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SPM.MI - Saipem Guidance Call - 2012 Guidance Review and 2013 Outlook

EVENT DATE/TIME: JANUARY 29, 2013 / 5:30PM GMT



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PRESENTATION

Umberto Vergine - *Saipem SpA - CEO*

Good afternoon, and thank you for joining our conference call. I am Umberto Vergine, CEO of Saipem. With me here are Hugh O'Donnell, the Deputy CEO, and Stefano Goberti, our CFO.

During the call, we will provide you with a review of our 2012 guidance and an outlook for 2013. In addition, we will update you on the operational and management changes that have taken place over the last few weeks, and on our view of Saipem's future prospects.

However, before we get into this, I would like to briefly address the Milan Prosecutor's investigation.

Following our announcement on December 5, Saipem has continued to engage and fully cooperate with the investigation being conducted by the Milan Prosecutor's office.

Pietro Franco Tali, who resigned from his position at Saipem on December 5, has since received a notice of inquiry from the Milan Prosecutor regarding the investigation.

We have been in contact with all of our major clients and partners, and we are pleased that they remain universally supportive of Saipem's business and confident in Saipem's ability to provide them with high quality projects, delivery and [client] services.



Based on the information available to the Board at this time, the directors do not believe that the investigation will have a material adverse effect on the Company's financial results. We will keep the market updated as new material information becomes available.

Now, on our 2012 guidance review, and we are on slide number 7.

Following my appointment as CEO on December 5, and alongside the new CEO of the E&C division, Giuseppe Caselli, and the recently appointed CFO, Stefano Goberti, I have conducted a comprehensive review of Saipem's contracts and prospects. As a result of this rigorous process, we have revised the guidance for 2012.

Revenues and CapEx remain unchanged, while we expect 2012 EBIT to be circa 6% lower than previously anticipated, at around EUR1.5 billion. This is due to three factors. First, a lower than expected recovery of claims from clients on Engineering & Construction projects; second, reduced activity across the Engineering & Construction business during the last quarter of 2012; and third, a delay in awards which were expected before the [other interests]. Net income for 2012 is expected to be in the region of EUR900 million.

2013 outlook; before we discuss our new guidance for 2013, I thought it would helpful to look at the market context. While the Italian industry has been affected by the ongoing economic crisis between 2009 and 2011, our E&C business was further impacted by highly competitive market conditions, and many contracts entered into during this time were at lower margins.

In 2012, the industry showed continued delays to large contract work and a slower rate of major project sanctions, with only \$100 billion of capital investment sanctions versus the \$250 billion that the industry analysts were expecting.

These market factors will result in reduced activity across the E&C business, and a reduction of final results in 2013 for Saipem. This will be only partially offset by the strong performance of our Drilling business.

As a result, on slide number 10, looking at a flattish performance for the full year 2013, we expect revenues to be in the region of EUR13 billion to EUR13.5 billion.

EBIT is projected to come at around EUR700 million, while net profit will be expected to be EUR450 million. We expect CapEx to be around EUR900 million to EUR1 billion.

I will now go into the details behind our 2013 guidance, breaking it down by segment.

Taking the E&C Onshore business first; we anticipate a very significant reduction in 2013 EBIT of around 80%. This highly unsatisfactory performance is due to a combination of factors.

First, the majority of the contracts to be executed in 2013 are less profitable than those which were carried out and concluded in 2012. These are mainly in the Middle East, Nigeria and Algeria. A large portion of the 2013 workload derives from contracts awarded in the particularly competitive market conditions faced since 2010.

Second, we have seen delays to large contract awards in Venezuela, in Nigeria and in Iraq.

And finally, the new management team has taken a more conservative approach to estimates on margins, on timing of contract awards, and on timing of project execution, in order to properly evaluate new business prospects.

Moving now to the 2013 guidance for Offshore Engineering & Construction. EBIT is expected to be down by around 70%. Once again, we can attribute this in part to lower margin contracts to be executed in 2013 versus the high-margin contracts in the Baltic Sea, in West Africa and in the Caspian Sea which were carried out and substantially concluded in 2012.

Also in the case for Offshore E&C, this guidance will reflect the highly competitive market conditions faced between 2009 and 2011. And a large portion of the 2013 workload derives from contracts awarded in the particularly competitive market conditions faced during those years.

Additionally, in 2012, the Offshore E&C business has been impacted by the delays to important Blockbuster contract awards, including new large international trunklines, deepwater field development and projects in remote areas.

And finally, Saipem has taken some investment and commercial decisions to support market entry into Brazil, where the first contracts were entered into at lower margins.

The impact of this contract decision will be primarily felt in 2013. However, the market position built as a result and the backlog of profitable contracts that were subsequently obtained, will deliver benefits in 2014 and beyond.

Moving to slide 13 on the Drilling outlook; Saipem's Drilling business will continue to deliver a very strong performance, with an expected 20% increase in 2013 EBIT, compared to 2012.

This positive result will mainly be driven the Offshore Drilling, where Saipem is extracting value from recently deployed rigs, Scarabeo 8 and Scarabeo 9.

In Onshore Drilling, we maintain a positive outlook, thanks to the slight increase in market day rates and the continued sustained utilization rate of our fleet.

So looking at the outlook for Saipem. The management team and I have commenced a comprehensive operational review. This review is assessing the effectiveness of all aspects of client services, project management and pricing.

We are now working to quickly put in place a new operating structure that will deliver; improved operational performance, based on a closer relationship with clients across project phases; removal of bottlenecks to better align the contract with the needs of clients; clear responsibility and accountability at the operational management level; [quality] engineering execution is the key drivers for capturing project economic upside; greater pricing discipline to protect margin and cash flow profile.

So we have started; we want to complete it rapidly, and to identify all necessary improvements. And it is my intention to share them with you at the seminar that we will organize in the spring.

I would like to give you my view on the market for 2013 and beyond; market opportunities on slide 16. Although the outlook for Saipem in 2013 earnings is not strong, we are encouraged by wider trends in the oil and gas market. The projected 7% increase in E&P spending for 2013 will create further opportunities for future projects, on more attractive terms.

With over 50% of giant discoveries taking place in deep water over the last six years, new projects will require a specialized, cutting-edge, technology where Saipem is ideally positioned to compete. Higher margin LNG projects are also on the rise, and we will be focused on targeting these areas. The Drilling business will also take advantage of the growing market opportunities in ultra-deep water, and in harsh environment operations.

So how are we going to do it? My central focus, over the coming months, is to create a path for Saipem to return to its historical level of (inaudible) profitability. The key drivers for this recovery will be leveraging on our core strengths which are; our investment model that combines both engineering and construction capability for both onshore and offshore markets; our high-quality asset base, in that we have the most powerful fleet in the industry; strong local content, delivering significant commercial competitive advantages to Saipem; cutting-edge technology enabling us to control costs and compete across global markets.

As a result of these strengths, Saipem is very well positioned to compete for high-tech, higher margin projects, as well as projects in growth areas, all driving high-quality order backlog.



In summary, slide 19. The new management has thoroughly evaluated Saipem's current business position, and the drivers behind the reduced business outlook for 2013. But we are confident that our strategy, based on our investment model, and our medium-term outlook for recovery, remain robust.

