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## CONFERENCE CALL PARTICIPANTS

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**Mick Pickup** *Barclays - Analyst*

**James Evans** *Exane BNP Paribas - Analyst*

**Mukhtar Garadaghi** *Citi - Analyst*

**Kevin Roger** *Kepler Cheuvreux - Analyst*

**Phillip Lindsay** *HSBC - Analyst*

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**Mark Wilson** *Jefferies - Analyst*

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## PRESENTATION

### Operator

Good day and welcome to the Saipem First Half 2016 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.

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### Stefano Cao - Saipem SpA - CEO

Good afternoon ladies and gentlemen, and welcome to our First Half 2016 Results Presentation. I am here with our Chief Operating Officer Giuseppe Caselli, and our recently appointed Chief Financial Strategic Officer, Giulio Bozzini, who I'm sure most of you have already met during his previous experience in Saipem as CFO. It is a great pleasure for me personally on behalf of the whole management on Saipem to restart a close and fruitful cooperation with Giulio.

In slide 4, we summarize the highlights of this first half of the year. Market conditions are still challenging, notwithstanding signals of oil price recovery and some investment decisions sanctioned by major oil and gas players. Order intake in the second quarter amounted to EUR2.3 billion, leaving our backlog substantially in line with the first quarter 2016 at EUR13.9 billion. We are also very pleased with the Zohr and Tangguh gas projects awarded after the first half for an overall total exceeding EUR2.5 billion. Overall, E&P spending, especially on subsea developments is still subdued, with the drilling business showing no sign of recovery. As repeatedly said, the oil industry is still crossing the desert and therefore we need to remain highly focused on performance, efficiency and on our order intake.

In offshore drilling, negotiation are ongoing for possible contract extension, leveraging our long-standing relationship with key clients and a flexible approach. In this context, we have delivered a robust set of results in the first half of 2016, with overall adjusted EBIT margin exceeding 6%,



underpinned by the particularly positive performance of E&C offshore during the second quarter, when adjusted EBIT was EUR182 million, 28% up from the first quarter.

Offshore drilling remains resilient on the back of existing long-term contracts at more favorable rates, delivering an EBIT margin around 26% in the first half. Onshore drilling is suffering, given its exposure to the downturn in South America. Therefore in line with last year approach, we have decided to further derisk our balance sheet by writing off receivables for EUR87 million.

The first-half closed with a net debt of EUR1.97 billion, in line with our position at the end of 2015, post capital increase, as adjusted cash flow offset working capital and investments. As announced, we have signed our EMTN program and are currently monitoring the market to identify a suitable window for our inaugural bond issue. Meanwhile, the signing in the quarter of an export facility provided by Citibank and supported by GIEK, the Norwegian export credit agency for an amount above EUR500 million, enables the drawdown of a first tranche of EUR200 million and contextual reduction of our Bridge to Bond loan before end of July. Giulio will elaborate more on these topics later.

Before leaving the floor to his comments on financial performance, I wish to say that we have updated our guidance on the back of the decrease in activities in E&C and drilling onshore, higher than predicted tax rate and financial charges.

Let me now hand you over to Giulio who will go through the financial results in more detail.

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

Thank you, Stefano, and good evening to everyone. First of all, let me reciprocate the pleasure to be back at Saipem. Turning to number slide 6, summarizes our operational performance versus first half 2015. Before commenting on our results, I believe it is appropriate to clarify the meaning of our EBIT and net profit adjusted, which we have introduced, for comparison purposes and to better understand our performances. Put simply, we have adjusted results to exclude specific items out of the ordinary course of business, fixed assets written down and devaluation of certain receivables.

First half 2016 EBIT and net profit has been adjusted by excluding from reported figures the write-off of overdue receivables relevant to drilling on-shore, for an amount of EUR87 million. First half 2015 EBIT and net profit have been adjusted by excluding from reported figures the write-off of overdue receivables relevant to drilling on-shore for the amount of EUR100 million and the write-down of fixed assets for EUR211 million.

I also highlight that part of the first quarter of 2016 net result attributable to minority interest was reclassified in the operating result to reflect the split of margins between Saipem and third-party in a contract jointly executed.

Having said that revenues in the first half 2016 were slightly decreasing year on year. However, first half 2015 revenues were penalized by an exceptionally high level of write-off of pending revenues, mainly in E&C onshore. The decrease in E&C offshore is mostly attributable to lower level of activity in Middle East, Australia and Russia, partially compensated by higher volumes in Azerbaijan and Kazakhstan.

Turning to adjusted EBIT, the significant improvement in E&C offshore and onshore, year-on-year, is driven by better operational performance in 2016, amplified by the significant volume of write-offs of pending revenues in first half of 2015, already mentioned. The deterioration in drilling, both in revenues and adjusted operating results is determined by lower rig utilization. However, offshore drilling is still benefiting from long-term contract and rates negotiated in a healthier market environment. We envisage alignment to current spot rates, should the present market weakness persist.

