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SPM.MI - Half Year 2014 Saipem SpA Earnings Conference Call

EVENT DATE/TIME: JULY 29, 2014 / 3:30PM GMT

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PRESENTATION

Editor

Presentation

Operator

Good day, and welcome to the Saipem first half 2014 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 SpA - CEO*

Good afternoon and welcome to the Saipem conference call to discuss first half 2014 results. I'm here with Gigi Caselli, Chief Operation Officer, Alberto Chiarini, Saipem's Chief Financial and Compliance Officer and Salvatore Colli, Saipem's Investor Relations.

Today after having gone over the main points relating to our first half results, I will comment on 2014 guidance and medium term guidance, and then we will be happy to take your questions.

I'm pleased to say that after the good start we made in the first quarter, in terms of winning new business in line with our strict commercial criteria, we accelerated even further with a record EUR9.2 billion of new awards during the second quarter. At the same time, we have continued our relentless focus on executing legacy contracts which remains our highest priority. Our net debt will depend upon the timing of payments related to legacy contracts before the year end and we expect to make significant progress during the second half.

We now have a clearer sense for the likely outturn for 2014 and we have refined our guidance. We are also now in a position to start setting out our medium term view of Saipem's performance for a more normalized business.

Overall, Saipem's operational and commercial strengths as an integrated end-to-end contractor, along with the improving quality of our backlog, are the foundations upon which we are building the recovery of Saipem.

Let's look at our financial results in slide 6, but before looking at them in detail, please note that all 2014 figures are compliant with new IFRS 10 and 11 accounting principles, governing the consolidation of joint ventures and 2013 figures have therefore been restated for comparability. In addition 2013 numbers are restated in accordance with Consob indication pursuant to IAS 8.

In the first half of 2014, revenues amounted to almost EUR6 billion, with more than 50% coming from E&C Offshore, while E&C Onshore only accounted for approximately 30%. As already shown in Q1, these results confirm that we are turning towards a more profitable revenue mix.

In drilling, the 7% reduction in revenues compared to the first half of 2013 was the result of some one-off events. In offshore, this was mainly driven by Scarabeo 7's short term downtime for extra maintenance activity and by Perro Negro 6 loss last year in July. In onshore, we saw the lack of activity in Algeria, which was not fully offset by immediate startup of operation for the rigs relocated to new countries. EBIT stands at EUR293 million.

While the improvement in the performance in the onshore business versus 2013 is apparent, it remains a challenged business unit, recording a loss of EUR81 million in the half, due to the major role played by unprofitable legacy contracts which cannot absorb fixed costs.

Over the first half, as a result of contracts won over the last 18 months, E&C Offshore made a positive contribution to earnings despite the P55 accident in Brazil. Drilling's year-on-year contribution to EBIT reduced, mainly due to Scarabeo 7. Finally, net profit for the first half came in at EUR136 million, showing the return to profitability as we continue to execute Saipem's recovery.

Turning to net debt on slide 7, at the end of June this stood at EUR5.1 billion, a reduction of EUR0.5 billion compared to the end of March. This positive swing was thanks to cash flow generated in the quarter that offset CapEx, and to an improvement in working capital flows.

Working capital benefitted from cash received for new projects totaling EUR300 million, in particular South Stream and Kaombo. We also received some payments of outstanding change order related to legacy contract, with the next change giving an improvement of approximately EUR150 million during the quarter.

We still have some projects with a negative cash profile. Among these, the most important is Wasit, for which we foresee a significant improvement during the second half of the year.

With respect to managing our receivables book, Venezuela remains a critical area and we continue to work towards mitigation of this exposure.

In conclusion, we are pleased of the progress in the second quarter and we expect to see further progress on net debt over the second half of the year.

This has been a record quarter in terms of new orders. As shown on the slide 8, we won contracts worth more than EUR9.2 billion, reaching at the end of the first half EUR13.1 billion. We have reported a good order intake across all E&C business units, with two thirds relating to offshore. As result, backlog at the end of June reached the record level of EUR24.2 billion, with more than 50% represented by E&C offshore.

Since the quarter end, we have seen additional wins of approximately EUR1 billion, and later in the presentation I will take you through the panorama of ongoing opportunities.

Looking now at the currently backlog by year of execution on slide 9, 24% will be booked in the second half of 2014, 36% in 2015 and 40% in 2016 and onward. The strong level of order intake year to date has improved visibility and quality across all the businesses beyond 2014. In particular, only 17% of backlog to be executed in 2015 is now made up by low margin contracts, confirming the pace of recovery. Overall we have already now approximately EUR8.7 billion for 2015, an amount significantly higher compared to the last three-year average of workload expected for the following year at June.

I will now like to give some of the operational details underlying the forward looking factors that will drive 2014 performance and beyond, starting with slide 11. You will probably remember this slide from April this year, and we want to give you an update on the contract schedule in our drilling business.

In offshore, in terms of utilization, I'm pleased to say that we are able to reconfirm that our schedule for 2014 remains full. Beyond 2014, top end deepwater units continue to benefit from stable long term contracts and a good level of visibility.

You will have seen our separate press release this morning detailing new contract awards, for a total of $850 million and they are presented here in the dark red. Since the beginning of Q2, we signed a two-year extension for the semisub Scarabeo 7 in Indonesia until Q1 2018 and a one-year extension for the Scarabeo 3. We have also been awarded a one-year extension for Perro Negro 7 in the Middle East and a two-year contract extension for the Perro Negro 2 until first quarter 2017.

All these contract extensions have been signed at the daily rates in line or higher than the previous one. Further possible multi-year contract extensions are now under negotiation also for Perro Negro 8 and Perro Negro 4.

From an operational point of view, as already mentioned, Scarabeo 7 suffered a longer than expected dry dock maintenance period during the first half, impacting short term profitability. The rig completed dry dock maintenance at the end of June.

The current Scarabeo 5 contract with Statoil will expire at the end of September. The new contract will start from October at an improved daily rate. Statoil has now asked us to have the rig on stand-by for three months at the lower standby day rate. So, full operation will resume in January.

In onshore drilling, also during Q2, we achieved fleet utilization above 95%. For the remainder of the year, utilisation is expected to remain stable, due to a two-year renewal of contracts in South America on a number of rigs.

During Q2 we reinforced our position with Saudi Aramco, contracting an additional three rigs from Q2 2015 with five-year durations, taking our total number of rigs deployed in Saudi Arabia to 28. Drilling rates in the onshore business continue at current good levels and contract renewals for the biggest units are all multi-year.

