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EDITED TRANSCRIPT

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PRESENTATION

Stefano Cao - *Saipem S.p.A. - CEO*

Good evening, ladies and gentlemen, and welcome to Saipem half-year results presentation. I'm Stefano Cao, Saipem's new CEO since April 30. I'm here with Alberto Chiarini, Gigi Caselli, and Vincenzo Maselli Campagna. I'm very glad to meet you on this first official appointment with the financial market in my new role.

As most of you probably know, Saipem is the company where I matured professionally and managerially, reaching the position of CEO. When in 2000, I was offered the opportunity to lead the E&P division of ENI. It is a great honor to be back and I'm enthusiastic to lead Saipem in such a challenging environment.

After three months into the job, I can acknowledge that the competencies and some values embedded in Saipem foundations have been well preserved and nurtured in the context of a larger and more complex organization. Saipem is and will continue to be a leading player in the oil/gas service sector, thanks to its people, its core capability, its assets, and its diversified business model.

The brand is strong, as evidenced by our solid client relationship and business mix. Reputational issues that shadow the Company's reliability in the recent past are being resolved, as confirmed by the number of successful contract awards in 2014 and 2015. The Company has made a lot of effort in order to ensure that mistakes of the past are not repeatable.

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Our women and men are the Company best assets: competent, committed, and proud to be part of Saipem. The 7,800 engineers and project managers employed worldwide in the Company provide a unique set of excellent know-how, innovative attitude, and technical and organizational capabilities, which made possible for Saipem to deliver milestone initiatives in the industry, such as Blue Stream, Nord Stream, Khurais, Manifa, and Kashagan.

Our offshore fleet is world-class, thanks to the impressive CapEx plan recently completed, which delivered seven new vessels in drilling offshore and two in the E&C offshore, providing the Company with the appropriate technological asset base to succeed in the next decades.

In drilling, the quality of the assets in conjunction with a business model privileging operational continuity and long-lasting relationship with clients has proved to be successful and resilient in a deteriorating environment.

Nevertheless, following these 90 days of intense work, assets in the Company, its business, and the market environment, it is clear that several fundamental challenges are ahead of us and need to be tackled. The prolonged oil market downturn is showing no signs of inverting its trend. Oil and gas companies are extremely focused on enriching their revised CapEx targets through cost discipline, project delays and cancellations.

Such behavior is inevitably accompanied by an increased confrontational approach on ongoing initiatives and commercial negotiation, pressuring oilfield service contractors with the threat of long-lasting and expensive litigations. The situation has further deteriorated in those companies and segments with high oil production costs or crossed by geopolitical security or compliance issues.

The reduced level of investment, especially in offshore, is leading to an increasing number of idle vessel and fleet overcapacity. Such headwinds are weighting on Saipem, alongside some specific concern impacting the Company. I've inherited a large and complex organization with an extended business spectrum structured to compete in the prosper environment. Let us focus its effort during recent years to resolve specific issues, rather than enforcing and rationalizing the Company business profile to fit with the market evolutions.

Saipem today needs to adopt its mindset to the new world order. A culture and operational change is necessary to evolve in a changing environment and revise our leadership position.

Meanwhile, the combination of worsening market conditions, a considerable number of problematic legacy contracts, and poor business performance, mainly on onshore construction, are putting pressure on cash flow generation. In this context, I must highlight that difficulties to positively conclude the negotiation for the recognition and payment of pending revenues are further exacerbating this aspect.

The recent termination of the South Stream contract is an additional concern, given the missed opportunity to perform a project perfectly suited to its engineering and technical expertise. Moreover, significant management time is still absorbed by ongoing legal proceedings, mainly linked to the Algerian projects, a lengthy and time-consuming process. In this context, some immediate actions are needed in order to create a positive discontinuity to face the challenges and strengthen Saipem for future growth.

Let's now moved to slide 7. There are a number of immediate priorities that identified and are already under implementation. We have recently launched a broad and in-depth cost efficiency and optimization project called Fit for the Future that will reshape the Company in view of a new low oil order.

The aim of this initiative is to detect efficiency and savings measures in our business and supporting units through a detailed bottom-up assessment of the Company's 2014 cost base, equal to approximately EUR12.7 billion.

The area of intervention covers 95% of the total cost base and is articulated in approximately 150 initiatives, organized under 4 main workstreams. The preliminary estimated savings amounts to EUR1.3 billion, cumulatively under a 3-year time frame.

The project also directly involves our asset base in terms of vessel, yards, and logistic base, generating savings by reducing the number of obsolete vessels, rationalizing our presence in certain geographical areas and improving our maintenance processes and running costs profile.

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With reference to our fleet, we have therefore decide to adopt a proactive obsolescence management, approaching scrapping four E&C vessel and one mid-water semisub rig in 2015.

Regarding the fabrication yards, in nonstrategic areas/segments of business we will consider to downsize or where deemed appropriate to exit. In other areas where market condition may appear temporary challenging or where an offer of quality subcontractor exists, we will move from a local content to a local supplier model to regain flexibility and cost competitiveness.

On this respect, during the second quarter 2015, we have already taken some initial actions by downsizing our fabrication capacity in countries such as Canada and Brazil. The rationalization of our asset base led to write-downs for EUR211 million.

We are also in the process of reviewing our CapEx plan through the optimization of maintenance process, which will generate further savings for more than EUR50 million already in 2015.

Pending revenues and working capital normalization represent another top priority. The depth of the downturn is creating a lot of tension with our clients as the resolution of pending revenues is in contrast with their current focus on CapEx and cost discipline.

As a result, priority is to de-risk the business after a careful assessment of the various initiatives, the status of ongoing negotiation, and following certain issues lately materialized in certain areas like Canada, Nigeria, and Venezuela. We are accounting a write-off of EUR718 million, of which EUR618 million related to pending revenues.

However, we will aggressively and effectively continue to pursue our target to receive recognition of variation orders and claims under a sensible approach while preserving the dialogue with our customers. We intend to target a sustainable level of unbilled revenues and normalization of working capital, adopting a stricter control on the evolution of variation orders and claims. Alberto will talk you through the details of this action later in the presentation.

As a third priority, we have accelerate the strategic review and planning cycle. The new medium-term plan will enable the Company to renew its leadership in the current environment. We will present this plan to the market community by third-quarter result announcement in a dedicated event in London, details of which will be provided in due course. I will spend a few words on the key guidelines of the strategic review later on.

Turning to slide 8, here we provide some highlights of the Fit for the Future efficiency project. Our preliminary analysis highlights a cumulative cost-saving potential over the period 2015-2017 in excess of EUR1.3 billion, of which more than 50% to be achieved within the end of 2016.