Onshore drilling is clearly facing difficulties, due to the dramatic impact of the downturn in Latin America, especially in Venezuela and Peru.

Given the significant impact of write-offs on first half 2015 results affecting comparability, I think it's worthwhile commenting on 2016 operational performances also through the analysis provided on slide 7. Revenues decreased in the second quarter versus first quarter, whereas the decrease in E&C onshore is mainly attributable to different phases of few large projects. The decrease in E&C offshore is linked to lower vessel utilization in the current downturn. With regard to onshore drilling, the reduction is a combination of lower rates and higher idleness, mainly in South America.



Turning to adjusted operating margin, performance was very positive in E&C offshore, due to better than expected conclusion of some projects and robust performance on ongoing projects. E&C onshore performance was impacted by extraordinary provision related to a legal dispute in North Africa, amounting to approximately EUR15 million.

Offshore drilling performance continued to be good, since still backed by ongoing long-term contracts as mentioned earlier, with efficiency actions offsetting lower utilization. Onshore drilling performance was instead poor, as a result of lower rates and higher idleness in South American countries, especially Peru and Venezuela, only partially offset by cost savings. Despite a slightly higher tax rate, net profit adjusted increased to EUR79 million in second quarter 2016.

Turning to slide 8, net debt as at June 30, 2016 remained substantially stable versus December 31, 2015, post capital increase. In the same period of 2015, net debt increased by more than EUR1 billion.

Working capital dynamics was impacted by two main factors. First of all, the reversal of some positive cash flow, as long as the relevant projects progress, and secondly, payment difficulties or delays with some clients. Strict monitoring of expenses inclusive of CapEx helped to partially offset such trend. Working capital management remains one of our priorities, especially if we bear in mind our targets for this year.

Regarding our financial structure, as already mentioned earlier by Stefano, following the signature of our EMTN program, we are now assessing the evolution of the debt market after the Brexit event in order to identify the best timing to issue our inaugural bond. Meanwhile, we had positively negotiated a new export facility guaranteed by GIEK, up to EUR554 million and available in more tranches of eight years tenure each, at attractive conditions. The first drawdown for approximately EUR200 million has already been instructed and will enable partial reimbursement of the Bridge to Bond loan by beginning of August to an amount of EUR1.4 billion. An additional drawdown for EUR100 million should also be available by the end of the year.

In addition, we have completed the successful refinancing with UniCredit of a bilateral facility of EUR200 million, now expiring in 2019 at improved conditions. By doing this we have improved our financial flexibility, which could be further enhanced should we succeed in negotiating some additional facilities. As a result of the above and also considering that Bridge to Bond will expire mid next year with an option to be extended end 2017, I believe that we are not under any pressure of accelerating our bond issuance process. Thank you.

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**Stefano Cao** - Saipem SpA - CEO

Thank you, Giulio. Now let me give you a brief operational update on the business. Our backlog stood at EUR13.9 billion as at the end of June, with awards in the second Q of around EUR2.3 billion, largely driven by E&C offshore gas initiatives, such as Shah Deniz call-off 007 and TAP pipeline project. Overall, worth around EUR1.4 billion. The backlog also benefited from variation orders formalized on various ongoing projects, and other smaller works which normally are not subject to an announcement. The order intake has been further fueled by other awards post 2Q for more than EUR2.5 million, thanks to the Zohr project in Egypt and the Tangguh LNG development in Indonesia.

With the following two slides we wanted to provide with some more details regarding our recently awarded the projects. Shah Deniz is an initiative which is planned to last around five years with various services and activities concentrated during 2018 and 2019. Zohr is a fast track project, expected to deliver first gas at the end of 2017. Therefore, the majority of the construction phase will be concentrated in 2017.

We have just received two letters of award for the Tangguh expansion project, following final investment decision recently announced by BP. Size and scope will comprise both offshore and onshore works respectively for pipelines and fixed facilities and for the construction of an LNG train. The latter in consortium with two other partners.

Slide 13, provides indication of our backlog by year of execution. In 2016, we have residual orders for around EUR3.6 billion. Taking into account the revenues already booked in the first half, we'll reach a revenue coverage of 84%. However, the awards achieved after the first half with a revenue coverage of approximately 90%, providing good confidence on our revenue target, contributed to an increase in our 2016 pro forma backlog to circa EUR3.9 billion.

On slide 14, in terms of future opportunities, we have updated our recurrent slide. Many projects are still under evaluation by our clients, although sanctioning is being delayed. These opportunities are worth more than EUR35 billion. Among these I wish to remind you that Anadarko LNG and Codelco water line have been already awarded to us and waiting clients final investment decision, which we understand has been delayed until next year. None of our mid-term opportunities in Iran and Russia backed by recently signed MoUs are included in this slide.

