing the deployment of a fleet which operates on several projects over a single period. Therefore, not all allocations have been covered.

With regard to tangible and intangible assets as well as capital expenditure, vessels and their related equipment and goodwill were not allocated.

With regard to current assets, inventories related to vessels were not allocated.

A breakdown of revenues by geographical area is provided in Note 30.

(€ million)	Italy	Rest of Europe	CSI	Rest of Asia	North Africa	West Africa	Americas	Not allocated	Total
2005									
Capital expenditure	2	4	107	1	7	8	8	225	362
Tangible and intangible assets	12	110	62	66	-	93	49	2,348	2,740
Identifiable assets	324	537	103	244	70	256	157	1,410	3,101
2006									
Capital expenditure	8	17	68	11	7	31	14	458	614
Tangible and intangible assets	36	90	117	62	2	111	297	2,479	3,194
Identifiable assets	1,031	997	524	1,467	202	1,093	399	371	6,084

41 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 involve essentially the supply of services, trading of goods, obtainment and use of financial instruments 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 have been carried out for the mutual benefit of the companies involved.

The tables below shows the value of the transactions of a trade, financial or other nature entertained with related parties. The analysis by company is based on the principle of relevance in relation to the amount of individual transactions. Transactions not itemised relate to the following:

- Eni subsidiary companies;
- Eni associated companies;
- other related parties.

Trade and other transactions

Trade transactions at December 31, 2005 consist of the following:

(€ million)

	31.12.2005			Year 2005			
				Costs		Revenues	
Company	Receivables	Payables	Guarantees	Goods	Services	Goods and services	Other
Eni SpA Exploration & Production Division	59	4	-	4	1	168	-
Naoc - Nigerian Agip Oil Co Ltd	99	-	-	-	-	205	-
Eni Congo SA	5	-	4	-	-	9	-
Snamprogetti SpA	1	1	-	-	4	-	-
Snamprogetti Saudi Arabia Ltd	3	-	-	-	1	1	-
Sofid SpA	-	-	-	-	2	-	-
Enifin SpA	-	-	1,855	-	-	-	-
Padana Assicurazioni SpA	2	10	-	-	49	2	-
Eni SpA Refining & Marketing Division	3	1	-	9	1	-	-
Serfactoring SpA	-	6	-	-	-	-	-
Agip Energy & Natural Resources (Nigeria) Ltd	9	-	-	-	-	26	-
Eni SpA	1	4	-	-	6	-	-
AgipFuel SpA	-	-	-	2	-	-	-
Eni SpA Gas & Power Division	9	-	-	-	-	8	-
Syndial SpA	1	-	-	-	-	-	-
Agip Karachaganak BV	1	-	-	-	-	3	-
Eni North Africa BV	3	-	-	-	-	31	-
Ieoc Exploration BV	4	-	-	-	-	13	-
Eni Dación BV	2	-	-	-	-	11	-
Eni Iran BV	10	-	-	-	-	20	-
Sieco SpA	-	10	-	-	11	-	-
Eni Algeria Production BV	1	-	-	-	-	4	-
Ieoc Production BV	1	-	-	-	-	14	-
Eni Mediterranea Idrocarburi SpA	2	-	-	-	-	10	-
Eni Corporate University SpA	-	1	-	-	2	-	-
Stoccaggi Gas Italia SpA	7	-	-	-	-	20	-
Raffineria di Gela SpA	6	1	-	-	1	21	-
Nigeria Agip Exploration Ltd	4	-	-	-	-	7	-
GreenStream BV	-	-	-	-	-	2	-
Eni associated companies	-	-	-	-	-	110	-
Total transactions with related parties	**233**	**38**	**1,859**	**15**	**78**	**685**	**-**
Total	**1,265**	**1,129**	**2,194**	**830**	**2,091**	**4,528**	**-**
Incidence (%)	**18.42**	**3.37**	**84.73**	**1.81**	**3.73**	**15.13**	**-**

Trade transactions at December 31, 2006 consist of the following:

(€ million)