The project is articulated in 4 main workstreams in accordance with a source of efficiency contribution, under which more than 150 initiatives have been aggregated. The most relevant workstream regards the optimization of our geographical footprint through the rationalization of our presence in nonstrategic markets and noncompetitive segments of business and the optimization of peripheral offices and bases.

A considerable portion of cost saving, approximate 30% of the total, is also expected from a deep review of Saipem's operational processes, such as supply chain, construction, and maintenance. The efficiency plan includes a specific effort targeting fleet and other operating asset optimization that foresees the immediate dismissal of five offshore obsolete assets and the capacity rationalization of some of our yards located in less attractive markets.

G&A cost reduction workstream includes various optimization initiative of central and staff cost, including for example renegotiation of facility management contracts, review of expatriates remunerations, and travel policy.

Looking to the expected cumulative savings by area of allocation, approximately EUR550 million will be generated from efficiency measures concentrated on project cost, EUR450 million from reduction of staff and central function costs, while the remainder will be obtained by initiatives aimed at eliminating costs generated by nonproductive vessel and other assets.

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The plan, in conjunction with other measures already forecasted for CA significant rationalization also in terms of full-time equivalents, in the region of 8,800 people versus the year-end 2014 figures. This goal will be largely achieved through the rightsizing of presence in certain geographical areas or business segments that do not present at the moment sustainable opportunities.

Slide 9 summarize the impact of Fit for the Future efficiency program on the optimization of our asset base and the rationalization of Company capital employed. The initiatives led to a non-cash impairment of EUR2,011 million (sic - see slide 9: EUR211 million), of which EUR40 million on offshore fleet.

Before leaving the floor to Alberto for the illustration of the financial results, I would like to present the key guidelines that are driving our strategic review.

First of all, we need to refocus and relaunch our business portfolio. That means focus on core business, rationalization of business perimeter, geographic repositioning, local content, focus on performances. Current market context require to de-risk our business profile from an operational and strategic perspective.

Onshore selectiveness in tendering, privilege EPCM rather than EPC when possible, unbilled revenues sustainability, the increased financial and working capital sensitiveness. Cost efficiency and rationalization initiatives are required to protect profitability and improve performance. Fit for the Future, asset base maintenance improvements.

Saipem needs to maintain its strong orientation towards innovation and technology, as they are key for future success. So increased R&D spending, invest on innovative approach, new technology investments. Evolving for a renewed leadership is the message that summarizes the approach adopted in our strategic review, with the aim to have significant and profound impacts on Saipem culture, business model, and risk profile.

As a matter of example, you can find on slide 11 an outline description of our top 5 technologic and innovation priorities on which we are and will be focusing on as part of our strategy to increase competitiveness and ensure future success.

Now let me hand the floor over to Alberto for the comment on the first-half 2015 financial results.

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

Thanks, Stefano, and good evening. As anticipated by Stefano, this quarter is heavily impacted by further deterioration of the environment, leading to a review of our risk assessment on working capital and asset base.

As a consequence, we have accounted for a write-off equal to EUR718 million, of which EUR618 million are regarding pending revenues and additional EUR100 million on overdue exposure in Venezuela. Pending revenues write-off were driven by the dramatic change in attitude of our clients as well as some additional country-specific issues on some projects.

It is now clear that the recovery of certain variation orders and claims can only be achieved through litigation, arbitration, or court case. This has led to a review of those amounts, keeping in mind commercial impacts, timing of recovery, and the overall interest of the Company.

As far as Venezuela is concerned, despite some encouraging signs of cash recovery at the beginning of the year, we have experienced a progressive deterioration of our exposure in parallel with the worsening of the country financial situation. Taking into account the cash impairments, our adjusted EBIT for the first half 2015 is equal to negative EUR579 million, while the reported EBIT stands at negative EUR790 million because of non-cash impairment on selected assets, as described by Stefano before, 5 vessels, and 2 fabrication yards for EUR211 million. Net income for the period is negative by EUR920 million.

Before the working capital write-off and accounting of non-cash items, the group underlying EBIT for the first half 2015 is equal to EUR139 million. This is an amount to help you with comparison before write-offs.

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If we look at slide 14, here we provide you with the breakdown of our adjusted financial results. In the first half of 2015, revenues totaled EUR5.4 billion, affected by approximately EUR500 million coming from the write-offs of pending revenues. Before this impact, the revenues would have been broadly in line with the same period of last year.

In terms of EBIT, before write-downs, the underlying result is EUR139 million. The result has been affected if compared with 2014 by worsening in engineering and construction onshore and offshore. In engineering and construction offshore, the margin has been affected by the reduced contribution of some Brazilian projects and the impact of the South Stream termination, which I remind occurred early in July, after the contract had been restarted in early May.

In engineering and construction onshore, underlying results had been affected by poor performance in some projects in the Middle East, Canada, and Nigeria. Underlying results in the drilling sector offshore as well as onshore were stable, with high fleet utilizations and reduction in rates well below those experienced in the industry, which is showing at the Brazilian model of our drilling business.

Turning now to adjusted EBIT, engineering and construction business was affected by pending revenues write-offs for an overall amount of EUR680 million (sic - see slide 14: EUR618 million), of which EUR572 million are related to onshore. Drilling onshore was impacted by the previously discussed write-off from receivables. Consequently, adjusted net income drops to a negative of EUR709 million before non-cash items.

Slide 17 (sic - see slide 15) shows the evolution of net debt. Net debt at June 30 reached the amount of EUR5.53 billion, with an increase of EUR1.11 billion since December 31 and EUR400 million year on year.

The operating cash flow generation of EUR390 million has exceeded CapEx expenditure of EUR270 billion (sic - see slide 15: EUR0.27 billion), showing a positive inflow. The increase of the debt, however, is mainly due to the negative impact of working capital deterioration as well as the temporary impact of settlement of hedging derivatives.

The worsening of working capital was mainly connected to new issues arising in Nigeria and Canada to the current situation in Brazil, mainly Petrobras, and to the increasing overdue in Venezuela.

With this, I leave Stefano to conclude with the rest of the presentation. Thank you.

Stefano Cao - *Saipem S.p.A. - CEO*

Thank you, Alberto. The following slides provide you with some indication regarding our business. In particularly, slide 17 is showing the evolution of our backlog.

The weakness highlighted in the first quarter has persisted. During the first half, new contracts for EUR3.5 billion have been awarded, mainly in the E&C offshore and including the Kashagan project awarded in Q1.

Among the acquisition of the second quarter, it is worth to mention an EPC contract in Saudi Arabia for offshore fixed facilities within the framework of the long-term agreement that has been recently renewed until 2021, confirming our good relationship with a long-term client such as Saudi Aramco.

