



saipem

## PRESS RELEASE

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### **SAIPEM: New 2013 guidance driven by escalating commercial difficulties in Algeria and other operational and technical issues**

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*San Donato Milanese (Milan), June 14, 2013* - Following the presentation of the First Quarter results and the Operational Review on 23<sup>rd</sup> and 24<sup>th</sup> April and the Shareholder Meeting of 30<sup>th</sup> April, there has been a significant deterioration in our commercial position in Algeria. In addition, following appointment of new E&C Regional Managers, a number of operating issues materialized in relation two onshore contracts in an advanced stage of execution in Mexico and Canada, together with some unexpected technical challenges occurring in the E&C Offshore business. These issues will lead to a small number of large-scale contract losses which are the result of unrelated issues.

As a result, and considering a full evaluation of the issues is yet to be completed and discussions with clients remain ongoing, management is today reducing guidance for 2013. The reduction in EBIT is expected to be between €650 million and €750 million, around 50 percent of which relates to operations in Algeria. The net result is now expected to be a loss in the range of €300 million to €350 million.

### **Escalation of commercial difficulties in Algeria**

At the time of the First Quarter results announcement on April 23<sup>rd</sup> 2013, Saipem pointed out that early signs of a deterioration in the relationship with Sonatrach had begun to emerge, specifically it was noted that discussions with Sonatrach were becoming strained. Although Saipem has enjoyed a constructive long-term relationship with Sonatrach, a significant change in attitude has occurred in recent weeks, which we believe follows a step-up and widening in the ongoing investigation by the Algerian authorities.

Saipem is now unable to recover certain extra costs as negotiations have broken down and in the last weeks Sonatrach has also initiated action for liquidated damages. The projects concerned are MLE plant, GK3 pipeline and Arzew LNG, which are all completed or close to completion. Having pursued all possible options, this will result in a charge to expected EBIT of approximately €300-350 million in 2013.

For those instances in 2013 when Sonatrach authorized invoices for agreed activities, there were no delays in the normal payment process.

Saipem remains committed to fulfilling all its contractual obligations with Sonatrach to the best of its abilities as well as protecting its rights. It is also working towards the restoration of a constructive relationship.

### **Operational issues emerged since implementation of new management structure in April**

On April 24<sup>th</sup> 2013, we announced that a new operating management structure for the E&C business unit had been put in place. Once implemented in April, the new Regional Manager exposed two significant problem contracts one in each of Mexico and Canada, areas which sit within the same Saipem region. The new management has been able to ascertain the size and the significant negative impact of these issues both in their technical scope and full financial dimensions only in recent weeks. Taken together, these issues have led to a reduction in our expectation of profitability in Mexico and Canada of an aggregate amount of approximately €60 million. The manager who previously held responsibility for both Mexico and Canada had been replaced and has now been suspended from any role in Saipem pending clarification of his activities.

Since appointment, Saipem's new management has discovered an inadequate assessment of the issues faced on a single contract in Mexico. The strategy for the selection and the time for mobilization of sub-contractors had led to very poor site execution, in turn resulting in big delays and cost overruns. At the same time, the client's new management team has taken a more rigid position on negotiations around contract execution. Saipem is actively reorganizing all the construction activity on the project in an effort to recover the situation and deliver the project in the shortest possible time.

In Canada, a project was comprehensively reviewed by Saipem's management between February and April 2013. The review highlighted delays in execution due to subcontractors' inefficiencies, together with some difficulties occurring in the prefabrication phase, resulting in cost overruns. Cost and time increases were fully appreciated between April and May, when a series of negotiations with the client aimed to reset the schedule and decide the allocation of costs, not previously budgeted, between the parties.

### **Technical problems in E&C Offshore**

Although less significant in order of magnitude, certain technical problems in our E&C Offshore segment will also contribute to reduced EBIT in 2013.

Specifically, the productivity of pipelayer vessel Castorone in 2013 will be lower than initially anticipated, due to longer-than-expected sea trials that overran by a fortnight and resolution of technical issues that have come to light during the trials.

