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PRESENTATION

Operator

Good day and welcome to the Saipem Q1 2015 results conference call. Today's conference is being recorded. At this time I would like to turn the conference over to Mr. Umberto Vergine, CEO. Please go ahead, sir.

Umberto Vergine - *Saipem S.p.A. - CEO and Director*

Thank you. Good afternoon and welcome to our presentation on our Q1 consolidated result. In the context of a challenging oil price environment, Saipem's operational performance in Q1 2015 was on track with our expectations, supported by the consistent contribution from drilling and further progress on recently awarded key E&C project. The execution on legacy project is progressing in line with project delivery programs. This drove EBIT of EUR159 million, which was an improvement of 25% year on year.

Net debt in the quarter was EUR5.2 billion, including a negative net cash impact of EUR381 million, which relates to ForEx hedging derivatives. Before this impact, net debt was EUR4.8 billion, which was a decrease of approximately EUR800 million on a yearly basis and EUR388 million higher than at the end of 2014.

In broad terms, this quarterly ForEx impact comes from the running over of maturing derivatives contract, which hedge the long-term dollar exposure of certain legal project. This is a temporary cash impact and will be fully recovered over the life of the project, subject to such hedging.

Cash flow in the quarter was EUR269 million,14% better than first-quarter 2014, and a demonstration of our continued focus on operational improvement, confirming business recovery.

Commercial in the quarter saw lower levels of contract awards, as expected in light of the current industry environment. Saipem is protected by its solid backlog, which is still stands above EUR25 billion. The backlog is diversified, with relatively low exposure to business segments that require high oil price to break even. It also includes the South Stream project, which remains suspended. We continue to have regular dialogue with the client toward the possible execution of the Turkish Stream and are standby, ready to resume operation at any point.

Moreover, the impact of the present market scenario on drilling is low if compared to our competitors. Most of our fleet is currently contracted. Some negotiations or extensions in new contracts or receivable assets have been successfully concluded since the end of the first quarter, with overall contained rates of reduction for Q1 across the fleet.

We are pursuing new E&C contract opportunities over the rest of the year, which we believe will be focused on areas like the Middle East, West and East Africa, and the Americas. At all times we will maintain our strict commercial discipline, pursuing only contracts which offer healthy margins.

Let's look now at our financial results on slide 4. In the first quarter of 2015, revenues amounted to EUR3 billion, an increase of 4.5% compared to the first quarter of 2014. This was driven primarily by the improvement in E&C offshore, up 16%, and in the drilling segment, which was supported by good offshore fleet utilization and appreciation of the dollar. Meanwhile, E&C offshore business revenues declined 19% as a result of the progressive completion of legacy projects and in line with our more selective commercial approach applied since 2013 to onshore initiatives.

Group EBIT for the quarter was EUR159 million, 25% higher than the first quarter of 2014, with an overall margin of [5.3%], up from 4.4% in the same period last year. This improvement has two components -- first, the DSV business, where offshore maintained steady average margin compared to Q1 2014, with new floater project contributing in line with their margin expectations.

In addition, both offshore and onshore improved as a result of lower impact from legacy projects. Looking forward, we expect margins in E&C to be even more supported by recently awarded initiatives.

Second, continuing stable margin in drilling, where we are seeing the limited impact of spot delivery transactions on our ongoing commitment. Indeed, the overall drilling margin was stable year on year at 31% -- which is not only encouraging given the difficult context in the wider oil market, but confirming the resilience of our business model, as indicated in previous communications.

In conclusion, the continuing improvement in operating profitability resulted in net income growing 26% year on year to EUR77 million. Work includes (technical difficulty) left to right. Let's analyze net debt evolution.

You can see that cash flow totaled EUR269 million, a 14% year-on-year increase, and enough to offset the EUR150 million CapEx and thus a portion of the seasonal working capital increase. This negative working capital contribution equal to EUR435 million net of ForEx effect was mainly connected to an increase of net receivables and work in progress. Furthermore, I also confirm that the overall amount of pending revenues remains stable at EUR1.1 million (sic - see annual report and last call, EUR1.1 billion) as of the end of first quarter at the end of 2014.

As a result, before the impact of ForEx, net debt reached EUR4.8 billion. As expected, this represents an increase from the 2014 year-end of EUR288 million, but a decrease of EUR788 million year on year, confirming our persistent drive to reduce debt organically.

The recent sharp appreciation of the US dollar to euro resulted in a significant cash outflow in the quarter of EUR381 million, linked to the settlement of our maturing derivative hedging contracts. We will explain this in more detail in the next slide. In conclusion, at the end of March net debt stood at EUR5.2 billion, improving by EUR417 million year on year on year, but increasing EUR769 million in the quarter.

Turning to slide 6, I will ask Alberto to provide you with more details on the reasons behind this ForEx cash impact.

Alberto Chiarini - *Saipem S.p.A. - Chief Financial and Compliance Officer*

Thanks, Umberto. That's the first time we are showing a significant cash impact coming from our hedging in the activity. And this is due to two coincidental and simultaneous events.

The first one was a significant amount of hedging derivative coming to maturity in advance we had expected to underlying hedged cash flows. Such derivatives were traded at last year's prevailing rates upon the award of megaprojects such as Kaombo and Jazan, characterized by large multi-annual exposures.