Looking at the broader market, we see a number of attractive bidding opportunities to target, and Saipem is very well positioned to capture, and extract value, from these opportunities. Our outlook and revised management approach lead us, in the Board, to believe that 2013 will mark a trough for the business, from which we expect a significant rebound in 2013 and beyond.

Thank you for your attention. This concludes my presentation. Just as a reminder, I have with me in the room today, Hugh and Stefano, and we will all be pleased to take your questions.

QUESTIONS AND ANSWERS

Operator

Thank you, sir. (Operator Instructions). Alexandre Marie, Exane.

Alexandre Marie - Exane BNP Paribas - Analyst

First of all, in your lower 2013 guidance, does that include a proper charge, or is it only slower profit recognition?

The second thing is, everyone has been subject to the same tougher market conditions in 2009 and '11, higher competition and delays in awards, so what is different at Saipem that makes you guide on an 80% decline in EBIT, because I don't see that at other contractors? And what is the proportion of the downgrade that is linked to your more conservative approach, I would say, on profit recognition?

And, finally, a question on management; I'll be blunt here. Can you tell us, within the management team, whether Hugh O'Donnell will be staying in Saipem for the foreseeable future? Thank you.

Umberto Vergine - Saipem SpA - CEO

Thank you, Alex. If you don't mind could you repeat your first question, because I couldn't -- ?

Alexandre Marie - Exane BNP Paribas - Analyst

Yes, the first question was, in your 2013 lower guidance, does that include a proper provision, or charge? Or is that only lower profit recognition?

Umberto Vergine - Saipem SpA - CEO

In our 2013, we have just recognized the actual situation of our portfolio and the contracts under execution, and the estimate for the contracts that we have either close to start, or we expect to be awarded in the first six to nine months of the year. So there are no provisions.

Alexandre Marie - Exane BNP Paribas - Analyst

No provisions.

Umberto Vergine - *Saipem SpA - CEO*

No provisions are referred, other than to the business situation and the business profile.

Alexandre Marie - *Exane BNP Paribas - Analyst*

Okay.

Umberto Vergine - *Saipem SpA - CEO*

For what [remains] your second question on 2009, 2011 impact, I would like to remember what I have said during the presentation. This is one important element of the performance of 2013. The amount of contracts that were taken under a very competitive scenario are seriously impacting our performance, as I expect many others with whom we compete.

The combination of factors that I listed before, the ending of some highly remunerative contracts within 2012, I would say, and the delay of some new important contract awards, made this component to be temporary this year, 2013, particularly significant for Saipem.

On your third question, Hugh O'Donnell certainly will remain with us in Saipem, as part of the organizational review. I would like also to inform that, while Giuseppe Caselli has taken the position of CEO for Engineering & Construction, leaving his previous equivalent position in Drilling, Hugh O'Donnell has taken over the responsibility for Drilling, along all the other responsibilities that he had before in the support functions.

Alexandre Marie - *Exane BNP Paribas - Analyst*

Thank you very much.

Operator

Ryan Kauppila, Citigroup.

Ryan Kauppila - *Citigroup - Analyst*

On that previous question on the conservative approach to margins, are you actually now forecasting, from projects that are currently under execution, a lower aggregate margin on some of the projects that were in backlog?

And, two, you mentioned part of your management plan and improved approach to client relationship, are there are relationships, as you see it now, and as you've made contacts with key customers, that you think need particular attention? And Wasit Gas obviously being a big project in the backlog, could you update us on that project?

Umberto Vergine - *Saipem SpA - CEO*

Yes. Thank you, Ryan, for the question. On your first question -- ?

Ryan Kauppila - *Citigroup - Analyst*

Yes, the first question was on your new approach to margins, are you actually saying some of the backlog is actually at a lower margin than what was being realized?

Umberto Vergine - *Saipem SpA - CEO*

No. What I refer as a new management view is specifically addressed to new business. In the sense that based on the actual development of the market that we have seen throughout the fourth quarter of 2012, and the indication that we are having today, coupled with the recent tender that we have participated to, it was clear that we had to be as realistic as possible in forecasting the return on future tenders -- on future projects.

Of course, in articulated way, depending on the nature of the contract, on the timing that we expect this contract to come in to the market, and also on the real speed of execution that whilst we will have won, we will be able to perform in order to properly account for the amount of revenue return on a yearly basis. So it is not on the underlying existing stream of projects.

On the client relationship, thank you for this question because allow me to give you another insight. One of the first preoccupation that I had after my appointment in relation to the event that generated my appointment, was to cover as quickly as possible the communication needs with our clients, in the sense that they were receiving news from the press, news that, of course, were not extremely positive. And all that could be interpreted not in a positive way.

So I rapidly reach, basically, all our major [contract] by either letter or meeting with basically all of them and our most important partners. I'm very pleased to say that we have received through direct meeting, and through answer to our correspondence, more positive signals, and they confirm trust and willingness to continue a relationship with Saipem.

Having said so, I think that the particular difficult execution phase that we are having on these contract [that deter of low] margin that, of course, create a very stressed situation between client and contractor, indicates to me that we need to reinforce our commercial relationship with the clients also during the execution of the project. And that is something that has been clearly also suggested by the client themselves, that we will see a very positive approach in solving problems.

Ryan Kauppila - *Citigroup - Analyst*

Okay. Thank you very much.

Umberto Vergine - *Saipem SpA - CEO*

Thank you. Sorry, I forgot the question on --

Ryan Kauppila - *Citigroup - Analyst*

On Wasit; just if you had an update on that project specifically.

Umberto Vergine - *Saipem SpA - CEO*

Maybe I will ask Hugh to comment on Wasit.

Hugh O'Donnell - *Saipem SpA - Deputy CEO*

Yes, Ryan. Wasit, as you may remember, had some difficulties associated with the composition of the gas, and those problems have now, to a large extent, been solved. They've caused some delays, and some additional work which is not for our responsibility. So we're working on that, and we've received an increased scope of work as a result of that.



Apart from that, the job is going well. When we referred, or when Umberto referred earlier to contracts having a significant limited marine scope -- high-margin marine scope, we'd be referring to that kind of contract. So whereas Wasit is a huge contract, and has in itself quite a large marine scope, relative to the overall contract, it's a limited marine scope, and it's in shallow water. So you wouldn't expect Wasit to have the same kind of margin as a more normal kind of EPIC contract in West Africa or somewhere like that.

But the job is going well, notwithstanding the challenges that have existed previously.

Ryan Kauppila - Citigroup - Analyst

Okay, that's clear. Thanks.

Operator

Rob Pulleyn, Morgan Stanley.

Rob Pulleyn - Morgan Stanley - Analyst

A couple of questions from me. First of all on the lower recovery of claims from existing projects you mentioned, I presume that's related to the working capital movement in the second half of 2012. Could we ask exactly what projects that lower recovery is going to be on?

And the second question is, if I understand you rightly, the margin guidance relates to upcoming business, but please clarify that. If that's the case then is the backlog number you reported at 3Q still the same? And is the backlog schedule that you reported at 3Q also constant?

And given that obviously the margin guidance relates to future work, if I am correct in that assumption, does that mean there could be a latter revision when new work comes in? Thank you.