Concerning drilling, in addition to the awards already anticipated in our Q1 presentation, tender assisted drilling at Scarabeo 6, Saipem has been awarded a new contract by NCD for offshore UAE activities with the Perro Negro 8 jack-up and the duration of 30 months. In the onshore drilling we signed new contracts for 14 land rigs.

In addition, as well-known to all of you, at the beginning of July, we received the termination notice of the South Stream contract, which resulted in a backlog reduction of approximately EUR1.2 billion. A reduction of EUR24 million is accountable to the Scarabeo 5 suspension. As a result, backlog stands at EUR19 billion, including parts of the South Stream impact. The backlog remains anyway solid and diversified across business segments, geographic areas and between topology of clients, NOCs and IOCs.

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In terms of year of execution -- and I'm now moving to slide 18 -- 27% will be booked in the current year, 40% in 2016, and the remaining 32% in 2017 and onwards. In addition, the backlog assures a good mix and visibility for the next years.

Let me now provide an update on drilling. Taking into consideration the important drilling award in the half, we thought it was appropriate to provide you with an overview of our drilling commitments. The mentioned new contract Perro Negro 8 jack-up is strengthening our good presence in Middle East, securing an additional 30 months contract with NDC in UAE. Further, we also signed a contract for the drilling of one well offshore Nigeria for Scarabeo 3.

Our deepwater and shallow water fleet is substantially fully employed, and ongoing commitments confirm good coverage up to 2017. Our commercial team is already working with the aim to ensure visibility beyond 2017. Regarding onshore drilling, our fleet is still expected to experience a good level of utilization in 2015. And in the second quarter, we extended that, our concluded contracts for 14 land rigs in Latin America and Italy. Notwithstanding the difficult context, we estimate a limited impact for Saipem in 2015, thanks to our long-standing relationship and the support from the US dollar appreciation.

In conclusion, our drilling business model is proving to be more adaptable and resilient in the current severe market contraction.

In slide 20, we are showing the principal E&C projects that we are targeting today with a focus mainly to the ones we believe will be sanctioned in the current year and early 2016. Among the opportunities showed in the slide, there are some which are in an advanced negotiation phase with clients or are waiting for the final investment decision, which under the current context, are subject to delays due to budget constraints and cost discipline reasons.

As you may understand, I will not enter into many details as the matter is commercially sensitive. A cumulative value of the opportunities showed in the slide is roughly EUR31 billion -- EUR14 billion in the offshore and EUR17 billion in the onshore. So despite the oil price evolution, we are quite optimistic that a good number of these opportunities will fly within a reasonable length of time.

In slide 21, we highlight those initiatives under an advanced status of tendering and negotiation and which we are confident of a positive outcome. As it can be appreciated, the overall amount of these initiatives is above EUR5 billion.

Let me now provide you some indication on the guidance. Revenues are expected to be around EUR12 billion. If it adjusted, will be equal to a negative EUR250 million, reflecting first-half write-offs. Net result will be equal to a negative EUR800 million based on reported EBIT of negative EUR450 million. Expected CapEx is below EUR600 million after rationalization initiatives. Net debt target of EUR5 billion excludes potential impact of currency fluctuation that, as already anticipated, are expected to remain equal to approximately EUR500 million by year-end.

In conclusion, and before turning to the question-and-answer session, I'd like to summarize the key messages we are highlighting in this presentation. Four bullets. The market context is impacting short-term outlook. Appropriate values and competencies enabling to face market challenges are a specific feature of the Company. Action addressed to tackle immediate priorities are already ongoing. New strategic approach for a renewed future leadership is the motto which we'll intend to have going forward.

Thank you very much for your attention, and now I'll turn the floor for the question and answers.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Amy Wong, UBS.

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Amy Wong - *UBS - Analyst*

I have a couple of questions. Firstly, taking into account the context of the restructuring and the strategic update that we wait for in the third quarter, can you just touch on some of the medium-term guidance that you issued towards the end of 2014, in terms of the longer-term normalized level of earnings for your construction businesses, and the kind of margin that you are targeting, please? Thank you.

Stefano Cao - *Saipem S.p.A. - CEO*

Okay, Alberto.

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

Okay, yes, of course there is a clear discontinuity at the moment because we are working on the new strategic, so I would rather leave at that time to give you more detailed answer to your question. Having said that, we have in the past set some mid-term targets, 5% for in terms of margin, at 5% of the onshore at EBIT level, and single-high-digit for the floaters as well as double-digit for the offshore.

This has been the base of our commercial selective miss. And this is confirmed -- it is clear that in the current context, there is overall in the industry a pressure on this margin. But as I said in the next presentation in the strategic presentation, we will review our plan and we will be more detailed on this item.

Amy Wong - *UBS - Analyst*

All right, thank you very much. Just one more question then. On your pending revenues, there's been -- can you just give an update on where that balance stands now after the write-down? And if there were any collections during the quarter, please? Thank you.

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

Yes. Yes, the pending -- the remaining balance of pending revenues basically is around EUR800 million. You have to consider that EUR320 million approximately is the amount of the arbitration case that we have with Sonatrach. This is a very linear process. We do not -- we expect this to go through the application process for some time.

And the reason is, of course, that we are not currently talking to Sonatrach. The remaining is a logical amount which is in a way deleting the concept of pending revenues from our future presentation, because it's clearly physiological the amount in the region of 5% or 6% of our revenues.

Amy Wong - *UBS - Analyst*

Great, thank you very much. I'll turn it over.

Operator

Christyan Malek, Nomura International.

Christyan Malek - *Nomura International - Analyst*

Just two questions from me. First of all, in terms of the backlog that you have that's going to be executed in the next few years, I noticed in your release that countries that have sort of popped up as new or were issued on new on Nigeria and Brazil.

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Can you tell us whether you've been able to draw a line with these charges on projects that have been awarded under the leadership of Umberto? Or could we see you'll face further charges incremental as this new work is unwound?

The second question comes to your balance sheet, the debate around whether you do a rights issue has been on and off over the last 12 months. How exactly do you plan to take your debt down over the next 12 months, given in some ways it limits how you can win work if you've got that sort of balance sheet? Is there an urgency, or will E&I continue to fund and subsidize your debt as you go through this downturn?

Stefano Cao - *Saipem S.p.A. - CEO*

Okay. As far as the question is concerned, I would say that I spent the -- I would -- not the bulk but a considerable part of my 30 -- 90 days with Saipem, going deeply through each and every project, which at the moment are being pulled by the Company, with obviously a certain higher emphasis on the so-called legacy contracts which are unfortunately providing the pending regulators.