Turning to contracts won in the second quarter on slide 12. This is a record order intake, where we have won several large projects well matched to Saipem's capabilities and business model. In addition, they cover all of Saipem's main business units and the main geographic areas in which we operate. Very important: all these contracts are in line with the commercial strategy we outlined last year to achieve healthy levels of profitability. The pace of new awards in the second half is not expected to be at the same unprecedented level.

I'd just like to talk you through the major E&C awards. In the Caspian Sea, Saipem won a contract for the Stage 2 development of the Shah Deniz field, for a total amount of approximately $1.8 billion. The Caspian is a strategic area for the oil and gas industry in which Saipem has a long history and track-record, together with a unique and strong presence based on assets and partnerships. I believe that this award confirms our capabilities and expertise in large and complex offshore projects.

In deepwater field development, Petrobras has awarded Saipem the EPCI contract for the Lula Norte, Lula Sul and Lula Extremo Sul Projects in the Santos Basin Pre-Salt Region, in water depths of up to 2,200 meters.

The marine activities will be performed mainly by the Saipem FDS2, and the fabrication of the risers system and the associated subsea equipment will be carried out at the Saipem Brazilian yard in Guaruja. This contract win is evidence that our entry strategy and the investments we made to establish our position in Brazil are starting to pay off.

Looking now at slide 13, in the floaters business. Saipem has been awarded two contracts in West Africa by Total, for a combined total of more than $4 billion. The main contract is worth more than $3 billion, and is an EPCI for two FPSO units for the Kaombo Field Development offshore Angola. Furthermore, Saipem has been awarded a seven-year contract of approximately $1 billion for operation and maintenance services of those two vessels owned by Total.

The topsides fabrication activities will be undertaken in Saipem's Karimun Island yard, in Indonesia, where we will also be working on the Jangkrik topside, the other project that our floaters business line won last February. This represents a significant workload for the yard in 2015.

We are very pleased about this contract because it is consistent with Saipem's strategy of pursuing growth opportunities in construction of high complex Floaters, including FLNG in specific geographic areas, such as Asia Pacific and Africa, where the Company can leverage its engineering capabilities, strong local content competencies and unique availability of fabrication yards.

In E&C onshore, Saudi Aramco has awarded Saipem two EPC contracts related to the Jizan project, in southwestern Saudi Arabia. These are the first large onshore projects won during the year by Saipem and are unique in their complexity. The scope of work is part of one of the largest gasification projects in the world. The award confirms that Saipem remains highly competitive in large and complex onshore projects, in which we have a significant technological advantage, and the reliance on Saipem of key clients, such as Saudi Aramco.

It is relevant to note that a significant part of the new orders we have won this half have come from clients with whom Saipem is currently working on legacy contracts, demonstrating the strengthening and constructive nature of our relationship with these clients.

This chart 15 illustrates the progress we have made so far this year in improving the quality of our E&C backlog, broken down between legacy low margin contracts and new contracts won on sound commercial terms. The IFRS restatement impact is not material. The chart clearly demonstrates the progress that we have made in executing low margin legacy contracts, and reducing the proportion of backlog made up of these contracts.

Saipem will have EUR1.5 billion worth of low margin contracts still to execute during 2015 which will be the last of the revenue associated with our problematic legacy contracts. As contracts progress in nearing completion, the probability of further operational deterioration is reduced.

I would like also to update you on progress made in the negotiations for outstanding claims and variation orders in relation to legacy contracts. Let's look at slide 16.

In 2013 we identified, after two profit warnings, 21 critical legacy contracts. Of these, commercial negotiations on 14 have now been satisfactorily resolved. In line with IAS 11 we are now recognizing in our accounts at June 30, 2014 an amount of around EUR1.2 billion, representing a fair assessment, based on the ongoing negotiation, of what we consider recoverable by clients.

Over 90% of this amount is accounted for by five big legacy projects whose completion schedule is represented. These relate primarily to NOC clients who are typically reluctant to settle big claims until projects have been physically completed. As a result of the progress made in executing these contracts, relationships with clients have progressively been restored. These discussions are advanced and in line with the dynamic nature of claim negotiation. We have seen a reduction over the last quarter.

This has had a positive impact on working capital. We are keenly focused on de-risking the backlog and successfully resolving these claims, and as we have done on the other legacy projects, are confident of recovering the full amount. This will be one of the main drivers to improve our working capital and net debt in our business plan. Let's now look at the 2014 guidance on slide 18.

Given the moving parts we have outlined in the preceding slides, we have slightly revised our guidance for full year 2014. As you may remember, we decided to give a range to reflect the level of uncertainty on legacy contracts, the award of new contracts, the timing of their execution and their contribution to the P&L.

Taking you through the guidance line by line, we now expect revenues of approximately EUR13 billion, partially impacted by IFRS adjustment. EBIT in the range of EUR600 million to EUR700 million. And this reflects four main factors since we last presented guidance. First, Scarabeo 7 spending longer than expected in dry dock for maintenance. Second, the slower than expected startup of execution on new contract, resulting in some activity being shifted. Third, Scarabeo 5 on standby rate from October to January 2015. The impact of IFRS 10 and 11 when compared to the value of the guidance given in February. These four factors are in addition to the impact of the P55 accident in Q1.

Clearly the efficient execution of E&C legacy contracts also plays a part in determining EBIT for the full year. We expect net profit to be between EUR280 million and EUR330 million. And additionally, we confirm CapEx for the year of EUR750 million.

And, finally we have a net debt target of EUR4.2 billion to EUR4.5 billion, which will be determined by pending revenue negotiation progress and the timing of legacy contract payments that today we recount could be impact collected after year end. We continue to expect a significant easing of working capital from the current levels.

I would like to introduce the panorama of Saipem commercial opportunities by a market outlook update on slide 20. A recent survey of oil company expectations for E&P spending shows an anticipated 6.3% increase this year with national and independent oil companies' higher CapEx spend more than off-setting the majors' slight reduction in spending.

Expenditure across the industry in 2014 is expected to exceed $700 billion for the first time, showing a fifth consecutive year-on-year increase. What this means is that oil companies are still willing to spend, especially in the development of existing reserves. They are now much more focused on fit for purpose and de-risked project solutions.

The opportunity for oil service companies is to offer a more value-added solution, working more closely with the clients from the very outset of the project, reducing the risk of cost overruns and unexpected delays. Particularly on large developments, this represents a win-win solution for clients and for contractors.

At Saipem we are strong believers in this approach and very pleased that we are already engaged with clients on this basis. Being one of the few E&C contractors with a truly integrated end-to-end offering, we are in an excellent position and we will lead the evolution of this trend.

