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SPM.MI - Q3 2017 Saipem SpA Earnings Call

EVENT DATE/TIME: OCTOBER 24, 2017 / 7:00AM GMT

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PRESENTATION

Operator

Good day, and welcome to the Saipem Third Quarter 2017 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 S.p.A. - CEO and Non Independent Director*

Good morning, ladies and gentlemen. Welcome to our 2017 third quarter result presentation. I'm here today with Giulio Bozzini, our CFSO, to discuss our recent and full year respective performance as well as to provide you with our operational and commercial update.

Starting with our operational performance. I'm glad to say that the group has performed in line with expectations, supported by the effective implementation of our new divisional organization. Over the first 9 months of 2017, we delivered a good set of results due to our strong focus on project execution, continued efforts to improve efficiency, reduce cost, control capital expenditure and manage working capital. At group level, EBITDA margins improved in Q3 versus the previous 2 quarters. The cash generated during the quarter delivered net debt reduction. And our net financial position is now better than at 2016 year-end.

Notwithstanding signs of improving sentiment within the oil and gas industry, in our view, the market environment remained challenging in the short term. In this context, the most competitive contractors will be better positioned to secure upcoming commercial opportunities.

Our contract backlog increased during the third quarter by EUR 400 million to above EUR 12 billion due to some EUR 2.6 billion in new orders awarded. These were in line with our near-term expectation and represent a book-to-bill ratio in the quarter of 115%. Furthermore, I'm encouraged that significant new awards will materialize in the near term, especially in the E&C Onshore division, and I will come back to this shortly.

In the third quarter, we have made good progress with our efficient initiatives. Implementation of the redundancies program announced under the Fit for the Future 2.0 project and enhanced during the second quarter are on track. In addition, the heads of our divisions are working hard on specific identified initiatives aimed at further improving the efficiency and effectiveness of our organization and of our processes. This will deliver additional benefits to our cost base on which we'll update you in early 2018.

We believe these actions, taken together with our rigorous fleet management, will boost our competitiveness in the industry, positioning us to benefit from a future up-cycle. We are succeeding in keeping capital expenditure under control. Our CapEx guidance for full year 2017 is set now to about EUR 300 million from below EUR 400 million previously. And we have lowered our end-of-year net debt target to EUR 1.13 billion from EUR 1.4 billion. All other debt guidance remains unchanged.

Before moving to our broader operational and commercial update, I will now hand you over to Giulio to discuss in more detail our 9-month results. Giulio?

Giulio Bozzini - *Saipem S.p.A. - Chief Financial and Strategy Officer*

Thanks, Stefano, and good morning to all of you. As in the second quarter, divisional performances are reported in line with the new organizational structure. As a reminder, floated activities previously part of the E&C Offshore, are now included within the E&C Onshore division. We continue to provide a separate set of floated results in order to allow an easier transition towards new numbers. The new E&C Onshore division corresponds to the sum of floaters and the E&C Onshore.

9-months revenues decreased by 13% versus 9 months 2016 due to lower activity in all businesses except for E&C Onshore.

Turning to profitability. This slide refers to adjusted figures, whereas reported results will be commented in the next slide. Overall, EBITDA margin continues to be robust. E&C Offshore margins were in line with the same period last year despite lower activity as a result of good operational efficiency and lower idleness. E&C Onshore margins were slightly higher than the first 9 months of 2016, demonstrating a cautious recovery trend.

Floaters margins continue to be penalized by the count of projects, offsetting positive contributions from other projects. Drilling offshore margins were extremely resilient despite lower activity. Results are still partially backed by long-term contract negotiated in a significantly better market environment. As rates are renegotiated, they will align to current market conditions. As already anticipated, idleness levels are increasing in second half '17 due to Scarabeo 5 from third quarter and Scarabeo 8 from fourth quarter. Drilling onshore margins continue to be penalized by depressed South American activity and by startup cost in Kuwait and Argentina.

9 months '17 reported results included the same special items mentioned in the first half 2017 that is right now associated with asset rationalization and impairment test totaling EUR 97 million, unchanged versus first half 2017; tax settlement totaling EUR 79 million, unchanged versus first half 2017; provision for redundancy totaling EUR 30 million, net of tax. Consistent with the above, our 9-month 2017 adjusted profit is EUR 151 million with a reported loss of EUR 57 million.