And now a brief update on our alliance with Aker, which aims to provide clients with an innovative and competitive full delivery and life of field services model in the subsea market, leveraging on our common engineering background. Our collaboration is progressing well and the joint dedicated team based in UK has already scrutinized a considerable number of potential initiatives, out of which 20 fit the alliance's strategy. The team selected has 12 targets, sizable projects of common interest, expected to be sanctioned within the next four years. A first integrated joint tender has been already submitted to one of our clients. Some of the projects which are included in the scope of the Saipem-Aker alliance are also included in the slide showing the E&C opportunities for the E&C component only. This is coherence with a flexible commercial strategy that both Saipem and Aker have agreed, so as to adapt to different clients requirement.

Regarding offshore drilling, the market is still over-supplied, with no sign of recovery, especially in the deepwater segment. We are currently negotiating possible contract expansion for our vessels, particularly those expiring during 2017, approaching our long-standing clients with flexible alternative solutions. As rates are re-negotiated, they will align to current prevailing market conditions.

Following that half-year close we have been notified that Saipem 12000 drilling service in Portugal expected to start in the second half of 2016 had now been postponed to the first half of 2017. Statoil has instead confirmed that operation with Scarabeo 5 are soon restarting after suspension. In Abu Dhabi, National Drilling has determined -- has terminated the contract for our jackup Perro Negro 2, but is recognizing a termination fee covering at reduced rates the residual duration of the contract.

In onshore drilling, while operation in the Middle East - enjoy long term stability and good performances. In South America we are facing difficulties, in particular in Venezuela and Peru. We have reduced almost to zero our operating exposure to Venezuela and are actively exploring opportunities elsewhere, Argentina and Chile in particular, in order to employ such available capacity in the area. We are not aiming to exit from Venezuela as we believe that our clients will need experienced contractors such as ourself to drill the wells in order to sustain production level in the country. We are collaboratively discussing alternative payment solution in order to settle our pending receivables and financially sustain a limited restart of drilling activities.

Let's now turn to our cost-cutting program, which after delivering EUR300 million of savings in 2015 is on track to achieve the 2016 target of EUR630 million, laying a strong foundation for the achievement of the overall cumulative benefit of EUR1.7 billion. The slide summarizes the main result to-date and the key actions currently ongoing. In the present landscape, we are maintaining a strong focus on our efficiency program target, closely monitoring all ongoing initiatives to support margins and shape a leaner organization.

In conclusion, Saipem's performance in the first half of 2016 provides a strong base for solid full-year results, although revised as a consequence of the persistent downturn in the oil service market. Revenue guidance has been trimmed to EUR10.5 billion due to delays in the award of contract and variation in execution schedule of some projects. Despite these, strong operational performance in the offshore engineering and construction sector has enabled the adjusted operating profit guidance to remain largely unchanged at approximately EUR600 million.

Adjusted net profit is expected to be slightly lower, approximately EUR250 million, due to a worsening financial charges and tax rate. Capital expenditure is now expected to be approximately EUR400 million. Net debt, at year-end is forecast at approximately EUR1.5 billion with the persistent challenges related to the containment of working capital.

In conclusion, as the downturn continues to bite the oil and gas service market, we continue delivering positive results, mainly thanks to our offshore activities. Our successful project acquisition helped us to stabilize the backlog in second Q, with good momentum so far in the third quarter. These results underpin our confidence in delivering a robust performance in 2016 and support visibility for subsequent years, although drilling remains a critical business to manage, due to market condition and profitability needs to be improved in onshore E&C.



Our ongoing focus on efficiency is supporting our performance during downturn. This, coupled with a good progress we are making on our new financial structure, will position us well to deliver our strategy.

Thank you very much for your kind attention. And now Gigi, Giulio and myself are at your disposal to receive the questions. Thank you.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Guillaume Delaby, Societe Generale.

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### Guillaume Delaby - Societe Generale - Analyst

Two questions if I may. First you mentioned that within the onshore E&C division there was a EUR15 million fine related to Algeria, is it clear?

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### Stefano Cao - Saipem SpA - CEO

Yes it is clear, I'll give you the explanation. You want the answer question by question or --?

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### Guillaume Delaby - Societe Generale - Analyst

No. And then the second question maybe if you can give us a little bit of more color as to the fact that you change again the way you report your numbers versus Q1, maybe if you can you re-explain it because I'm a little bit confused on the change -- in the way you present your account.

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### Stefano Cao - Saipem SpA - CEO

Okay. I'll address your first question. And I'll ask Giulio to address the second one. The EUR15 million is not a fine, it is something rather unexpected. After we closed our operation in Algeria, we were still renting an office. We had a long-term for a rental of an office. We have negotiated the -- let me say, we have negotiated obviously the end of the contract. We encountered difficulties with the landlord and we have been going to court. We have been given support by the court judgment on two occasions and the third one actually the sentence was reversed. So we are still obviously fighting the request, but we reckon that to be prudent we had to account for this provision. So this is actually a provision.

