

# Engineering & Construction

## Key performance indicators

		2011	2012	2013
Employees injury frequency rate	(No. of accidents per million of worked hours)	0.44	0.54	<b>0.46</b>
Contractors injury frequency rate		0.21	0.17	<b>0.10</b>
Fatality index	(No. of fatalities per 100 million of worked hours)	1.82	0.93	<b>2.01</b>
Net sales from operations <sup>(a)</sup>	(€ million)	11,834	12,771	<b>11,611</b>
Operating profit		1,422	1,442	<b>(83)</b>
Adjusted operating profit		1,443	1,474	<b>(84)</b>
Adjusted net profit		1,098	1,111	<b>(253)</b>
Capital expenditure		1,090	1,011	<b>902</b>
Orders acquired	(€ million)	12,505	13,391	<b>10,653</b>
Order backlog		20,417	19,739	<b>17,514</b>
Employees at period end	(number)	38,561	43,387	<b>47,209</b>
Employees outside Italy	(%)	86.5	88.1	<b>89.1</b>
Local managers		41.3	41.3	<b>41.3</b>
Local procurement		56.4	51.8	<b>51.1</b>
Healthcare expenditure	(€ million)	32	21	<b>22</b>
Security expenditure		51	82	<b>85</b>
Direct GHG emissions	(mmttonnes CO <sub>2</sub> eq)	1.32	1.54	<b>1.54</b>

(a) Before elimination of intragroup sales.

## Performance of the year

- In 2013 the injury frequency rate for employees and contractors declined compared to 2012 (by 14.8% and 41.1%, respectively). In 2013, Eni continued its commitment in education and training for employees and contractors in the field of health and security, with the initiatives such as “Leadership in Health and Safety”, “Working at height and Confined Space” as well as the use of dedicated HSE training portal and individual protection equipment.
- In 2013 procurement amounted to €9,066 million, 51.1% of which referred to local procurement.
- Health and safety expenditure registered an increase (totally up by 4% from 2012). In particular, the expenditure for individual protection equipment increased by 30% and the expenditure for safety training increased by 10%.
- In 2013, adjusted net loss amounted to €253 million (down by €1,264 million from the adjusted net profit of €1,111 million reported in 2012). This result reflected operating and marketing difficulties encountered in the first half of 2013, which led management to revise the profit margin estimates for important orders, in particular for the construction of onshore industrial complexes.
- Orders acquired amounted to €10,653 million (€13,391 million in 2012), 94% of which relating to the works outside Italy, while 14% orders from Eni Companies.
- Order backlog amounted to €17,514 million at December 31, 2013 (€19,739 million at December 31, 2012), of which €9,244 million to be fulfilled within 2014.
- In 2013 overall expenditure in R&D amounted approximately to €15 million, in line with the previous year. 14 patent applications were filed.
- Capital expenditure amounted to €902 million (€1,011 million in 2012), mainly regarded the upgrading of the drilling and construction fleet.

## Development and sustainability initiatives

- In November 2013 Saipem inaugurated a new fabrication yard in Edmonton, Canada. The facility will allow to accelerate the fulfilment of the projects by keeping the workforce active during adverse weather conditions as well. The yard will be used for the prefabrication of industrial components and pipes as well as for the assembly of modules for the different projects in the oil and gas market, including liquefied natural gas and power generation.
- In 2013, in order to exploit value from competences, the “Onshore EPC Projects, Construction Phase Enhancement” project was launched, aiming at evaluating the qualitative and quantitative adequacy level of Saipem’s employees in “Critical Positions” in the Construction area to optimize and centralize their planning and development.
- In 2013, Saipem committed to strengthen relationships with local stakeholders through the direct involvement activity, studies and analyses. In the field of training and support for local hiring, the Memorandum of Mutual Agreement was signed in Brazil; in Congo, the training on-the-job for local engineers has been started; in Kazakhstan, some initiatives of professional training and technical support for local teaching institutions were fulfilled, in Nigeria, professional training aiming at development of local entrepreneurs was conducted. In the health area, programs for diseases prevention in West Africa, Sud America, Indonesia and Kazakhstan were completed.
- In order to guarantee the spread of competences and to share Saipem’s know-how, training activity was conducted in the Training Centre of Schiedam (the Netherlands), recognized as a well-advanced training centre in the HSE offshore area, where also the complex working conditions in the offshore have been simulated.

## Activity areas

### Engineering & Construction Offshore

In 2013 revenues amounted to €5,094 million, decreasing by 2.2% from 2012, due to lower levels of activity in the North Sea, Kazakhstan and Australia.