Net debt at the end of September 2017 amounted to EUR 1.35 billion, decreasing for EUR 1.5 billion recorded at the end of June 2017. As previously anticipated and commented, 2017 net debt evolution was affected by nonrecurring outflows, distribution of cash associated with project joint ventures and tax settlement of around EUR 250 million in the first quarter 2017 and EUR 90 million in the second quarter 2017. Overall, the cash flow generated in 9 months more than doubled CapEx, which continues to be optimized and is now forecast to be around EUR 300 million at year-end. Working capital dynamics was broadly in line with our expectations. Taking of that into consideration and assuming working capital trend does not deteriorate, we have lowered our net debt guidance for 2017 to around EUR 1.3 billion.

This slide summarize our financial profile as at 30th September 2017, characterized by an average debt maturity of 3.7 years, no significant amounts to be reimbursed in 2017, 2018 maturities substantially covered by the undrawn export facilities guaranteed by GIEK and by Atradius, available excess cash amounting to EUR 1.2 billion versus EUR 0.9 billion at the end of 2016, a committed revolving credit facility of EUR 1.5 billion expiring end of 2020 as well as a few uncommitted credit lines for treasury purposes.

I now leave the floor to Stefano to cover the business update.

Stefano Cao - *Saipem S.p.A. - CEO and Non Independent Director*

Thanks, Giulio. Let's now move to our business update section.

Back in April, we provide you with highlights on some of our main ongoing projects. The first slide illustrates a number of initiatives currently under reinstitution or recently completed, which are contributing to this year's performance.

Starting with the Onshore E&C division. In Saudi Arabia, we are executing, among the other projects in the region, 2 EPC packages associated with the Jazan gasification program, the largest gasifier-based power facility in the world. The scope of work includes a gasification plant, Package 1; and the sulfur recovery facility, Package 2. The project began in mid-2014, and as of today, more than 50% of construction activities have been completed, with some 13,000 people mobilized at site and around 50 million work man hour.

In Turkey, we are building the Zohr refinery for our client SOCAR in joint venture with Tecnicas Reunidas, GS Engineering and Construction and Itochu. The design will allow different types of crude oil to be processed with an overall capacity of 10 million ton per year and about 1.6 million cubic meters of storage capacity through 63 tanks.

In the floater business, work on Kaombo is underway, and we have now put in place all the actions needed to ensure the target timetables are met. In August, all activities at Karimun were completed, while all works continue in Singapore.

Looking now at the Caspian region. The expansion of the South Caucasus pipeline, known as SCPX pipeline, is under construction for the South Caucasus Company, a consortium led by BP. The scope of work involves the laying of a new pipeline across Azerbaijan, and the construction of 2 compressor stations in Georgia, which allow the tripling of gas volume exported to over 20 billion cubic meters per year. The contract is part of Shah Deniz full field Development, within which we also presently executing the BP call of 7 contracts. This was a work to site in 2016 for approximately $1.3 billion.

The scope of work of this initiative includes installation, engineering, project management, transport the installation of subsea infrastructure, pipe laying and operational management of subsea construction vessel. These contracts are the tangible sign of our capability to successfully operate in the region. In addition, for tap in 2018, we will start laying the Trans Adriatic Pipeline, which will carry Shah Deniz gas volumes into Europe.

I would like to say a few words on 2 initiatives in the decommissioning and renewable segments of our Offshore E&C division. In 95 -- 195 days, we completed the preparation phase of the BP Miller platform decommissioning and the removal of the first five topside modules utilizing the Saipem 7000 and the existing accommodation facilities. The remaining 7 topside models and jacket are planned to be removed during second and third quarter 2018. The innovative use of the Saipem 7000 for a lift-and-carry solution will improve efficiency as modules are carried by crane directed to shore for dismantling.

