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FEBRUARY 23, 2017 / 5:30PM, SPM.MI - Preliminary 2016 Saipem SpA Earnings Call

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PRESENTATION

Operator

Good day and welcome to the Saipem Preliminary 2016 Consolidated Results Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Mr. Stefano Cao, CEO. Please go ahead, sir.

Stefano Cao - Saipem SpA - CEO

Good evening, ladies and gentlemen, and welcome to our fourth quarter and full year results presentation. I'm here today with Giulio Bozzini, CFO; and Gigi Caselli, our COO.

Let me begin by looking at the very real progress that Saipem has made during 2016 in reshaping the business, not only to meet the challenges that currently face our industry, but also to ensure we are well-positioned to exploit the future up cycle when it comes.

First, we had a strong operating performance in 2016. Our offshore business both in E&C and drilling underpinned this result, whilst our E&C Onshore business has now achieved breakeven, as legacy contracts have completed.

Our order intake over the course of 2016 reached EUR8.3 billion, meaning that our contract backlog is now at EUR14.2 billion. The backlog currently covers 74% of our 2017 revenue target, which is historically in line with where we would expect to be at this point in the year. Net debt continues to come down, standing now at EUR1.45 billion, in line with our guidance.

Second, we had, as you know, now put our capital structure on a firmer footing, following our EUR3.5 billion rights issue, and a EUR4.7 billion refinancing during the course of 2016. In the final quarter of 2016, we also fully repaid our bridge-to-bond loan, substantially improving our 2017 debt maturity profile.



FEBRUARY 23, 2017 / 5:30PM, SPM.MI - Preliminary 2016 Saipem SpA Earnings Call

Turning to the progress against our strategies. Our cost reduction program is moving ahead well. Launched in 2015, it is currently running in line with schedule with 87% of the EUR750 million run rate savings achieved. As a reminder, the cumulative savings targets remain at EUR1.7 billion. Furthermore, the radical changes we are making as part of the Fit For the Future 2.0 are underway.

As a brief recap, the purpose of this program is to overhaul our four existing divisions, to improve agility in our decision-making process, free up our divisional heads to identify and pursue their own priorities and targets, and allow management to focus on operational performance. And of course as part of the Fit For the Future 2.0, we are also establishing a new division focused on high value services. This division is aimed at strengthening the set of services we provide to the oil and gas industry and achieving early engagement with our clients. In taking these steps, we believe we are able to better preserve and grow shareholder value.

Let me now hand over to Giulio to talk through our financial results in more detail and I will then talk a little about the market outlook, provide an update on the strategy implementation to date and then to take your questions. Giulio, over to you.

Giulio Bozzini - *Saipem SpA - CFO & Strategy Officer*

Thanks Stefano, and good evening to all of you attending our presentation today. Consistent with our first half and Q3 2016 results, this slide excludes those items, which we consider to be outside of the ordinary course of business, most notably asset write-downs, devaluation of drilling receivables and provisions made for redundancy. Reported figures, inclusive of the above mentioned extraordinary items are shown in the following slide.

Q4 revenues are broad in line with our expectations in the drilling businesses, but lower than previously forecast in E&C offshore and E&C onshore, mainly as a result, respectively, of lower progress and delayed start up in two offshore projects in West Africa and to lower-than-expected progress in some onshore projects in Middle East. Overall, 2016 revenues declined versus 2015 is due to the following: lower activity chiefly in Russia and in the Middle and Far East in E&C offshore, higher inactivity in offshore drilling and lower utilization in onshore drilling, mainly in South America.

Turning now to margins, adjusted EBIT is in line with our guidance. E&C offshore margin increased to 6.7% versus 2015, as a result of good operational efficiency. The decrease in Q4 2016 is partially attributable to the revenue decrease I previously mentioned and partly as a result of the lower contribution from a project under completion. In E&C onshore, operating margins continue to be at breakeven.

For the drilling offshore division, while revenue decreased due to the deterioration of the market, margins proved extremely resilient in 2016. This was in part thanks to the cost optimization actions we have undertaken. I would also remind you that our drilling offshore results are still partially backed by long-term contracts negotiated in a significantly better market environment. As rates are renegotiated, they will align to current market conditions.

Drilling onshore results continue to be penalized by low levels of South American activity. The overall rig utilization rate for the onshore division was approximately 64% in 2016 versus 90% in 2015. Adjusted net profit was impacted in Q4 2016 by an exceptionally high incidence of taxes, only partially offset by a robust income from investments.

2016 reported results include the following special items; the write-offs associated with Saipem's asset rationalization and impairment test totaling EUR2.1 billion approximately, a drilling receivable write-off related to Latin American countries where activities were halted due to clients for non-payment, as well as an extraordinary provision for redundancy, as a result of the reorganization of the Group, totaling approximately EUR0.2 billion. As a result, full-year 2016 net reported result, goes from an adjusted profit of EUR0.2 billion to a reported loss of EUR2.1 billion.

With regard to write-off, last October we stated that the new strategic plan of the Company was based on a market scenario, which factored in a depressed level of global E&P investments, especially in drilling in the quarter, for longer than previously anticipated. Given the fact that our perception is that the market outlook has not changed since then, Stefano will elaborate further on this topic, plan assumptions were confirmed as the basis for the end of the year asset rationalization and impairment test. As a result of the above exercise, the extraordinary 2016 charge amounts to approximately EUR2.1 billion, substantially confirmed with respect to the EUR2 billion preliminary estimated and announced last



FEBRUARY 23, 2017 / 5:30PM, SPM.MI - Preliminary 2016 Saipem SpA Earnings Call

October. I remind you that the preliminary impairment exercise made last October was peculiar to 2016. Our next impairment test will be conducted in February 2018, simultaneously with 2017 full year result and a new plan approval.