The second event was the sharp acceleration of US dollar appreciation during the first quarter of 2015 that magnified the phenomenon. In accordance with our hedging policy, long-term exposures in non-euro currencies are neutralized through hedging derivatives, with contracts only not exceeding 12 months, and therefore maturing (inaudible) hedged project cash flow.

This means that such hedging operations require subsequent rolling over in order to match with the relevant hedged exposures. The rolling over of derivatives in place of mark-to-market cash settlements, which under the condition encountered in this quarter produced a cash outflow of EUR381 million. This cash impact is simply a temporary issue and will be fully recovered during the life of the project, subject to hedging, as appreciated US dollar cash flows from operation will offset such negative impacts.

Based on the current prevailing market rates, we expect the next cash impact of the hedging activity to increase the net debt by [EUR520] million at the year-end, for a notable amount of approximately EUR500 million in 2015. From a P&L perspective I confirm that our hedging policy enables us to neutralize all the ForEx impacts at project level through hedging reserves accounted in the mass exiting.

Umberto Vergine - *Saipem S.p.A. - CEO and Director*

Thanks, Alberto. Moving to slide 7, regarding backlog, in the first quarter of the year we had a new order intake of EUR2.399 billion, mainly connected to the award of the Kashagan pipeline contract in Kazakhstan for approximately EUR1.8 billion and also included in the positive impact of change orders in some E&C contract accepted by our client -- although in this respect, as already indicated, recognition operation order is becoming harder in the current market scenario.

It is worth reminding you that the E&C offshore backlog -- that still includes the South Stream contract, which, as you know, is presently operationally suspended. We have an and remain in close contact with the client over the possible contract amendment to the Turkish Stream's core, and we are ready to restart operation when we will be required.

We are aware of no major awards in the E&C onshore as a consequence of the current weak market and also reflecting our more selective commercial approach. Some ongoing negotiations in drilling business were positively concluded after Q1 closing, as we highlight later in the presentation.

The backlog remains solid, standing at above EUR21 billion; and, very important, providing resilience as it is well diversified in terms of geographic areas, clients, and business segments. It has a relatively low exposure toward industry sectors which require high oil price to break even and which are therefore exposed to greater risk.

Looking now at the backlog by year of execution on slide 8, we see that 35% will be booked in the current year; 37% in 2016; and the remaining 28% in 2017 and onward. Based on current backlog, revenue coverage for 2015 is above 80% of the high range guidance for the year. Further, this is broadly in line with coverage in Q1 2014 and is showing an improved visibility on the medium-term, thanks to the high level of awards reduced during 2014, mainly in the second quarter, and significantly in the E&C business.

Slide 9 provides you with an update of our drilling activity and positioning -- willing (inaudible) positioning in the current challenging market environment. In offshore drilling, no awards were finalized during the quarter, but we are pleased to announce that during the month of April -- therefore marking the backlog reported on slide 7 -- we successfully extended the TAD contract with Eni by two years and we renegotiated them Scarabeo 6 contract for recovered drilling activities up to the end of 2015 as a result of our commercial efforts with our long-term clients. Daily rates of this contract reflect the impact of the lower oil price on the drilling market, but we are satisfied of the rates we negotiated.

Our Deepwater fleet ongoing commitments are confirmed, although we are seeing pressure for limited future reduction in daily rate -- which, in exchange, we expect to associate with longer contract duration. On our four jack-ups currently mainly operating in the Middle East, ongoing negotiation with our clients are indicated the limited daily rate reduction that we estimated to be around 20% for 2015 and that are renegotiable upwards in case an early price recovery. As part of the excellent results of our commercial effort, we have not seen and do not currently expect to see any early contract termination.

Regarding onshore drilling, our fleet is still expected to have a good level of utilization. We will see a slight reduction, mainly connected to a limited number of contracts expiring throughout the year, which we believe could be hard to commercialize in the current regulated environment.

But we have met some of our clients' CapEx requirements, and we are discussing daily rate reductions. But on average we evaluate these to be below 10%, another good result. Our long-standing relationship, especially with NOCs, is also providing good level, good overall visibility to the business. All these results confirm what I have anticipated. Our drilling business model is providing good resilience to the current drilling service critical downturn.

Slide 10 is an update on the principal E&C projects we are targeting. We have reviewed the slide presented last February, aiming to focus mainly on the projects which we believe will be sanctioned in 2015. Some projects that were previously mentioned have been removed, and according to our understanding they have been or are likely to be shifted to 2016. This includes projects such as TAP pipeline, Scarborough for FLNG, and some of the initiatives in Mozambique.

Despite a more uncertain market environment, which makes it more difficult to predict the pace of tenders, you can see that there are still a good number of project opportunities which should be awarded in 2015. And moreover, we are confident that some will be awarded shortly. These opportunities show a healthy balance in our strategy between onshore and offshore; upstream and downstream; NOCs and IOCs; and also between geographies, in line with the quality mix of our existing backlog.

Moving to slide 12, to conclusion, I confirm the guidance for 2015 provided in February in day I present. When I took on the role in December 2012, the Company was facing significant headwinds. It was under investigation in Algeria and subsequently went through a very tough year in 2013 in which we had to revise our expectations downward, resulting in the announcement of operating losses for the 2013 full-year.

However, 2014 marked the beginning of the recovery. Through a combination of strict commercial discipline, a focus on operational performances, on risk management, and on technological innovation, we reported operating profits for the 2014 full-year. And we expect the Company to strengthen further in 2015.