You will remember this slide number 21, illustrating the principal E&C projects for which we have tendered, and the awards that were expected by year end. We have now updated the slide to include those contracts awarded to Saipem year to date, those awarded to other companies and those that we expect to materialize over the next eight to twelve months.

For some of these, their impact won't be felt in 2014. However, they are nevertheless important as they help to increase visibility of our market. The aggregate value of new contracts awarded to Saipem during the first six months of 2014 confirms our strong position in the key business areas of trunk lines, FPSO construction, field development and complex onshore projects.

During the first half, we benefited from the release of a pent up supply of contract awards, following the lack of new projects at the back end of 2013. We cannot predict the pace of new awards in the second half of this year, however, we are still competing and negotiating for a number of opportunities listed here and we believe that we can win further important contracts, particularly in the Americas and in the Middle East.

As we look forward beyond 2014 and as our business continues to normalize, we thought it would be helpful for shareholders to have a view on our medium term targets.

If we look at slide 23, the picture we have presented here shows what we believe could be the normal shape of the business once the legacy contracts have all been fully executed and the backlog replenished with profitable contracts. We would expect revenues in the E&C Offshore business to be in the range of EUR6 million to EUR7 billion with EBIT margins in the mid teens. Floaters profitability is expected to be in the high single digits.

Actual profitability of the business unit will depend on the eventual mix of the different activities carried out. In the E&C onshore business, we are targeting revenues of between EUR3.5 billion and EUR4.5 billion and a reliable EBIT margin of around 5%. The drilling business is expected to remain stable, continuing to deliver revenues and margins in line with those you have seen in recent years.

CapEx, focused on maintenance and upgrading of our fleet and investing in new equipment for specific projects, will remain at around EUR750 million.

And finally, on the basis of this normalized set of financial targets, our net debt will organically continue to reduce and by the end of 2017 will be down to approximately EUR2 billion.

So in conclusion, during the first half of the year we have made further progress in the transition of Saipem towards sustained profitability. The components for a recovery are in place. Disciplined new business wins, efficient management of legacy contracts and a clear plan for strengthening the balance sheet. Ongoing recovery is based upon Saipem's inherent value to clients as a leading integrated end-to-end contractor, operating in supportive market conditions. We have made considerable progress towards dealing with legacy issues, a task on which we remain keenly focused, as Saipem begins to fulfill its potential again.

Thank you for your attention and we are now ready to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Fiona Maclean, BOA.

Fiona Maclean - *Merrill Lynch - Analyst*

It's Fiona from Merrill Lynch here. I've got a few questions. Firstly, just looking at the guidance that you've given today and trying to understand how that looks in 2015, when I look at consensus for EBIT next year, it's EUR1.1 billion given your guidance for this year is EUR600 million to EUR700 million, that seems quite a stretch. Can you maybe give us an indication of whether we should be looking more at kind of EUR850 million, EUR900 million for next year?

And then moving onto the debt and the potential scenarios that could come through from an ENI strategy day later on this week, could you maybe talk us through what you're doing at the moment in terms of that, whether you're already in negotiations to try to get new lines of debt into your business. And there are a number of people questioning whether you need to have a rights issues, so maybe if you could answer that as well. Thank you.

Alberto Chiarini - *Saipem SpA - Chief Financial and Compliance Officer*

Alberto Chiarini, CFO. As far as the guidance of 2015, we are not giving numbers for 2015. However, it is clear that the 2015 will be a better year over 2014 based on what we are showing and based on the reaction of legacy contacts to EUR1.5 million.

We expect the drilling business still to be in stable and so in line with 2014, whereas we expect a quicker recovery in the offshore rather than in the onshore. So if we look at the offshore business, there will be a quick recovery and we are already seeing in 2014 some improvement. As far as the onshore, there is a delay in terms of returning to healthy profits. So I don't see onshore business to reach the target of the medium term before 2016.

As far as the debt ENI, ENI debt, I would like just to tell you that in terms of all the rumors that are around about ENI debt and the consolidation of ENI, we can only say that we have taken note of what ENI is claiming that they are focusing more and more on exploration and production. That's what they have stated. We are still supported by ENI in terms of debt. Of course, Saipem is an international company that would not have any material difficulty in finding financing for the whole debt. It's clear that it would cost us something around EUR40 [million], EUR50 [million] of increased financial charges every year. We are EUR40 million, EUR50 million, million sorry. Did I say billion? Yes, sorry. EUR40 million, EUR50 million every year of course.

And having said that, we do not expect any decision by ENI that would bring any damage to Saipem shareholders, so what we expect is that any decision would be for the benefit of ENI's and Saipem's shareholders.

Fiona Maclean - *Merrill Lynch - Analyst*

And just one follow-on question. Another way that ENI has helped you over the years being your guarantor effectively on your E&C business and the number that you disclosed in your annual report is quite a significant number. If ENI were to step away from being able to provide those guarantees, which run, I think they're well over EUR15 billion, is it going to be relatively simple for you to find other facilities that can help back you up in that regard?

Alberto Chiarini - *Saipem SpA - Chief Financial and Compliance Officer*

Sorry, did you mention guarantees? I didn't quite understand your question. You mentioned the guarantees?

Fiona Maclean - *Merrill Lynch - Analyst*

Yes, the guarantees in bid forms and project guarantees and things like that.

Alberto Chiarini - *Saipem SpA - Chief Financial and Compliance Officer*

Okay. So currently in terms of guarantees, we have an amount of EUR7.5 billion around of bid bonds, advance payment bonds, performance bonds. These guarantees are final for EUR5 billion through ENI and EUR2.5 million on our own. So on standalone basis with our banks.

It is clear that the amount is quite sizeable. The cost is much lower than the financing of course is around 1% and the difference in having ENI backing us on the guarantees going on a standalone basis to the market is something in the range of 10, 20, 30 points, not more than that. So this I do not consider a big issue in terms of overall financing of the Company.

Umberto Vergine - *Saipem SpA - CEO*

I would like to add that as of that to say that at this moment in time we are referring to statements that ENI made indicating the willingness of refocus their business. It's clearly up to them to decide how to act in the interest of their shareholders. And as a significant shareholder of Saipem, I confirm that we assume that any decision they will make will maximize the value also for all the other shareholders.

And what is left to us is this at this moment in time just being prepared for whatever eventuality ENI decided to pursue. And as Alberto already pointed out, focusing of our business recovery on our commercial strength is the first measure that we consider important to make without entering into speculation on which path could be followed to follow any decision of ENI that we don't know at this moment.

Operator

Haley Silverman, Barclays.