Saipem entered the offshore renewables sector with the installation of 5 fully assembler wind turbine generators onto the floating foundation for the Statoil Hywind project. This operation was a world-first for a vessel to install a wind turbine generator onto a floating structure. This required the use of Saipem's proprietary stability frame, which was developed and fabricated in-house specifically for this innovative lifting arrangement. Although a new market, our ability to engineer and execute challenging marine operation was crucial to help Statoil's Hywind concept that come into fruition. Saipem has successfully gained a foothold in the renewables arena and is due to install 4 offshore substations for [dans] onsea project during second and third quarter 2018.

Moving to Slide 12. Despite early signals of an oil price higher stability and cautious optimism expressed by some players in the industry, uncertainty still characterizes the timing on FIDs by our clients. As a consequence, contractors are expected to continue their cost-cutting and efficiency effort as well as focusing on consideration and alliance opportunities in the foreseeable future.

On the left, countercyclical investment strategy by certain NOCs still give encouragement, especially in selected areas of the downstream market and nonoil-related or OpEx-related segments. In this context, during the third quarter, selected important contracts have been awarded to us in both the E&C Offshore and the E&C Onshore, with an order intake of EUR 2.6 billion and a book-to-bill ratio of 115% in the quarter. As a result, our backlog level now stands at EUR 12.1 billion.

Furthermore, in early October, we announced additional EUR 0.3 billion of new contract, and I'm confident in future material award over the next few months, especially in Onshore E&C, and I'm going to expand on this in a short while. On the other hand, our capacity on the global offshore drilling fleet persist, and day rates, as well as utilization, have not recovered during 2017. This is despite worldwide continued attrition of the oldest assets. Finally, despite the good visibility in Middle East onshore drilling activity, in South America, market remained depressed, severely impacting new awards.

Backlog. Taking into account the first 9-month revenues and the remaining backlog for the current year, we reached a backlog coverage of about 90% against our 2017 revenue target, in line with where we would expect to be at this point of the year. Please note that in order to cover the remaining 2017 revenues target, we also rely on the typical change orders of smaller project, which normally materialize on a recurrent basis in each quarter.

Let me say a few words now about the recent awards, which have enabled us to close the quarter with a significant order intake and improved backlog visibility. Let's start with Offshore E&C. The Zohr ramp-up phase that Saipem has been awarded is worth approximately USD 0.9 billion, and this is both the result of a continuous engagement with our client, Petrobel, and our ability to propose a fast-track solution in line with the first oil target set by the Egyptian government. It is borne out by the outstanding performance of our team during the acceleration of start-up phase. This new scope of work managed through a variation order of the existing contract will enable the connection of 4 additional wells to the initial 6 wells of the accelerated phase. We have already begun work, but the bulk of the construction will occur during the first half of 2018.

Let me also update you on the progress of the start-up phase. Trenchline offshore all have been laid, and pre-commissioning is ongoing. Umbilicals had been installed with Normand Maximus and subsequently commissioned. The connection of subsea field wells is ongoing and is expected to complete by December. Physical progress above 90% is in line with project schedule, which is consistent with the first gas expected around the year-end. We were also awarded new work orders connected to West Hub as previously flagged. The early self-activities required to develop Ochigufo field in Angola have already started and should be primarily executed this year. Installation are expected to be performed by our vessel SBS and by the Normand Maximus. Finally, I'd like to mention the award of the landfall activities connected to the Nord Stream 2 project. While this is a relatively small award, it is a step forward with respect to our relationship with Gazprom.

In Onshore E&C, we experienced a disappointingly slow first half. A number of the near-term opportunities that we were expecting to be sanctioned earlier in the year were delayed, although we are still confident they may soon turn into awards. In August, we announced the award of a sizeable pipeline project in Kuwait for Kuwait Oil Company intended to fit the new refinery project. The Kuwait Oil Company is a well-known clients with whom we have a strong track record operation and the long-lasting relationship. This pipeline project, which is planned to last about 3 years, will enable the transportation of crude oil and gas to the Al-Zour refinery currently under construction for KNPC, for which Saipem has been also awarded the contract to build the storage tanks, the jetty and related facilities for refined products.