Of course, in the newer price environment, many challenges remain -- in particular, the pressure on client CapEx on both new and existing projects. In this context I would like to highlight that the Company is committed to implementing a number of efficiency projects under our Road to Excellence program, aimed at supporting operational performances and achieving cost reductions.

In addition, we are focused to continue to reduce our net debt to a level compatible with the OFS sector. This will be driven by our target to profitability and cash flow generation and by improving our working capital. Regarding debt, we recognize that the new impact of the US dollar appreciation on our hedge and derivatives is an additional task, but this is temporary. And it will be recovered during the life of the project, as we previously clarified.

Notwithstanding these challenges, of different nature, I am confident that Saipem is now on a solid and stable footing. And this will allow the Company to resolve ongoing issues and face the current market, improving even more profitability and delivering value.

With that, we are pleased to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Haley Mayers, Barclays Bank.

Haley Mayers - *Barclays Capital - Analyst*

Two very quick questions from me -- first, on the E&C business, in the offshore E&C business, it seems to me like the first quarter had particularly weak margins relative to consensus and stable margins year on year, as you mentioned. But Q4 2014 was hit by a Brazilian one-off. So I'm wondering if -- sorry. Q1 2014 was hit by a Brazilian one-off. So I'm wondering if Q1 2015 had any extraordinaries in there.

Umberto Vergine - *Saipem S.p.A. - CEO and Director*

On last year we had, of course, the impact of the write-offs. That has made the comparison not linear. Moreover --

Alberto Chiarini - *Saipem S.p.A. - Chief Financial and Compliance Officer*

If we talk about offshore in Q1, you have to consider that South Stream in Q1 is in suspension, which -- it means that is not bringing any profit to the Company. And this is one element that is probably the main element that is contributing to this lower margin in respect of last year.

Haley Mayers - *Barclays Capital - Analyst*

Right. So previously you discussed how some of that cost of the utilization will be offset by a cash inflow from the South Stream project, which I believe was announced. So how is that going to feed through into the margins for the rest of the year, then?

Alberto Chiarini - *Saipem S.p.A. - Chief Financial and Compliance Officer*

About South Stream, we clarified that under suspension we have paid for the cost of the two big vessels that are currently in the Black Sea. If the guidance year-end is guidance that is showing low range, which means South Stream will be terminated or will remain suspended, then high range of the guidance is implying that South Stream will turn into Turkish Stream.

Haley Mayers - *Barclays Capital - Analyst*

Right, okay. My next question is about the offshore drilling business. It looked to me like when you gave a utilization update for 2015, for the full-year 2015, quite a bit of the idle time that was announced at 4Q 2014 for the full-year 2015 has now reduced. For example, Scarabeo 4 doesn't look like it has any downtime; whereas previously, it would have had 123 days' downtime.

And similarly, throughout most of the vessels where there is idle time, those numbers have decreased. So I'm just curious as to why that would have happened and what changed over the past quarter that reduced the idle time significantly throughout the fleet.

Umberto Vergine - *Saipem S.p.A. - CEO and Director*

Well, you are talking about rig utilization; right?

Haley Mayers - *Barclays Capital - Analyst*

Yes.

Umberto Vergine - *Saipem S.p.A. - CEO and Director*

Okay. Well, in general, as we say, the situation is still quite dynamic, because we are on negotiation continually with our clients -- on one side, to finalize extension of existing contracts, particularly the one expiring this year; as we said, we had some important success so far -- as well as looking at the longer term, where we discuss possible rate reduction in the final year of the existing contracts, adding in exchange an extension of the contract. But so far the situation continues to be, I would say, quite positive despite all the fears that everybody and also we had in the past month as a possible impact of the oil price reduction.

Haley Mayers - *Barclays Capital - Analyst*

Okay. So if I'm understanding you correctly, it sounds like you made up some utilization in exchange for some day rate negotiations. Is that the right way to think about it?

Umberto Vergine - *Saipem S.p.A. - CEO and Director*

Yes and no. On the short term we have managed to get new contracts with market rates of today. And as we said, not particularly too low, considering the rates that you had.

On the other side, we are looking at buying stability for the future in exchange of possible rate reduction, maybe applied in the following year, not even this year. But this is something that is pretty normal in the fact that when you manage a lot of contracts, you have to project the expected price rates of coming years.

Haley Mayers - *Barclays Capital - Analyst*

Okay, thank you for your time.

Operator

Rob Pulleyn, Morgan Stanley.

Rob Pulleyn - *Morgan Stanley - Analyst*

Couple of questions from myself. Firstly, regarding the net debt guidance, obviously when you gave us full-year results on February 16, the vast majority of the euro-dollar exchange rate move had already happened. And yet the guidance at that time was the net debt of less than $4 billion. So the question is: why wasn't it evident at the time there would be this FX move on the balance sheet, which now gives a slightly different guidance number regarding that debt? If we could take that one first, that would be great.

Alberto Chiarini - *Saipem S.p.A. - Chief Financial and Compliance Officer*

You are right. When we gave the guidance, we didn't make any estimate of this impact. And the reason was that it was a very volatile situation, and the hedging -- the mark-to-market value is a mark-to-market of the rate of the day, which means that we were not able to anticipate a number.

But we knew that there was an issue. And now that we have the number, and we are also forecasting the year-end impact in EUR500 million, as long as the exchange rate remains similar to the one that we have now, 1.07.