And the outcome is that I certainly have to recognize that the work which Umberto has been doing in the past couple of years has been certainly of marking a clear sign of discontinuity in terms of lifting the target of returns for the project. So, all in all, my assessment is that we are moving towards some sort of normalization in terms of the result of project. We are still obviously together for the remaining portion of the legacy contract, but all in all, I'm much more optimistic on the project which have been awarded in the last two years.

In terms of balance sheet and debt?

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

Yes. About your question, I can only answer with my usual way to answer to this question which is, unfortunately, the disappointing part is that the debt is growing. So we are certainly aimed to reduce this debt. That and this will be part of and the main driver of our strategic plan. In terms of what we are doing, we are continuing to do our homework. And we are working to make sure that whenever there will be a necessity for the Company to being -- to be standalone from financing point of view, we have options on the table. And that is the only answer I can give you about that.

Christyan Malek - *Nomura International - Analyst*

And just to sort of follow-up, just to be clear, so the rights issue is one of your options in terms of the various scenarios that you are looking at?

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

Yes, there are a lot of options. And among the options there are all the usual, let's say, financing opportunities like IT issues, bonds, mid-term loans and whatever. Yes.

Christyan Malek - *Nomura International - Analyst*

Right. And a time frame around that, is there an axis of time you'd like to provide for that within the next 6 to 12 months? Two years or can you --? Is it open-ended?

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Stefano Cao - *Saipem S.p.A. - CEO*

I think it is fair to say that at the moment, we are fully concentrating on the development of the revised three-year plan. This is already a very difficult task, and as I have the opportunity to say, we'll come forward with the results of the third quarter, providing education and guidance on the revised three-year plan. So, I would say that is the -- at the moment, that is the priority and we'll actively be working on that.

Christyan Malek - *Nomura International - Analyst*

And sorry, just two more follow-ups. The DOJ, have there been -- has there been an outcome in terms of the 20 agreements being extended? Is that still open-ended? And the second question is, just to be clear, my first question to start with -- are there any projects, one, under the leadership of Umberto that have charges against them and the new charges you've put in today?

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

I'll start with DOJ. The answer is still nothing new, which means that we still have the tolling agreement with the DOJ. We haven't been -- we haven't received any specific charge from the DOJ, which means that we are only exchanging some information. As far as the charges, we mentioned Canada and Nigeria. We're not talking about new projects but we are talking still about projects awarded before 2013.

Christyan Malek - *Nomura International - Analyst*

Okay, thank you very much.

Operator

Mick Pickup, Barclays.

Mick Pickup - *Barclays Capital - Analyst*

A couple of questions of Jaime. Just following on from these questions, I think, Alberto, you mentioned medium-term guidance, and I know, Stefano, you are going to give new guidance. But am I correct in assuming that your message is we take out EUR1.3 billion of cost and we need that to deliver what we are thinking we could deliver 18 months ago, is a first question?

Stefano Cao - *Saipem S.p.A. - CEO*

Okay, I think it's up to briefly summarize what we -- the exercise a week have been going through. The total cost we incur in 2014 is about EUR12.7 billion. The exercise which we managed to do in such a short period of time is to concentrate on these costs and we have been analyzing 21% of the total costs as costs related to the procurement. And 74% to the operational activities of the Company.

So, at the moment, we have been working to identify the 150 projects -- Saipem, the project management company. So, that is the way we operate. So each and every risk project as a (inaudible) manager as a point of reference. So at the moment, this is the exercise which we have done. Then, as far as the impact which we expect also in terms of impact of on (inaudible) going forward is something which we'll be assessing during the course of the preparation of the revised plan, and indeed in -- with the third quarter, we'll give you more light on this.

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Mick Pickup - *Barclays Capital - Analyst*

Okay. That's the first question. Second question, you mentioned your focus on technologies. And you mentioned a lot of in-house technologies. A lot of your peers seem to be going more down the alliances and a vertical integration round. You think Saipem has missed anything while it's been licking its wounds?

Stefano Cao - *Saipem S.p.A. - CEO*

My -- I think if you recall, I presented a slide that did not comment it on purpose. I think what I wanted to give as a clear signal is that technology is going to be essential for the future of the Company. We'll devote -- we -- I'm referring to me and my management team -- devote a lot of time going forward to identify what at the moment is missing in our portfolio on technology. And the aim is not to copy what others may be doing but what the purpose is to identify the developing line for the technology which we need.

Mick Pickup - *Barclays Capital - Analyst*

Okay, and finally, Alberto, how much legacy have you got left in the timing on that?

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

Sorry? How much?

Mick Pickup - *Barclays Capital - Analyst*

Legacy contracts have you got left and the timing?

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

Yes, the backlog. The backlog seem to be executed in 2015 is around EUR900 million and EUR500 million onshore and EUR400 million offshore.

Stefano Cao - *Saipem S.p.A. - CEO*

Legacy contracts.

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

Legacy contracts, yes. And there will be a small [queue] in 2016 but not relevant.

Mick Pickup - *Barclays Capital - Analyst*

Okay, that's all for me, thank you.

Operator

Peter Testa, One Investments.

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Peter Testa - *One Investments - Analyst*

Just one -- thinking about your plans on reorganizing the Company in light of the backlog you have for delivery, and thinking about the fact that you need to maintain the capabilities for the contract one, manage with intended costs and schedule, how does the execution of the backlog to some degree dictate the pace at which you can change and the capabilities and structure of the Company?

Stefano Cao - *Saipem S.p.A. - CEO*

I would say the backlog which you have the moment is as I said diversified and sizable and of indeed they are a good quality. We have an internal process which lead us to decide which opportunity to pursue and where. Just as a matter of an example, I think I've been talking through the faculties generated by the low oil price. But in this we have to agree that there is an area of the world where the oil price is not dictating anything. And this is Middle East.

So we all know that adding an exposure to countries such as Saudi Arabia, Kuwait, Emirates, at the moment is certainly a plus. So, while waiting for these opportunities in offshore construction and deep offshore construction to regain momentum, we certainly think that a good quality opportunity on the E&C, onshore E&C is certainly worth pursuing, and you have seen from the list that there are two situations inchoate where we have been announced -- we have been declared the low bidder, and certainly we will be eager to undertake and carry out those projects.

Peter Testa - *One Investments - Analyst*

Yes, and those are certainly good news. Actually I was thinking more about when looking at your reorganization plan, the extent to which the elements of it are straight spare capacity, but elements of it will have to wait until you execute certain projects, freeing up yards, people, and teams to then start to reorganize. Because you cannot take the contract risk of not promptly executing to tendered cost and schedule.

Stefano Cao - *Saipem S.p.A. - CEO*

No. And I reckon that flexibility is the credo of the game. We have to be flexible enough to improve the efficiency whenever required, but at the same time we have to be ready to cover the projects of opportunity. I would say this is the sort of core competence of the Company.