Soon after the closing of the third quarter. We also announced new project in the Onshore E&C division. The main one is a nonoil-related project in Chile, the scope of which is to build a water pipeline and 3 pumping stations to supply water to the Spence copper mine located at 1,700 meters above sea level. It is worth noting that this initiative was not mentioned in our near-term first half 2017 E&C opportunity slide. The project was awarded by Caitan S.p. A. joint venture between Mitsui and Tecnicas de Desalinazacion to a consortium between Saipem and Cobra Montajes, a Spanish company specializing in water treatment. As this project was awarded in October, it is not included in our third quarter backlog.

Following awards announced during this quarter, we continued to make good progress in commercial negotiation, and we expect to receive positive news in the near term on a number of additional initiatives as announced with our first half results. In the downstream segment, we have acknowledged the intention of our client DUQM to assign one of the tender packages, Package 3, of its refinery to Saipem in Oman. However, the formal award is conditional on the closing of a financing structure, which will trigger the FID. We are supporting our client in this exercise.

In Saudi Arabia, we expect news regarding the participation and outcome of the Hawiyah e Haradh gas compression project blender. With a reference to the second phase of the Okpai power plant in Nigeria and CEC in Congo, negotiations are still ongoing, but the timing of the award is hard to predict. However, it should be noted that certain initial engineering and procurement activities have already started on both projects on the back of a limited authorization to proceed by the client.

With reference to the recent approval of infrastructure investment by the Italian Ministerial Committee of the second section of the Milan to Verona high-speed train railway project in Italy, we await endorsement by the Carta de Conte committee, which the Italian Court of auditors for the approval of the relevant funding allotment that will allow the subsequent formalization of the contract with our client, RFI Italian railway. Following the award of the work orders connected to the west harbor surf activities, we now expect indication from the client regarding the development of the Kaombo field in Angola.

Turning to our user slide on our drilling fleet commitment, no new contracts were executed during the third quarter. Therefore, the only change to the slide since the first half result presentation refers to Scarabeo 7 for which our clients has extended the standby period. We have also removed from the chart Scarabeo 6 and Perro Negro 3, which are currently in the process of being scrapped. Notwithstanding continued oversupply in the global offshore drilling market, we have seen signs of increased demand and are actively marketing various vessels to secure new commitments and improve our coverage for next year and beyond.

Our current efforts are focused on deploying the Saipem 12000 in order to bridge to the Mozambique campaign plan in 2019. To that end, we are tendering various initiatives in Mediterranean Sea and East Africa.

Modification on the Scarabeo 9 have been completely in line with schedule, enabling it to pass through the Bosphorus. The vessel is now located offshore Romania, preparing to start its drilling services at site before year-end. As mentioned in our last presentation in July, we are still monitoring various other opportunities with other clients to leverage our presence in the region.

Scarabeo 8 has recently completed the last well on the Eni contract and is currently demobilized. They're mobilizing to its well stack destination to await the outcome on negotiation we are entertaining with clients for new initiatives in the North Sea, both short and long term. The gas in Perro Negro 8 are currently idle. We are actively marketing the vessel for possible long-term contract in the Emirates and Saudi Arabia.

Moving to the onshore drilling. The weighted average utilization rate of our rig fleet was broadly stable since the first quarter at 58%. In terms of our portfolio mix, while the Middle East continues to provide stability and demand remains strong, the situation in Latin America remains very difficult. In this context, we are specifically addressing actions to further reduce the cost base in the region.

We see some prospect in the Caspian and Latin American particularly Ecuador, Colombia and Argentina in the near term. As you probably heard recently, the High Value Services division, established with the company reorganization launch in May of this year, has taken on its definitive name, XSIGHT by Saipem. The beginning of innovative journey for Saipem in the oil and gas industry in particular and also in the broader energy industry. XSIGHT aims to be a solution provider and accelerator for our client to implement their needs to innovative solution and innovative approach to projects. The XSIGHT division enters the market with an independent, streamline and flexible organizational structure and the distinct commercial approach for products growing on Saipem's via the 6-year experience acquired with the execution of turnkey contracts.

One of the key distinctive elements is that XSIGHT has embraced the technological and digitalization challenges by focusing on the development of a new collaborative design methodology such as the EXTREMO platform, which will materially change the way we manage our projects, allowing us to deliver new value proposition to our clients. Today, we have onboard around 300 resources, which are ongoing to increase in next month on the basis of the growth of the workload. We are also proud to have already signed contracts with important clients such as Eni, Exxon, BP and Rosneft for strategic development projects, and this is a sign that the proposed business offer is well perceived and competitive.