Given the importance of the derisking effort and the frequent questions we get on the topic, we have decided to include a slide to summarize the trend of our exposure in terms of working capital associated with arbitration, court dispute and unbilled revenues. Pending revenues under discussions with clients presently amounts to less than EUR0.3 billion, with a trend of constant reduction since the end of 2014. As a result, we believe that current exposure is quite reasonable given the present situation of our industry and of our clients. We are therefore aiming to maintain the current situation at least stable for 2017 and onward.

In addition, working capital subject to arbitration, court dispute procedures presently amounts to around EUR0.8 billion, unchanged since last year. This amount is inclusive of EUR0.25 billion already paid on without prejudice basis by a client. It includes projects in Algeria, Australia, Canada and Russia. We expect that two out of the four Algerian arbitrations will be ruled in 2017 with the other taking longer time.

Working capital exposure represents only a part of the total amount claimed by Saipem under litigation, court dispute procedure. The Annual Report will include as usual a very detailed description of all of the material pending litigation currently underway, inclusive of clients' counterclaims.

Net debt at the end of 2016 amounted to EUR1.4 billion, in line with our guidance. As already announced, we succeeded in reducing CapEx to a 12-year historic low of EUR0.3 billion in 2016. With regard to working capital, the dynamic in Q4 2016 was in line with our cautious expectations. Last October, we announced our objective to positively conclude some of our long-lasting exposures within first half 2017 and I'm glad to inform you that this is now backed by the recent payment of some significant long overdue receivables in Brazil and in Canada. Working capital management remains one of our main priorities.

Turning to our financial structure, let me take you through the progress we have made during the year. The bridge-to-bond financing, originally amounting to EUR1.6 billion and expiring in June 2017 with an option to be extended until December 2017 was totally repaid at the end of 2016. In addition to the partial reimbursement of EUR1.2 billion, which resulted from the partial drawdown in August 2016 of the export facility guaranteed by GIEK and from the inaugural dual-tranche bond issued in September 2016, the remaining EUR0.4 billion bridge-to-bond exposure was reimbursed by the end of 2016, using a combination of an additional partial drawdown of the GIEK facility, a new 3-year bilateral facility with an Italian bank, part of the available excess liquidity. As a result of the above, we have now completed Saipem's permanent financial structure.

In the slide, you can see the maturity profile of our financial structure. The weighted average tenure of which is above 3.6 years. Following the bridge-to-bond repayments, there is no significant maturity in 2017. The first two tranches of the term loan are due respectively by June and December 2018.

With this in mind, let me briefly elaborate on why I think we now have a sound financial structure, we need for the future. First of all, the export facility guaranteed by GIEK of up to EUR554 million and available in more tranches of 8.5 years is at the moment only partially drawn down for nearly EUR300 million. Secondly, we are currently negotiating an additional export credit agency facility of approximately EUR215 million.

Thirdly available excess cash at year end was in the region of EUR0.9 billion. Finally, we have a committed revolving credit facility of EUR1.5 billion, expiring end 2020, as well as few uncommitted credit line for treasury purposes. As usual, we continue to monitor financing markets and remain flexible to future options to further strengthen our financial profile.

And over to Stefano.

Stefano Cao - Saipem SpA - CEO

Thank you, Giulio. Turning to the market outlook, we wanted to briefly remind you of our view on the market, which is unchanged since our Q3 2016 results. I won't go through this in detail, but let me pick up a couple of key points.



FEBRUARY 23, 2017 / 5:30PM, SPM.MI - Preliminary 2016 Saipem SpA Earnings Call

The decision by OPEC in November to reduce quota has started to stabilize the oil price. However, this has yet to change the prevailing market condition for our industry. With few exceptions, our E&P clients are still delaying CapEx decisions, especially in the deepwater, and we need to see a further increase in the overall efficiency of oil field development if we are to see E&P spending rise. In practice, the oil companies remain cautious when it comes to accelerating FIDs. Tough negotiation on price is still the norm, and a resolute approach on contractual terms, including payment terms continues.

As a consequence, we expect the low level of investment activity to persist in 2017. The exception being growing demand in North America and the slight pickup in activity in the Middle East. In the longer term, the outlook will gradually improve, as the impact of the years of low investment in new projects makes itself felt through a shortfall in supply, spurring a new wave of investments.

Moving to our backlog. In the challenging context just described, we are closing 2016 with a healthy EUR14.2 billion, in line with the third Q 2016 levels. An additional EUR1.7 billion of orders were added in the fourth quarter, mainly related to Saudi Aramco awards of two offshore E&C contracts under the LTA frame agreements, and several extensions of onshore drilling contracts. An overall EUR8.3 billion of acquisitions throughout the year was higher than 2015 and resulted in an overall replacement ratio at around 84%, with drilling onshore performing well at above 100%, partly offset by a weaker performance in the drilling offshore unit. Over 60% of our awards were in the offshore E&C business segment, a sign that our services, diversification, geographic coverage and position is providing support during the downturn. The amount of awards does not include a two year extension of the Perro Negro 4 offshore drilling contract in Egypt, but includes the onshore drilling extension announced in January with Saudi Aramco. As usual, it is worth mentioning that the overall backlog also benefited from the variation orders formalized on many ongoing projects, and additional smaller projects, which we normally do not announce.

Turning to the next slide, we provide an indication of the backlog split by year of execution. You can appreciate that our 2017 guidance is underpinned by a 74% revenue visibility on contracts already awarded, a level which is in line with historical coverage at this time of the year.