Umberto Vergine - *Saipem S.p.A. - CEO and Director*

But you recall that when we presented guidance, we indicated the phenomenon -- only we didn't quantify it.

Rob Pulleyn - *Morgan Stanley - Analyst*

That's fair enough, then. And the second question -- really links into that -- is that within the working capital outflow, excluding the FX side, there is over EUR400 million outflow of true working capital. May I ask what that relates to? Is this just business as normal, which is volatile? Or has there been a build in receivables there?

Alberto Chiarini - *Saipem S.p.A. - Chief Financial and Compliance Officer*

No, this is business as normal. As you know, it's very seasonal. I think Saipem has always shown in the first quarter a worsening of the working capital. And this is due mainly to the fact at year-end there is a maximum effort in terms of trying to get most of the money out of the clients as well as, let's say, reducing a bit the base of payments to contractors.

And if you look at last year only working capital without any FX impact, we had EUR800 million worsening of working capital. So you have to view it in this comp.

Rob Pulleyn - *Morgan Stanley - Analyst*

Okay, that's fair enough, then. And just the last question for myself before I hand it over: the idle costs were quite high in the first quarter versus what I was expecting. May I ask what that related to?

Alberto Chiarini - *Saipem S.p.A. - Chief Financial and Compliance Officer*

Sorry? Can you repeat, please?

Rob Pulleyn - *Morgan Stanley - Analyst*

The idle costs of EUR43 million were seemingly quite high. I was just wondering what that related to.

Umberto Vergine - *Saipem S.p.A. - CEO and Director*

This is not particularly higher than what we had in the last month of last year. In general, we have a number of idleness costs on a yearly basis that is around EUR150 million. Then, of course, could have a variation around that number. So we are pretty much in the range.

Alberto Chiarini - *Saipem S.p.A. - Chief Financial and Compliance Officer*

Yes.

Rob Pulleyn - *Morgan Stanley - Analyst*

Okay. Thanks for your answers. I will hand it over.

Operator

Peter Testa from One Investments.

Peter Testa - *One Investments - Analyst*

I was wondering, just on the foreign exchange, if you could help us understand how we should regard the foreign-exchange impact on the backlog and the P&L in the quarter, please.

Alberto Chiarini - *Saipem S.p.A. - Chief Financial and Compliance Officer*

Yes. On the backlog and the P&L there is actually no impact. It's only financial, because P&L -- the whole purpose of the hedging policy that we have also -- we have applied historically in this item is to neutralize any P&L impact, so there would not be any P&L impact nor any backlog impact because of these FX. And also the cash impact that we are showing this quarter will be recorded by the time those megaprojects like Kaombo and Jazan will produce cash flow. So it will be --

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Peter Testa - *One Investments - Analyst*

They're neutral. Okay. And on the cash flow I was wondering if you could give us some update, maybe, on the legacy contract cash flow, and maybe why you added performance -- and also on the degree to which the South Stream idle time payments are being received as cash or as part of the working capital movement.

Umberto Vergine - *Saipem S.p.A. - CEO and Director*

On South Stream we are receiving a number of payments from the client, and this is what we are receive during the first quarter. Some include previous activity; some include the first part of the standby rates. Overall in the quarter we have received about EUR300 million of payments. The other question was --? The legacy.

Alberto Chiarini - *Saipem S.p.A. - Chief Financial and Compliance Officer*

On the legacy contracts, the cash flow is on the -- let's say, activity ongoing there are no issues in terms of cash flow or working capital. As we said before, on the pending revenues the situation is almost the same as the closing of the year. So we didn't have an improvement there, but we are still negotiating with our clients. And we hope we will show a better situation during the year.

Peter Testa - *One Investments - Analyst*

Okay. But on the cash flow, you had highlighted in the Q4 call that there had been a notable collection in the quarter. I was wondering whether you could give any sense that -- maybe including that -- what the change in outstanding cash balance was on the legacy contracts.

Alberto Chiarini - *Saipem S.p.A. - Chief Financial and Compliance Officer*

Yes, that's correct, because we sorted out some of the pending revenues. Yes.

Peter Testa - *One Investments - Analyst*

Okay. Is there a number for that, please?

Alberto Chiarini - *Saipem S.p.A. - Chief Financial and Compliance Officer*

In the fourth quarter, EUR200 million, yes.

Peter Testa - *One Investments - Analyst*

In the first quarter -- so there was some collected after year-end. You had mentioned something you collected in January, for example.

Alberto Chiarini - *Saipem S.p.A. - Chief Financial and Compliance Officer*

In January. Okay, in January we had payments not really on the legacy, but we had a payment from PDVSA for -- two payments from PDVSA: one relating to Fertinitro and one related to --

Umberto Vergine - *Saipem S.p.A. - CEO and Director*

Outstanding invoices.

Alberto Chiarini - *Saipem S.p.A. - Chief Financial and Compliance Officer*

-- the outstanding invoices on the drilling activity. That was the main cash inflow on, let's say, not pending revenues but pending issues.

Peter Testa - *One Investments - Analyst*

Okay. Thanks for that. Fine. And on the legacy contracts, can you give a performance update just in where you are standing versus client acceptance, or other progress through the contract fees, or any hurdle rates that we should look for for Q2?