Umberto Vergine - Saipem SpA - CEO

Thank you, Rob. On your first question on lower recovery of claim, basically we are talking specifically on some few contracts in West Africa. And these claims are on course or close to completion. In fact, they are close-out claims, and they are related to extra works or extension of time during the execution.

And in one case, the claim is also complicated by a condition of a force majeure that the work has been impacted with. These close-out claims are, in their nature, quite complex, and sometimes difficult to predict. So this is plain why, compared to a few months ago, the view was different and the expectation on the ability to close all these claims was different.

In particular, they had a high degree of uncertainty also linked to component of change of design. And I have to say that the discussion is still ongoing with the client, so we have not considered the discussion over, but within the year the final result has been lower than previously thought.

On your demand on the margins for 2013, I think that the elements that have impacted the view for 2013 are basically two, and they are related, as you said, to new contracts in two sense. First, in the sense of the contract that we have not taken that we were expecting to have already taken, and that will have already generated the income and, therefore, revenue for 2013.

I have to say that, on some of these contracts, we are either very close to success, or we still believe to be able to get the award of these contracts. But of course, they will generate a lower component of revenue and margin in 2012 -- 2013.



Plus there is the part of expected new awards for which we are either working or preparing to bid, and the timing and the margin associated with the possibility to win them, is what we have reviewed with a conservative and more prudent approach, reflecting, as I said, the nature of the contract, the nature of the projects themselves, and the expectation that the market is today indicating.

Rob Pulleyn - *Morgan Stanley - Analyst*

Okay, that's very helpful. And then just to clarify on the backlog; I presume there is no change to either the backlog number reported at the end of third quarter, nor the scheduling of that backlog through 2013 and 2014.

Umberto Vergine - *Saipem SpA - CEO*

No, no changes to the backlog data that we have reported.

Rob Pulleyn - *Morgan Stanley - Analyst*

Thanks very much.

Operator

Mick Pickup, Barclays.

Mick Pickup - *Barclays - Analyst*

A couple of questions, if I may? The scary thing in here, apart from the numbers, gents, is the looking into greater accountability at the operational management level. Unfortunately, I've been telling investors for the last decade that you're quite good at that, so I'm a bit confused as to why you think it wasn't adequate.

And probably tied in with that, and it's probably to Hugh, obviously part of this is a new CEO coming in place asking project directors to come clean on all the projects. I think most of the reasons you've been giving are pretty well known to most of us, but we were none of us anywhere near close to how low the earnings can be.

I'm just wondering how you think it would have been guided, had you not done an operational review recently. How much of this is one-off because it's an opportunity for project directors to come clean?

Umberto Vergine - *Saipem SpA - CEO*

Well, the line was very noisy so I hope to have fully understood your question. You are basically asking if -- you say that the new guidance is somehow surprising, and you're asking if the analysis that has been done is fully comprehensive and represents a right to a revised view. Is that correct?

Mick Pickup - *Barclays - Analyst*

I fully agree it probably represents a right revised view, but I think you will know what that view probably was before you went through your review process. I'm just wondering how much of this is one-off because project directors have come clean with every cost overrun and every bill that's not been paid in the filing cabinet.



Umberto Vergine - *Saipem SpA - CEO*

I will let Hugh to comment on that. Maybe then I will complete his answer. Please, Hugh.

Hugh O'Donnell - *Saipem SpA - Deputy CEO*

Yes, Mick. So I understand fully your concern, and I guess also the disappointment with regard to what we're presenting here this evening.

I think the way to look at it is that we're in a contracting business; this is not a utility business. And the definition of margins, right from the time when you acquire the contract through to the completion of the contract, is quite a subjective and subtle, and highly operational, question.

And I think you're correct in saying that Saipem has been particularly good at this, and I think we've been good over a long period. But it's also appropriate that when we have a new management that they look at everything from top to bottom.

It's been a tremendous amount of work that Umberto and Guiseppe Caselli have done over the last month and a half going through all of the contracts. And this is the guidance that they've come up with, and I would say that they have talked to all of the country managers, most of the project directors.

To be absolutely clear, we're not talking about disasters or black holes or anything like that; we're talking about a workload which, in 2013, has a different level of profitability to the workload which we had in 2012. And, the management is probably a bit more prudent where the profitability of that workload is concerned.

Now, Guiseppe Caselli, in particular, is probably Saipem's number one expert on a lot of this kind of work, so he has gone through that in a lot of detail. And I'm very confident that his view, with regard to the profitability of that backlog, is very reliable.

Mick Pickup - *Barclays - Analyst*

Yes, I'm just confused as to why this wasn't being done previously as an ongoing mechanism.

Hugh O'Donnell - *Saipem SpA - Deputy CEO*

It is, and I guess Umberto will answer this, but you have different management teams with different views.

Mick Pickup - *Barclays - Analyst*

Okay.

Operator

Chris Wheaton, AGI.

Chris Wheaton - *AGI - Analyst*

Had someone said to me today you were going to lose \$200 million in an investment I would never have guessed it would be Saipem. I am absolutely staggered at the news today.

Hugh, can I pick up first on your point that you are absolutely sure this is not due to black holes or other accounting issues, please? Because, as far as I can see, your 2013 revenue forecast is pretty close to mine which says that, actually it's not about timing of projects at all, it's about the profit recognition of them.

Secondly, I want to ask about your net debt. Are you absolutely sure you have the cash balances that you've claimed in your accounts, and therefore, that your net debt -- your level of indebtedness is as stated in the last set of quarterly accounts.

Thirdly and lastly, Umberto could you please give me more color on 2014 when you talk about the strong rebound? Are you referring to margin recovery to somewhere closer to 2011 and prior levels, or is this the case that margins at Saipem have been misstated for a long period of time, and we cannot rely on margins returning to the stated levels?

So for example, about 8% in Onshore Construction and about 13% in Offshore Construction from 2014 onwards; if you could give me help on those three items, gentlemen, I would be extremely grateful.

Umberto Vergine - *Saipem SpA - CEO*

I would like to start from your last question, and to give you the view of 2014 rebound. First of all, this is made of two aspects; a number of attractive bidding opportunities that have arisen over the last few months and that we have taken. These contracts are more remunerative contract than those that I was referring before, both onshore and offshore, taken through the years of 2009 and 2011. We have not announced some of them because they're not formally, officially, approved by the client, but we will (technical difficulty).

Second, we have carefully review our potential order intake over the next six to nine months. This is where we have the point of strength of Saipem coming again to deliver results, and we are talking about a line of projects that we know will be on the [tender] both onshore and offshore.

Of course, without going into the name of the contract themselves, I would like to recap briefly that, on the onshore, we are very well-positioned also through our strategic alliance for LNG, the LNG mainly in Australia, East Africa and Russia.

On the downstream, we have a variety of projects from refinery to power plants and fertilizer, all in markets where we are well-positioned, like Canada, West Africa and Middle East, plus the typical oil and gas processing plant, both for oil and for gas, of course.

On the offshore there is, as I said, a rise of projects from subsea development that are carrying in two type of projects that are the typical target for Saipem; the subsea development and the floating vessel that collects the production.

If we are talking about gas, these are floating LNG. If we talk about oil these are FPSO and [FPU]. These are exactly the type of analysis that make me believing that 2013, by a combination of negative factor combining all almost all at once, is such a trough in our result.