Haley Silverman - *Barclays - Analyst*

Just wanted to ask a quick question around Russian geopolitical risk and if you're seeing any changes there, what your thoughts are. And then if I might ask you as well a second question, just a kind of a tidying up question around [idle] costs in 2015. It looks like for the offshore E&C business pretty fully utilized next year. And just wondering how we can expect idle cost to be affected by that.

Umberto Vergine - *Saipem SpA - CEO*

Talking about the geopolitical, that is always a difficult subject. I think that the only point worth to comment is our position about the contract of South Stream. Basically on South Stream we are progressing in the mobilization. We have already a vessel mobilized in moving to mobilize in the Black Sea. And we have no indication also from the rumors that are sometimes passed to the media about the EU position that the technology refer to gas industry will be subject of further sanction. The current sanction are not impacting on our ability to continue to work according to the client instructions.

Alberto Chiarini - *Saipem SpA - Chief Financial and Compliance Officer*

As far as idle cost, these idle costs are expected to be lowering, to be reduced in 2015, slightly reduced by an amount of around EUR20 million. And this is due to the better utilization of the fleet in 2015.

Operator

Phillip Lindsay, HSBC.

Phillip Lindsay - *HSBC - Analyst*

A couple of questions please. You mentioned the slower ramp-up on new contracts as a reason for some of the guidance coming down. Can you elaborate on that? Does that reflect your own operational issues that you'll now need to play catch up on, for example? So that would be the first question.

The second question, I suppose is really about -- is an obvious one. It's about customer behavior. Now one of your peers last week made some quite deliberate comments around oil company behavior, the difficulties getting variation orders signed off by clients. Now we know you've already had you fair share of issues around change orders, but for you, have you noticed anything materially different in the way that your commercial negotiations are going on in the current environment?

Umberto Vergine - *Saipem SpA - CEO*

About today, the slower ramp-up on new contracts, in general they are all linked to specific events from a situation on, without entering into detail of the contract, where there have been some decisions taken by the clients of partially revised the location of the plant. And that of course, as was postponed (inaudible) of (inaudible) engineering until that was clarified.

In another case, we had an activity that proved to require quite a massive land consolidation before we were able to actually progress with the foundation work. And other cases are related to slower mobilization of our client teams. But that is something that of course has an impact on the short-term situation because these are all cases that, as I mentioned in the presentation, are impacting in terms of shift.

We add those to another project, an issue about permitting. And all of this of course at the time where we are so eager to see the contribution of the new contract, they became somehow material in the real result. Certainly they are not material in the full life of the projects.

On the customer behavior, as I also indicated in the presentation, and maybe you recall some previous conference call, I continue to have a view that is in general more positive than my competitors. That based on personal experience on a (inaudible) involvement in discussion with them and on the result that of course our business is conducting on a daily basis with a number of them.

There are no phenomenon that can be applied in general. All of this situation about the negotiation has to be looked at case-by-case. All of them have a certain background, all of them have a certain perspective. It's difficult to create the justification either to be too positive in general or too negative in general.

Phillip Lindsay - *HSBC - Analyst*

Just a quick follow-up if I could, project specific question on Filanovsky. Can you just discuss the issues with the financing around that project with Lukoil? And from what we've heard that, well, it's going to be the late delivery of the off shore platform. How does that affect your schedule of works?

Gigi Caselli - *Saipem SpA - Chief Operation Officer*

This is Gigi Caselli, the Chief Operating Officer. Well, the works are progressing as per schedule. So we don't -- we cannot comment on that. Our operations are now proceeding as they should.

Operator

James Evans, Exane BNP Paribas.

James Evans - *Exane BNP Paribas - Analyst*

Just a couple from me. Can you just confirm that by medium term we should think 2016? And secondly, your guidance implies, I guess, little or negative revenue growth two, three years out from where we are today, despite a really excellent order intake in the first half of the year. So what's holding you back there in terms of your guidance? Is it conservatism? Is it your capacity or is it the market?

Umberto Vergine - *Saipem SpA - CEO*

By medium-term we refer to 2016. In the sense that you refer to a scenario where we will be through in the second (inaudible) acknowledgment of the legacy issues.

On the second question, it was not very clear to me. I don't know if Alberto, you understood it better.

Alberto Chiarini - *Saipem SpA - Chief Financial and Compliance Officer*

The second question, if I understand well, you are wondering why we are lowering the guidance based on the result on the first half.

James Evans - *Exane BNP Paribas - Analyst*

No. I'm sorry, just to be clear it's more about the medium term guidance and the revenue guidance you put out for off shore and on shore. If I add them together, you're I guess expecting at best kind of flat revenue really from where we are today. And obviously what we've seen in the first half is a really excellent order intake.

So I'm just wondering why you don't expect to grow. Is it just that you're being conservative on what you are taking into your backlog? Is it because maybe you don't think you have the capacity to do much more? Or maybe you have a slightly cautious view of how some of the end markets will progress, I guess, given the widespread commentary about maybe slower activity over the next couple of years.

Umberto Vergine - *Saipem SpA - CEO*

Okay, so now it's very clear to me. The point is that of course we are integrating ourselves on our most likely future. And we have to build in serious other certainties.

Our commercial strategy, first of all, is to remain very straight and either want or to assume a growth in revenues until we have confirmation that the market will continue to feed in opportunities of the same quality that we are seeing today.

I believe that it's very important that our commercial discipline will remain the basis of our activity. Therefore, I don't feel like betting on our capabilities of execution of commercial wins until I don't have confirmation that that will not impact my commercial discipline. So in a sense, it could be conservative, but we believe it realistic. Is that in line with your question?

James Evans - *Exane BNP Paribas - Analyst*

Excellent. Thank you very much.

Operator

Amy Wong, UBS.

Amy Wong - *UBS - Analyst*

I have a couple of questions please. The first one is can you comment on how you're seeing your competitors behave in the offshore construction market in terms of recent tendering behavior? And also then give us some color on the onshore markets as well.

And secondly, I had a question around your comment around fit for purpose. Just wondering how this concept, the industry, will affect kind of how Saipem then works with its customers?

Umberto Vergine - *Saipem SpA - CEO*

I don't want to enter in much comments on my competitors of course. We have seen -- of course we see the offer that are a part of our commercial activity. Every company has resolved strategy due to time, due to geography, so we cannot always explain their behavior because we don't have this information.

Certain general, we have no evidence that we are entering into a new phase of tight market. And I think that that is the most important point. We have discussion with clients, not only on price, and this is very good, because it means that we discuss our quality of execution, our quality of the (inaudible) that we will put in use and the solidity of the schedule that we are able to offer. And I think that these are the issues that concern more our clients. And we remain very focused on preparing ourselves to answer always positive in this to this question.