Let's get to the guidance. With regard to our guidance, as mentioned above, we have reduced our end-of-year target for net debt from EUR 1.4 billion to EUR 1.3 billion. This is a result of a disciplined approach to CapEx. We are now targeting CapEx at around EUR 300 million against the previous guidance of below EUR 400 million for full year 2017 and continued cash flow generation in recent quarter, in line with our expectations. Adjusted net profit is confirmed at approximate EUR 200 million before special items, including for reorganization expenses, the tax claim settlement in assets write-downs as announced in the first half 2017, which in the first 9 months of 2017 amounted to EUR 208 million. All other elements of our guidance remain unchanged.

Finally, to summarize today's presentation. I'm pleased to say that we have delivered a solid operational and financial performance during the third quarter of 2017, with a positive contribution of the savings program and improving operational efficiency being pursued across the group. I believe that certain near-term commercial opportunities will translate into better visibility of future revenues due to our presence across the entire oil and gas value chain as well as in nonoil-related activities. Our divisions are working on specific initiatives to further adapt to the external environment and position the company to take advantage of commercial opportunity. As I just said, we have reduced our net debt guidance.

In this context, we look possibly to the future, ready in Saipem for the expected future industry recovery.

With that, I will now be pleased to take your questions. Thank you very much for your time.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We will now take our first question from Fiona Maclean of Merrill Lynch.

Fiona Margaret Maclean - *BofA Merrill Lynch, Research Division - European Oil Services Analyst*

Yes. It's Fiona Maclean from Merrill Lynch. I have 2 questions. They're both related to 2018. First of all, could you talk about your outlook in terms of the backlog and how you expect that to build over the next 12 to 18 months? And then secondly, in terms of realization, what should we be thinking about in terms of margin progression through 2018?

Stefano Cao - *Saipem S.p.A. - CEO and Non Independent Director*

Okay. First of all, I think it's worth mentioning that at this stage, we don't provide indication on the forward result, in particular, for 2018. This will come in February, March next year. However, I think you referred to backlog, and I think we have provided a number of initiatives with which on top of the projects and opportunities which we have already seized, we consider as very positive opportunities for us to improve the backlog. I think as far as the second question, the realization, this is, I think, it goes under the comment I said we will talk about in February, March next year.

Fiona Margaret Maclean - *BofA Merrill Lynch, Research Division - European Oil Services Analyst*

Okay. Just one last question. Could you talk about the pricing environment in terms of projects that you're bidding on today versus the pricing environment we had 12 months ago?

Stefano Cao - *Saipem S.p.A. - CEO and Non Independent Director*

It depends on where you set the reference. You said a few months ago, a few months ago, we don't see major difference as far as the pricing environment is very challenging. The -- if you compare to the cost of structure of our industry a year ago or more, obviously, there, the pricing environment is much tougher. But I think it is important to put things in perspective and consider that we have undergone, we have undergone at Saipem. But I believe that this is the same for the rest of the industry, a number of strong action in order to streamline the cost structure to improve the processes and to change the approach to business, also in terms of new technology, new proposition which we may offer to our clients. So the pricing environment is very challenging, but I think it's up to us as a company to come forward with the best possible proposition in terms of the cost structure and technology made available.

Operator

Maria-Laura Adurno of Goldman Sachs, please go ahead.

Maria-Laura Adurno - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

This is Maria-Laura. Two questions. The first one with respect to your offering and see how they already commented at the time of the 1H results, which were -- that you expected a slight decline quarter-on-quarter in the EBITDA margins. I was just wondering if you could maybe provide us some color around what's your expectations are for 4Q EBITDA margins in Offshore E&C? And then the second question, coming back to the -- to the floaters segment and the performance on the Kaombo project, clearly, a very strong quarter on that front. But just wondering whether you expect any -- whether from here you've derisked the project and we shouldn't expect any type of incremental cost, which could add back some pressure at the margin front in that segment?