Umberto Vergine - *Saipem S.p.A. - CEO and Director*

Well, we are progressing the execution of this project. We are basically about 84% completion on the BS-171 in Kuwait; 98% on the Shark projects. Gladstone is completed; M&A was completed already the year before. We are now continuing the discussion to complete the acceptance of the change order.

Of course, as a result of the major settlement that we achieved basically in December last year, during this first month we haven't seen a continuity of that because certain issues had been sorted out; some other now are under discussion. So it's part of the normal cycle of negotiation.

But the negotiation proceed, I will say, in quite a positive general mood, even though the current scenario creates, of course, much more tension in the clients' spending. We expect to continue the process that we indicated. As these projects are completed, we close the negotiation and we close the settlement.

Peter Testa - *One Investments - Analyst*

Thank you. And very last question, please -- on slide 10, where you give the update on E&C business opportunities, can you give us any sense as to which of these contracts was publicly known that the FEED studies have been completed and accepted by the client?

Umberto Vergine - *Saipem S.p.A. - CEO and Director*

I didn't understand you. Do you mind to repeat?

Peter Testa - *One Investments - Analyst*

Where the FEED, F-E-E-D, studies have been completed and accepted by the client -- i.e., the client has gone through the recosting exercise; has had a FEED study done, which they accept; and you are at that stage, as opposed to conversations which are common these days of trying to get costs down and recosting projects.

Umberto Vergine - *Saipem S.p.A. - CEO and Director*

I have to say this one that we present here as a target project are based on the tenders, as the tenders have been issued and on which we and our competitors made offers. Despite the many announcements that you get from other companies, I have to say that we have not been yet called in to enter into any cost optimization discussions. And we know that this is not happening on these extenders.

I believe that this could be an interesting phase developing in the second part of the year, once the client will have analyzed all the offers that they have received. And maybe they will set for themselves new targets and they will start to pass these targets to the contractors. But that will not be a linear process, because it is not matter of discount, but will be matter of discussing new way of executing these projects. But as I said, this is not yet happening.

Peter Testa - *One Investments - Analyst*

Fine. Okay, thanks very much for the answers.

Operator

Amy Wong from UBS.

Amy Wong - *UBS - Analyst*

My question relates to the offshore construction business. If I take a look at your backlog for execution at the end of the last year, and I'm taking a look at your strong results this quarter and then tying it up with your remaining backlog to be executed in 2015, it seems like the scope has grown quite a bit. So could you give us an idea of what's going on in the revenue profile for offshore construction? And if you can give us a bit of color on which contracts this revenue increase primarily relates to?

Alberto Chiarini - *Saipem S.p.A. - Chief Financial and Compliance Officer*

Okay. But in terms of revenues, if you look at year 2015, we are looking at some of the big contracts coming onstream -- like Kaombo is one of these, for sure. And I'm talking now about floaters. Jangkrik is another big contract, and Azerbaijan. So Azerbaijan is another big contract that -- working for the Shah Deniz field in Azerbaijan. The other one that should be mentioned is Lakach in Mexico. These are the main contracts.

Umberto Vergine - *Saipem S.p.A. - CEO and Director*

Ongoing contracts, yes.

Amy Wong - *UBS - Analyst*

Okay. I was hoping to get a little bit more insight because at the end of the year you said there was about EUR5.3 billion of revenues to be recognized. But if you take a look at where we are now, having recognized EUR1.8 billion in the first quarter and then there's another EUR4.9 billion to come, it looks like the scope of it has increased. Is that all related to Kashagan that was announced during the quarter? Or are there other contracts that we are seeing a scope increase?

Alberto Chiarini - *Saipem S.p.A. - Chief Financial and Compliance Officer*

No, Amy, but there is always a mismatch between the backlog and the revenues because, although we don't include in the backlog all the change orders -- so there is a part of Kashagan; you are right. But also there is a part of change orders that are signed or recognized that we do not include in the backlog. So there is always a higher -- I would say generally the slightly higher amount in the revenues than the one that we have in the backlog.

Amy Wong - *UBS - Analyst*

All right. Thank you very much, then.

Operator

James Evans from Exane BNP Paribas.

James Evans - *Exane BNP Paribas - Analyst*

Thanks for taking my questions. I've got to. The first one -- I just wondered if you could give a little bit more detail on Road to Excellence, as you talk about it? What are your main programs that you are implementing? Can we expect to see maybe your headcount come down a little bit over the next few months, especially given the weak market conditions?

My second question is slightly different. One of your competitors announced a JV with a subsea equipment manufacturer and talked about the potential to take out 30% of costs. I just wondered if you are having any similar conversations with other subsea equipment manufacturers and what your view is. Is such a large decrease possible, from what you can see? Thanks.

Umberto Vergine - *Saipem S.p.A. - CEO and Director*

Well, we are not looking -- or at least we have not seen until today any particular interest in trying to mix the strategy on EPC contract with manufacturing. Certainly, manufacturing for us remains a critical area of cost savings, because, of course, that is an area that requires that we extract the possible best value, also to share it with our client in order to be competitive. But I think that percentages like the one that you said are a little bit unrealistic, because so far the market has not been generally sleeping; and this level of margins are not, I believe, in the pocket even of the manufacturer.

From what relates our initiatives that we are mentioning today, this Road to Excellence -- this is, luckily, a process that we have started, I would say, by the end of 2013, beginning 2014, as part of our process of reorganization. So we have already started a number of initiatives aiming to efficiency, and therefore impacting on internal costs. That is going to be extremely beneficial (technical difficulty)

Operator

Sorry. Mr. Evans, your line has gone a little bit mute, sir. If you could please try and talk into the phone?