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

With respect to the numbers, first of all, the adjustment that we made in 2016 is only relevant to the exclusion from the reported numbers of the devaluation of overdue receivable in onshore drilling, which are relevant to Venezuela. The same situation was in the first half of 2015, the difference is in the numbers because here we are devaluing our receivables by EUR87 million, whereas in the first half of 2015, the adjustment was for EUR100 million.

The second adjustment that we made compared to the first quarter of 2016 was basically the fact that part of the net result attributable to minority interest in the first quarter of 2016, relating to a project carrying out with third parties was reclassified in the operating results. So, the only reclassification which was made regarding the first quarter 2016 was a reclassification of EUR37 million from minority interest to operating result. I hope this is clear.



**Operator**

Mick Pickup, Barclays.

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**Mick Pickup** - *Barclays - Analyst*

Couple of questions if I may. If I look at your income statement by a function of expenses your idle cost shot up through the roof despite your strong operating profit. Given that you have won new contract, can you tell me how you expect those idle cost to trend, now you know what some of [your bigger assets are doing]?

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**Stefano Cao** - *Saipem SpA - CEO*

You came broken. Can you repeat the question?

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**Mick Pickup** - *Barclays - Analyst*

I'm just looking at the idle cost, how you expect that to trend given that it jumped to a record high during the quarter and you've signed new contracts with some of your bigger assets?

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

Yes, on the current assumption, we expect the idleness in the second half to be broadly in line with the amount that we had in the first half.

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**Mick Pickup** - *Barclays - Analyst*

And secondly, if I look at your G&A expenses, it's been flat now for a long time. I'm just wondering with all the cost savings you are making, why is the G&A going down?

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

I think that most of the savings that we achieved in the Fit for Future were relevant to operating activities. In terms of G&A, also considering the significant increase in terms of compliance costs, basically we didn't manage to decrease significantly this amount. This is something that we will try to address in the next plan.

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**Operator**

Michael Ray, Redburn.

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**Michael Ray** - *Redburn - Analyst*

Yes, hi there, thanks for taking my three questions. The first one is just on the offshore E&C business. If I look at what's in the backlog for the remainder of this year, that seems to imply quite a big step down in the quarterly run rate of revenue, even if I assume some contract escalation from here. So is it roughly fair to assume that you'll deliver EUR1.2 billion to EUR1.3 billion of revenue per quarter in offshore E&C in 3Q and 4Q? And then the second question is -- just might be a little bit hopeful this one, but could you possibly quantify the Tangguh contract, and anyway it's all just been net value to Saipem. Thanks.

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**Stefano Cao** - *Saipem SpA - CEO*

I'll have the second one. Tangguh is a combination of the offshore portion, which is 100% with us, and one-third -- a bit less than one-third of the onshore portion. So all in all, I'm not sure I'm allowed to disclose the overall figure, but it is in excess of EUR1 billion, I would say EUR1.2 billion is the order of magnitude.

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

With the respect to E&C offshore, revenues in the second half should be slightly below the amount of revenues that we had in the first half of 2016. Keep in mind that in terms of the backlog and in turn the activity, which is still in the backlog, we have also some change orders still not approved by clients etcetera, which are not yet in the backlog. So in principle we think that it will be slightly declining, but not dramatic compared to the first half of 2016.

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**Michael Ray** - *Redburn - Analyst*

So it's fair to apply a higher than usual amount of escalation to that [1.8] that you have in the books for the remainder of the second half, because of change orders?

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

Yes, correct.

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**Operator**

James Evans, Exane BNP Paribas.

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**James Evans** - *Exane BNP Paribas - Analyst*

Firstly, just want to ask about CapEx, obviously you've guided down again this quarter to EUR400 million, but just wondering how we have actually get the high differences from low run rate at the moment. Are there any specific investments that you're making for projects coming up?

And secondly, maybe a little more strategically, there's some comments from your Chairman, I think in the press recently talking about you potentially being interested in acquisitions or M&A with a company with more stable (inaudible). So in that context what would you be interested, is it consolidating the end markets, is it adding front-end engineering, or even broadening your offering?

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**Stefano Cao** - *Saipem SpA - CEO*

In terms of CapEx, as you noticed in the first half of the year, we have been investing around EUR100 million, while we project for the full year EUR400 million. Obviously, the task of containing the CapEx expenditure is pretty high on the agenda, taking the utmost attention and respect to the fact that we cannot jeopardize the efficiency of our equipment and vessels. So it happens that in the second half of this year, we should have a number of investments mostly -- not on new capacity obviously, but in maintaining the quality of our fleet at the level which is in line with our Company. We expect that we have to invest EUR300 more million.