Peter Testa - *One Investments - Analyst*

Yes. And in light of that as a question, just in thinking about changing the revenue capacity of Saipem. Looking at the Saipem going forward post-reorganization, how do you think the revenue capacity of Saipem will be altered by the experience you are about to go through?

Stefano Cao - *Saipem S.p.A. - CEO*

In terms of average revenues per year, is that the --?

Peter Testa - *One Investments - Analyst*

Yes, the extent to which you think you can deliver the -- obviously you are going to shrink the Company and there may be a change in the potential revenue capacity that Saipem has as a result of that.

Stefano Cao - *Saipem S.p.A. - CEO*

I would say then in general terms, I would aim for E&C onshore in the range of EUR4 billion. And the offshore construction EUR5 billion or more hopefully, and the rest drilling which is much more -- obviously much more stable.

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Peter Testa - *One Investments - Analyst*

And last question, please, just when thinking about the backlog that you have, and you mentioned earlier that the issues that have arisen are still pre-2013 contracts, but you also mentioned the change in the environment and strict payment into contract terms being adhered to.

Can you say whether you've had any particular issues or whether you look at that backlog and say we could have other issues like this going forward in terms of days outstanding sales, time to collect, that will change the, say, working capital flow-through of your backlog going forward? I don't mean bad debts or problems that you've had on major contracts, but just an overall increased working capital level required because of the environment also affecting the current backlog.

Stefano Cao - *Saipem S.p.A. - CEO*

As I said to Robert, after my 90 days, I would say that in terms of the parts of the backlog which has been acquired post-2013 I feel quite confident. If I had to mention one instance which has definitely made me quite unhappy, it's the cancellation of South Stream. That indeed is a project and it's all right that it would have made substantial difference.

Peter Testa - *One Investments - Analyst*

Okay. Thanks for the answers and interested in what happens at the Q3 show. Thank you.

Operator

Nick Green, Bernstein.

Nick Green - *Bernstein - Analyst*

I would like to just probably follow on from last questions, please, on the cost plan. And particularly around your sense as to whether the plan you've put down will be sufficient for the -- I guess the extent of the difficulties in the next two years ahead. One way of looking at this, for example, is the headcount reduction will get you back to about where you were in 2012. Order intake in 2012 was about EUR13 billion, whereas this year it could easily be half that number.

So, looking forward, is your sense that the cost plan in terms of vessel reduction and headcount reduction will be sufficient? Or do you think we may need to have a second round? Thank you.

Stefano Cao - *Saipem S.p.A. - CEO*

I would say that in terms of, I would say that the -- let me be quite frank. I don't know whether this is sufficient or not and let me be straight. I think time will tell us and certainly I'm prepared to do more if at all needed and required. But I think if the headcount -- in my view, headcount is not the only measure in for the capability of doing projects. I think efficiency is something which is much more important.

You have always to be selective in the amount of work which is -- you subcontract in the amount of work which you carry out personally. So I think we shall have to take judgment going forward.

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Nick Green - *Bernstein - Analyst*

Yes, okay. Thank you. So would you -- would it be fair to -- should we see this as a down payment, if you like, on a deeper strategic plan that may be announced in Q3? Or do you intend the Q3 plan to be at a fuller description of the plan you've outlined today?

Stefano Cao - *Saipem S.p.A. - CEO*

It will be the latter. It's not a down payment, how much you want. It is -- I would say it is -- let me say the process. As soon as I came here, I realized that I had to launch a major efficiency program. Then of course we have to work on the six-month results and at the same time, we had launched the revision of the plan.

You know, doing the two things in parallel, we realized that we were coming to conclusion and decision which had to be accounted for in the six-month results. That's the reason why you see a number of items which are being considered. But all in all, we'll keep working on developing a three-year plan. But I would say that at the moment, we see as the bulk of the measure. The measures we intend to pursue. EUR1.3 billion is at the moment the best investment of the target which we are setting.

Nick Green - *Bernstein - Analyst*

Very good. Thank you for that. Just one quick follow-up for Alberto, please. I may have misread this but I thought when we spoke earlier in the call, you mentioned EUR800 million of pending revenues left of which EUR320 million related to the arbitration with Sonatrach. So, if that was the case and I heard that correctly, just a question -- why have we not written off the EUR320 million associated with the Sonatrach arbitration? Why continue with such a large balance when it may prove a problem in the future as well? Thank you.

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

That's a good question. But I believe that, unlike some of the negotiation that we had ongoing with some interventional companies, that we realized that the only way to defend the amount in the balance sheet was to push arbitration of court case. And that's -- in our opinion, this was not necessarily in the best interest of the Company as a whole from a commercial point of view, and also considering cash flow needs -- immediately cash flow needs of the Company.

Algeria is a very straightforward case. I think we have a very strong case there. Our lawyers are certainly supporting us with requests that are far beyond the amount that we have in the balance sheet. And at the moment, we believe that the only way to sort out the Algerian dispute is through arbitration.

So, being consistent with this approach from an accounting point of view, and also to, let's say, defend at the best the interest of the Company, we believe that this is in a way it's not any more pending revenue. It is an arbitration case. So we are moving it into arbitration and of course, we don't have any reason based on this assessment to write off the amount.

Nick Green - *Bernstein - Analyst*

Okay, thank you. Just to clarify -- just to confirm that point you think investors should no longer be worried at all about the working capital balance? The level that it will be at in the midyear results? Isn't a concern going forward? You've weeded out the problem projects in that working capital balance?

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

Yes.

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Nick Green - *Bernstein - Analyst*

Okay, thank you very much.

Operator

Rob Pulleyn, Morgan Stanley.

Rob Pulleyn - *Morgan Stanley - Analyst*

I still have a few questions. First of all, in terms of the net debt guidance for the end of the year, you communicated ex the foreign exchange movement of EUR500 million. Does that signify you expect that to reverse in 2016?

The second question, if I may, in terms of the Middle East projects you refer to in the publication impacting onshore margins, when will those projects -- and could you give a little bit more color as to exactly which projects that refers to?

And the third one -- and I'll limit it to three -- is when you talk about downsizing your local content and the yard facilities in areas which are no longer strategic, you mentioned Brazil. So just to absolutely clarify, Brazil is no longer of strategic interests to Saipem? Thank you.

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

I will answer for the Forex. Yes, the amount of the reversal will be unwinded in the future, not only in 2016 but even 2017. Because we have our hedging policies between 12 and 18 months.

Stefano Cao - *Saipem S.p.A. - CEO*

I will reply Brazil, and then I'll ask Gigi to comment on the Middle East. Brazil -- I think I never said we are not interested in Brazil. Since my old days at Saipem, Brazil has always been at Saipem, an important part of the portfolio. The -- I would say the strategic approach is different.