On the second point, I have a problem to understand your question, so if you could repeat it.

Amy Wong - *UBS - Analyst*

You touched on the fit for purpose comment during your prepared comment. So I just wanted you to elaborate a little bit more how going forward Saipem as a large engineering construction company is able to adapt to some of this industry trend.

Umberto Vergine - *Saipem SpA - CEO*

So very clear. At the beginning of the year we started receiving comments and listening to comments from our major clients about how important it was for them to revise partially their decision process on structuring and taking final investment decision on projects. It seemed clear to them that to work in isolation and to engage the contractors only at the time receiving the offers doesn't help them to attract the best possible value from this period, also of the contractor and particularly to mitigate all the risks that are maybe present in the projects that they sanction.

We, as I said in the presentation, we are starting to discuss with several of the key important clients an approach that will see a much more open discussion between clients and contractors upfront, where of course you can identify solutions that are, as you said, in fit for purpose design different phasing. Maybe a very clear involvement of a specialist or subcontractor or component that are critical for the duration of the project.

I think that I just said being in fact one of the few able to offer from the very beginning until their commissioning (inaudible) our facilities, we have to be extremely determined to follow this approach of our client. And I think that for us will be very beneficial.

Amy Wong - *UBS - Analyst*

One quick question on your 2017 net debt target of around EUR2 billion. Is that just all based on your view of do normalized business? Is that how you're going to get there?

Alberto Chiarini - *Saipem SpA - Chief Financial and Compliance Officer*

Yes, mainly because of the improvement of the product normalization of the business, so operating cash flow. But you have also to take into account that what we have shown today in terms of pending revenues is another area where we believe there will be an improvement because as far as the legacy contracts will be completed, those are the negotiation on these (inaudible) claim will be completed and we expect too an improvement in the medium to longer term -- in the medium term in the working capital.

Operator

Luigi de Bellis, Equita.

Luigi de Bellis - *Equita - Analyst*

Three questions on my side. The first one on the South Stream project. How much is the contribution expected from South Stream in 2015 in terms of sales contribution?

The second question on the net debt. What kind of working capital movement could we expect in the second half of 2014 and 2015? And the last question, could you give us an update on Algeria investigation and the Kashagan potential pipeline replacement?

Alberto Chiarini - *Saipem SpA - Chief Financial and Compliance Officer*

In terms of South Stream, basically the big bulk of South Stream work will be done in 2015. So the lay down of the pipeline should start in December and end at the end of 2015. So I would say that 80% of the value of South Stream will be part of 2015 revenues on the basis of the current schedule.

In terms of net of debt and recovery of working capital, what we expect to match the guidance that we have just given in 2014 is a recovery of working capital of another EUR400 million. And if we want to reach the maximum target, so the 4.2, we need another EUR300 million recovered working capital. So that is what we expect.

Umberto Vergine - *Saipem SpA - CEO*

On Algeria, we don't have many news to give you other than the Milan prosecutor has entered into the fourth last six month's terms of preliminary investigation. From the Algerian side, everything is extremely silent. I mean we have no other interaction with authority with investigators in terms of the issues claim.

For what related to DOJ, maybe I leave Alberto to give you some (multiple speakers).

Alberto Chiarini - *Saipem SpA - Chief Financial and Compliance Officer*

No main news even on the DOJ side. DOJ asked us some information, we are cooperating, we are sending them the documents that they are requesting, except of course the documents that are under secrecy and that are (inaudible) by the Milan prosecutor. So no main news, no main issues on that as well. In April we received a request and we are sending them the document issues.

Umberto Vergine - *Saipem SpA - CEO*

On Kashagan, we have no further information from the consortium. We still are of our strong opinion that we have no liabilities in relation to the problems encountered into the operation of the pipelines. And the consortium of course is now starting to work on a solution. And we have started conversation with them along the lines of making the solution launch and feasible.

Operator

Robert Pulleyn, Morgan Stanley.

Robert Pulleyn - *Morgan Stanley - Analyst*

Two questions for myself if I may. First of all, you give some (inaudible) medium term guidance, but there is one sort of unknown in that offshore and it's what proportion of the offshore E&C business you'd be targeting from FBSO work? If you could give us some idea about that over the medium term, that would be great.

And secondly, I noticed in the onshore mid term guidance the margin of 4% obviously is substantially lower than some of your peers and also what Saipem was delivering between 2008 and 2012. Could you just help us maybe give some specifics as to why that guidance is lower than what you've delivered in the past?

Umberto Vergine - *Saipem SpA - CEO*

On the issue of how much floaters, certainly we look at our slide 21 where we indicated a panorama of opportunities. Certainly we don't have many more (inaudible), so on the short term as a target. So we are extremely interested to the floating LNG that is potentially a higher rank of floaters. Or actually, the highest. The possible range of the floaters, that of course will attract the maximum -- in the maximum range of profitability for this project. But we expect if we look at the opportunities that are known to us today in the medium term to see an increase of projects -- classical offshore projects compared to floaters.

Robert Pulleyn - *Morgan Stanley - Analyst*

And on the onshore business?

Umberto Vergine - *Saipem SpA - CEO*

On the onshore, I mean, well, the EBIT margin of 5% that we indicate we don't consider it to be conservative at all. We consider it to be realistic and what is up -- I mean with the current market, that I repeat is supportive, to be the right level of profitability that can be extracted by these type of activities.

Strategy of our competitors that can induce them to foresee higher level of profitability based also on our recent experiences to be -- I mean they're not very understood by us.

Robert Pulleyn - *Morgan Stanley - Analyst*

And just one follow-up, if I may. I mean and just to help understand. I mean in the onshore E&C business Saipem delivered 6%, 9%, 7% in 2010, 8% in 2011, 6.5% in 2012. Does the fact that you're now targeting 5%, is that a reflection that the Korean competition is here to stay or that the mix of contracts is less attractive? Or that perhaps the asset base of local content you guys have is not going to be as fully utilized as in the past?

Umberto Vergine - *Saipem SpA - CEO*

This issue is not certainly the (inaudible). The issue is more what realistically we look at in terms of type of projects and is not also an issue related to the Koreans. I think that maybe Gigi can give you a little bit more flavor on that.

Gigi Caselli - *Saipem SpA - Chief Operation Officer*

Well, you had to see those numbers in the context of that time. Of course, the market is a leading factor. At that point in time there was a very, very, very tight market, especially on the large projects. And so you could express a better profitability. And so today the market is proceeding at a normal pace and I strongly believe that the 5% profit is reference profit for the onshore business. To be frank, I do not realize any other onshore contractor that is expressing higher profit.