And we see 2014 as a year of recovery that will bring in a return to the level of profitability that Saipem had. Also, counting on some of the big trunklines, or development projects, that have been now somehow postponed from the market.

Chris Wheaton - *AGI - Analyst*

Umberto, can I stop you there for a moment, please, just so I understand your answer correctly? You are saying that the margins that Saipem had reported in both the Offshore and Onshore business for 2011 and prior years are repeatable. That they were not structurally or systematically overstated, and that those are margins that, with your existing contract win -- sorry, the contract wins you've just mentioned for 2013, those contracts can deliver those kind of margins 2014 and beyond. Is that correct?



Umberto Vergine - Saipem SpA - CEO

Yes, that is correct. It's going to take some time; it's not a recovery that could be done within one calendar year. But the profit that we have seen in the past were not coming from other than the industry standard type of project of those years. And we believe that the increasing activity in the oil and gas business is not taking us other, but in the same direction.

Chris Wheaton - AGI - Analyst

Right, so you will see a margin recovery in 2014, but you won't be bouncing straight -- you won't return straight to the 2011 levels?

Umberto Vergine - Saipem SpA - CEO

Yes, precisely.

Chris Wheaton - AGI - Analyst

Okay, right. That's extremely helpful, thank you. I asked two other questions, firstly ensuring that there aren't any black holes in the project backlog, and also your net debt position, please.

Umberto Vergine - Saipem SpA - CEO

I take the first one, then maybe on the net debt I will ask Stefano to give you some more detail. No, there is no systematic failure; there is no black hole. Okay? We have really, in the short time available, concentrated on a comprehensive review on our portfolio and as well as on our prospects, but also on the existing portfolio covering both the execution [capabilities], risk as well all the commercial spendings that we have, both in terms of claims as well as change of work that -- change of work, if not properly managed, can [be claimed] pretty soon. So we, as a new team of managers and also in the discussion with our Board, we are convinced that we are properly representing the situation of Saipem business and prospects.

Chris Wheaton - AGI - Analyst

Does that include, Umberto, coverage of any potential bribery issues? You'll have seen press comment clearly that the bribery issue in Algeria could have been as much as several hundred million euro. Are you sure that when you say there is no financial impact from the bribery allegations, that you are absolutely correct in saying that?

Umberto Vergine - Saipem SpA - CEO

Well, of course, we have reviewed all the contracts and we say, first of all, all the contracts in Algeria and the situation is at the moment quite clear to us. And, based on the information available at the time, myself, my managers, our Board, we all do not believe that the investigation will have a material effect on the Company's financial results.

Chris Wheaton - AGI - Analyst

Right, thank you. My last question was on the net debt position, please.

Umberto Vergine - Saipem SpA - CEO

Please, Stefano.

Stefano Goberti - *Saipem SpA - CFO*

Okay. Chris, good evening. Net debt at year end is projected to be lower than what we have seen at end of September. Although we are not talking about big numbers, we are projecting EUR4.3 billion of net debt (inaudible) position, and our working capital position, of course, is impacted by the resolution of those claims. As Umberto was mentioning before, this claim is in the final part of negotiations, so we expect to close those during 2013 when we expect also the benefit of the cash entry after the close-out of the claims.

Chris Wheaton - *AGI - Analyst*

Okay. Stefano, can I just point out, therefore, that you would have had working capital outflow this year of approximately EUR1.7 billion, which vastly exceeds the accounting-stated profitability of Saipem's business. Are you absolutely sure within that working capital number you have accounted for absolutely every issue you can think of in terms of delayed recognition of profits from the business?

Stefano Goberti - *Saipem SpA - CFO*

Yes, Chris, we are pretty sure that we are representing correctly our accounts, of course.

Chris Wheaton - *AGI - Analyst*

Okay. Right, thank you very much indeed. I would appreciate an update call with management again tomorrow, please.

Umberto Vergine - *Saipem SpA - CEO*

Thank you.

Chris Wheaton - *AGI - Analyst*

Thank you for your time.

Operator

Peter Testa, One Investments.

Peter Testa - *One Investments - Analyst*

I'll do them one at a time and then make it more straightforward; most of them are quite short. When looking at 2013's forecast, is there any tight change in timing of profit recognition of projects assumed in there, versus what would have been normal practice?

Umberto Vergine - *Saipem SpA - CEO*

Can you rephrase a little bit the question? I'm not sure I understood.

Peter Testa - *One Investments - Analyst*

Sure. I'm just looking -- there's a couple of questions on the 2013 guidance and one on 2014. The first question is, if you look at your 2013 guidance, is there any change in your accounting methodology of project profit recognition assumed in there, versus what would have been done in years past?

Umberto Vergine - *Saipem SpA - CEO*

No, we haven't changed anything in the project accounting and in the project review systems.

Peter Testa - *One Investments - Analyst*

Okay. Are there any substantial cost overruns versus expectations?

Umberto Vergine - *Saipem SpA - CEO*

Well, no particular in the sense that the schedule of -- for each project on under execution is pretty much maintained without any major event that has caused an increase in expenditure that were not already expected.

Peter Testa - *One Investments - Analyst*

Okay. And then when you're assuming a lower business flow, or a more conservative view on business flow, maybe you could help us understand, in the two construction divisions, what the change in overhead under-recovery might be, for example under-recovery of overhead in Onshore because of idle engineers, or under-recovery of overhead or assets in Offshore because of the timing of projects starting?

Hugh O'Donnell - *Saipem SpA - Deputy CEO*

Yes, Peter; this is Hugh O'Donnell. I think I've understood what you've asked and I'll try to answer it and then you can tell us whether we've -- it's a question of given the different flow of the business, whether there will be increased fleet idleness, for instance, on the Offshore side, or whether we will have some idleness with regard to engineering and project management on the Onshore side. Is that correct?

Peter Testa - *One Investments - Analyst*

Yes, that's correct, and trying to quantify the impact that you've assumed from that.

Hugh O'Donnell - *Saipem SpA - Deputy CEO*

So the idleness on the Offshore side is roughly similar to what it was in 2012. I think the presentation which Umberto has given you and the explanation he's given you, it's much more a question of the 2013 backlog not having the same intrinsic quality as the -- sorry, the 2013 workload not having the same intrinsic quality as the 2012 workload. But the fleet utilization is, to a very large extent, the same, so the level of idleness is more or less the same.

On the Engineering side, as we had communicated previously, the fact that the orders are coming in somewhat slower and are a bit more difficult to predict means that we may have underutilized engineering and project management capacity in the short term. And we are agreed that, in any case, given the fact that we're still very optimistic about the market in general, that we're not going to downsize because that would mean that we would have to upsize very quickly then, when the market does take off. And we feel that at a certain stage it will take off; that's what's happened in the past.



The unpredictability and the slowness of the market has then been compensated by a kind of a frenzy. So we're not going to downsize, so we will have some underutilization of engineering capacity perhaps in the short term. I'm not sure what's the amount of money involved. It's not big, but I would say that we can look that up for you and perhaps, in the next conference call, we can be more precise about that.

Peter Testa - *One Investments - Analyst*

Right, okay. So you're essentially saying that the more conservative assumption on flow of business into 2013 hasn't really changed, either the underutilization of engineers or the utilization rate on assets.

Hugh O'Donnell - *Saipem SpA - Deputy CEO*

Correct.