James Evans - *Exane BNP Paribas - Analyst*

Yes, sorry. My phone has just gone dead. I lost Umberto.

Operator

Okay. Just bear with me. Pardon the interruption, ladies and gentlemen. We are currency experiencing a slight interruption in today's call. Please bear with us.

Umberto Vergine - *Saipem S.p.A. - CEO and Director*

Okay, sorry for the interruption. I was introducing these programs, Road to Excellence, that is tackling a number of different initiatives -- that by improving our efficiency, automatically we reduce our costs; and we make our job more efficient, therefore being us more competitive.

I'll just give you four examples of this project. One relates to the integration of our yard networks. Our prefabrication yard is now managed in a much more integrated way. And on that one we have set a number of targets that have also potential economical impact starting from this year and even more the following year.

On the drilling side, we have set a number of objectives through implementation of standardized methodology and practice in terms of improving all our drilling processes. We have also tackled, in the more general onshore activity, what we call the cost of no quality. That means, in a number of different activities, to have identified specific targets -- for example, during the construction phase.

And last but also very important, still for the E&C onshore, a project to improve the process under which we assign and we manage work given to our shop contractors. So as you can see, this is not a simple initiatives of cutting G&A, but goes to the core of our activity.

James Evans - *Exane BNP Paribas - Analyst*

Thank you, very kind.

Operator

David Farrell from Macquarie.

David Farrell - *Macquarie Research - Analyst*

Two questions from me -- firstly, going back to the backlog position looking at 2017 onwards, it looks like the offshore E&C backlog has decreased by 12%. I was just hoping you could give a better color on that.

And then secondly, a more broader question -- with the slowing activity in the sector, how can you guarantee that your workers and subcontractors maintain their level of productivity and don't slow down? Is that an issue that you might be worried about? Thank you.

Umberto Vergine - *Saipem S.p.A. - CEO and Director*

Well, 2017 onwards, of course, is pretty far from now and still is a partial secret that requires to be hopefully integrated soon by new orders. We only have one main strategy. That is, of course, in support of the offshore.

And that brings me to the answer to your second question. I cannot guarantee that I will be able to win exactly the same amount of contract that will make possible to have about EUR13 billion revenues per year. But we are probably one of the few contractors covering end-to-end and all the project cycle. And we believe that this will be the key factor helping us, even through this phase of relatively lower oil price, still maintain a very good relationship with our client -- and to be able to have something to say on all new projects, on all new contracts that our client would like to execute.

Certainly offshore claims to be more, I will say, seasonal but probably yearly-basis type of initiatives; while some of the onshore are very big and last on a number of years. So in the offshore, certainly we have to continue to integrate with new orders our existing backlog. But for 2015-2016 we already have a level that is, I guess, a good base and requires not a huge integration.

David Farrell - *Macquarie Research - Analyst*

Sorry. Just to clarify, though, if I go back to February in your presentation, you had EUR2.6 billion of offshore E&C contracts for execution in 2017 onwards. In today's presentation that has fallen to EUR2.3 billion. So I'm just wondering: have you accelerated revenue recognition into 2016? Or have you actually lost some contracts that you did have originally booked in the backlog?

Umberto Vergine - *Saipem S.p.A. - CEO and Director*

No, is only acceleration, because we have not -- as we said, we have not been the subject of any major cancellations or, in this case, we have worked out a way around a postponement. But not cancellation of contract. This is a rescheduling of the existing backlog.

David Farrell - *Macquarie Research - Analyst*

Okay, thank you very much.

Operator

Guillaume Delaby from SG.

Guillaume Delaby - *Societe Generale - Analyst*

If I tried to listen -- ask as fully as possible to you, after having tried to listen very carefully to the FMP conference call and to the Technip conference call, I got the impression that, regarding offshore and subsea, there might be a slight change in the behavior of your clients.

So would you agree with this understanding? And if it is the case, could you maybe elaborate a little bit on that? Thank you.

Umberto Vergine - *Saipem S.p.A. - CEO and Director*

I don't know; which slight change have you received by listening to our competitors' presentations? Certainly I think that the main change that we have started to see since last year is a much more focused attitude of our clients to the design phase of the subsea projects and the very, very determined target of optimizing the design, timing, cost in order to make all these projects not only feasible, but de-risked as much as possible. This is the only major change that I expect to continue to see.

And certainly I don't expect our client to drop the development of the exploration resources that they have discovered in the past years that are mainly offshore, because this is their area of activity. And the requirement is for them and for us to make these projects feasible -- certainly not to defer this production, because it's the only new source of production they have.

Guillaume Delaby - *Societe Generale - Analyst*

Okay, thank you very much.

Operator

Daniel Butcher from JPMorgan.

Daniel Butcher - *JPMorgan - Analyst*

Just two questions from me, please. The first one, on onshore E&C -- could you just indicate whether the margin you saw in this first quarter of minus 2.4% EBIT is likely to be continued or represent a level going forward for the rest of the year with those legacy contracts in there? And secondly, maybe just give a bit of color around the timing of Saipem 1000 and 1200 (sic, 10,000 and 12,000) and Perro Negro -- on their downtime and idle time this year, please?