Orders acquired in the year amounted to €5,777 million (€7,477 million in 2012), mainly related to: (i) EPCI contract on behalf of Total Upstream Nigeria Ltd, for the development of the Egina field in Nigeria that includes engineering, procurement, fabrication, installation and pre-commissioning of subsea pipelines for oil and gas production and gas export, flexible jumpers and umbilicals; (ii) contract on behalf of Burullus Gas Company for the development of the West Delta Deep Marine - Phase IXa Project, about 90 kilometers off the Mediterranean Coast of Egypt. The project is aimed to the installation of subsea facilities (in water depths up to 850 meters) in the West Delta Deep Marine Concession, where Saipem had already successfully performed some previous phases of subsea field development; (iii) EPCI contract on behalf of ExxonMobil pertaining to the engineering, procurement, fabrication and installation of subsea pipelines of production and water injection, rigid jumpers and other related subsea structures as part of Kizomba Satellites Phase 2 project, undertaken in the Angolan offshore.

As part of the Trunkline and Production Flowlines project committed by the North Caspian Sea Production Sharing Agreement Consortium in Kazakhstan (in which Eni retains an interest of 16.81%), which provided the engineering, laying and commissioning of pipelines and other facilities, following leakages that were detected in a section of the onshore pipelines, Saipem was requested by the clients to address the issue under the guarantee. Saipem, presuming not to be obliged to perform those works, has invited the client to investigate other possible causes of the issue identified. At present, no dispute is underway between Saipem and the Consortium.

In 2013 Saipem continued to pursue the development of state of the art technologies for working in deep and ultra-deep waters, the design of floating liquefaction facilities, the development of new techniques and equipment for the installation and grounding of underwater pipes in extreme conditions. In particular, the innovative “**Subsea Processing**” system and **floating liquefaction units (FLNG)** were developed. In the process of subsea pipeline construction, new equipment was applied successfully, which enhanced the process and the quality of steel pipes’ soldering with carbon and inoxidable materials.

### Engineering & Construction Onshore

In 2013 revenues amounted to €4,619 million, registering a decrease of 24.4% from 2012, due to lower levels of activity in Northern and Western Africa and Middle East. Orders acquired during the year amounted to €2,566 million (€3,972 million in 2012). Among the main orders acquired were: (i) the EPC contract on behalf of Dangote Fertilizer for the realization of a new ammonia and urea production complex to be realized in Edo State, Nigeria. The contract encompasses the construction of two twin production streams and related utilities and off-site facilities; (ii) the EPC contract on behalf of Star Refinery AS, for the realization of Socar Refinery in Turkey, encompassing the engineering, procurement and construction of a refinery and three crude refinery jetties, to be built in the area adjacent to the Petkim Petrochemical facility; (iii) the EPC contract for Eni related to the improvements to the storage infrastructure for crude oil of Tempa Rossa field, in Italy.

R&D activities aiming at improving proprietary process technologies and increasing the company’s environmental services portfolio concerned: (i) the study on the improvement of propriety technology for the production of urea, with the development of a new process “Urea Zero Emission”; (ii) the launch of the innovative project in order to improve energy efficiency.

## Offshore drilling

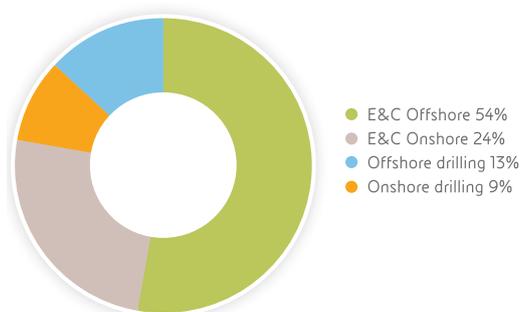
In 2013 revenues amounted to €1,177 million, with an increase of 8.1% from 2012. This was due to the entry in full activity of the semisubmersible rigs Scarabeo 8, Scarabeo 3 and Scarabeo 6 and the beginning of operations of Ocean Spur vessels. Orders acquired in the year amounted to €1,401 million (€1,025 million in 2012), mainly related to: (i) five-year contract extension with Eni for the charter of the drillship Saipem 10000 starting from the third quarter of 2014 for worldwide drilling activity operations; (ii) one-year contract extension on behalf of IEOC, for the utilization of the semi-submersible Scarabeo 4 in Egypt; (iii) two-year contract extension on behalf of Eni for the charter of the Saipem TAD for drilling activity offshore Congo.