In terms of acquisition, I would say that currently with what I had to say in a number of opportunities in the recent past, we have a portfolio of businesses, which indeed is at the moment the right recipe to improve the performance of the Company throughout the difficult days, throughout the crisis. Having said that, in the future if we have to identify a business which we consider the core for our company, this is obviously offshore





E&C. We are in the process of continuing our de-risk process in the onshore E&C and improvement of the returns. We don't see major strategic problems with the offshore drilling fleet. We should certainly consider, as it has already happened in the past that the onshore drilling might be sort of a tradeable business. In order to complete the line of thinking, I think I would only add that on the back of my -- also my person and Giulio's, personal experienced in the past, after a deep crisis there are indeed opportunities, which are provided to the survivors in the business and we would indeed look at opportunities which are in the direction of complementing and completing the range of capabilities of our E&C or offshore. And if I had to set an example I would say that the attention and interest would be in the flexible [pipe lay-ins] in the reeling technologies. This is in very general terms. Having said that, we are now fully geared and we are fighting to get through the crisis.

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## Operator

(Operator Instructions) Mukhtar Garadaghi, Citi.

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## Mukhtar Garadaghi - Citi - Analyst

Hi, three questions if I may. Thanks for taking the questions. Could you please discuss the key moving parts for working capital in the second half? Your guidance assumes some recovery. Could you please discuss the hedges and any other major parts that you'd like to flag.

Secondly, in terms of receivables, are there any other receivables that you see being at risk at this stage? Is there anything remaining in Venezuela? And in general, could you discuss the balance that you have in Algeria, Russian, etcetera? And just quickly any updates on litigation processes vis-a-vis Canada, Algeria and what's going on Italy. Thank you.

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

So in terms of working capital, yes, we have highlighted that the target of EUR1.5 billion will be dependent upon the evolution -- will be dependent also on the evolution of the working capital. In principle, the working capital evolution in the first quarter was penalized by the reversal of few very cash positive projects that we had, and from net advance payment deterioration. This situation is expected to be offset in the second half of this year, should we succeed in having advanced payment from clients in the contracts that we are awarded.

Secondly, yes, we had some delay in payments with some clients in some countries and obviously a normalization of this situation would be needed in order, let's say, to stabilize the working capital activities on both levels. We have discussion ongoing with the clients and we hope to complete at least some in the second half of this year.

With regard to Venezuela, the activity now has been significantly reduced and the level of credit is in the range of slightly above EUR50 million. We are negotiating with PDVSA in order to achieve a mutual agreeable solution.

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## Stefano Cao - Saipem SpA - CEO

In terms of litigation in Algeria, Canada, which you referred to, I think consistently with -- in Russia indeed, consistent with what we said already in the recent past that we view them much more as an opportunity rather than a threat. As far as -- we have only included in our account the minimal amount which we consider we can certainly recover, and anything which will come above that will be an upside. And indeed as a company, we are fully committed to recovering as much as we can. The only things which we have difficulty in controlling is the variable of time in terms that normal this process takes longer that at least that we would like as an executive of the company.

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## Mukhtar Garadaghi - Citi - Analyst

And just to follow up on that. And the case that's in Italy was the headline this morning. Is it developing as you expected, and do you see any risk of fines, vis-a-vis Consob and the prosecutor there?



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**Stefano Cao** - *Saipem SpA - CEO*

No. Actually Consob, we do not expect any fine. Actually we haven't got anything which is open there, and which is bound to become a fine. I don't know if you are referring to the -- to what the bill decided today in the court in Milan, maybe.

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**Mukhtar Garadaghi** - *Citi - Analyst*

Yes, to the headlines this afternoon, as well as the shareholder case, I think EUR174 million shareholder case that was brought up against Saipem.

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**Stefano Cao** - *Saipem SpA - CEO*

No, that's a different issue. So, I'll tell you what has happened and then I'll ask our legal counselor to give you a little bit more flavor on this. We acknowledge, obviously, the decision of the judge of the preliminary hearing to send to trial also the company and it is confident -- that we're quite confident we'll be able to demonstrate there are no grounds for the company to be held liable under the Italian Legislative Decree 231, the anticorruption decree at the first instance trial. So in that respect we don't feel it as a threat. In terms of fines and shareholders I would ask Mario Colombo -- here with us Mario Colombo, our legal counselor to give you a brief update.

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**Mario Colombo** - *Saipem SpA - General Counsel, Company Affairs & Governance*

With respect to legal proceedings which were started by shareholders or former shareholders, there are no news to report. The information which were provided in our financial report 2015 are still updated and so legal proceedings was started last year in April, just a few days before our General Shareholders Meeting, for a request of EUR174 million, and since then there were few hearings where the plaintiffs were not capable to demonstrate that their lawyers received appropriate powers (to represent them before the judge. And so hearings were delayed and so the -- in fact, the first hearing so far didn't take place and the next hearing, which in fact could be the first hearing is scheduled for November. And so there are no news on these legal proceedings by the shareholders. Commenting more in detail, the statement by our CEO on the today decision and just to better explain the context with respect to previous activities of the Saipem Group in Algeria, there are two proceedings. One where Saipem was ordered to stand trial last year in October with respect to alleged improper payments connected to the award of seven contracts by Sonatrach. And so with respect to this legal proceedings at trial level. The next hearing is scheduled before September 12, 2016. And ENI is not part of these legal proceedings.