Umberto Vergine - *Saipem S.p.A. - CEO and Director*

Well, your second question is not very clear to me. But I'll try to answer the first one. On the onshore, as we said, in terms of EBITDA performance that is still negative, has improved and has improved compared to one year ago, thanks to the lower impact of legacy contracts and the growing contribution of new projects that progressively are offsetting the overall business structural costs that, as we said at the end of last quarter, is one of the components that has to be always remembered when we talk about the overall margin of the project.

I think that it is interesting to say that as sales margin the performance is now getting positive -- marginally, but it is positive. This is, of course, something that we expect to see growing through the year and on the next years.

You were referring to the impairment of the Scarabeo 8 before?

Daniel Butcher - *JPMorgan - Analyst*

Sorry; I was asking more generally around the idle base expected for the drilling fleet -- Saipem 10,000 and 12,000.

Umberto Vergine - *Saipem S.p.A. - CEO and Director*

Okay. The main risk of idleness in the drilling that we have is related to one or two mid-water units. You should remember that all our deep-water fleet, 10,000; 12,000; Scarabeo 8; etc., etc. -- they are under contract even up to 2017 or beyond. We are renegotiating successfully now the utilization of jack-ups. And in general we don't see, certainly through 2015, any critical situation developing on the offshore fleet.

For 2016, as I said, the mid-water and some jack-up still needs to get a contract confirm, but at least we are already in discussions with some clients for possible new projects. So they will do all possible to avoid -- to get the rigs back in the port.

Daniel Butcher - *JPMorgan - Analyst*

All right, thank you.

Operator

Andrea Scauri from Mediobanca.

Andrea Scauri - *Mediobanca - Analyst*

I have a call on the EUR1.1 billion of pending revenues, and in particular on the arbitration that you have now opened. I was wondering if there are any chance to see an early termination of this arbitration with agreements with your clients in order to anticipate the cash inflows from these issues.

Umberto Vergine - *Saipem S.p.A. - CEO and Director*

No, the processes of arbitration are, in all interesting cases, still quite at the initial phase. Therefore I have not generated what normally the opening of an arbitration generates -- that is a more convinced attitude of the two parties to sit down and to found an agreement.

The only one that is -- will be bigger now is the one on M&A. But being that related to Algeria, I doubt that we will have a change of attitude in the negotiation for the time being. The other cases could see some different attitude. But as I say, this is something that only the next months could tell us.

Andrea Scauri - *Mediobanca - Analyst*

Okay, thank you.

Operator

Luigi de Bellis from Equita SIM.

Luigi de Bellis - *Equita SIM - Analyst*

Two questions from me. The first one is on the FX derivatives. How much is the amount of the contract hedged? And could you give us an indication on the period where we would see the positive EBIT impact? And just as a clarification, always, on derivatives: is it an early settlement or a normal end of the contract at expiry?

The second question, on the guidance on 2015: what is the implied EBIT in the guidance expected by year-end for the drilling business and the potential evolution for 2016 in light of the ongoing renegotiation? And always, on the guidance, isn't it possible to have a range of the order intake expected in 2015 for both offshore and onshore E&C division, mentioning on which project you have more visibility?

And the last question, on the South Stream project -- what is your strategy, in particular in case Gazprom? We've continued to delay a decision on the pipeline. Will you maintain the two vessels with the only coverage of the cost? Thank you.

Alberto Chiarini - *Saipem S.p.A. - Chief Financial and Compliance Officer*

Okay. I'll answer on the FX. Well, the amount that has come to maturity in the first quarter was an amount close to a couple of billion. And this was mainly -- the main project was Kaombo. Kaombo, as you know, is a project more than $3 billion that we have hedged exposure in US dollars.

The settlement is a temporary settlement, because we have paid the mark-to-market, but we have renewed the -- we have rolled over the exposure and the derivative, which means that in the next couple of years, we will get the benefit financially. And we will record the whole amount.

Umberto Vergine - *Saipem S.p.A. - CEO and Director*

But it was a natural expiration.

Alberto Chiarini - *Saipem S.p.A. - Chief Financial and Compliance Officer*

Yes.

Umberto Vergine - *Saipem S.p.A. - CEO and Director*

It was not really anticipated -- that was --.

Alberto Chiarini - *Saipem S.p.A. - Chief Financial and Compliance Officer*

No, no, no. Everything was agreed with the banks, yes.

Luigi de Bellis - *Equita SIM - Analyst*

And there is something on 2015 -- there is a positive EBIT impact on 2015 related to the hedging?

Alberto Chiarini - *Saipem S.p.A. - Chief Financial and Compliance Officer*

We haven't foreseen that, because we didn't make any speculation on the exchange rate. But in general terms, if you maintain the same exchange rate, there is, of course, a benefit in terms of financially in terms of cash flow.

EBIT of the drilling, I think, was your second question. In EBIT of the drilling -- we see the EBIT of the drilling more or less stable. So we've always said that drilling for us onshore and offshore is a matter of stability. So all our coverages is to reduce to a minimum the impact of idleness, to accept maybe some reduction in the rates, but to maintain a certain stability. So I don't expect to have an impact in the ranges higher than 15%, 20% overall.

Umberto Vergine - *Saipem S.p.A. - CEO and Director*

Okay. About South Stream -- I tried to clarify this. We are at the moment under contract, so I don't have the option of deciding to keep my equipment available to the client or not to keep it available to the client.