Peter Testa - *One Investments - Analyst*

Okay. And last question is just on 2014 and trying to understand the recovery. A number of your key assets are contracted for utilization well into 2014, some beyond, which would suggest that the margin execution of business isn't going to particularly change from 2014 to 2013 because of that already contracted position. If you could help me understand why that's not the case, or what opportunities there are within the asset utilization, particularly in the Offshore Construction business, to alter that picture.

Umberto Vergine - *Saipem SpA - CEO*

Hugh, please.

Hugh O'Donnell - *Saipem SpA - Deputy CEO*

Yes, I think the way in which we -- first of all, you're quite right, that the fleet is utilized, in particular the assets which can create most value in the fleet are utilized through 2014, so the FDS, the FDS, the FDS 2, the Castorone, the Saipem 7000, etc., have got good utilization through to the end of 2014.

However, when we take on big new jobs, for instance a big new SURF, etc., we tend to calculate the project margin and then we release the margin on a progressive progress basis. So it isn't that we release the margin associated with one phase of the work. After that phase of the work we tend to release this on a progress basis. So the fact that the vessels aren't utilized perhaps until 2015 doesn't mean that we won't be able to recognize the profits associated with some of the jobs that we can get and, hopefully, win in 2013 -- during 2014. Then also that doesn't apply, of course, to the Onshore business, where essentially, we're not reliant on [these sorts].

Peter Testa - *One Investments - Analyst*

Okay. But within that, there's some assets which are starting up in 2013, key assets which are going through their break-in phase. And you also mentioned, in Brazil, the start up of contracts which include, I presume, some [extra] depreciation on your fabrication structure that you're building there, as typical. Can you give some idea of how big an impact these items, which should not recur in 2014, are?

Hugh O'Donnell - *Saipem SpA - Deputy CEO*

I think perhaps we can -- we prepared this conference call and we knew that there would be a lot of questions and a lot of frustration, and we share it. We're in the middle of this as well. And so I think it's probably going to be better if we answer some of the more specific questions --

Umberto Vergine - *Saipem SpA - CEO*

At the seminar.

Hugh O'Donnell - *Saipem SpA - Deputy CEO*

At the seminar, or at the next conference call when we release definitive full year results.

Peter Testa - *One Investments - Analyst*

Right, okay. I'll let someone else go, but thank you very much for the answers, and I understand your frustration as well. Thank you.

Operator

Katherine Tonks, RBC.

Katherine Tonks - *RBC Capital Markets - Analyst*

I'm just trying to get a sense of the assumptions that you're making in your 2013 and '14 guidance. And I wondered if you could give us an idea, on the projects that we know, that Saipem is pretty much won, or is very well placed on, on your assumptions on when those will actually be booked.

So I'm thinking about things like Egina, where there's obviously quite a high degree of uncertainty about the timing, and South Stream. And maybe to summarize that, you could give us some guidance on what you're assuming in terms of the euro order intake in 2013.

Umberto Vergine - *Saipem SpA - CEO*

Well, I would love to be in a position to give you this information, but some of them are linked to commercial negotiations that are still ongoing. So I don't think that it's appropriate to disclose them before we have the full approval of the client.

And I really, I'm sorry to say, to answer in a way that is similar to what you said. If you would be patient enough to wait for when we have the operational seminar in the spring, we will try, also we will have the time to properly prepare in order to give you the exact view come from operational point of view in terms of our project, [Stream] project, quality of the project, utilization of the fleet, and the asset, I don't have the possibility to answer your question today.

Katherine Tonks - *RBC Capital Markets - Analyst*

Okay. Is there any -- I'm assuming that you've done different scenario analysis of your forecast for '13, and I'm assuming that the guidance you've given is more your worst case scenario than your best case scenario. But can you give us an idea of maybe where your best case scenario, if everything was executed perfectly and the contracts came in according to the schedule that you have, where that best case scenario could be, versus the guidance?

Umberto Vergine - *Saipem SpA - CEO*

Thank you for this question, because it allows me to be a little bit more specific on the 2013. We have not changed substantially the way of building our forecast from what Saipem has usually been doing.

In the first that, the view that we have put into the forecast for the coming year relies largely on respect of the new awards, sometimes even of contracts that have not yet to be put on tender, so for which we have somehow to create the content, the work scope, and the possible margins of the different components.

We have retained a certain level of unqualified target in these numbers. It maybe seems difficult to believe that that is significant to say the number is quite lower than in the past, but is not a low number altogether.

So I think that is not correct to assume that I have taken the most conservative approach in formulating the guidance for 2013. There is potential for improvement. We expect to see that probably beyond 2013, and that's why we still to say that 2014 has really the potential of marking a rebound.

Also, in the terms of number of new contracts that will be actually under execution, not just under awarding. I hope to have at least answer to this questions of yours.

Katherine Tonks - *RBC Capital Markets - Analyst*

Okay. Thank you very much.

Operator

[Edward Ross, Fidelity Investments].

Edward Ross - *Fidelity Investments - Analyst*

Can you talk about the cash flow outlook for 2013, in particular, whether or not you're expecting to get the working capital reversal from 2012 coming through? And therefore, would you expect the cash flow to run significantly ahead of your net income?

And then can you talk about the outlook for the dividend, as a result of this? And whether or not you feel comfortable with the balance sheet as it stands, and whether or not you think there's a chance that [we'll] need a rights issue.

Umberto Vergine - *Saipem SpA - CEO*

Well, I will ask Stefano to answer to your first two questions, then I will answer to the last one.

Stefano Goberti - *Saipem SpA - CFO*

Okay, Edward. The first question was about the level of the cash flow for the year 2013, if I well understood. So maybe I'll take it from net debt position at year end 2013; that is expected to be slightly lower than the one that we recorded at the end of 2012, today, also, notwithstanding the lower level of profitability that we are projecting for 2013. So a little bit better, but don't expect a huge cash inflow.

In term of the dividend, what I can say is that the policy today has not changed, and what I have understood is going to be presented again at the next Board. We'll discuss about the dividend on February 13; policy being that we will pay a dividend corresponding to one-third of the net profit of the previous year.

Umberto Vergine - *Saipem SpA - CEO*

Thank you. In terms of the balance sheet, we have no issues about the balance sheet and the report for 2012. The issue is, as I explained, mainly in relation to return on the projects and margin of the projects, in relation to the current flow of the workload that we are having today.

Edward Ross - *Fidelity Investments - Analyst*

Just to go back over that, just to confirm, so your comment was, you're not expecting significant cash inflows. Does that mean you're not expecting to recover the working capital outflow from 2012?

Stefano Goberti - *Saipem SpA - CFO*

We are expecting to recover slightly the working capital, in 2013, yes.

Edward Ross - *Fidelity Investments - Analyst*

Slightly, a lot of it has now been written off, in your mind?

Stefano Goberti - *Saipem SpA - CFO*

No.

Operator

Amy Wong, UBS.

Amy Wong - *UBS - Analyst*

I have two questions, please. The first one is, you are talking about coming back to the market at an early spring seminar, so how comfortable do you feel, and how deep are you in this review, to come out with these preliminary figures for '13? What should we expect on the back of when you fully complete this comprehensive review? And I'll ask my second question after that.