There's another legal proceedings with respect to previous activity of the Saipem Group in Algeria, where today the judge of the preliminary hearing ordered Saipem to stand trial and ordered also ENI to stand trial with respect to the acquisition by ENI of a company called First Calgary. And with respect to the extension of the CAFC Field by ENI, which have allegedly benefited from improper payments made in the past. And so the decision of today is relating to this last legal proceedings and the judge of the preliminary hearing scheduled December 5 the first hearing.

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**Operator**

Phillip Lindsay, HSBC.

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**Phillip Lindsay** - *HSBC - Analyst*

Two questions from me please. Just on the E&C margins, obviously Q2 saw quite a nice jump up there. Should we consider this the new normal as you work through the remainder of the contracts that you've referred to in the statement or perhaps you can give us a sense of whether embedded margins on recent contract wins can at least sustain, or if not improve on that trend? That's the first question. And then on the second question is really on the outlook for new orders. So without any more contract wins, looks like you'll have a book to bill of at least [1] in Q3. Today on the call you've mentioned delays to project sanctioning. You don't sound as confident as you were the Q1 results to further near term awards. Is that fair? Do you now have less conviction on the timing of the projects in that EUR35 billion hopper that you've mentioned? Thank you.



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**Stefano Cao** - *Saipem SpA - CEO*

As far as the margin, I'm sure you know that in a business like ours, we have -- obviously we have results which can vary significantly depending on the particular timing you are taking in consideration in the margin and I'll be more specific. In this case we had not only a very good performance in some of our projects, but we had also projects which have been completed. That means that we have been in a position to release contingencies which normally we maintain in our books. So I think the reason is related to the combination of this. Having said that, it still remains that offshore E&C is the business on which we rely the most.

The second question, yes, I think probably you were commenting the slide which we have provided last time where we were quite confident to take EUR5 billion and I think I very well remember the slide and I think we are pretty much in line with that. If you remember the slide we were referring to Zohr, number one project was Zohr, and this is awarded. The second was Tangguh offshore, awarded. The third is Shah Deniz call-off [007], awarded. Then the fourth and the list was Eni West Hub, this is still under negotiation. I am not that pessimistic on the award of this as well. Then we have an LTA with Saudi Aramco, and this is still being negotiated and we'll see the outcome. In terms of onshore, we were referring to the LNG -- Tangguh LNG, which has been awarded. Then the other one was the CFE pipeline, which has been postponed and the Baltic Urea Ammonia in Russia, which has been postponed as well. I would say that all in all, we can say that we have maintained our commitment.

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**Phillip Lindsay** - *HSBC - Analyst*

Yes, sure. The question was really about you clearly had a strong recent flurry of awards as you'd flagged, it's really about more the expectation over the coming quarters.

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**Stefano Cao** - *Saipem SpA - CEO*

This is quite sensitive in commercial -- commercial terms, that is why we have been referring to these projects is because we were enough advanced that we could make a specific mention. But otherwise certainly there is a flow of other opportunities, but we still need to fight our way through the acquisitions. So I would rather like not to make any mention to specific projects.

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**Operator**

Kevin Roger, Kepler Cheuvreux.

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**Kevin Roger** - *Kepler Cheuvreux - Analyst*

Two quick questions please. The first one is related to the level of pending revenues, can we have an update please on the situation at the end of the first half of the year? And the second question is regarding your backlog maturing in 2017, taking into account Tangguh LNG but also the Zohr contract. Can you please split the level of activity between E&C offshore and E&C onshore maturing in 2017, please?

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

With reference to pending revenues, at the end of the first half 2016 approximately the amount is in the range of EUR800 million, out of which more or less EUR500 million are referring to the arbitration that we mentioned before. In addition to this there are the EUR300 million relevant to the South Stream. And so the overall amount is EUR1.1 billion. This is decreasing in the sense that the EUR500 million for the arbitration and EUR300 million for South Stream are obviously exactly the same as they were at the end of 2015, whereas the other pending revenues, the more normal pending revenues, not in arbitration, are decreasing from EUR400 million to EUR300 million.

**Stefano Cao** - Saipem SpA - CEO

As far as the second question on the backlog, if you refer to the slide 13 which we commented that hereon, you see that the amount of backlog on the E&C offshore for 2017 is about EUR2.5 billion and EUR1.8 billion is the one for E&C onshore. If you sum up yourself, what have been awarded, you can have a very good indication on what is the split between the two.

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**Kevin Roger** - Kepler Cheuvreux - Analyst

But just if you take into account the recent awards of Zohr and Tangguh, what's the amount maturing in 2017 on the top of the EUR6.5 billion that you present in the slide?