## Onshore drilling

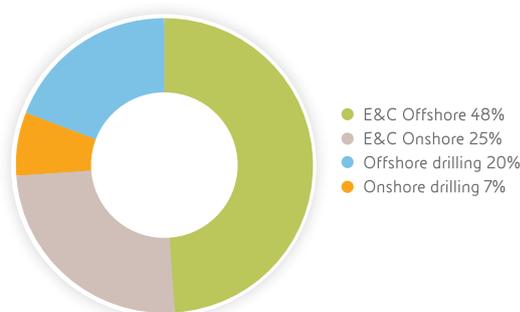
In 2013 revenues amounted to €721 million, slightly decreasing

from 2012. Lower levels of activities in Algeria were almost completely absorbed by higher levels of activities in Saudi Arabia, Kazakhstan and Mauritania. Orders acquired in the year amounted to €909 million (€917 million in 2012), mainly related to: (i) three-year contract extension on behalf of Eni Congo for the management of a client's plant; (ii) the extension of the drilling contracts with variable duration, on behalf of several clients, in South America; (iii) new contracts by several clients, signed under different terms ranging from six months to five years, for the utilization of 17 rigs in Middle East, the Caspian sea, South America, West Africa, Turkey and Ukraine. Among these newly contracted rigs, two will be working for Shell under a long term Global Framework, engaging Saipem in a call-off agreement to facilitate new Country entries and, for exploration purposes, provide onshore drilling services worldwide, at pre-agreed terms and conditions.

Orders acquired  
(€10,653 million)



Order backlog  
(€17,514 million)



Orders acquired	(€ million)	2011	2012	2013	Change	% Ch.
		12,505	13,391	10,653	(2,738)	(20.4)
Engineering & Construction Offshore		6,131	7,477	5,777	(1,700)	(22.7)
Engineering & Construction Onshore		5,006	3,972	2,566	(1,406)	(35.4)
Offshore drilling		780	1,025	1,401	376	36.7
Onshore drilling		588	917	909	(8)	(0.9)
of which:						
- Eni		822	631	1,514	883	..
- Third parties		11,683	12,760	9,139	(3,621)	(28.4)
of which:						
- Italy		1,116	485	591	106	21.9
- Outside Italy		11,389	12,906	10,062	(2,844)	(22.0)

Order backlog	(€ million)	2011	2012	2013	Change	% Ch.
		20,417	19,739	17,514	(2,225)	(11.3)
Engineering & Construction Offshore		6,600	8,721	8,447	(274)	(3.1)
Engineering & Construction Onshore		9,604	6,701	4,436	(2,265)	(33.8)
Offshore drilling		3,301	3,238	3,390	152	4.7
Onshore drilling		912	1,079	1,241	162	15.0
of which:						
- Eni		2,883	2,526	2,261	(265)	(10.5)
- Third parties		17,534	17,213	15,253	(1,960)	(11.4)
of which:						
- Italy		1,816	1,719	784	(935)	(54.4)
- Outside Italy		18,601	18,020	16,730	(1,290)	(7.2)

## Capital expenditure

Capital expenditure of the Engineering & Construction Division amounted to €902 million and mainly related to: (i) the Engineering & Construction Offshore business unit for the completion of the preparation work for a new pipelayer, in continuation of the construction activity for a realization of a new base in Brazil, as well as maintenance and upgrading of already existing assets; (ii) the Engineering & Construction Onshore business unit for the acquisition of equipment and

facilities for the base in Canada, as well as maintenance of the asset base; (iii) the Offshore Drilling business unit for the class reinstatement works on the semi-submersible rig Scarabeo 5 and Scarabeo 7 as well as jack-up Perro Negro 3, in addition to maintenance and upgrading of already existing assets; (iv) in the Onshore Drilling business unit, the preparation work for four new rigs intended to operate in Saudi Arabia and upgrading of the asset base.

Capital expenditure	(€ million)	2011	2012	2013	Change	% Ch.
Engineering & Construction Offshore		400	505	373	(132)	(26.1)
Engineering & Construction Onshore		45	66	116	50	75.8
Offshore drilling		507	281	172	(109)	(38.8)
Onshore drilling		121	120	210	90	75.0
Other expenditure		17	39	31	(8)	(20.5)
		<b>1,090</b>	<b>1,011</b>	<b>902</b>	<b>(109)</b>	<b>(10.8)</b>