Umberto Vergine - *Saipem SpA - CEO*

Well, the scope of the seminar is not to confirm, or further confirm, what we are saying today, for which we are quite confident. My intention with the seminar is to give you all the information in relation to this guidance, that we are not today in the position to give you. And also [it isn't] to be appropriate to enter into today, because I expect that the operational details could be of interest for you, and we are preparing for that.

The review of today, for which we are confident, coming as I said, from a thorough review of our situation, as much as is needed to prepare the budget of 2013. [As for 2013] will not in any respect change, as completion of the work that we are doing, in preparation of the seminar that I hope will be an interesting opportunity for creating sufficient dialog. And to go deep through some of the issues that -- shall we say some of the questions I've already [pointed] out.



Amy Wong - UBS - Analyst

Great. And my follow-up question; as you look at the contracts that you are in the tendering pipeline right now, prospective contracts, are you seeing potentially a structurally lower margin and a portfolio of projects that contribute to an overall lower margin? And maybe you might want to break down that answer separately for the Onshore versus the Offshore Construction business, please.

Umberto Vergine - Saipem SpA - CEO

Well, I'm looking at the list of the contracts which we have either under tendering and the ones that we are preparing for, and we have generally -- I would say that if we're looking at the one under tendering or recently won, we're talking about something a little bit close to 10 contracts, a little bit more than 10. And they are 50% Offshore and 50% Onshore.

As I said, I am not in a position to discuss them and also, I don't want to enter into margin on a contract basis also because some of them are not formally secured. These contracts are already contracts because of their nature, because of their timing, that are different from most of the contracts that we took two years ago. And they are contracts on which the operator are launching important developments that are part of the phase of development that is coming from a successful exploration phase, in many cases, particularly in the subsea.

I think that these are positive indications that we have used somehow to model what we expect to get from the new contracts in the next months.

Amy Wong - UBS - Analyst

Right, so just to tie that up then. The 2013 view and the reduction of margins is related to really the way you see these new projects then rolling into your accounts, your financial results, as opposed to any revision on the accounting for the contracts currently under execution. Is that a correct statement?

Umberto Vergine - Saipem SpA - CEO

Well, no, because it is on new contracts.

Amy Wong - UBS - Analyst

It's purely on the new contracts? Okay, all right. Thank you. Thank you very much.

Operator

Yan Lager, Franklin Templeton.

Yan Lager - Franklin Templeton - Analyst

I have two questions. The first one; I'm still a bit confused as to the controls and processes that were in place in 2010/2011, especially for you, Umberto, since you were on the Board since 2010. I'm just trying to better understand. I see Onshore Construction orders in 2010 were up 112% from EUR3.7 billion level to about EUR7.7 billion level. In 2011, Offshore Construction orders grew by almost 35%.

I'm just trying to better understand the process that the Board had in terms of overseeing management's assumptions during those years, and whether or not -- if you can walk me through the process, what the Board had in terms of controls, and versus then versus now, so we don't see the same debacle happening in the future. Or did you have an idea that order flow in 2011/2012/2013 will be strong enough with good margins that simply did not materialize, that would cover that up?

I'm still confused as to how this could have happened in terms of the difference in profitability for 2013 versus what the management has been insisting the backlog had decent margins in it. That's my first question. I guess I'll leave the second question for later.

Umberto Vergine - *Saipem SpA - CEO*

Okay. On this question, Yan, I want to clarify that, first of all, the point is that the Board had the same information that the management had in the sense that there has not been any disconnect between the Board and the management. The contracts taken, particularly in the Middle East, onshore, during those years, were recognized to be contracts that were bringing in a lower margin. And, coupled with the flow of contracts that Saipem had at the time, that were very high margin contracts, particularly the ones that we have mentioned before, this made a portfolio that had a mix of return in the figures that we were used to seeing.

The combination of the factor that I have said before, particularly the lack of new contracts and of the remunerative contract, had for now left the Saipem more exposed to these 2009/2010 contracts. And they are somehow, both onshore in some regions and offshore, for example linked to the decision to enter into Brazil, and partially, I would say, to Canada. There are also some other contracts in the Far East that were offshore that had a lower margin, compared to the rest of the peers.

But the point of disconnect between the information of the Board and the management doesn't exist.

Yan Lager - *Franklin Templeton - Analyst*

Okay. And then the second question is related to your focus on the Blockbuster contractors driving the bulk of the recovery in your margins 2014 and beyond. Historically, clearly Saipem has been the leader in winning this type of Blockbuster contracts, that I agree, but you also have been successful in winning the fill-in contracts that it sounds to me like you perhaps will not be going after as much now because they are highly competitive and perhaps not as profitable.

So is it fair to say that, going forward, Saipem is going to be focusing primarily on these Blockbusters? And, if so, should we expect a much lumpier cash flow recognition because of that?

Umberto Vergine - *Saipem SpA - CEO*

Well, two concepts what I am trying to push into the organization in terms of to reinforce that. One is much bigger commercial discipline; and the second, proximity with the client. The two means that we are not aiming only at the larger contract or big contract that anyway is and remain the biggest target of Saipem. We are probably one of the few contractors able to deliver this type of project. The more complex they are, the better it is for us, both onshore and offshore. And that's why we have spent also a lot to be prepared to do them and we want to do them.

But the proximity with the client and the clear commercial discipline is also leaving us all the chances to compete for a smaller contract, as long as they are remunerative and they are not coming in just as a fill-in objective. We don't need them; we have them already. And we believe that the next phase, or actually the phase of the market that we have entered, that is going to continue in the next years, doesn't require to go for them.

Yan Lager - *Franklin Templeton - Analyst*

Okay, great. Thank you.

Operator

Erik Karlsson, AKO Capital.

Erik Karlsson - AKO Capital - Analyst

I have two questions, please. Just coming back to the working capital issue; historically, you have never seen an outflow more than EUR400 million, single year, over the last 10 years, and last year it was well over EUR1 billion. What are the reasons why that will not reverse in '13 as you only expect a minor cash inflow in '13, given that we won't see much top line growth? So I'm just trying to understand that, because the former management was talking about a big inflow in H2 and that's not happening now, and it doesn't seem to be happening in 2013 either, according to the new guidance.

And then just secondly on 2014 outlook. I appreciate the margins will be lower than you've seen historically, but you spent about EUR8 billion on CapEx over the last few years here; an unprecedented program in terms of size. What is your expectation for absolute EBITDA in 2014? Can you approach the levels you've seen in the prior years at all, or will it still be materially lower in absolute levels, because you have a much larger asset base now? Thank you.

Umberto Vergine - Saipem SpA - CEO

Thank you, Erik. Please, Stefano, if you want to update on the working capital [question]?

Stefano Goberti - Saipem SpA - CFO

On the working capital for 2012, yes, as I said before, we have a few claims that are under discussion in the number of 2012 for which we expect the completion during the first month of next year and from which we should recover some cash. Also, we are projecting a lower level of profitability for next year, and still an important CapEx campaign of between EUR900 million and EUR1 billion. So that's why I'm telling this time that at the end of 2013 the cash flow will be a little bit positive, but not hugely positive.

Erik Karlsson - AKO Capital - Analyst

And just isolating the working capital, what is your expectation for working capital cash or inflow in '13?