	31.12.2006			Year 2006			
				Costs		Revenues	
Company	Receivables	Payables	Guarantees	Goods	Services	Goods and services	Other
Eni SpA Exploration & Production Division	114	3	-	2	1	199	-
Naoc - Nigerian Agip Oil Co Ltd	76	15	-	-	-	21	-
Eni Congo SA	51	8	-	-	-	69	-
EniPower SpA	18	1	1	-	-	46	-
Société pour la Construction du Gazoduc	33	-	-	-	-	19	-
Ecofuel SpA	1	-	-	-	-	-	-
Enifin SpA	1	-	2.951	-	-	-	-
Sofid SpA	-	-	-	-	2	-	-
Padana Assicurazioni SpA	11	23	4	-	36	5	3
Eni International Bank Ltd	-	-	-	-	-	-	-
Eni SpA Refining & Marketing Division	110	8	-	4	2	22	-
Eni SpA	38	4	-	4	-	-	-
EniPower Mantova SpA	-	-	-	-	-	1	-
Serfactoring SpA	-	29	-	-	-	-	-
Agip Energy & Natural Resources (Nigeria) Ltd	8	-	-	-	-	22	-
Praoil SpA	-	-	-	-	-	2	-
Polimeri Europa SpA	26	2	-	-	13	15	-
Servizi Aerei SpA	-	-	-	-	1	-	-
Engineering & Management Services SpA	2	1	-	-	-	2	-
AgipFuel SpA	-	1	-	2	-	-	-
Syndial SpA	55	2	2	-	-	88	-
Eni SpA Gas & Power Division	13	-	-	-	-	12	-
Agip Karachaganak BV	1	-	-	-	-	4	-
Snam Rete Gas SpA	21	-	5	-	-	6	-
Eni North Africa BV	13	-	-	-	-	14	-
Ieoc Exploration BV	2	-	-	-	-	18	-
Eni Iran BV	9	-	-	-	-	18	-
EniServizi SpA	2	24	-	4	29	3	-
Eni Algeria Production BV	1	-	-	-	-	5	-
Ieoc Production BV	1	-	-	-	-	5	-
Agip Oil Ecuador BV	2	-	-	-	-	5	-
Eni Mediterranea Idrocarburi SpA	6	-	-	-	-	19	-
Società EniPower Ferrara Srl	10	-	4	-	-	-	-
Eni Corporate University SpA	-	2	-		3	-	-
Stoccaggi Gas Italia SpA	7	-	-	-	-	25	-
Raffineria di Gela SpA	15	-	-	-	-	36	-
Eni Gas BV	-	-	40	-	-	-	-
Eni Dación BV	-	-	-	-	-	1	-
GreenStream BV	3	-	-	-	-	3	-
Eni associated companies	-	-	-	-	-	13	-
Total transactions with related parties	**650**	**123**	**3,007**	**16**	**87**	**698**	**3**
Total	**2,916**	**2,294**	**4,936**	**2,085**	**3,076**	**7,058**	**56**
Incidence (%)	**22.29**	**5.36**	**60.92**	**0.77**	**2.83**	**9.89**	**5.36**

The Saipem Group provides services to Eni Group companies in all sectors in which it operates both in Italy and abroad. Revenues from Eni associated companies amount to €13 million and relate to Eni Oil Co Ltd (€4 million) and InAgip doo (€9 million).

Other transactions consist of the following:

(€ million)	31.12.2005			31.12.2006		
	Other receivables	Other payables	Contract work in progress	Other receivables	Other payables	Contract work in progress
Naoc - Nigerian Agip Oil Co Ltd	-	-	13	-	-	21
Polimeri Europa SpA	-	-	-	-	-	1
Enifin SpA	20	57	-	117	87	-
Eni International Bank Ltd	2	2	-	1	-	-
Sofid SpA	-	-	-	3	-	-
Eni Congo SA	-	-	-	1	-	1
GreenStream BV	-	-	22	-	-	-
Eni Gas & Power Division	-	-	6	-	-	-
Raffineria di Gela SpA	-	1	2	-	-	-
Padana Assicurazioni SpA	13	-	-	8	-	-
Total transactions with related parties	**35**	**60**	**43**	**130**	**87**	**23**
Total	**89**	**66**	**304**	**171**	**200**	**488**
Incidence (%)	**39.33**	**90.91**	**14.14**	**76.02**	**43.5**	**4.71**

Financial transactions

Financial transactions for the year 2005 consist of the following:

(€ million)

Company	31.12.2005 Receivables	Payables	Guarantees	Year 2005 Expenses	Income
Enifin SpA	-	883	5,768	134	24
Sofid SpA	-	-	-	1	-
Eni International Bank Ltd	-	87	138	6	8
Serleasing SpA	-	10	-	-	-
Eni Coordination Center SA	-	226	-	8	6
Total transactions with related parties	**-**	**1,206**	**5,906**	**149**	**38**

Financial transactions for the year 2006 consist of the following:

(€ million)

Company	31.12.2006 Receivables	Payables	Guarantees	Year 2006 Expenses	Income
Enifin SpA	3	1,389	7,866	147	129
Sofid SpA	-	7	-	-	-
Eni International Bank Ltd	-	119	42	1	5
Eni Coordination Center SA	-	286	-	8	8
Total transactions with related parties	**3**	**1,801**	**7,908**	**156**	**142**

Enifin SpA, a wholly owned subsidiary of Eni SpA, provides financial services to Eni Group companies. A specific agreement between Saipem and Enifin provides that the latter 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.
Guarantees resulting from the consolidation of Snamprogetti amounted to €2,765 million.