Operator

Henry Tarr, Goldman Sachs.

Henry Tarr - *Goldman Sachs - Analyst*

Two questions for me. One is just on the mid-teens margins comment on the offshore E&C business. That looks pretty good versus history. I guess is that being helped in the near term by South Stream? I guess if we look back to sort of 2009, peak margins appear to be sort of 14%, 15% in offshore. Or should we read it that that's kind of best case in the E&C and then the floaters are going to bring the overall total down? That's the first question.

And the second question is just a portfolio question. Would you consider divesting of any businesses or assets to pay down debt faster or currently is that not in the plan?

Umberto Vergine - *Saipem SpA - CEO*

The mid-teens that we indicate in the offshore is related to the fact that offshore is a very generic definition of activities. And is not only offshore and floaters. Even within offshore, you have at least three major sets of activity. One is pipelines, (inaudible). One is installation of platform, construction installation of platforms. And the third one is the deepwater development on the sea bottom, what we call the (inaudible) projects.

All of them have a component of risk and criticalities that attract different margins. Different margins that of course our clients are keen to pay, not unreasonable. When we define in the generic way mid-teens is because like for the floaters, but also for the other job, we said it -- that the final number would depend of the mix of activity that we will be able to get.

In EMEA where you have a predominant (inaudible) execution of projects we (inaudible) imagine of course you create a result. That result is not necessarily a trend that could be taken as a reference for the following year because of the dynamic nature of our project execution.

In terms of transaction, I give you Alberto.

Alberto Chiarini - *Saipem SpA - Chief Financial and Compliance Officer*

In terms of disposals, our position is always the same. So we are not under pressure to make disposal for (inaudible) debt that because our organic plan is bringing our debt level up EUR2 billion by 2017. And this for us is a level of debt that is clearly sustainable by the Company.

Having said that, there could be some non-strategic part of our Company that we could decide to think about a disposal based on the need to accelerate the repayment of debt in order to catch some other opportunities in other business segments. But this will only be done only if there is a potential (inaudible) that sees a full value plus a premium in those segments.

Henry Tarr - *Goldman Sachs - Analyst*

And just quickly to follow-up on the first point. I guess given that 80% of the scope for South Stream should fall into 15, we might expect margins to be better than average in the offshore business next year.

Umberto Vergine - *Saipem SpA - CEO*

Well, we don't comment on single project margin of course. On the other side, there we will have a larger part of execution of (inaudible), so you see at the end of the day is really the mix that is important.

Operator

Andrea Scauri, Mediobanca.

Andrea Scauri - *Mediobanca - Analyst*

A follow-up on the question on your asset disposal. You said that basically you are not under pressure to sell assets because you believe that a cash flow generation over the next couple of years should guarantee you a strong deleverage. So my conclusion is that if this is the case, we can exclude any need of fresh equity for the Company. Do you agree with this interpretation?

Alberto Chiarini - *Saipem SpA - Chief Financial and Compliance Officer*

I think it is our duty to be on the market so to make sure that we would not lose opportunities if they arise. So what I'm saying is that we are not under pressure, we are not going to sell a part of our business simply because we have to reduce the debt. But I also say that in case we would like to accelerate the repayment of debt, maybe because we want to catch some other opportunities, this could be envisaged but with at a premium in terms of price.

Andrea Scauri - *Mediobanca - Analyst*

And for the second part of my question, any need of fresh equity? Do you agree with me that the Company on the back of what you said that doesn't need any fresh equity at the moment?

Alberto Chiarini - *Saipem SpA - Chief Financial and Compliance Officer*

I can answer that we don't have the necessity to get fresh equity, but this question is something that again, like many other things that we are examining in terms of strengthening our balance sheet, this cannot be excluded completely. Because we are here, we are on the market, we are an international company and we are looking at everything that could help and could add value to the Company.

Umberto Vergine - *Saipem SpA - CEO*

I think that it is important to consider that as we said, we are and we have been -- we are and we have to continue to be very, very focused on South Pacific issues that are related to the execution of our projects and as rapid as possible replenishment of low margin, if not zero margin contracts, with new contracts. This is really what is taking, I would say, 110% of the focus and the energy of the Company.

On the other side, yes, we are on the market, as Alberto said, but we are not launching initiative. We are of course looking at our future as we see the Company restoring profitability and we -- my main concern is not to leave opportunities behind in the name of being extremely rigid on this position. But this is a matter of opportunities and decision taken for growth.

Operator

Christyan Malek, Nomura.

Christyan Malek - *Nomura - Analyst*

A couple of questions from me. First of all, what are the assumptions you're making in your normalization target? Because it sort of sounds or it's implicit is that you're quite positive around the outlook. And if you can be specific on those assumptions around pricing and the level of CapEx growth over the next few years.

The second is you sort of refer to the acceleration of paying down debt in order to be able to enhance or grow your backlog. Would the options that you have available in that, you could issue equity or divest. On the issuance of equity, what sort of level would you feel comfortable with in that particular scenario?

And second, on the portfolio divestment, you mentioned noncore and nonstrategic. What exactly is that?

Umberto Vergine - *Saipem SpA - CEO*

In terms of assumption, as far as CapEx, we confirm that 750 is the level that we consider quite steady in order to reach the net target by end of 2017. Of course, as you know, around EUR500 million is the level for maintenance of vessels, offshore drilling and E&C offshore. And EUR250 million would be the level of investment that's project related. Okay?

In terms of issuing equity, I would not comment anymore on that because really we are not launching any equity issue and we are not thinking about any initiative. As you know there are hundreds of merchant banks coming every day, telling us you should issue equity, you should issue a convertible bond, you should switch to bonds, you should finance that with any kind of initiative. We are looking at everything, but we are not thinking about any specific thing.

In terms of the noncore business, again as you know we have -- sometimes we have already declared that, for example, FDSO ownership is not our core business. We are still owning to FDSO. We recently extended the contacts on this side. It's a sound business, but as far as the ownership, it's not sounding strategic. And this is one of the examples. But of course in the Company we are reviewing assets and strategic and nonstrategic assets on a, let's say every three months.

Christyan Malek - *Nomura - Analyst*

And just to follow-up, so would it be fair to say that drilling, particularly onshore drilling, is strategic to your portfolio? And the second follow-up is the question around assumptions in terms of normalization, I was referring to the industry assumptions you're making around pricing and global CapEx growth. The industry spend. What is your base case around the future years, particularly in the context of your peers that sound like they're becoming incrementally negative on the industry?