Giulio Bozzini - *Saipem S.p.A. - Chief Financial and Strategy Officer*

Okay. So with respect to the expectation for the E&C Offshore margin, you are right, in the third quarter, this was a slight decrease, but this was mainly due to some reasons which were affecting the quarter. We are expecting the fourth quarter and the full year to be reasonably stable. Instead, for the floaters, the better performance of the third quarter was mainly linked to the end of some other contracts than the Kaombo, which basically offset additional deteriorations in the Kaombo project. So I would not take into consideration this as an indication for the future. As we said in the past that we expect the floaters margin to be substantially neutral, which means that the current loss-making project of Kaombo, after considering the withholding tax, will be substantially offset by the positive contribution of the other projects.

Operator

Michael Rae of Redburn please go ahead.

Michael Rae - *Redburn (Europe) Limited, Research Division - Research Analyst*

The first is just onshore E&C. Can you just give us a bit of steer on the profitably of contracts in the new world So are the projects you're bidding today consistent with the margin that you're currently reporting in onshore? And then the second question, can you talk about any kind of recent changed behavior in terms of customers in the offshore? Do you think customers are more willing to award work or they're feeling more comfortable by the outlook in the oil price relative to 3 or 9 months ago?

Stefano Cao - *Saipem S.p.A. - CEO and Non Independent Director*

In terms of the profitability, near-term of the offshore, I think I already made the comment which I would address once again. Certainly, if you compare with the previous world, obviously, the margins are much lower. But I think we have to react to that. And we are certainly doing all we need to do in terms of streamlining the organization in terms of changing of the approach in terms of technological contribution. So yes, potentially, the profitability is lower, but I think it's up to us to recover profitability, relying on our capabilities. In terms of -- I think it was the -- second question was going forward...

Giulio Bozzini - *Saipem S.p.A. - Chief Financial and Strategy Officer*

(inaudible)

Stefano Cao - *Saipem S.p.A. - CEO and Non Independent Director*

If you see a sign of oil recovery for the 2 markets, offshore and onshore. As far as offshore, there are, I would say, very weak signs of recovery. We don't see yet, in the Offshore E&C, a real signal of FIDs being accelerated. I think I already made a comment earlier on in the various conversations saying that we are quite interested in looking of what is going to be the announcement, which will come out from the oil companies in terms of new CapEx. And this obviously will come beginning of next year. And I think the expectation would be that CapEx should show signs of new increases. And that will be, for us, an important indicator. As far as the onshore, the onshore is in a way countercyclical -- largely countercyclical as a business, so we see quite an important wave of opportunities, in particular, in certain areas and I am referring in particular to the Middle East.

Operator

Michael Alsford, Citi.

Michael J Alsford - *Citigroup Inc, Research Division - Director*

I just have got a couple, please. Just firstly, you're positive to see the net debt guidance improved, but obviously, that comes with a bit of reduction in CapEx. And I'm just wondered if you could talk a little bit about whether you see that level of CapEx as a sustainable level going forward? And the reason I ask is because you've seen a number of your competitors looking to maybe add to their vessel fleet for the opportunity set that they see in front of them. So I'm just wondering whether you thought that your vessel fleet has got the capabilities that you need to compete or whether you thought you need to do further work in that area? And then just secondly, on the XSIGHT division. I just wondered if you can give a little bit more color on the contracts that you've been awarded with the likes of Eni, BP and Exxon that you mentioned, as to what type of contracts they are and what kind of added value you're offering to those customers?

Giulio Bozzini - *Saipem S.p.A. - Chief Financial and Strategy Officer*

Yes. The first part of the first question was relevant to our reduction in the guidance for the CapEx. Yes, basically, this is relevant to the fact that the maintenance and replacement CapEx also after the optimization of the vessel that we have done in the past and also taken into consideration the fact that the cost are currently decreasing is probably to be revised downwards reasonably significant than it was in the past. So probably, EUR 300 million is an amount which could be used probably also for the future in terms of normalized type of CapEx. Then with respect to additional possibility, I leave to Stefano.