On slide 15, we are providing you with our usual look across the various E&C projects on which we are currently building, or initiatives we are discussing with clients. Despite a still significant pipeline of visible projects for the short, mid-term above EUR34 billion is a sign of a still challenging environment for the oil market. It is worth noting that some new initiatives have been added to our list, while others have rolled out after award, official cancellation or indefinite suspension by clients.

In the offshore E&C, it is worth mentioning that as far as the subsea segment is concerned, 2017 market should see relevant initiative to start, such as Liza, the ExxonMobil project in Guyana, BP Shell Burullus Phase IXB project, Eni Shorouk future development and Eni West Hub, for which we continue develop the engineering and procurement activities.

Regarding tenders for subsea integrated initiatives, in addition to the Indian project for ONGC, we are now also participating in alliance with Aker Solutions to another initiative in Myanmar.

In parallel to main bids in subsea and floating and fixed facility segments, we are also looking at some opportunity in inspection, maintenance and repair field, with BP Shah Deniz IMR project. In the commissioning of platforms with Conoco CAT3 Ekofisk and in the renewable offshore wind farm project segment, where we have bidding for initiatives in the Mediterranean Sea and off the Atlantic Coast. These are all market areas, contributing to our portfolio derisking strategy and for which we believe we have distinctive assets, construction expertise, field and project management competences.

Moving to onshore E&C, we have participated to some new bids seeking new initiatives for downstream fertilizer refinery and petrochemical plants, offering to cooperate with our clients since the earlier project phases. In the upstream, we are continuing to participate to bids in the Middle East where many sizable investments are expected to go ahead with ADCO, Saudi Aramco and DUQM. As a reminder, the list includes among the LNG initiatives, the Anadarko LNG plant in Mozambique already assigned to us as part of a consortium, although the final investment decision is still pending. We are also in an advanced stage of negotiation for the high speed train contract in Italy. No reference in our lists made to Iranian prospects, which we do not consider feasible yet in the short-term pipeline.



FEBRUARY 23, 2017 / 5:30PM, SPM.MI - Preliminary 2016 Saipem SpA Earnings Call

On slide 16, we also provide the customer schedule for our offshore drilling fleet commitments. Whilst we achieved a good level of coverage and performance in 2016, as outlined in our third quarter 2016 presentation, the outlook for 2017 and beyond is still more challenging, on the back of a longer-than-predicted downturn. In this context, we are pleased to announce a two-year extension of the Perro Negro 4 contract with Petrobras, an encouraging sign that our trust, relationship are supportive in such an environment. We continue negotiating on the possible extension and seeking new opportunities, adapting our model to clients lower demand and focusing on shorter-term contracts.

While with the Saipem 12000, we are pursuing some opportunities in the Mediterranean Sea in the West Africa offshore, for the Scarabeo 9 we have received the commitment for the rig modification, paid by the client for a possible exploration campaign in the Black Sea. Nevertheless, we envisage a lower average utilization throughout 2017, with Scarabeo 6; Perro Negro 2 and Perro Negro 3 remaining idle in stacking mode. As already stated, we are not investing money for class renewals unless new opportunities will allow to justify and recover such costs. Consistently, we have entirely written off such assets' book value.

Onshore drilling authorization rate has fallen further this quarter, reaching 64% from 67% third quarter of last year, as a consequence of the difficulties we are experiencing in Latin America. However, we are starting to see some slight improvements with few new contracts and the new entry in Argentina. Diversely Middle East remains resilient, with increase in demand and having secured 15 land rigs contract expansions with Saudi Aramco, each for three years of activities.

Let's now move to guidance. Regarding guidance, revenues for 2017 are estimated at around EUR10 billion. EBITDA adjusted is estimated in the range of EUR1 billion. Net profit is estimated to be higher than EUR0.2 billion, after around EUR30 million of extraordinary provision for redundancies connected to the renegotiation -- reorganization program. CapEx should total around EUR0.4 billion. Net debt is expected to be around EUR1.4 billion. This includes the EUR70 million impact of the Milan Tax Commission's ruling of first instance, connected to allegations in Algeria's amount in January 2017 and to which Saipem will appeal again.

With the next two slides, I wish to provide you with the description of the current status of some of our flagship projects, which will be significantly contributing to 2017 results and currently progressing. The first one is the early development of the Zohr Field in Egypt, the fast track Initiative, which you will recall was awarded by Petrobel in third quarter of 2016 and is estimated to be completed by the end of 2017. The value of this first development phase is in excess of EUR1 billion. Activities are progressing well. And in addition to engineering and procurement services, which were partially performed in 2016, last year we also mobilized several vessels to the field. Let me remind you that in consideration of the tight schedule of the project, we are deploying six of our construction vessel, including Castorone, FDS, and the Saipem 7000. Currently Castorone has almost completed the laying of the deepwater section. FDS has been mobilized, while Castoro 6 should start the shallow water pipelay by the end of February. Landfall preparation is at an advanced progress. While executing this challenging initiative, we are also discussing with our client, terms and condition for the subsequent phases on this key development for Egypt.

The other two projects are the Egina Deepwater URF activities for Total in Nigeria and the Jazan plant in Saudi Arabia for Saudi Aramco. Egina is worth an amount of around \$3 billion with a scope of work comprising flow lines, jumpers, export gas lines, umbilicals and offloading systems. The project is progressing well, having completed the early installation campaign, achieved through an acceleration of the fabrication and development structure in our local yard. It envisages an important local content contribution to the selection or nominated subcontractors for the fabrication activities, which have been completed. This initiative envisage the utilization of key asset of our construction fleet, such as the FDS, the Saipem 3000 and the normal Normand Maximus.