Umberto Vergine - *Saipem SpA - CEO*

Onshore drilling is a business that we like. Onshore drilling is providing a steady flow of EBIT and the cash flow. So we definitely see a lot of value in the onshore drilling. I wouldn't consider it strategic meaning that it has the big synergies or it has an integration, a full integration with the business offsite. But the strategic part of onshore drilling is the value we see.

Christyan Malek - *Nomura - Analyst*

And the follow-up on the industry assumptions you're making in terms of your normalization around pricing and CapEx growth please.

Umberto Vergine - *Saipem SpA - CEO*

We projected a view of the market that, as you can see also from our presentation, is very rich, is very geographically extremely completed. And we believe -- and this is what we have projected is of course part of the projects for which we are competing. The most important ones.

And we see a steady flow of projects being promoted by clients, so our normalization that, as I explained before, refer to what could be the leading term position of the Company considering that our working cycle is about two, three years by the time that you bid, you win, you start to execute, you complete. Certainly the market under which we could reach and we want to reach normalization is based on a portfolio of projects that are part of the one that we have presented today. So we don't have to project a different future or to imagine an evolution of the market in order to foresee in two years' time what could be the position of Saipem.

Christyan Malek - *Nomura - Analyst*

Sure. Just and sorry finally, apologies for following-on here. So assuming the market does deteriorate, pricing does come down, it becomes more competitive, would you -- not to put words in your mouth, but would you say there's risks to those targets that you've give? Because it does sound like it's sort an all else is equal target. Sort of -- or putting it into context to the potential down cycle, would you say there's a risk to those targets?

Umberto Vergine - *Saipem SpA - CEO*

No. So maybe I was not clear enough. I'm saying that since you asked which could be a market scenario that will support the fact of normalization and since we look at the normalization phase that could be completed by a completion of the legacy contract, that as we have said, they should be all through by 2015. What will be the activity of certain, of time, of which in this normalization is based basically on our present market.

What I'm saying is that is that we don't need to speculate on which would be the market in three, four, five years' time to look at the process of normalization of the Company.

If you ask me, if what I think about the market in the future, as I said before, I remain very positive. I consider that the opportunities of investment of the companies are considering all (inaudible), international, independent our companies are very, very wide and is a rich panorama. So I remain positive in the medium term as well for the market, but of course we'll have an impact, let's say, three years beyond the medium term.

Operator

David Thomas, Credit Suisse.

David Thomas - *Credit Suisse - Analyst*

Three hopefully quick questions, please. Firstly in terms of the working capital evolution, am I right to interpret that you're basically saying there's EUR1.2 billion worth to come through and the order of EUR400 million to EUR700 million this year and then the remainder next year in accordance with slide 16? That's the first question.

Second question is just on the second quarter results themselves, trying to understand the margins in offshore construction and onshore construction. I think offshore was better than maybe the market was expecting and onshore was worse. And could you perhaps provide some color around that?

And finally, just to try and understand, can you give the breakdown of the EUR1.5 billion of low margin contracts in 2015 between offshore and onshore please?

Umberto Vergine - *Saipem SpA - CEO*

As far as the working capital, okay, our working capital is partly -- is the issue of the pending revenues, which we consider an opportunity in terms of releasing of the working capital because of course we are assuming that in 2015 and the first half of 2016, based on the completion of the projects, we should solve the issue of the pending revenues.

Part of the working capital deterioration that we had in the past is also due to some penalizing payment terms. So in this respect was this is one of the projects we mentioned earlier and we expect those (inaudible) an improvement in the payment terms. I would also add that the current new projects are not anymore having those penalizing payment terms.

Another part of the working capital is Venezuela and on Venezuela I'm a bit more cautious. So I don't see in the short, medium term a real improvement. It will be a constant -- let's say a constant paying in terms of working capital. But overall, what is good is that the margins in the area are good and the payment (inaudible) of delay has always been received so far.

Alberto Chiarini - *Saipem SpA - Chief Financial and Compliance Officer*

If I'm not wrong, the EUR1.5 billion of 2015 are almost half offshore, half onshore. Maybe I'll ask Salvatore to (inaudible).

Salvatore Colli - *Saipem SpA - IR*

Yes, it's roughly at 50% offshore and 50% onshore. 07 and 08 is respectively between offshore and onshore in 2015.

Alberto Chiarini - *Saipem SpA - Chief Financial and Compliance Officer*

And then the second question on margin was about the second half, right? The projection on second half.

David Thomas - *Credit Suisse - Analyst*

No, sorry. It was just to understand -- I'm really trying to understand the trajectory of margins, particularly in the E&C offshore. It was 7% in the second quarter. You're going towards a medium term of 15%, but certainly in terms of the trajectory it looked better in the second quarter. Was there any specific reason for that? And also similarly, was there any specific reason why onshore construction was so weak in the second quarter, particularly it was down even on the first quarter.

Alberto Chiarini - *Saipem SpA - Chief Financial and Compliance Officer*

The reason is that in second quarter we are still working on the old contracts. And the new contracts are not yet generating sufficient level of margin around it to offset the poor profitability of the old one in order to absorb the fixed cost.

Umberto Vergine - *Saipem SpA - CEO*

The result of early cycle, all activity of course that creates more execution during the second quarter compared to the impact of the winter phase. So this is extremely short term to judge a trend that could be extrapolated further on.

David Thomas - *Credit Suisse - Analyst*

Okay, I'll leave it at that and I'll take offline. Thanks.

Operator

Giuseppe Rebuzzini, Fidentiis Equity.

Giuseppe Rebuzzini - *Fidentiis Equity - Analyst*

I've got three quick questions hopefully. The first is actually close to the one you just answered. I'd like to have the breakdown of the revenues in E&C offshore and onshore in the first half of 2012 between the legacy contracts and the new contracts for each of them separately.

And possibly, I'd like to have the EBIT margin of the E&C offshore new contracts in the first half of 2012.

Then I'd like to understand what is the percentage of floaters contracts in the E&C offshore backlog, as of the end of the second quarter?

And the third question is about your net debt guidance. I would like to understand what is the dividend policy consistent with your 2017 net debt target?

Umberto Vergine - *Saipem SpA - CEO*

Okay, I'm still waiting for the quick question by the way. (Laughter)

Alberto Chiarini - *Saipem SpA - Chief Financial and Compliance Officer*

In answer to the last question, which is the easiest one, the net debt EBIT and the policy in the plan. So we are not changing in the plan the dividend policy, which as you know, has always been one-third of the net profit. So we are maintaining this policy. And as you know, this year we are not going to pay any dividend because of the result of 2013. For planning purposes, we are maintaining this policy, but the real decision on dividends will be done by the board of directors and proposed to the shareholders' meeting.