Rather than being there and covering the old spectrum of activities, we definitely pursue deepwater opportunities, surf opportunities in Brazil, if necessary relying on the local industry, which is quite capable of providing anything which we may need. So it is not a strategic decision. We have a fabrication yard there. We'll pursue the best utilization for the yard. We may be downsizing the yard if we find some interested buyer to share their yard with us.

Middle East, Gigi?

Gigi Caselli - *Saipem S.p.A. - COO*

Well, the Middle East on land and water stuff just mentioned is -- will remain one of our core areas where we are going to operate. The first matter we're going to push opportunities as we are pushing in the last two years, opportunities that are comparable and right for our type of expected return and the level of risk that we want to take. And the complexity of the projects that we want to try to achieve.

Stefano Cao - *Saipem S.p.A. - CEO*

I think you are referring to Shah maybe? Are you referring to a particular project?

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Rob Pulleyn - *Morgan Stanley - Analyst*

Yes, so I was wondering sort of which particular project had underperformed that you mentioned in the Middle East? You know, Shah, you mentioned. Are there any others which are problematic? And when will they finish?

Gigi Caselli - *Saipem S.p.A. - COO*

It's not a matter of being problematic in the sense that the project is problematic. There are situation whereby you have some difficulties at the certain stage of a project because you encounter some operational difficulties and that we have overcome. And then the project takes longer than expected. The project that we are mentioning we're adding having difficulties during the commissioning phase and this commissioning takes a little bit longer. The operational issue is not --

Stefano Cao - *Saipem S.p.A. - CEO*

And it is known that in that country, you discuss the claims and variation at the end of the project.

Rob Pulleyn - *Morgan Stanley - Analyst*

That's helpful. And one last one if I may and then I'll hand it over. You talk about the strategic review being delivered at the third quarter. Is it fair to say that there could be further write-downs of assets once you've actually completed the strategic review and maybe what assets you do or do not need for Saipem going forward?

Stefano Cao - *Saipem S.p.A. - CEO*

Quite frankly, I think we have identified a number of initiatives. The complete set of initiatives you will see then in connection with our Investor Day. In that situation, we may come forward with some of their indications but I would say that's what you are getting today is the bulk of the initiatives.

Rob Pulleyn - *Morgan Stanley - Analyst*

Okay, that's good to hear and I'll turn it over. Thank you very much.

Operator

James Evans, Exane BNP Paribas.

James Evans - *Exane BNP Paribas - Analyst*

Thanks for taking my questions. Just a couple from me. Firstly, I don't know if you've talked about the cash cost of the restructuring. What do you think the cost will be to achieve? And I guess related to that, what sort of a contracted permit employee mix when you are thinking about these reductions you are going to make in headcount?

And secondly, I just -- I don't know if it's possible for you to announce this, but obviously a lot of debate out there. If Saipem is independent, what's the right level or the maximum level of net debt you think you can carry, obviously bearing in mind you've got some working capital recovery in the CapEx reduction coming through? Thanks.

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Stefano Cao - *Saipem S.p.A. - CEO*

I think I'll enter deferred. The EUR1.3 billion is already net of the cost to achieve the reduction. And then, in terms of the flexibility, you know the 8,800 people are largely made up of the operation which have been discontinued. Some projects which are finishing and basically, we intend to achieve that, knowing that we have a sufficient degree of flexibility in the -- within the labor organization. So, it's -- our resources which are located in counties where we have -- in 65 countries where we have operations. And Alberto?

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

Well, in terms of that net debt, I don't think there is a real magic figure or some maximum net debt that we can achieve as a company. I can only tell you that sometimes in the past, we have -- in the recent past, we have reached an even higher level of debt than now. But certainly we -- the plan we are discussing now with Stefano and the management team will be certainly of that driven plan, because it is clear that it is our intention to reduce as much as we can organically this amount of debt that is definitely high for a Company like us.

James Evans - *Exane BNP Paribas - Analyst*

Thank you very much.

Operator

David Farrell, Macquarie Securities.

David Farrell - *Macquarie Research - Analyst*

Most of my questions have already been asked, but a couple of final ones. Firstly, in terms of South Stream, should we be expecting any compensation to be due to you in the second half of the year?

And then secondly, in terms of the competitive market for bidding, is that predominantly the offshore market? Or does that also encompass the onshore E&C division? Thank you.

Stefano Cao - *Saipem S.p.A. - CEO*

In terms of cancellation, the South Stream cancellation obviously, this is something which is ongoing while we speak. Definitely there are a number of provision in the contract and obviously, we are applying for that.

But there are another effect of cost, which are related with the fact that we had a suspension. The suspension then was lifted. We restarted the operation and then the contract has been canceled. So that creates a fairly complex situation which we are dealing with at the moment, that certainly going forward, we shall add a better -- we shall have a better view and we'll let you know.

David Farrell - *Macquarie Research - Analyst*

Okay. And then just in terms of competition stuff relative to onshore?

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Stefano Cao - *Saipem S.p.A. - CEO*

Yes, competition. Competition, I think as always they start, but I would say that the approach which we are indeed taking is that we prepare the fact of the costs which we envisage for the execution of the contract. We value the contingency which we think are appropriate. We then multiply for G&A and profit. And we come forward; we present our price.

If somebody is either able -- which I doubt -- but which are eager to get the contract at total cost, it's their choice. Fine. We'll miss it. I think earlier on, I was making reference to Middle East and not a lot number of opportunities on the onshore there. We are at the moment pursuing all those opportunities which are -- which falls under the category of opportunities considered interesting for us. But if we get it, fine. If we won't, it's fine as well.

David Farrell - *Macquarie Research - Analyst*

Okay. Thank you very much.

Operator

Daniel Butcher, JPMorgan.

Daniel Butcher - *JPMorgan - Analyst*

I had a couple of questions. Just the first one, if I can. On slide 20, you give a welcome figure of EUR31 billion for your gross opportunities. I was wondering whether you could sort of give us a feel for in your internal planning what potential of those you think will actually go to FID in the next 12 months. And what you think your risked likelihood of winning those is.

Gigi Caselli - *Saipem S.p.A. - COO*

Can you say again? Slide 20? Yes? Where we show all the opportunities and we give a bulk figure for the bulk of it. What was the question about it?

Daniel Butcher - *JPMorgan - Analyst*

Sorry. The question was the bulk figure is EUR31 billion. I'm wondering whether you could share with us your internal view on how many of those will actually go to FID and be sanctioned in the next 12 months. And what you sort of think is the potential you could win.