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**Stefano Cao** - Saipem SpA - CEO

No, that is already included in the shadowed part of the slide, the EUR6.5 billion. I don't know if you have a doubt on the reading of the slide. We have the -- the distributional backlog in the various business on the blue, green, red and yellow columns, then we have a green shadow on the back. And this is related to the acquisition after the end of June.

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**Kevin Roger** - Kepler Cheuvreux - Analyst

Yes, when you include Tangguh LNG, for example, but it was just to know if you can provide information regarding the split after the inclusion of those awards.

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**Stefano Cao** - Saipem SpA - CEO

The split you can convince yourself, it's one-third, two-third, two-thirds offshore and one-third -- almost -- and one-third onshore and two-thirds offshore. This is order of magnitude but not a precise number.

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**Operator**

Daniel Butcher, JPMorgan.

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**Daniel Butcher** - JPMorgan - Analyst

Just had three quick questions if I could. I just want to clarify firstly the utilization for the onshore drilling is 70.4%, but the presentation slide is for first half and in the release it is for the second quarter. Can you just clarify whether that utilization is first half or second quarter please? Second question was just on the working capital to follow-up on that. You said it's a reverse part of its ritual EUR1.5 billion net accounts by end of the year. Could you clarify that you want to reverse the entire EUR410 million for first half in order to reach the guidance, or was there something less than that? I guess my third question is just on shore E&C. You broke even on a EBITDA basis this quarter. Could you let us know when you're getting back to normalized margins sort of 4% or 5% and how much legacy contracts are affecting that? Thank you.

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**Stefano Cao** - Saipem SpA - CEO

In onshore drilling the data which we provide here is related to a sort of -- I mean you're to view it as a sort of weighted utilization. You know that we have rigs of various size and power. So we have elaborate percentage, which is related to the fact that we are working with the heavier equipment. So that gives us an utilization rate, which is 70%. In terms of --

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**Daniel Butcher** - JPMorgan - Analyst

Is that rate for the first half or the second quarter please?

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**Stefano Cao** - Saipem SpA - CEO

No, this is onshore fleet utilization throughout -- this is first half 2016.

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

If I were to understand, the second question was regarding the evolution of the working capital in the second half in order to reach the EUR1.5 billion deck. Is that correct?

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**Daniel Butcher** - JPMorgan - Analyst

Yeah,

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

Okay. So, in principle in working capital clearly we've a number of situation, which will need to be normalized. First of all normalization of the client payment trend clearly, because we have some situation, which at the moment are not satisfactory, in which we are trying to solve. The second situation is relevant to the pending revenues, which we have, which we are working in order be solved at least partially. The third point is the advance payment connected to the new orders award for some of the orders, which we have been -- which we have been granted, we had some advance payment, which will offset the positive cash flow of some projects which are reversing as long as the projects are going. In addition, obviously we are strictly monitoring potential other change orders which would penalize the situation. So these are the main areas in which we concentrate for change orders. Then clearly, for -- in respect of the net debt, we are also monitoring CapEx and we are probably also factoring in some minor non-core divestments before year-end.

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**Stefano Cao** - Saipem SpA - CEO

In terms of marginality on the onshore E&C, you are quite right in - remember the 5% target, which we had said to be achieved for the onshore E&C throughout the full-year plan, when we announced the full-year plan in October last year. At the time we were also saying that in order out to get to that marginality, we had to get rid of the projects, these are called legacy projects. We are in the process of completing those legacy projects and that's the reason why we reached the breakeven situation. This is indeed not satisfactory, so the target remains that during the plan period, we will reach the 5% target in terms of marginality.

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**Daniel Butcher** - JPMorgan - Analyst

Could you give us maybe a bit of guidance on when you expect those legacy contracts to all be gone, or nearly all be gone?

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**Stefano Cao** - Saipem SpA - CEO

We expect them to be completed sometimes at the end of this year. I think in order to take a judgment on the marginality, we also ought to take into consideration the cost, let me say the hopefully one-off cost which are related to the litigation, which we are undergoing at the moment, which obviously affect the marginality of the onshore E&C.

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**Operator**

Mark Wilson, Jefferies.

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**Mark Wilson** - *Jefferies - Analyst*

I just like to check on the (inaudible) 12000. Just in your current backlog does that have or not the ongoing activity for 2016, or is that all included in the termination that you are showing? And the second question, just to mention, in the past you've talked about sale of the floater business, the FPSOs, we haven't heard much about that in recent months. Is that still a strategy for yourselves and what level of backlog would be associated with it?

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**Stefano Cao** - *Saipem SpA - CEO*

The reference we made in the presentation today on the 12000 was -- I guess you're referring to the Saipem 12000?

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**Mark Wilson** - *Jefferies - Analyst*

Yes.

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**Stefano Cao** - *Saipem SpA - CEO*

The fact that -- I'll ask Gigi to comment on the termination and then I'll comment on the other question.