Stefano Cao - *Saipem S.p.A. - CEO and Non Independent Director*

Yes. In terms of additional increase of capability allocation of CapEx, you referred to the message which have been given by some competitors of ours. This is obviously something which we are looking at. We are in the process of developing the next full year plan, which is the opportunity for us to review the strategic positioning of our company as well. So in that respect, we'll make up our mind, and we'll see whether to allocate, whether it will be justified in allocation of capital to these, addition to these new CapEx. In terms of XSIGHT, the color on the new contract, which have been awarded, these are mainly only conceptual end on the front-end engineering segment. This is a very high value sort of engineering, which you need to have within your capabilities. And what we focus, fully dedicated, to the execution of the large EPC contract has now been partially attracted and now located to the specific field of activities, which I would say in general terms was not an area which we were actively pursuing. So I think twofold, the end opportunity to enter into an area of a conceptual and FEED engineering in order to utilize best the very knowledgeable resources which we have at the moment at the second time to enter into a segment which was not part of our activity, which is the early segment where the concept of the value development are defined by the oil companies. And obviously, we view these as an additional collection of information, which should position them at a later stage better our EPC capabilities when it comes to tendering for the execution of those projects.

Operator

(Operator Instructions) The next question comes from Robert Pulleyn of Morgan Stanley.

Robert John Pulleyn - *Morgan Stanley, Research Division - Analyst*

May I ask a bigger-picture question? There's been a lot of consolidation in the industry, which is ongoing. It feels like the structure is changing with some combinations between the service equipment and installation business models. You yourselves have an alliance with Aker Solutions. You also have a drilling business, which we're seeing a lot of consolidation and rationalization of supply. Obviously, the development of the engineering business is a strategic change. How do you see this evolving structure of the business? Where does it end? And how does Saipem position itself to benefit from these moves?

Stefano Cao - *Saipem S.p.A. - CEO and Non Independent Director*

As far as, you refer yourself quiet rightfully, to the alliance, which we have established with Aker Solutions, obviously, the alliance was meant to cover what has been defined as the vertical integration process, which I think can be identified by ourselves by -- through the FMC and Technip full merger. Technip FMC, they decided to go all the way to a full merger. I think our view is that vertical integration is certainly one solution. It needs to be also considered in parallel with other possible integration such as, for instance, horizontal integration, which would imply the improved capabilities in terms of range of services in terms of the wideness of the services which can be provided. I think this is a process which has indeed started. We see, of course, other form of consolidation among the service company. It is a situation to closely monitor. I think this is what we are exactly doing. It is, in my experience, it is quite normal that as a result of deeper long cries like the one we are still in at the moment, there are changes in the structure in the market. And I believe it's essential that we monitor all these changes, and then we make up our mind and we decide what is the best way forward for Saipem. You were referring also to -- you were referring to drilling?

Robert John Pulleyn - *Morgan Stanley, Research Division - Analyst*

Yes, please.

Stefano Cao - *Saipem S.p.A. - CEO and Non Independent Director*

Yes. No, there is a quite a way of consolidation position in drilling. I think the comment in that respect is obviously, it is important to monitor the evolution of the situation. Bear in mind that at Saipem we have not a full-fledged offshore drilling contractor. We have a fewer units, in particular in a range which is the top range of the capabilities. We are doing our in-house exercise of getting rid of the older assets and concentrate on the fewer assets of which remains competitive in the future environment. And in general terms, of course, in parallel, we have also to closely follow what the market -- what is the evolution of the offshore drilling market.

Robert John Pulleyn - *Morgan Stanley, Research Division - Analyst*

And just one quick housekeeping question on Kaombo. I think to an earlier question, you mentioned an older project closing out help the floaters margin and that Kaombo had further deteriorated. Could you give a little bit of color as to why it's still deteriorating, when you'll have clarity on the final bill and these kinds of aspects?

Stefano Cao - *Saipem S.p.A. - CEO and Non Independent Director*

Now, look, Kaombo, Kaombo is, of course, at the moment the project which is attracting the most of the management time. We have set the number of targets, obviously together with our clients. We have established a path forward. And at the moment, we are fairly focused and concentrated on the achievement of these targets. I think this is -- this has been, in the last few quarters, the priority in this continue to remain the priority. Any other conversation or discussion which is related on the review of the reason why we have ended up with such a difficult situation is for the time being left aside. So at the moment, the priority is on delivery. And we reckon that we have identified what is going to be the way forward for the remaining part of the project, and this is what we have included in our account.