Turning to the Jazan project, the largest gasifier based power facility built in the world. The contracts were awarded for an amount in excess of \$2 billion, confirming our strong expertise and leadership in gasification downstream segment. This facility is located in a remote area near the Saudi border with Yemen. The scope of work is divided into EPCI packages, a gasification unit with ash and acid gas removal and hydrogen storage system and six sulphur recovery units. The activities are progressing well with approximately 10,000 people now mobilized at site.

I now wish to provide you with an update on our Fit For the Future program and our technology and innovation strategy. The cost saving program is progressing as scheduled and has now achieved 87% of the EUR750 million run rate target savings. As a reminder, the cumulative target savings between 2015 and 2017 remain at the EUR1.7 billion and that's expected to have a cumulative process impact on EBIT for EUR1 billion in the period. We are on track with the planned headcount reduction with most of the full-time employees releasing in Brazil, Canada, UK, Peru and Romania



FEBRUARY 23, 2017 / 5:30PM, SPM.MI - Preliminary 2016 Saipem SpA Earnings Call

and contributing to the overall Saipem headcount decrease to around 38,000 people at the end of 2016. These equate to an annual reduction of nearly 5,800 full-time equivalent. We are maintaining a strong focus on our efficiency program targets, closely monitoring all remaining activities.

I wish to also briefly look at the breakdown of the EUR650 million cost saving progress. As of the end of 2016, we have right sized several centers and business support departments in a number of countries to ensure that our organization are properly scaled for the future. Our offices in Australia, Singapore, Brazil and UK have been slim during 2016 and our full-time resources in the center have been reduced by 500. And as we continue to focus on our engineering footprint and centers streamlining, another 300 resources have been released in Croatia, UK and UAE. Total reduction in staff and central cost of approximately EUR0.25 billion have been achieved as a result of these initiatives. We have also launched new initiatives to improve the efficiency in the project execution processes for a total cost reduction of EUR0.2 billion. In addition, we have achieved avoided cost for approximately EUR0.2 billion.

Back in October, as you may recall, we have announced the implementation of a leaner organization, the Fit For the Future 2.0. As anticipated during our strategy presentation, the key pillars underlying our new models based on five divisions, including the newly created high value service, are the following: A leaner and cost effective organization, fully accountable divisions, supported by all the necessary resources and staff functions; an enhanced strategic optionality, facilitating M&A opportunities and in natural partnership; safeguarding our core competences with the creation of the high value service division. This new business model will allow agility in decision making, autonomy for this division in identifying these priorities and targets and the capacity for divisional management to focus on operational performance, putting the project at the center of the organization and using all the business levers to deliver.

The new organization will be fully operational in the second quarter of 2017, while the redesign and improvement of our business processes will continue in order to further simplify and strengthen the way in which Saipem does business. Finally, we have already reduced our headcount by 150 people, against the target of around 800.

We intend to respond to the challenge of delivering high value projects, with reduced cost by adopting a new innovation strategy, based on three corner stones; technology development, transformative innovation and technology intelligence. Technology development, the offshore E&C business is focused on innovative solution capable of changing the way new or existing subsea fields are developed, reducing the total cost of operation. This is possible by combining several new technologies into new field architectures, moving top side operation on to the seabed and increasing the distances of the subsea production wells from the main infrastructures. Such a different concept requires a high up-time of subsea systems and infrastructure. And we want to provide it by integrating our EPCI offering with life of field management technologies and services.

In the Onshore E&C business, the focus is on improving overall sustainability of the projects, through the capacity to design and build plants with higher performances and availability, while being integrated with surrounding environment. This is reflected in our innovation effort in the following areas. First is refinery, we're focusing total conversion of the bottom of the barrel through the optimization or gasification and value treatment processes. Second, in gas monetization, we are leveraging our strong competencies to maximize the efficiency of the complete value chain. Third, and last but not least, we are deeply investigating in the management of CO₂, which will be critical in exploiting CO₂ rich natural gas fields and in flue gasses treatments.

With regard to the transformative innovation, the current oil and gas scenario strongly require a different approach towards people and processes. And among the innovation drivers, digitalization is a master to exploit in order to boost productivity, therefore gaining in efficiency and offering new value proposition to clients.

Our last cornerstone is the technology intelligence, which allows Saipem to scout disruptive technology and chase new value proposition for our clients. Through the launch of the fabric of innovation or innovation factory, Saipem has started its path to develop an open network in which colleagues collaborate on innovation projects with clients, partners, suppliers and other stakeholders. All of these will be explored in more detail in our Technology Day on March 24, 2017 in Marghera close to Venice.

In summary and in conclusion, 2016 was a weak year in which Saipem delivered. We delivered a strong operational performance, reducing costs in line with our efficiency program, and making headway in improving our business risk profile. We put in place a solid capital structure, reduced net debt and put the company on a firm financial footing to weather the challenges that our industry still faces.



FEBRUARY 23, 2017 / 5:30PM, SPM.MI - Preliminary 2016 Saipem SpA Earnings Call

2016 was also a year in which we look forward. Our second phase of strategy will allow for faster, more agile entrepreneurial decision making. As a result, Saipem is better focused and enjoys considerably greater flexibility, operational and strategic for the eventual upturn.

Finally, we are also -- we are aware that the recovery of the market will be fundamental for contractors performance. That is why we also worked hard in a challenging environment to ensure that our backlog continues to be filled with high quality content. As a result, we are confident on achieving our 2017 guidance, as this is underpinned by a 74% backlog coverage. So while the environmental remains challenging, I continue to be excited about what we are achieving at Saipem and by the future ahead.