The impact of financial transactions and positions with related parties consists of the following:

	31.12.2005			31.12.2006		
(€ million)	Total	Related parties	Incidence %	Total	Related parties	Incidence %
Current financial liabilities	1,192	1,046	87.8	1,865	1,703	91.3
Long-term debt and current portion of long-term debt	714	167	23.4	926	98	10.6
Financial income	196	38	19.4	609	142	23.3
Financial expenses	250	149	59.6	709	156	22.0

Main financial flows with related parties consist of the following:

(€ million)	**31.12.2005**	**31.12.2006**
Revenues and income	685	701
Costs and expenses	(93)	(103)
Financial income (expenses)	(111)	(14)
Variation in trade payables and receivables	(70)	(322)
Net cash flow from operations	**411**	**262**
Variation in financial payables and receivables	196	592
Net cash flow from financial operations	**196**	**592**
Total cash flow to related parties	**607**	**854**

The impact of financial flows with related parties consists of the following:

	31.12.2005			31.12.2006		
(€ million)	Total	Related parties	Incidence %	Total	Related parties	Incidence %
Cash flow from operations	326	411	126.1	603	262	43.4
Cash flow used in investing activities	(371)	-	-	(636)	-	-
Cash flow used in financing activities	343	196	57.1	709	592	83.5

Information on jointly controlled entities

Information relating to jointly controlled entities, consolidated using the proportional method are as follows:

(€ million)	**31.12.2006**
Net working capital	(209)
Total assets	1,854
Total liabilities	1,689
Revenues	1,196
Operating costs	(1,138)
Operating profit	58
Net profit	29

42 Significant non-recurring events and operations

In 2005 and 2006, no significant non-recurring events and operations were reported.

43 Positions or transactions deriving from atypical and/or unusual operations

In 2005 and 2006, no positions or transactions deriving from atypical and/or unusual operations were reported.

Independent Auditors' Report

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers SpA

AUDITORS' REPORT IN ACCORDANCE WITH ARTICLE 156 OF LAW DECREE N° 58 DATED 24 FEBRUARY 1998

To the Shareholders of
Saipem SpA

1 We have audited the consolidated financial statements of Saipem SpA and its subsidiaries ("Saipem Group") as of 31 December 2006, which comprise the balance sheet, profit and loss account, statement of changes in shareholders' equity, statement of cash flow and the related notes. These consolidated financial statements are the responsibility of the Directors of Saipem SpA. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

2 We conducted our audit in accordance with the auditing standards and criteria recommended by CONSOB. In accordance with those standards and criteria, the audit has been planned and performed to obtain the necessary assurance about whether the consolidated financial statements are free of material misstatement and, taken as a whole, are reliable. An audit includes examining, on a sample basis, evidence supporting the amounts and disclosures in the financial statements, as well as assessing the appropriateness of the accounting principles used and the reasonableness of the estimates made by the Directors. We believe that our audit provides a reasonable basis for our opinion.

For the opinion on the consolidated financial statements of the prior period, which are presented for comparative purposes, reference is made to our report dated 11 April 2006.

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. 3.754.400,00 Euro i.v., C.F. e P. IVA e Reg. Imp. Milano 12979880155 Iscritta al n. 43 dell'Albo Consob – Altri Uffici: **Bari** 70125 Viale della Repubblica 110 Tel. 0805429863 – **Bologna** 40122 Via delle Lame 111 Tel. 051526611 – **Brescia** 25124 Via Cefalonia 70 Tel. 0302219811 – **Firenze** 50129 Viale Milton 65 Tel. 0554627100 – **Genova** 16121 Piazza Dante 7 Tel. 01029041 – **Napoli** 80121 Piazza dei Martiri 30 Tel. 08136181 – **Padova** 35137 Largo Europa 16 Tel. 0498762677 – **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 – **Parma** 43100 Viale Tanara 20/A Tel. 0521242848 – **Roma** 00154 Largo Fochetti 29 Tel. 06570251 – **Torino** 10129 Corso Montevecchio 37 Tel. 011556771 – **Trento** 38100 Via Grazioli 73 Tel. 0461237004 – **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 – **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 – **Udine** 33100 Via Poscolle 43 Tel. 043225789 – **Verona** 37122 Corso Porta Nuova 125 Tel. 0458002561

PRICEWATERHOUSECOOPERS

3 In our opinion, the consolidated financial statements of Saipem SpA as of 31 December 2006 comply with IFRS as adopted by the European Union and with regulations issued in compliance with article 9 of Law Decree N° 38/2005; accordingly, they give a true and fair view of the financial position, the results of operations, the changes in shareholders' equity and cash flows of the Saipem Group for the year then ended.

Milan, 13 April 2007

PricewaterhouseCoopers SpA

Signed by

Andrea Alessandri
(Partner)

This report has been translated from the original which was issued in accordance with Italian legislation. References in this report to the Financial Statements refer to the Financial Statements in original Italian and not to their translation.

(2)

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No. 00825790157
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Publications
Financial Report at 31st December (in English)
Bilancio al 31 dicembre (in Italian)
Report on the First, the Second and the Third Quarter
(in Italian and English)
Six-monthly report at 30th June (in Italian and English)

Sustainability Report (in Italian and English)

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