If I had decided to move away, I would be in breach of contract, so we lose all the remuneration and all the compensations. In case is the client to decide to cancel the contract according to the terms of the contract. So to answer to your question, my strategy is to go according to the contract.

Alberto Chiarini - *Saipem S.p.A. - Chief Financial and Compliance Officer*

There was also another question on the order intake. The answer is no; we don't have specific targets. And we cannot provide any specific guidance for E&C onshore and offshore in terms of order intake. As you know, we are targeting very big projects, EPC projects that can count more than EUR1 billion or EUR2 billion, which means that to have success or un-success on these contracts -- or also to have delayed award of these contracts -- can change dramatically the order intake. But in our slide we showed our main targets and what we are targeting.

Umberto Vergine - *Saipem S.p.A. - CEO and Director*

This is what we're working on, yes.

Alberto Chiarini - *Saipem S.p.A. - Chief Financial and Compliance Officer*

What we are working on, yes.

Luigi de Bellis - *Equita SIM - Analyst*

Just a clarification on the drilling -- just to understand if I understand that correctly: the EBIT expected for drilling implied in the guidance is stable year on year? Is it correct?

Alberto Chiarini - *Saipem S.p.A. - Chief Financial and Compliance Officer*

Yes, there is no impact of derivatives on the P&L -- in the drilling, sorry.

Luigi de Bellis - *Equita SIM - Analyst*

Yes, yes, yes.

Alberto Chiarini - *Saipem S.p.A. - Chief Financial and Compliance Officer*

In the drilling, yes, the EBIT is -- there can be variation, depending on how this renegotiations can go on and can develop. But generally speaking we consider that there will not be an impact higher than 15%, 20%.

Luigi de Bellis - *Equita SIM - Analyst*

Okay, thank you very much.

Operator

Bertrand Hodee from Raymond James.

Bertrand Hodee - *Raymond James Euro Equities - Analyst*

Two questions, if I may. The first one is, at the end of Q4 you expected a legacy contract remaining revenues at around EUR1.8 billion. In 2015 what is the remaining portion of these legacy contracts to be executed in 2015? And can you split that between onshore and offshore? And also can you confirm that those legacy contracts -- you don't see any slippage in terms of remaining revenues for 2016? This was the first question.

And the second question is: what is the level of down payments you have at end Q1? I remember that end Q4 you had EUR650 million of down payments.

Alberto Chiarini - *Saipem S.p.A. - Chief Financial and Compliance Officer*

Okay. In terms of legacy contracts, the amount still to be completed in the year is below EUR1.5 billion. Okay? And it's likely higher in the onshore than in the offshore, but not a big difference.

Yes, there is a possibility that BX-171 will slip into 2016. We don't know yet the amount, but there is a possibility that there will be a slippage. It won't be a big amount, in any case.

Umberto Vergine - *Saipem S.p.A. - CEO and Director*

This has mainly to do with the fact that the project is actually supposed to be finished at the very end of December. So due to the nature of our activity, it is clear that a possible slippage can exist.

And what could be a normal, acceptable delay -- we have to count it on 2016; while if it was in the middle of the year, it would be almost of no significance. But formally here it will have to be considered 2016 work. The discussion with the client, anyway, are not focused so critically on this aspect. But -- and we are doing all we can to try to finish as quickly as possible for a number of reasons.

Alberto Chiarini - *Saipem S.p.A. - Chief Financial and Compliance Officer*

Advance payment from clients at the end of the quarter our EUR638 million.

Bertrand Hodee - *Raymond James Euro Equities - Analyst*

Okay. And one last question, if I may. On South Stream, is there a clause in your contract with Gazprom that -- I would say, the contract cannot be suspended indefinitely? Is there a provision that oblige at one stage the client to tell you if you continue to work or the contract is terminated? Is there a provision in the contract that stipulates a maximum amount of time in terms of the contract being suspended?

Umberto Vergine - *Saipem S.p.A. - CEO and Director*

No, suspension is an open end, by definition -- also because it is foreseen in the interest of the client to be kept adding in mind the possibility to restart. Otherwise, the client would take a cancellation for convenience if there is a reason to believe that the project cannot be executed. So to answer to you, no; the suspension is open-ended.

Bertrand Hodee - *Raymond James Euro Equities - Analyst*

Thank you.

Operator

Thank you. We will now take our final question from Giuseppe Rebuzzini from Fidentiis.

Giuseppe Rebuzzini - *Fidentiis - Analyst*

Thanks for taking my question. Just one, and it's about South Stream. You mentioned EUR300 million payment achieved so far in 2015. I wonder whether this has a P&L impact or if that impacts only working capital? And if it has, if you can give us if it is on revenues only or on margins as well.

Alberto Chiarini - *Saipem S.p.A. - Chief Financial and Compliance Officer*

No, there is no impact in the P&L, because these EUR300 million are payments coming from invoices of the previous year, partly -- which, of course it's just a financial impact, because the elements of P&L was accounted in 2014. Plus some payments for the suspension -- and the suspension is, as I said before, the suspension is remunerated at cost without the element of profit.

Giuseppe Rebuzzini - *Fidentiis - Analyst*

Okay, thank you.

Operator

That will conclude today's question-and-answer session. I would now like to turn the call back over to you.

Umberto Vergine - *Saipem S.p.A. - CEO and Director*

Okay. Thank you very much. And I hope that we have satisfied all your main questions. Good evening.

Operator

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