With that, I would like to open the call up to your questions. Thank you very much for your attention.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Michael Rae, Redburn.

Michael Rae - Redburn - Analyst

Thanks for taking my three questions. The first one is just focusing on the onshore E&C division, it still looks to be struggling a bit in terms of the margin, so can you give us a bit of a steer on what margin you expect for this year based on the projects you're currently working on? I mean is this the year that we start to see that margin normalizing?

And then the second question is, what's the potential size of Eni west hub project, what's the scope your pursuing there? And then finally just on working capital, it looks like the strong working capital performance has continued into the end of the year. Is that something you view as sustainable or has there been any kind of one-off timing benefits, which came in around the year-end? Thanks.

Stefano Cao - Saipem SpA - CEO

Okay. I think I'll address the first two questions and Giulio will address the third one. Onshore E&C is -- I'm sure you recall that this is a business where we encountered some substantial losses related to a number of projects, which were sort of a heritage from the past. So the highest priority was to refocus the business, to work in the direction of improving the marginality. We have achieved the breakeven and we are gradually moving towards positive marginality. The target, which we have set in the medium term for the business is around 5% EBIT margin over a period of time, which will be around this year and next year.

In terms of potential size of the expansion, the Shorouk expansion, obviously, this is not being released. There are a number of phases, which will have to be developed. What at the moment we are considering is four additional wells with related pipelines and the order of magnitude is about half of what has already been awarded.

Giulio Bozzini - Saipem SpA - CFO & Strategy Officer

In terms of working capital, as you might see from the slide of the net debt evolution, at the end, the working capital in 2016, we managed to keep it quite neutral in terms of contribution with respect to the net debt.

In terms of the evolution of the working capital, we have been always quite prudent, in the sense that we are not expecting any material improvement or any material deterioration in 2017. And therefore, our guidance that we gave in terms of net debt is factoring in a level of working capital quite stable, with respect to the level that we reach at the end of 2016. There are some slight signals of improvement, and as I said before, there have



FEBRUARY 23, 2017 / 5:30PM, SPM.MI - Preliminary 2016 Saipem SpA Earnings Call

been some payment in terms of pending revenues in February this year, but for the moment we prefer to be quite cautious and to keep working capital stable as an assumption in 2017.

Michael Rae - *Redburn - Analyst*

I was asking about West Hub. Is it possible to share a kind of rough contract value that you're pursuing at West Hub?

Stefano Cao - *Saipem SpA - CEO*

This is difficult to tell you. As far the what has been selected by our client is a strategy is to go on a piece-by-piece basis.

Michael Rae - *Redburn - Analyst*

Okay. This is kind of ongoing engineering, which may come to fruition this year?

Stefano Cao - *Saipem SpA - CEO*

Will be partly this year and also part next year. We are taking of something in the range of EURO.2 billion.

Operator

Amy Wong, UBS.

Amy Wong - *UBS - Analyst*

I have two questions please. For the first one, can you run through the revenue phasing again? Giulio you mentioned that there were a couple of projects that suffered some late progress and late start-ups in offshore construction. And then I missed your discussion on the onshore construction. So can you just elaborate on that and whether we're going to make up for it in 2017?

And then just a second question is on Shell's LNG Canada project. There are some reports that Shell is looking for a new lead contractor there. I believe you are in consortium on that project. So can you elaborate on the status of the LNG Canada project, please?

Giulio Bozzini - *Saipem SpA - CFO & Strategy Officer*

Basically with respect to the project, there was an assumption of a start-up of a project in West Africa, which at the end did not materialize in the last quarter of 2016. And in addition, there is one project in West Africa, for which there is a delay in terms of fabrication activities with respect to the hypothesis that we factor in, when we were forecasting at October.

With respect to the onshore, here we are talking about the contracts in Middle East, for which there are some milestones to be reached in order to progress the invoicing and the payments. These milestones have been missed and will be basically transferred in 2017. So I would tend to say that all of this delay will transfer into 2017 and onward.



FEBRUARY 23, 2017 / 5:30PM, SPM.MI - Preliminary 2016 Saipem SpA Earnings Call

Stefano Cao - *Saipem SpA - CEO*

As far as Shell Canada LNG, you probably recall that for quite some time a consortium, which was comprising ourselves has been negotiating with the client. That negotiations have been completely discontinued and we have put it in the list, because we had indications that there will be a new round of bidding and obviously we will be participating to it.

Amy Wong - *UBS - Analyst*

Just to go back on your response to the first question on the delays on the onshore and offshore construction contracts, has this all -- has it resulted in any kind of penalties or anything that would affect the profitability of these contracts in the long -- on the entire contract?

Giulio Bozzini - *Saipem SpA - CFO & Strategy Officer*

No. For the moment we are not -- this has not impacted the margin, let's say, of the project, it is only a transfer of activities into 2017.

Operator

James Evans, BNP Paribas.

James Evans - *BNP Paribas - Analyst*

Just two from me. I just wanted to follow up a little bit on the West African portfolio. I'm not sure which one of the projects you're referring to, but I'm aware that the Kaombo FPSO has appeared to be slipping from some of the non-operator comments in recent days. And I just wondered if you could give us any reassurance on your position there, is that just a strategic re-phasing from the operator, or you are seeing some challenges on the project in particular?

My second question is maybe a little bit on the cost savings. I mean you mentioned joining up your engineering offices in the UK and Italy and elsewhere and I know some of your competitors think about utilization of engineers. And I just wondered if you have any idea of what those source of levels have been over the last year or two and why you think that could drive towards the next couple of years, if we think about the details of how you achieved some of these cost savings, that would be great? Thanks.

