

The Saipem Interview: Stefano Cao, CEO

1. Firstly, could you explain Saipem's role as a services group in the oil industry?

Saipem is one of the world leaders in drilling services, as well as in the engineering, procurement, construction and installation of pipelines and complex projects, onshore and offshore, in the oil & gas market. We have distinctive competences in operations in harsh environments, remote areas and deepwater. We provide a full range of services for "EPC" and "EPCI" contracts (on a "turn-key" basis) and have distinctive capabilities and unique assets with a high technological content.

2. What effect has the drop in oil prices, starting in 2014, had on Saipem's prospects. With USD 620 billion of projects through 2020 estimated to have been deferred or canceled as a result of the downturn, have you had to alter your future plans?

There is no doubt that the protracted fall in oil prices has led to a gradual reduction in Oil&Gas investments compared to the peak reached in 2014. The level of capex has been reduced by about 40% over the last 2 years, with consequent impact on all the players in the sector including Saipem. In such a complex scenario, Saipem has taken the necessary steps to tackle the difficult market environment by focusing on supply diversification and innovation. Furthermore, during the first six months of 2017 we completed the redefinition of our industrial and organizational set-up, started in 2016 in order to cope with the structural market evolution and to promote the strategic repositioning of Saipem in the reference sector, through a more divisional model and a more efficient structure.

3. Saipem was awarded a contract in August to build the final section of the Nord Stream 2 pipeline. How optimistic are you that the project will go ahead, and what could prevent it happening?

Saipem has been assigned the contract for the construction of the last section of the Nord Stream pipeline crossing the Baltic Sea and its landing at Greiswald in Germany. The reasons for the project to go ahead depend on geopolitical issues we cannot control nor rule.

4. Saipem has been a pioneer in laying deep water large diameter pipelines – where does Saipem see new opportunities for deepwater gas pipelines, and when?

The deep-water pipeline sector is an important reference business for us. We are currently working on the development of the Zohr gas field of, the "supergiant" field located in the Mediterranean Sea off the Egyptian coast. The acquisition of this project confirmed and strengthened our presence in the eastern Mediterranean area and marked Saipem's further success in the SURF (subsea, umbilicals, risers, flowlines) and deep pipelaying segments of the E&C Offshore. New business opportunities could come from Mediterranean sea and western and eastern Africa.

5. Over what distances can deepwater pipelines be competitive with LNG in today's market? Iran-India could be one possible example.

The natural gas pipeline process on the market is relatively straightforward as the LNG value chain is more complex. This is due to the relatively high energy intensity associated with the liquefaction of natural gas and the need to eliminate any contaminating CO₂ from the supply gas, with liquefaction representing the bulk of the global LNG costs. In principle, transport costs between producers and consumers are an important aspect of the competitiveness of gas supplies. In very broad terms, the break distances for the offshore pipeline are between 1000 and 2000 nautical miles, although it is highly dependent on other factors that could significantly alter the above generic indication.

6. You also said that in order to grow, Saipem must develop a “multi location identity”, where the company’s activities become an integral part of the cultural fabric of the countries in which it operates. What steps is Saipem taking to do that - do you think other companies should do the same?

Our contribution to the socio-cultural growth of the areas where we operate is already a component of the "multi-location" identity that will take different forms in the next future. One of them is our commitment to develop the territory: local employment contributes to providing social benefits and it's an unquestionable value of our business. We transfer our know-how and expertise to local stakeholders, supporting local vendors and establishing partnerships, creating job opportunities along the value chain.. Undoubtedly this is another aspect that creates a cultural growth for hosting countries but also gives a significant imprinting to our identity as a global-local player. It is an important concept just adapted to a faster changing world: Saipem forges a tailor-made stakeholder engagement strategy to ensure an inclusive and participatory relationship with local communities.

A practical example of this approach is the safety training and our comprehensive Human Rights training program at operational level. We are integrating this approach

into our project management at site level. This will build a new, solid, reliable and responsible entrepreneurial culture that respects diversity and avoids conflict in sensitive areas where traditionally oil and gas, and in general energy exploitation, have never been seen as a positive contribution to the local quality of life. Saipem's target is helping clients and partners to guarantee their licensing to develop this win-win relationship with local stakeholders, reducing costs and risks associated with projects, improving Company's perception and reputation, contributing to the social stability and wealth of local communities. Our sustainable presence at local level relies on our capacity to create shared value. We are confident that this adaptability to the various contexts will be rewarded by the market in the next future. We must be distinctive and enough forward-looking to do things that other parties are not able to provide.

7. Could you explain Saipem's EPC/EPCI industrial model works and what gives it an advantage over its competitors?

Saipem is one of the world leaders in the in the oil and gas industry presenting an integrated model where the engineering, the procurement, the construction and the installation are fully integrated to safely and successfully deliver complex projects. Saipem has distinctive competences in operating in harsh environments, remote areas and deepwater with unique assets offering highly technological solutions.

8. Given the effect of the oil prices drop on the industry, how optimistic are you for the future? Do you see a recovery in prices ahead?

It is still early to say when there will be a recovery. We are still in a transition phase where there are timid signs of recovery. It is better to look at oil company capex levels: we have to wait for February and March next year to give directions on new investment plans. Some weak signals, however, are in drilling on shore, which drives shale gas, and in drilling off shore, where the number of opportunities has increased, but tariffs are still low. They are both activities we are present in. In addition, Saipem has counter-cyclical (onshore) activities that make us available a series of projects.

9. Adding to that, if there is no recovery, what steps is Saipem taking to cope with fall in revenue?

In such a competitive environment, we seized the opportunities arising from a long and profound crunch to relaunch the company and make it slim and ready for the new market. 2016 was a fundamental year for Saipem's relaunch. Re-established financial strength, coupled with diversified order backlog, good operational performance and incisive cost cutting program and process efficiency, allows us to look with confidence in the future recovery of the Oil & Gas market. All the actions necessary to accompany the exit from the Eni consolidation area have been

completed and, at the same time, to take the necessary measures to cope with the difficult market environment. We closed the third quarter of 2017 with a confirmation of guidance for full year 2017 and an improved net debt. This shows that we are going in the right direction.

10. There has been a wave of consolidation across the services industry, such as Schlumberger's acquisition of Cameron International Corporation or the merger between GE Oil & Gas and Baker Hughes. What changes do you think the oil services industry as a whole will need to make in order to prosper and how is Saipem reacting to the consolidation?

In 2015 Saipem established a partnership with Norway Aker Solutions ASA with which we are jointly participating in various integrated SURF and SPS bids around the world. In any case, the TechnipFmc merger is definitely a new model to closely monitoring.