Stefano Goberti - Saipem SpA - CFO

We are projecting around EUR100 million on that working capital improvement.

Erik Karlsson - AKO Capital - Analyst

And what is the reason why we won't see a bigger reversal from last year, because all the investors have been very puzzled about the working capital outflow and now it doesn't seem to be coming back in 2013? So just wondering, has this just become structurally more working capital intense, or is it contract terms materially different from the past?

Stefano Goberti - Saipem SpA - CFO

Because, as you correctly say, we are confident with these reduced margins that they are, of course, running on a cash position that is slightly positive, but slightly positive not fully positive. Not completely, or with a bigger positive position there.

Erik Karlsson - AKO Capital - Analyst

Okay. I still don't understand why we won't see a reversal of the outflow last year, because you built up working capital and, at some point, that has to be released, right? The customers has to pay you for the --

Stefano Goberti - Saipem SpA - CFO

Absolutely, you are right. During the execution of the [cost] that we did 2013 and '14, for sure we will reverse this working capital. We have put in this reversal mainly in 2014, not in 2013.

Erik Karlsson - AKO Capital - Analyst

Do you think there will be any write-offs on the working capital?

Stefano Goberti - Saipem SpA - CFO

No, I don't, no.

Erik Karlsson - AKO Capital - Analyst

Okay. Great.

Umberto Vergine - Saipem SpA - CEO

Okay. Your previous second question on 2014; we are not in a position to project today EBITDA of 2014, but 2014 is certainly a year that we represent a transition between the situation of 2013 and the following years.

We have, for example, in the new fleet, the new assets in the fleet, already scheduled for utilization, like Castorone will be working on the Ichthys pipeline, and we don't expect to suffer any risk of underutilization of our recent investment.

Erik Karlsson - AKO Capital - Analyst

So that would suggest to me that you will be able to reach a similar level of absolute profit as you've done previously with a much smaller asset base, or am I missing something in that equation?

Umberto Vergine - Saipem SpA - CEO

Yes, it will be a progressive recovery, but I would say that the rebound in 2014 we expect it to be significant.

Erik Karlsson - AKO Capital - Analyst

Okay. Thank you very much.

Operator

Rob Pulleyn, Morgan Stanley.

Rob Pulleyn - Morgan Stanley - Analyst

A few more questions from me, if I may? I think the one on 2013 net debt and working capital has been already covered, but if I could ask; in your slide pack there's a couple of lines that said, learning lessons from prior commercial results and new commercial discipline. Could you just explain exactly what you mean by those lines in terms of the past commercial terms that Saipem has signed?

The second follow-on question I would have is, on the claims dispute, I know this is slightly old ground, but you said it was unlikely you were going to recognize those claims back. Surely that means those projects, where those claims outstanding, will actually have lower margins, or am I missing something?

And the third thing I just wanted to clarify; when you were talking about potential contracts, I thought I heard you mention Australia and LNG. Could you just clarify which project that is? Is that Browse LNG by chance? Thank you.

Umberto Vergine - Saipem SpA - CEO

On 2013 you were referring, because the line was very [cut]. The point of the higher commercial discipline, okay. What we are saying is that we aim to have the full control of the changes that could happen during the execution of the contracts, starting from the commercial phase. This is not something that we could expect that was not already done in Saipem, but I think that the experience done in the execution of this lower margin contract taken under tough competitive condition, I have indicated that this is something that has to be always of a priority; a priority attention from the very beginning.

It's impossible to [plan and record] a situation only on the execution phase. So I'm not trying to indicate anything either systematic or structural but, for sure, if there is a lesson learnt from this very tough contract, this is the aspect that I want all the managers to consider and to put in place measures to prevent to be in such a difficult situation again.

On the situation of the claims, your question referred to the status of the -- sorry, if you repeat that so I'm sure not to invent your question.

Rob Pulleyn - Morgan Stanley - Analyst

Yes, sure. Sorry it wasn't clear. My question was, you said you had some expected lower recovery of claims as you close out projects which were not going to happen in 2012, but would now happen in 2013. Surely, without the cash flow and the profit recognition from winning those claims, those projects will be, by definition, lower margin. Or am I missing something and, therefore, some of your margin guidance relates to projects you're executing?

Umberto Vergine - Saipem SpA - CEO

Okay. I let Stefano to answer to this.

Stefano Goberti - Saipem SpA - CFO

What we said is, that we recognize in 2012 number the lower amount of claim recognition, so we put that number in 2012 result. That's why we are lowering our guidance for 2012. Then, of course, you're right, when we will finally close and sign off these claim, we will get the cash in, in 2013.

Rob Pulleyn - Morgan Stanley - Analyst

Right. But as you mentioned earlier, you're not expecting as much of those claims as perhaps you were previously? Correct?

Stefano Goberti - *Saipem SpA - CFO*

Yes, we are lowering the amount of the claims that we are going to win in 2012. Correct.

Rob Pulleyn - *Morgan Stanley - Analyst*

Okay. And, finally, on the upcoming contracts, the mention of Australian LNG.

Umberto Vergine - *Saipem SpA - CEO*

Yes, for sure Browse is within our [rudder] and we are counting a lot on this.

Rob Pulleyn - *Morgan Stanley - Analyst*

Okay. And is it realistic that we could see that progress this year, as I was under the impression the operators were still considering the viability of the various options?

Umberto Vergine - *Saipem SpA - CEO*

I'll let Hugh to comment on that.

Hugh O'Donnell - *Saipem SpA - Deputy CEO*

Browse is definitely on the radar, as Umberto was saying. It's one of a number of LNG projects, and what we continue to say there is that the four or five LNG prospects that you have around the world, including Browse, but also including Indonesia, Russia, West Africa, etc., we think that statistically it's likely that some of those projects will come in, in 2013, and that's the situation that we're referring to.

Rob Pulleyn - *Morgan Stanley - Analyst*

Okay. Thank you, Hugh.

Operator

Edward Friedman, McLean & Partners.

Edward Friedman - *McLean & Partners - Analyst*

I have a few questions on the backlog, if I may? Your backlog is about EUR20 billion, and you generate revenues of about EUR13.3 billion -- EUR13.5 billion, as per your guidance. You said that the decline in margin is related more to new contracts, but I'm struggling a little bit with this sharp decline margins, because when we talked previously with the Company, the Company guided that the backlog has better margins than currently reflected in the current revenue stream.

It seems like when you generate -- your new orders is approximately EUR3 billion a quarter; can such a stream of orders generate such a sharp decline in margins? It seems like the new orders are coming in at a loss. Is that the right way to look at it?

Umberto Vergine - Saipem SpA - CEO

I could not exactly follow your question, but I think that the level of the impact of the new contract is certainly limited in terms of positive impact for 2013. Almost 80% of the revenue that we expect to make in 2013 comes from existing contract.

Not all of these contract are contract from low margin, as we explain, taking in the previous years of tight market, but certainly more than 50% of them. So you can see that if you project on that the certain number of quality new contracts that will be able to have a material impact on the result of this year, these can have not more than the impact that we are projecting in our budget.

There is a follow-up with our IR questions later on, maybe you can get more specific details, if you like.

Edward Friedman - McLean & Partners - Analyst

Okay. Thank you.

Operator

Rob Mundy, Liberum Capital.