Stefano Cao - *Saipem SpA - CEO*

With reference to Kaombo, I'm sure that Kaombo is quite a sizable project. We are at the moment in the crucial phase of development, as far as we are working on the outfitting on the vessels, all the modules which has been built in our yard in Karimun, and the outfitting is carried out in Sembawang yard in Singapore. This is a crucial phase. We obviously -- then we are expecting to do the installation during the course of this year. So at the moment, we are in the -- I mean the activities are going on at the upmost speed as always. For projects of this size, of this complexity, there are issues related to a possible delay. So this is something we are dealing with at the moment. So that's the reason for the reference.

In terms of cost savings, I would say that the first wave of reduction in terms of engineering offices is more related to the reduction in the volumes of our E&C activities, both onshore and offshore. And then what is going on at the moment, within the frame of the restructuring of the organization, we are deciding what is the level of man hours, which -- we consider we can sell as a combination of the EPC contract, which we will have to carry out, and the contribution which will be coming from the high value engineering services. So I think in a nutshell, we will be more accurate in giving you -- in providing an indication when the new organization will be in place. And if you heard before, that will happen beginning of May. So I would say we'll have a very good indication in the -- together with the third quarter of this year.



FEBRUARY 23, 2017 / 5:30PM, SPM.MI - Preliminary 2016 Saipem SpA Earnings Call

Operator

Alessandro Pozzi, Mediobanca.

Alessandro Pozzi - Mediobanca - Analyst

So, you made some progress on the backlog for this year. That's really good. But on the 2018, I think it's a little bit weak compared to historical average. And I was wondering, you sounded a cautious note as well on potential new project being sanctioned. How should we think about order intake in 2017? Any color that you can give on that would be appreciated. And also, do you think 2017 is going to be a tough year for you?

Stefano Cao - Saipem SpA - CEO

2017, as we said, we have sufficient cover to say that 2017, it is covered by the backlog, we don't see any problem in covering the 2017. You're quite right and consistently what we are saying that 2018, it looks -- at this time of the year, it looks weaker. So that is the reason why I've been trying to provide color on certain number of initiatives, which we consider will be contributor for 2018. And if you wish to focus on those which we consider particularly attractive and within our reach, then again I would refer to the Shorouk, which is the development -- deepwater development in Egypt. We will continue the piecemeal, as you heard the West Hub development. We aimed at getting some commitments out of the renewable projects in the North Sea, and off the Atlantic Coast. I think these are decently sizable projects. We are talking of projects up to EUR0.5 billion and we know that we have the competencies and we have the capabilities and we have the tools, the investments to do it. So those will be opportunities on which we will focus.

And then allow me to make reference to the high-speed section from Brescia to Verona, which is part of the original whole contract, but which is now being renegotiated and we expect a formal award to our consortium. We see more than 50% in terms of participation, which is certainly providing a good support to our onshore E&C, also in terms of profitability. Then we aim at continuing the LTA with Saudi Aramco, there will probably be other LTAs. And then there are some onshore opportunities in the downstream, like ammonia and urea in New Zealand, which might become a real opportunity. So you asked me to give you a little bit of flavor. I tried to --

Alessandro Pozzi - Mediobanca - Analyst

So you think you can repeat the order intake of 2016 this year as well, overall?

Stefano Cao - Saipem SpA - CEO

Say again, sorry?

Alessandro Pozzi - Mediobanca - Analyst

So you're saying you can repeat the order intake that you delivered in 2016 this year as well, importantly?

Stefano Cao - Saipem SpA - CEO

In 2016, it is difficult to say at this time of the year, with the perspective on which I openly described. I think we'll do all we can to achieve that.

Operator

Phillip Lindsay, Credit Suisse.



FEBRUARY 23, 2017 / 5:30PM, SPM.MI - Preliminary 2016 Saipem SpA Earnings Call

Phillip Lindsay - *Credit Suisse - Analyst*

Just have two questions please. The first one is sort of with respect couple of the earlier questions and thanks for elaborating on the West African projects. As you say there have been some issues, but you seem to be suggesting this is just a timing issue. But if you're going to stay on the critical path on these projects, surely you have to throw more resources at the problem to catch up, which suggests to me that at the very least, you will be eating into your contingency. So I just want to get a sense, to your mind has the risk profile of these contracts changed materially? That's the first question.

Giulio Bozzini - *Saipem SpA - CFO & Strategy Officer*

So with respect -- because maybe I can make a clarification also on the Amy question, which was raised before. If we are talking about the onshore contract, which determine a decrease in terms of revenues compared to the original guidance, here we are talking about contracts which are at an early stage, and we do not see any difference in terms of the overall marginality of the projects. With respect to the West African projects, first of all, one project was simply not started as expected and therefore the margin associated with that project that was originally anticipated, simply did not materialize, because the revenues did not materialize. With respect to the other project, there is a delay and this delay is triggering a cost increase, which have been included in our forecast. The fact that the margin has remained stable is due to the fact that other projects have improved.

Phillip Lindsay - *Credit Suisse - Analyst*

Second question, it was very interesting to see Saipem chasing a bit more renewables work than perhaps you have done in the past. Just want to get a sense on how much of that is pulled from the operators -- those projects for a contractor like Saipem with big EPIC experience, or is it actually you see oil and gas as a soft market and therefore you're looking to diversify, you're really pushing for a role in those projects?