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**Gigi Caselli** - *Saipem SpA - COO*

If you remember, the 12000 had a contract and was terminated by a client, Total and the termination fee was covering all the contract duration. And in the slide it highlighted there what was the contract duration. So this is covered by the termination fee that we've received at the time of termination. As of today we are discussing, negotiating. We have on the table some opportunities that will have the 12000 hopefully back to work in 2017 -- early 2017.

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**Stefano Cao** - *Saipem SpA - CEO*

In terms of disposals indeed we refer to a number of disposals which we would have pursued throughout the plan period. One was about some additional -- some engineering capacity which did not really match with our targets right now. So that is an operation which we have completed. We have sold the engineering capability in Italy and imply the utilization of about 400 engineers in Italy. We also mentioned the disposal of the FPSO and disposal of the infrastructures business. Those disposals are still being pursued. And if you remember we said that, that would have been done through the four year plan. We are still -- we have an open process going on. I'm sure you appreciate that at this very moment the FPSO business is not fully valued. So we continue pursuing the disposal, but we reckon that we still have to wait some more time. While as far as the infrastructure business, which is the high-speed train related activities in -- and in general in the railway activities, we are still moving on with formal process and we'll come back when we have the outcome of it.

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**Operator**

Luigi de Bellis, Equita SIM.



**Luigi de Bellis** - *Equita SIM - Analyst*

Two quick questions, if I may. The first one, could you just update on South Stream claim and clarify if the EUR300 million pending revenues associated are needed to reach the full year guidance of net debt? And the second question, could you break down your EBIT guidance for full year between drilling and E&C? Thank you.

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**Stefano Cao** - *Saipem SpA - CEO*

Okay, South Stream, South Stream I'm sure you are familiar with the process. We could not -- the contract was terminated, we could not reach an agreement for an amicable settlement. I'm sure you remember that not only the additional expenses have not been recognized, but also some contraction, agreed invoices have not been paid. So we resorted to go to arbitration, we have a claim of EUR750 million going to arbitration. The arbitration is a long process, we would not expect to have an outcome before the beginning of 2018. So definitely we're not counting on any proceeds coming from the resolution of the arbitration impact in particular, in order to reduce the level of debt this year. So we don't count them.

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

With regard to the split of the operating profit, normally we do not give any split. Let's say that in principle the margins that were achieved in the first half of 2016 for the different business should not be significantly different from the one that we are projecting in the second half of the year.

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**Operator**

Nick Green, Bernstein.

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**Nick Green** - *Bernstein - Analyst*

Can you talk a little bit about the offshore drilling business please? You mentioned there are negotiations ongoing, you mentioned the (technical difficulty). First of all, could you comment, are these just euphemisms for a wholesale aftermarket on the spot rate for the vessels which are not yet -- which are coming off contract? And then secondly connected to that, can you talk about the impact of that on the business plan, and I guess the strategy that was set out in October, which if I recall, I think you had expectations of the offshore drilling business would maintain dayrates more or less undiminished, and therefore do you feel that the targets for next year and net debt target could be materially impacted by having the offshore drilling business mark to market on spot prices? Thank you.

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**Stefano Cao** - *Saipem SpA - CEO*

I think the message which we have consistently been delivering is that on the basis of the back of the present backlog for offshore drilling of 2016 is fine. And as a matter of fact, we are confirming that the margin -- the EBIT margin is still quite a healthy one. Then what we are saying and what we said is that we need to see what we said also in the last year is, we needed to see what was the market performance in terms of extending the contracts which are expiring in 2017. I think that the -- so quite some time as last and that we don't see an improvement in the offshore drilling rate and the utilization. And so I think this is the message which we are confirming now.

Then of course in terms of guidance for 2017, we said already all along that we provide the guidance together with the third quarter result. In the meantime, indeed we continue marketing the units. We have a number of contracts, the market is tough. I mean we don't deny that. We should have to see how things develop. For the time being, we provide a picture, very clear and transparent on what is the situation in terms of contract duration.

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**Nick Green** - *Bernstein - Analyst*

Could you confirm that if -- you said at the beginning of the call that these vessels may need to be -- if they do get to be renewed, it may well be at spot rates. Are you able to confirm that if that did happen that would present a material -- I guess, material cash deviation from your current expectations.

**Stefano Cao** - *Saipem SpA - CEO*

Well, that is a situation we need to be seeing on a case by case vessel. I wouldn't say -- outright I wouldn't use the definition. Bear in mind that one or certainly one of the outcome of the crisis is that we are completely reviewing the cost or action structure for operating those vessels and we are bringing them obviously towards a much more effective -- much lower level, which indeed is something which we offer our clients. So on one side, the market remains tough, on the other side, obviously we have to do our part of the work in reducing the cost as much as we can.

**Operator**

As there are no further questions, I would like to turn the call back to the speaker for any additional or closing remarks.

**Stefano Cao** - *Saipem SpA - CEO*

I think we have no other remarks. Thank you very much all for the participation and talk to you next time together with my colleagues.

**Operator**

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

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