Gigi Caselli - *Saipem S.p.A. - COO*

Well, the EUR28 billion is the overall scenario that is presented in the slide. Then, out of which the FID is just relevant to a few of those. And if you see the slide on page 21, there is the elements -- for instance, one of those projects that are still under FID, the definition. So, of course, these are the targets that we have in our other screen.

As you can see from the slide, there are some that are a red cross that mean that there will be a loss of those bids. There are many others that we are proposing aggressively. And you can expect that giving the extreme sensible nature of this project, it will be extremely inappropriate for me to say which one I am more interested rather than the other.

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I can say that broadly, we are considering all of those and we hope that our hit ratio will be quite positive. Notwithstanding the fact that as our CEO just mentioned, this means that we have submitted remain within those strict parameter that we have fixed covering the [stoner] as a pillar for the proper pricing.

If I just may have -- if I had to select one of the project leases which I think represents the -- let me allow me use the word ideal target for a number of reason. This is the Anadarko onshore LNG. Both for the scope of work, LNG is becoming more and more important in our portfolio. For the importance of the project; for the level of the partnership of which we have put together with the Chicago Bridge and Chiyoda. So I would say that you know, if I had to seize one of those example, I would certainly refer to this.

Daniel Butcher - *JPMorgan - Analyst*

Okay. Thank you. And second question, just on the four E&C vessels you are looking at scrapping. Will those actually be scrapped or will they be stacked or otherwise retired, where they can come back and be used at some later date if the market comes back?

And just secondly, what else are you seeing in the market in terms of the level of desirability just to scrap vessels rather than stacked them?

Stefano Cao - *Saipem S.p.A. - CEO*

I'm not sure I understand the second. The first question, I just say that we are cutting in two pieces. That's more or less possible. So that nobody else can use them. (inaudible) What was the second?

Daniel Butcher - *JPMorgan - Analyst*

Sorry. I was just asking what you see as a trend in with other players in the market with their subsea vessels? Do you think they will be stacking theirs or do you think they'll be cutting theirs in half as well?

Stefano Cao - *Saipem S.p.A. - CEO*

I cannot comment on other views. I can tell you this is what we will do. Whenever there will be a decision, then I can tell you that for instance, one of the vessels has already been sold for scrap yesterday. One of the five. So -- and the amount of the valuation which we have shown is net of the amount which we reckon to recover out of the physical scrapping of the asset.

Daniel Butcher - *JPMorgan - Analyst*

Okay, no worries. Are you able to share with us which vessels it is or is that confidential?

Stefano Cao - *Saipem S.p.A. - CEO*

No. It's three vessel.

Gigi Caselli - *Saipem S.p.A. - COO*

Scarabeo 4.

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Stefano Cao - *Saipem S.p.A. - CEO*

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Daniel Butcher - *JPMorgan - Analyst*

I'm sorry. And the other four?

Stefano Cao - *Saipem S.p.A. - CEO*

The other four, we'll let you know in September.

Daniel Butcher - *JPMorgan - Analyst*

Okay. Thank you very much.

Operator

Mukhtar Garadaghi, Citigroup.

Mukhtar Garadaghi - *Citigroup - Analyst*

Thanks for taking the question. First of all, could you please detail of that EUR12.7 billion cost base, how much of that is sort of fixed non-project-related cost? And in that context, just thinking about the operating leverage, what sort of -- what's sort of sustainable caught in percentage base is that EUR1.3 billion over the 3 years represents?

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

I will answer the first question, which is out of those EUR12.4 billion, we have around EUR2 billion of costs that are not specifically project-related. So they are either G&A and overhead or business unit cost not necessarily specifically allocated to the projects.

Of course, in this amount, there is also the idleness. Whenever we have idleness in the yards or in the vessels. Okay? And this is the amount, the baseline that we have utilized in order to make our -- identify our actions. I think I've missed your second question.

Mukhtar Garadaghi - *Citigroup - Analyst*

My question kind of relates -- it's kind of the same thing in terms of if you strip out procurement, what sort of percentage of cost are you cutting by on a sustainable basis over 2016 and 2017?

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

Okay, yes, of course. The way you have to see it is maybe by nature is more -- it's easier to understand. So we are working -- we have identified EUR500 million that are related to geographic footprint optimization, which means basically reduction in the pricing in some geographic areas. Then a lot of costs are related to complex -- reduction of complexity and process optimization.

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And of course in the process, optimization procurement is there. Then you have also fixed fleet and [raft] optimization and reduction of expenditure in the G&A. EUR600 million is not related with procurement.

Mukhtar Garadaghi - *Citigroup - Analyst*

Okay. And just the second question, around your current debt levels, just very quickly. Do you feel any pressure from your clients or your largest shareholder? Or do you think you do have this time to organically recover? Or is there any issues with bidding or otherwise because of your high debt levels?

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

Yes, of course. We are feeling a lot of pressure. I would say that the main pressure is within the management team and within the Company. Because as I say, it is clear that when we started with Stefano, but of course, it was something that we were discussing with Umberto as well. But when we started with Stefano, our brainstorming and our analysis to prepare the plan, that that is I would say certainly the first priority for the Company. So that's why we are working on this plan with this issue.

Mukhtar Garadaghi - *Citigroup - Analyst*

Okay. Thanks very much, Alberto.

Operator

Bertrand Hodee, Raymond James.

Bertrand Hodee - *Raymond James Euro Equities - Analyst*

Thanks for taking my question. Most of my question have been answered, but just want to quick a follow-up on the pending revenues. So at the end of Q1, you had EUR1.1 billion of pending revenues. You wrote off around EUR0.6 billion, if I understood well. So the remaining balance should been EUR0.5 billion.

But you indicated instead that you have still EUR0.8 billion. So EUR800 million of pending revenues. So it means that EUR300 million of new pending revenues of claims have emerged during the quarter. Is that correct?

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

Yes. That is correct. And we referred to some specific issues that we experienced in Nigeria and Canada.

Bertrand Hodee - *Raymond James Euro Equities - Analyst*

Okay, thank you.

Operator

Luigi de Bellis, Equita SIM.

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Luigi de Bellis - *Equita SIM - Analyst*

Four quick questions for me. The first one is on the guidance for 2015. Could you split your new guidance of EBIT adjusted between drilling and E&C? And the second question, looking at your total cost, how much are your fixed-cost base only for the E&C division?

And the third question on the cost-saving program, how much are variable cost savings and fixed-cost savings even in this case only for the E&C division, if it's possible. The last question, when you mentioned that Saipem will focus on core business, this will include the onshore drilling business? Thank you.

Stefano Cao - *Saipem S.p.A. - CEO*

I think I will answer to the last question. I will say that the portfolio I found coming back to Saipem is a price balanced one. I would say that you know, having in the portfolio a business such as the drilling, which has sort of stable evolution. Obviously following that with fabless vagaries, the price of oil is something which provides a good supporting base.