Stefano Cao - *Saipem SpA - CEO*

Quite frankly, it's not as much of that we are pursuing new potential projects in renewable. It's the fact there are more projects in the renewables. In particular, there are more wind farms at sea. Wind farm, if it goes beyond a certain dimension in terms of number of structures to be installed makes obviously very competitive the tools and assets, which we own and operate like the 7000. If then you have the flexibility to do the installation, when you have the vessel fleet, you can imagine that that combined very well with the more traditional type of activities, oil or gas related.

So I think in a nutshell, we are not increasing the attention, we always will be very carefully looking at opportunities. The fact there are more initiatives and they are becoming more sizable and therefore more -- there are situations, which we consider a project in their own right. So they have a size, which is quite significant. Otherwise, we would not list it in our slide of opportunities in the previous situation.

Operator

Rob Pulleyn, Morgan Stanley.

Rob Pulleyn - *Morgan Stanley - Analyst*

A couple of questions for myself. Firstly, just on the delayed revenue, not to [current it] too much more, because you answered questions on it, but you are delaying some revenue from 2016 into 2017 and yet the revenue guidance is the same as it was for 2017. So has something else fallen out? And on that basis, it's very reassuring to see guidance where it is, given the announcements that some pipelines from Russia have gone to a competitor. To what extent were your expectations, previously, including some of that pipeline work, and if so, what is it being replaced by to actually be able to stick to guidance? And then finally, if I could just maybe ask, your CapEx was a bit lower in the end of 2016 than you guided. Is there a particular reason for that? Thank you.



FEBRUARY 23, 2017 / 5:30PM, SPM.MI - Preliminary 2016 Saipem SpA Earnings Call

Giulio Bozzini - *Saipem SpA - CFO & Strategy Officer*

With respect to the pipeline project that you mentioned before, there was no assumption of revenues in 2017 with respect to these projects.

Stefano Cao - *Saipem SpA - CEO*

And in terms of CapEx, you know that we said that last year and this year we will concentrate all our CapEx initiatives to maintain the same level of quality of the operational capabilities of our fleet. Then there are situations when you have a class work which falls at the end of the year and maybe moves to the beginning of next year. So last year, we had less cost, they are moving to this year. This year we project EURO.4 billion CapEx. But in the CapEx which we incurred last year and what we are projecting this year, there are no CapEx related to new initiatives.

Rob Pulleyn - *Morgan Stanley - Analyst*

And sorry, just one follow-up on a slightly different issue. The recovery of the revenues in arbitration from Russia and the cancellation fee, any indication on timing of when that might be resolved?

Giulio Bozzini - *Saipem SpA - CFO & Strategy Officer*

Yes, the arbitration should be resolved in 2018 and obviously paid probably between 2018 and 2019. So we are not assuming anything with respect to 2017 guidance.

Operator

Mick Pickup, Barclays.

Mick Pickup - *Barclays - Analyst*

Just one quick question for me obviously on your tender list. You integrated subsea umbilicals project in there. I know previously you tended to say it's too early to know where the market is going. Can you just give us an update on your opinion about integrated basis in the wider scheme of things? Thanks.

Stefano Cao - *Saipem SpA - CEO*

To make sure I understand, the status of our integrated bids --

Mick Pickup - *Barclays - Analyst*

Yes, it's just how integrated bids are faring out in the list of projects as they start to rematerialize?

Stefano Cao - *Saipem SpA - CEO*

Okay. Let me start that. Of course, we set up the alliance with Aker Solutions in order to cover that particular market, that is not an integrated joint venture. This is a situation which see us discussing on opportunity basis, case by case. So we are pursuing the project in India, jointly in a different situation, for instance, like Liza for Exxon Mobil. We have -- I mean there project was not of interest to our alliance partner. So we have joint forces



FEBRUARY 23, 2017 / 5:30PM, SPM.MI - Preliminary 2016 Saipem SpA Earnings Call

with another recognized contractor for the SURF and integrated. So basically this is how things are developing. Obviously, we are following up very closely the evolution of this situation and we will see how to (inaudible) address the market. For the time being, we are happy with the alliance.

Mick Pickup - *Barclays - Analyst*

Okay. And do you see the operators preferring that model going forward, any more than they did previously?

Stefano Cao - *Saipem SpA - CEO*

Let me say, here I have to admit that I use my personal background, having been on the other side of the fence, having been on the side of the oil company. I think quite frankly that if you refer to the major international oil companies, still this is something which needs to be seen with more cases, practical cases. Certainly I see an integrated offer very attractive to national oil companies or smaller independents or integrated companies. I am quite interested in seeing what will be the result of the Liza, because that is a case of a super major oil company following that path. So we'll see how things develop.

Operator

Kevin Roger, Kepler Cheuvreux

Kevin Roger - *Kepler Cheuvreux - Analyst*

Just maybe one follow-up of a question that's already been answered. On the partnership with Aker Solutions, when do you expect to get, I would say, at least the first FEED contract, because when you look at the commercial trend for Technip with FMC or even Subsea7 with OneSubsea. We are already had one EPC contract and several FEED contract. So in terms of outlook, when can we expect the first FEED or EPC contracts for Saipem with Aker Solutions?

Stefano Cao - *Saipem SpA - CEO*

Actually, we're not in the driving seat. I mean, since they are our clients, they decide. So it is difficult to give a straight answer to the -- an exact answer to your question. We'll see when things will materialize and obviously we'll be more than happy to let you know.

Kevin Roger - *Kepler Cheuvreux - Analyst*

Or if I can say, is there any project where you think you are very well positioned, in that you expect the FID to open very soon?

Stefano Cao - *Saipem SpA - CEO*

These are obviously commercially sensitive information. So, things which are so close, I don't think at this stage we ought to talk about.