Umberto Vergine - *Saipem SpA - CEO*

I don't know if you can help me with these figures.

Alberto Chiarini - *Saipem SpA - Chief Financial and Compliance Officer*

The breakdown in 2014 between offshore and onshore is two-thirds for offshore and one-third of onshore projects in terms of revenues.

Giuseppe Rebuzzini - *Fidentiis Equity - Analyst*

So revenues of the new contracts or of the legacy?

Alberto Chiarini - *Saipem SpA - Chief Financial and Compliance Officer*

The legacy.

Giuseppe Rebuzzini - *Fidentiis Equity - Analyst*

The legacy. Okay.

Alberto Chiarini - *Saipem SpA - Chief Financial and Compliance Officer*

And then the second question was about -- sorry?

Giuseppe Rebuzzini - *Fidentiis Equity - Analyst*

The floaters, the percentage of the floaters on the total E&C offshore backlog.

Alberto Chiarini - *Saipem SpA - Chief Financial and Compliance Officer*

We have around -- almost EUR5 billion in the backlog offshore, mainly represented by the (inaudible) Creek contract.

Giuseppe Rebuzzini - *Fidentiis Equity - Analyst*

So EUR5 billion out of EUR16 billion of E&C offshore.

Alberto Chiarini - *Saipem SpA - Chief Financial and Compliance Officer*

Correct.

Giuseppe Rebuzzini - *Fidentiis Equity - Analyst*

Okay.

Alberto Chiarini - *Saipem SpA - Chief Financial and Compliance Officer*

About EUR22 billion, EUR23 billion. Total E&C.

Operator

Mukhtar Garadaghi, Citi.

Mukhtar Garadaghi - *Citi - Analyst*

Conscious of the hour, two very quick questions. Just on Brazil EPC, some of your competitors clearly decided to -- not to bid for any future EPC work. Have you seen the contracting environment improve materially over the past few years there now that you have taken more awards?

And a similar question on Saudi where you have had issues before (inaudible), et cetera. Again, you have taken a fair chunk of awards in that market as well. Are these contracts fundamentally different, both in terms of cash flow profile and the general terms from what we've seen before?

Umberto Vergine - *Saipem SpA - CEO*

On Brazil, we'll ask Gigi maybe to complete the answer. But first of all, I think that it's important to recognize the approach that Saipem must take into Brazil is not comparable to all our competitors. And particularly in terms of the decision that Saipem did at the time of preparing ourselves with a structure that will help to minimize the risk of counting too much on local companies that are not very well known to the market and that are typically used to work in a very close market situation.

This of course (inaudible) a cost. We had to take some contract in order to create a relationship and a base of working in Brazil and we had to invest in (inaudible). The level of confidence now that are coming up really justification of the business strategy. We are at the beginning, it has to be strengthened in the future, but I think that as it has been for us a learning curve, it also has been for our client, with whom we have been through some even heated discussion, but that at the end allows both parties to reach a satisfactory solution.

I think that comment on Saudi Arabia, maybe if you want to add something more on Brazil, Gigi?

Gigi Caselli - *Saipem SpA - Chief Operation Officer*

Not really because I believe that you expressed the main concept, also bearing in mind that that (inaudible). We are strongly believer in our opposed solution, the rigid (inaudible) and the flexible (inaudible) in the market that are targeting in Brazil. Nevertheless, of course we are deeply involved in trunk lines and where we (inaudible) express an (inaudible) a lot of competitiveness, as well as the capability of managing a quite complex truck line train deep in the deepwater. Because this is the reason why we are right now more comfortable in Brazil, together with the fact that we are able to provide also the so-called local contractor to our yard for those structures that our CEO was just mentioning before that are going on the market and counting on a (inaudible) contractor that make our project profitable.

Umberto Vergine - *Saipem SpA - CEO*

On Saudi Arabia, yes, certainly very different, particularly very different from what the (inaudible) as well. Main peculiarity besides the size, the complexity, the technological challenge of the project, that is the payment terms.

On (inaudible), the contract was taken with these contractual terms that today are one of the serious impact and of course opportunities of our working capital.

Alberto Chiarini - *Saipem SpA - Chief Financial and Compliance Officer*

To augment what our CEO just mentioned is that if you remember was one of the biggest and I don't want to say one of the first at that time. Well, now there are different (inaudible) going on in Saudi in a similar project, especially in our (inaudible) agreement at the (inaudible). And the proposal term of the requested terms that you are putting on the table that were different from Wasit. We are talking about terms and -- payment terms of course. I confirm what (inaudible) and underline what our CEO just mentioned.

Operator

Raul (inaudible).

Unidentified Participant

I have one very small question. On the EUR1.2 billion that you've recognized in your account, I just -- could you just clear it? I mean has it changed or does that still under negotiations with declines that you have not already -- that have not already been cleared and you already recognize them in your revenues? Is that what it is?

Alberto Chiarini - *Saipem SpA - Chief Financial and Compliance Officer*

Yes, that is correct. This EUR1.2 billion reflects the amount of revenues related to those -- mainly those five legacy projects so that we have seen in the slide. And these are amounts that according to us and according a (inaudible) assessment that is based on the commented negotiation means of meeting and documents, are -- they are amount that we believe will be recognized by the clients.

This is still under negotiations of course. And the reason being that most of these clients, they want to see the projects completed. We are talking about the variation orders issued by the client, but not formalized, not signed off. And the claims of amounts that under the contract we believe that these are to be paid by the client, but not yet signed off in terms of claims fully recognized by the client.

Unidentified Participant

And just to understand how this normally works, so in general when you get a variation order, do you always recognize revenues before the client signs off? Or do you recognize revenues only after the client signs off?

Alberto Chiarini - *Saipem SpA - Chief Financial and Compliance Officer*

No, according to the IAS principle, we recognize these revenues whenever we believe that they are likely to be recognized by the client. Because generally speaking, the formalization is something that always happens with a big delay in terms of formalization and signed off by the client, because it comes after a negotiation. And of course the amount we recognize is not the amount we believe is due, it's the amount that according to what (inaudible) amount that we have -- we are claiming, but is the amount that we believe according to a fair assessment would be recognized by the client.

Operator

As there are no further questions in the queue, that will conclude today's question and answer session. I would now like to turn the call back to the host for any additional or closing remarks.

Umberto Vergine - *Saipem SpA - CEO*

Thank you very much. Good night.