Operator

The next question comes from Mark Wilson of Jefferies.

Mark Wilson - *Jefferies LLC, Research Division - Oil and Gas Equity Analyst*

Most of my broader questions have been asked. So just to follow-on maybe on that Kaombo point. Can you actually speak to sail away dates for the FPSOs? And then also you mentioned the financing for Duqm. Is that something you look for in 2017? Or is it a more 2018 event?

Stefano Cao - *Saipem S.p.A. - CEO and Non Independent Director*

Sail away date, I think it is something which ought to be up to our clients. We are not going to cover any specific time or date. As far as the Duqm, I don't know whether we have enough data. The Duqm, the anticipation is exactly as we have presented today. Obviously, we are more than pleased that we have received the indication of being awarded the contract. The financing is a project which we do not control. We can only provide all the support which we can, in particular with the Italian ECA, which we are providing. And obviously, we look forward to get there and go ahead as soon as possible. I don't think this is for coming in the immediate future.

Operator

Alessandro Pozzi of Mediobanca, please go ahead.

Alessandro Pozzi

Thank you for taking my two questions. First one, I just wanted to go back to consolidation, and I was wondering if you are still open in selling a part of assets of the company at the moment and potentially whether (inaudible) disposal could be any closer at this point in time? And second question now on Gazprom. If you maybe give us a quick update on the arbitration.

Stefano Cao - *Saipem S.p.A. - CEO and Non Independent Director*

Okay. In terms of consolidation, you know that the question that you name it, you flag it, that's consolidation but then if, I understand right, the question was if we are selling certain pieces. And I think the answer is that we have started a process of rationalization of the company structure. And as you've seen, we have made a number of sales in terms of engineering of offices. Lately, we have, not us, but with respect by announced that they're negotiating for the -- for the possible sale of the maritime works activities, which we don't consider core to our business. So we are more than willing to sell. So these are the rationalizations which are ongoing. Then as far as other operation, we are moving on with our company with the restructuring of the company. We have divisionalized the company where the purpose is to streamline the operation, to focus, and to achieve the utmost in terms of cost cutting and efficiency. At the same time, we're creating the divisions, we are preparing ourselves for a possible portfolio activities, which obviously need to be considered and analyzed in detail, which, of course, may consider also combination with our partners, but also for the purpose of making Saipem stronger with in the new up cycle. Then the second question?

Giulio Bozzini - *Saipem S.p.A. - Chief Financial and Strategy Officer*

(inaudible)

Stefano Cao - *Saipem S.p.A. - CEO and Non Independent Director*

In terms of the arbitrage -- arbitration with Gazprom, I think you heard by the comment about the contract, which we have signed with Nord Stream which is 100% Gazprom, which we consider a positive sign. The relationship with Russian, all the Russian companies is quite good. We have announced last week a cooperation agreement, an MOU for a cooperation agreement with Rosneft. We are currently operating with Rosneft in drilling in the Black Sea, Rosneft and Eni. We have signed with our excise conceptual engineering contract with Rosneft. So all in all, the relationship is quite good in terms of the technical evolution of the arbitration. This is moving on. Probably what was expected to be a formal outcome by mid of next year is going to move to the end of next year. But having said that, I think the message, which we continue sending across, is whenever possible whenever seen fit by the 2 parties, I think we can sit with Gazprom and find an amicable resolution to the -- in closing the arbitration.

Alessandro Pozzi

Have you've seen any sign from Gazprom on that?

Stefano Cao - *Saipem S.p.A. - CEO and Non Independent Director*

No, I said that the sign are those I referred to earlier on in terms of the Nord Stream contract to be awarded to us. And we'll see whether there are other opportunities, which may become contract going forward. So these are -- for the time being, these are the signs which we receive, which we consider still sort of weak signs, but still going in the right direction.

Operator

There are no further questions in the queue at this time.

Stefano Cao - *Saipem S.p.A. - CEO and Non Independent Director*

Okay, thank you very much for your participation and your attention today.

Operator

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