Operator

Jamie Maddock, Deutsche Bank.



FEBRUARY 23, 2017 / 5:30PM, SPM.MI - Preliminary 2016 Saipem SpA Earnings Call

Jamie Maddock - *Deutsche Bank - Analyst*

Just one question really and it relates to the innovation strategy and how high value engineering wraps into that. To what extent do you have both the -- I guess the personnel and maybe the software computing technology to build -- to implement that? And also the extension of that, how are clients responding to this innovation strategy you have? Is this in response to, and to what extent are they beginning to engage with you more, so than they were before as a result of this?

Stefano Cao - *Saipem SpA - CEO*

Okay. Again, let me move a step backwards. Our company was built on the capabilities of providing a revenue stream higher than EUR10 billion per year. That means that the moment we reduce the expectation for revenues, there is a -- we have an excessive capacity in terms of engineering as well. So I think the exercise was -- on one side, the exercise to downsize where the flexibility allows us to reduce the volume or closing these engineering offices around the world. And then within the frame of the present restructuring, we have devoted a number of very valuable engineers to this new division. So on one side, the aim is to find a full utilization for these valuable resources. On the other side, is to exploit opportunities in market, which we were not really looking at. That is the market of the conceptual studies, this is the market of the FEED design.

So we are exactly in the process of building up the revenue stream for the division and we don't expect to have a massive amount of revenues, but we do expect to -- from one side to get closer to the client in a phase where they start drafting and designing their development schemes and at the same time safeguarding very valuable reserves for our future needs.

Operator

Fiona Maclean, Merrill Lynch.

Fiona Maclean - *Merrill Lynch - Analyst*

My question is mainly around the competitive landscape in both the onshore and offshore E&P sectors. I was hoping you could just give a bit more color and particularly around where you're seeing the much higher levels of competition and what's factored into the margin profile of the projects that you're bidding on? Thank you.

Stefano Cao - *Saipem SpA - CEO*

In terms of competitive landscape, I mean let's talk business by business, there is no doubt that on the onshore E&C the landscape is quite crowded. There are a lot of competitors who are allowed to bid on projects and probably they have the sufficient capabilities to execute those projects. We have decided to be selective in our approach, so we set a target for the business at lower level. Having said that, we recognize that a particular area of the world, in particular, Middle East has been an area where the clients, they are investing a lot. So I think we are quite grateful and we are quite happy to be present there. And we are exploiting those opportunities to the best of our capabilities.

When it comes to the offshore E&C, then you have to look at the segment by segment. So if you look at the SURF project, the issue is the amount of the final investment decision, which are being taken, which are definitely lower than we would like to see, at least from our perspective. However, the number of competitors, is still a limited number of competitors. So we pursue that market with the utmost of our energy.

When it comes to pipelines, obviously you know that our competition there, especially because the deepwater are complex and longer trunk line. Again, the competition is limited. So that is the area where obviously we see the number of opportunities have been reduced. I would refer myself, nobody has asked the question, but we are not considering at all the North Stream or the Turkish Stream, which has gone. So that market remains a market where we are quite strong and a market at which we continue to aim at.



FEBRUARY 23, 2017 / 5:30PM, SPM.MI - Preliminary 2016 Saipem SpA Earnings Call

Fiona Maclean - *Merrill Lynch - Analyst*

And just looking to hear onshore E&C margin, are you going to actually be profitable in that division in 2017, or is it probably breakeven?

Stefano Cao - *Saipem SpA - CEO*

No, I think I was addressing a previous question, and certainly we cannot aim at breakeven. Breakeven is the result of the history. We, now have resolved a lot of the issues related to those projects. So they are not going to cause damages to us. We are improving, indeed, all our processes and we are working on the efficiency of our operations. So the target remains to a better profitability for the onshore E&C.

Fiona Maclean - *Merrill Lynch - Analyst*

Okay, but you're not committing to provide any type of margin for that division can be in either 2017 or 2018?

Stefano Cao - *Saipem SpA - CEO*

2017, 2018, we have a general target. I think I mentioned before, we have a general target for -- at which we are aiming of reaching 5% EBIT margin. But this is something which still requires a lot of work and a lot of effort.

Operator

Luigi de Bellis, Equita SIM.

Luigi de Bellis - *Equita SIM - Analyst*

Two quick questions from me. The first one, could you give us more color about the profitability expected for offshore E&C for 2017? Secondly, for the drilling offshore, I know it's difficult to say at the current stage, but could you help us to understand how much the profitability of offshore drilling could be penalized next year, due to the expiry of contracts? And if in general you are seeing some signs of recovery for this business? Thank you.

Giulio Bozzini - *Saipem SpA - CFO & Strategy Officer*

So in terms of profitability, as usual we are not leaving precise guidance. I would tend to say that in 2017 the profitability of our offshore business should not be materially worse than what we have achieved in 2016. In drilling, clearly, as we said, as long as the rates will be renegotiated, the profitability will be more aligned with current rates and therefore, we expect a decrease in terms of profitability percentage of the offshore business.

Operator

Thank you. I will now turn the call back over to your host today, Mr. Cao for any additional or concluding remarks.

Stefano Cao - *Saipem SpA - CEO*

Thank you. I think it was quite a good conversation. Thank you very much for attending. Look forward to seeing you at our Innovation Presentation in Marghera. Have a good evening.



FEBRUARY 23, 2017 / 5:30PM, SPM.MI - Preliminary 2016 Saipem SpA Earnings Call

Operator

Thank you. That will conclude today's conference. Thank you for your participation, ladies and gentlemen, you may now disconnect.

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