Then, I mentioned already -- I mentioned in one of these on previous questions that being in the E&C onshore at the moment is more than a plus. And I was referring to particularly the world where certainly there are opportunities.

And you know, I would say core business in technological terms is offshore E&C. Certainly, strategically, we shall have to do a lot of work to devise and design a future strategy for the offshore E&C, complementing wherever necessary the set of capabilities which we have already have in-house.

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

I will try to answer on the EBITDA question. The easiest one is drilling. Drilling offshore will show has not been affected by except from non-cash items, so the EBITDA will be more than EUR500 million. Drilling onshore EUR260 million, but you have to take out the EUR100 million receivables.

E&C onshore is a negative EBITDA furtherly, let's say, affected by pending revenues. Whereas more than EUR500 million is the EBITDA of E&C offshore that has been only partially affected by pending revenues. The remaining question, I'm sorry I have to ask you to repeat. Because (multiple speakers)

Luigi de Bellis - *Equita SIM - Analyst*

Sure, sure. On looking at your total cost in particular for the E&C division, how much are fixed costs and how much are variable. And on the cost-saving program, how much are variable cost savings and how much fixed-cost savings, even in this case only for the E&C division, if this is possible. Thank you.

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

Yes, we are not -- say we are not reasoning in the Company in terms of fixed cost for division, because we have a corporate view and we have fixed costs of the Company that are eventually allocated to the division. So as I say, the EUR2 billion is the amount you have to take into consideration in terms of costs that are not directly linked with the projects.

But we don't have discomfort in terms of E&C ordering. As far as the result, let's say, the way these Fit for the Future program will impact in the plan, I would refer you to the plan presentation.

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Luigi de Bellis - *Equita SIM - Analyst*

Okay. Thank you very much.

Operator

Giuseppe Rebuzzini, Fidentiis.

Giuseppe Rebuzzini - *Fidentiis - Analyst*

Good evening, gentlemen. Thank you for taking my questions. I've got a question again about the 2015 guidance. And well, I see that the EBIT guidance is minus EUR450 million coming from a minus EUR790 million stated in the first half of the year, which means that as far as I understand, that they are projecting to have a positive EBIT in the range of EUR340 million in the second half of the year.

I wonder whether you can tell us if first, if you consider the compensation, some sort of compensation from South Stream into this figure. And second, what is your assumption in terms of cost savings in the second half of 2015, which will positively affect this figure?

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

Okay. Well, first of all, the improvement from the first half and the second half is just arithmetic result of the fact that we took into consideration all the write-downs in the first half. Having said that, as far as South Stream, we have taken of view in terms of the potential compensation, which is according to what is written into the contract.

And as far as saving, yes, there is an impact of the saving of the Fit for the Future. But it's, let's say, still not significant because we have identified -- we have just identified the option and we have to implement it in the second half.

Giuseppe Rebuzzini - *Fidentiis - Analyst*

Okay. And if I may, another question which refers to the second quarter underlying EBIT. We see that in the first half, underlying EBIT is EUR139 million, which means that the second quarter-underlying EBIT would be minus EUR20 million if, again, the math is correct.

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

Yes, it's correct.

Giuseppe Rebuzzini - *Fidentiis - Analyst*

Can I ask --? Okay.

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

I mean, I just explain you. Of course, we have that in the offshore, we suffered with the termination of South Stream, so we had to recalculate the impact of South Stream in the offshore as well as some minor hiccups on some Brazilian projects. Whereas in the onshore, we had some deterioration, some worsening in Canada, Nigeria, and Middle East.

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Giuseppe Rebuzzini - *Fidentiis - Analyst*

Okay, thank you.

Operator

Andrea Scauri, Mediobanca.

Andrea Scauri - *Mediobanca - Analyst*

My question refers to potential disposal of assets that might be considered in your plan. Are you considering any potential minor disposals in order to drive down the debt? I.e., you already commented on the drilling onshore, if I'm correct. I was wondering if there are assets that could be sold on the market now? Thank you.

Gigi Caselli - *Saipem S.p.A. - COO*

No. Let me answer straightforwardly. We shall not be selling any asset to the market. That's in terms of the strategy. The vessel -- the divestment which we have mentioned on the four vessels in construction and one in drilling, the one on drilling is already operational.

Going forward, one of the outcome -- one of the outcome which you know will be guiding us for the efficiency program is certainly the redefinition of the perimeter of business of the Company. And certainly, there are certain, you know, maybe not sizable, but altogether still significant business lines which we'll be exiting from.

Reference is, for instance, to the FPSO. FPSO is a highly intense -- capital-intensive activity. Our interest in the building and supply of the FPSO; we are not particularly interested in the management. So we will certainly consider divesting from an FPSO.

Then there is the environmental business line. Not a sizable one, but which is of interest of another company of Eni. So we are considering the process of selling the activity to this other company. That would employ 110 people, which will move from Saipem. So these 110 people will be accounted in the 8,800 people of the total exercise.

Then, we shall consider also other business line. But again, we'll come back in September with more details. But you know, the business line of infrastructure is one which we may consider.

Andrea Scauri - *Mediobanca - Analyst*

Okay, very clear. Thank you.

Operator

Guillaume Delaby, Societe Generale.

Guillaume Delaby - *Societe Generale - Analyst*

Thank you very, very much for taking my question that late. To be honest, I'm a little bit confused regarding fixed cost and viable cost. I really understood that you said that, really, EUR2 billion of your costs are fixed, but you intend in your EUR1.3 billion cost setting, you intend to reduce on those [EUR1.36 million] and EUR1 million are fixed cost. So I'm really struggling to reconcile the two.

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

Okay. EUR2 billion cost are not necessarily fixed costs. We say that EUR2 billion cost are the costs that are not directly in 2014, where the costs that were not directly linked and allocated to the projects. So partly it's a structure of our SG&A structure and partly business unit costs that are not directly charged to the structure. An example is all the people working for tendering. So commercial people working for tendering. Another example is idleness in the yards in the vessel.

So the thing is not so straightforward. When we identified the saving, we identified the saving considering all fixed cost or, let's say, G&A and other type costs as well as project costs. So we have worked from a different perspective. We didn't look from a perspective of fixed and variable costs. But we looked at the cost in 2014 and we have identified 150 options -- around 150 actions to reduce this cost. Regardless if they were fixed or variable.

As I said, when we will show you the plan, we will give you more visibility and more clarity on the impact on the plan and on the EBIT for the next years.

Guillaume Delaby - *Societe Generale - Analyst*

Thank you very much.

Operator

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

Stefano Cao - *Saipem S.p.A. - CEO*

Very good. Thank you. Have a good evening and thank you for participating.

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