Furthermore, the project related to the construction of a new vessel, which was expected to be delivered in June 2013 to the client, incurred additional cost as a result of the delay and extra work required by faulty equipment recently delivered to Saipem which has had to be returned to suppliers for replacement.

### **Corrective actions taken**

This series of unacceptable issues have been subject to vigorous and intense actions from management who have also commissioned an external consultant to apply "agreed upon procedures" that help monitor performance on a selection of ongoing projects.

In Algeria, we are doing everything possible both to defend Saipem's interests on existing projects and re-engage with Sonatrach at the earliest possible opportunity.

In light of the problems in Mexico and Canada, identified by the new Regional Manager, we have re-examined all other contracts in the Area and have discovered no further major issues of concern.

In addition, solutions to the technical problems in the Offshore E&C segment have promptly been found and corrective action taken.

Moreover the new operating management structure announced in April is already having a positive impact on the business. This created better focus roles for highly competent and experienced managers enabling them to add greater value to clients and the immediate feedback is encouraging.

It also gives the business greater accountability and enforces stricter project management procedures to avoid the repetition of such problems.

### **Recovery underpinned by recent favorable contracts, continuing strong drilling results**

While the 2013 trough will be deeper than anticipated, we continue to expect a robust recovery in 2014 and beyond.

In E&C, the contracts won during the first five months of 2013 are significantly more profitable than those won over the last few years. We aim to continue to fill the backlog in line with the results achieved year to date, and in accordance with the new commercial strategy. This will drive margin enhancement in the E&C business from 2014, despite a residual impact from the poor performance of a small number of legacy projects.

Results will also be supported by the strong performance of the drilling business, building on an high quality portfolio of long-term contracts.

Commenting on the announcement, Umberto Vergine, CEO of Saipem said:

*“The deteriorating situation in Algeria and these large scale contract losses are extremely bad news for Saipem. It is very disappointing that fresh issues have arisen over the last six weeks and have required us to further reduce guidance for 2013.*

*Since my appointment as Chief Executive, I have been focused on the clean-up of major legacy issues which have proved to be of greater magnitude than we envisaged. In Algeria, our business has been impacted by a dramatic escalation of the investigation in the Country and the consequent commercial fallout.*

*Elsewhere, the operating issues are unacceptable and we have taken all appropriate action to address them. We now have in place a team in whose capabilities I have full confidence, and a far more accountable operating structure, which will drive performance. We have to manage the business much more tightly and prevent any recurrence of these shortcomings.*

*These issues will have a major impact on 2013 EBIT. The Board believes that the strong management actions we have taken and the higher margin contract wins we have announced over the last five months, in line with our new commercial strategy, underpin Saipem's ability to deliver a recovery of earnings in 2014 and beyond."*

## **Conference call and webcast**

A conference call and webcast will be hosted today at 7.15 pm CEST which can be followed on Saipem's website [www.saipem.com](http://www.saipem.com) by clicking on the 'webcast banner' on the Home Page, or through the following URL: <http://www.media-server.com/m/p/msthny6h>.

*By their nature, forward-looking statements are subject to risk and uncertainty since they are dependent upon circumstances which should or are considered likely to occur in the future and are outside of the Company's control. These include, but are not limited to: monetary exchange and interest rate fluctuations, commodity price volatility, credit and liquidity risks, HSE risks, the levels of capital expenditure in the oil and gas industry and other sectors, political instability in areas where the Group operates, actions by competitors, success of commercial transactions, risks associated with the execution of projects (including ongoing investment projects), in addition to changes in stakeholders' expectations and other changes affecting business conditions.*

*Actual results could therefore differ materially from the forward-looking statements.*

*The Financial Reports contain in-depth analyses of some of the aforementioned risks.*

*Forward-looking statements are to be considered in the context of the date of their release.*

*Saipem is organised into two Business Units: Engineering & Construction and Drilling, with a strong bias towards oil & gas related activities in remote areas and deepwater. Saipem is a leader in the provision of engineering, procurement, project management and construction services with distinctive capabilities in the design and execution of large-scale offshore and onshore projects, and technological competences such as gas monetisation and heavy oil exploitation.*

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