Rob Mundy - Liberum Capital - Analyst

Just a quick follow-up on the dividend. So you've said that the payout ratio's going to remain at 33%. Can you just confirm that the distribution, therefore, in absolute terms, is going to come down quite markedly from 2012 levels?

Stefano Goberti - Saipem SpA - CFO

This is Stefano, Rob. What we said is that the policy of our dividend will be presented to the Board that will approve the full year 2012 at the middle of February, and the policy is to pay out one-third of the net profit. Having said that, if you project in the future, this policy, once the Board will approve it, you will have the reduction of the dividend if then the profit reduces.

Rob Mundy - Liberum Capital - Analyst

Okay. So are you expecting it to come down in absolute levels then, or are you expecting the policy to potentially change when it's taken to the Board?

Stefano Goberti - Saipem SpA - CFO

This is the policy that will be presented and proposed to the Board, and it's up to the Board to approve it. But the policy will be re-presented to the Board for approval in February.

Rob Mundy - Liberum Capital - Analyst

Okay. Thank you.

Operator

Sebastian Yoshida, Deutsche Bank.

Sebastian Yoshida - *Deutsche Bank Research - Analyst*

At the Q3 results, you gave guidance that the decline in utilization in the Onshore business, you weren't going to restructure it; you weren't going to see any decline in headcount; you weren't going to lay people off. Can you give guidance on what your updated status on that is? And, yes, just that to begin with, please.

Hugh O'Donnell - *Saipem SpA - Deputy CEO*

Yes, Sebastian, hopefully, we've already answered that question. But in any case, the reply is the same as we had given then in Q2, that because of the fact that we're optimistic about the market and some of these mega projects, particularly on the Onshore side, coming through during 2013, we will not downsize in the short term.

Sebastian Yoshida - *Deutsche Bank Research - Analyst*

Okay, that's fine. Thank you very much.

Operator

(Operator Instructions). David Phillips, HSBC.

David Phillips - *HSBC Global Research - Analyst*

Just a couple of questions on two divisions. I want to ask about the Onshore E&C margins. In your new conservative view of the world, should we assume -- I know you've given some very useful comments as to how quickly this might recover overall over the next couple of years, but could you give us some indication as to whether you think the Onshore margins will ever get back to the levels they were a few years ago, given the environment out there?

Secondly on Offshore, you've given some very useful comments about Castorone, FDS1 and 2 and so on working in an 18 to 24 months' timeframe. What particular work do you need to see won into the backlog in the next 6 to 12 months, to give you a lot of confidence that that margin really is going to pick up? Is it just the market in general, or is it -- do you really want to see a big West African SURF project lodged in there? Do you want to see some pipe laying work in Brazil and so on? I just want to get an idea as to what you really want to see coming in to boost that margin. Thanks.

Umberto Vergine - *Saipem SpA - CEO*

David, I take the first question, then I will pass the second to Hugh. On the potential of Onshore, yes, I believe that within the next years, we will get the Onshore business level of profitability rebuilt to level, if not equal, very close to the one that historically we had, and this because we are seeing coming to the market very huge opportunities. We are talking about a big increase of LNG projects related to the many discoveries gas that were made, and there are also interest in many new countries that never were part of the LNG historical production and exporting.

On the downstream, as I said, we have interesting opportunities also on the refinery linked to our conventional production, both in the tar sands as well as in the heavy oil in Venezuela. There is an increasing availability of gas, and there is an increasing number of fertilizer plants that are being scheduled, or being put on the market for tendering. This is where Saipem not only have very large experience, we also have some technological advantages to our license, so these are also important projects that we are into.

Then there are some typical processing plant for oil and gas that we expect to see, maybe towards the end of 2014, coming into the market. So the general picture that I have, and I want to share with you, is a positive Drilling business, reconfirming Offshore, but also structurally recovering Onshore E&C business.

On the next one, Hugh, if you can please help me?

Hugh O'Donnell - *Saipem SpA - Deputy CEO*

Yes, with regard to these new assets, the Castorone, the FDS2, probably also the FDS, I think the question is absolutely appropriate. It's interesting to look, for instance, at even some of the other vessels, the more conventional vessels. For instance, we said earlier that the idleness was more or less the same in 2013 -- will be more or less the same in 2013 as it was in 2012.

An example of that would be that Castoro 6, Castoro Sei, would be idle for most of 2013. The Castoro 7, which was idle for most of 2012, will be utilized, to a greater extent, in 2013. The big difference is that the Castoro Sei was doing Nord Stream during 2012, and there is nothing comparable to that being done by either the Castoro Sei, the Castorone 7, or the Castorone.

The Castorone's workload, through to the end of 2014, provides continuous work, so it's, I would say, not a disaster, although I share the frustration of many of you with regard to the surprise in what we're announcing. However, it's definitely not comparable to Nord Stream or to Stockman or to [Galci] or to South Stream. So those are the kind of contracts for the Castorone that would need to come in, in order for us to get the full benefit of that vessel. We probably were a little bit slow in recognizing that that makes a crucial difference, I think, with regard to 2013.

The same thing applies to FDS2. Last year, 2011/2012, we were doing jobs like [Uzan] and Kizomba satellites. This year, we'll be doing the early projects in Brazil that Umberto has already mentioned, and some smaller work in West Africa. So Egina or [Carambor] or the bigger SURFs in Brazil that await have not come in yet. But they're the kind of projects that need to come in to, essentially, exploit the vessel to its maximum advantage.

David Phillips - *HSBC Global Research - Analyst*

All right. Thanks. Just one quick follow-up on the Offshore side, the conventional market, are you seeing the conventional market notably better in terms of margins that you're -- in terms of current work, or work you're looking to win to backlog right now versus, let's say, a year ago, or has that not improved yet?

Hugh O'Donnell - *Saipem SpA - Deputy CEO*

The conventional market I think is -- the market generally offshore started to strengthen last year, a bit late to have an impact on 2013 as we previously had communicated to you. I think the difference was that we communicated that it looked a transition, whereas now we're confirming that it's a trough. However, the market is improving; it's improving in all sectors, and that includes the conventional sector. I think the [floaters] are also going to be very important. The floaters are going to be more like onshore work for us, because there isn't a marine component in it, but I think we expect floaters to be a very strong business. And our vessels, on the conventional side at least with the bigger vessels, like the Saipem 7000, have got pretty good workloads.

We don't see a huge difference there. I think the main difference is, as Umberto was communicating, there were a number of pretty elite projects that concluded, or kind of concluding in the Caspian, in the Baltic and in West Africa, and they're not replaced by contracts of the same quality, the same margin potential in 2013.

David Phillips - *HSBC Global Research - Analyst*

Okay. Thank you.

Umberto Vergine - *Saipem SpA - CEO*

Well, I think that maybe we can take another question.

Operator

Erik Karlsson, AKO Capital.

Erik Karlsson - *AKO Capital - Analyst*

My question, Umberto you gave us some very helpful comments on your expectation for profitability and margins in the Onshore E&C business for the longer term. Could you expand a bit on your views on the margins and profitability potential of the Offshore E&C business in the longer term?

Umberto Vergine - *Saipem SpA - CEO*

Thank you, Erik. Is really one of the area that we see has the potentially of a quicker recovery, because the market is indicating by the number of contracts that are either already out for tendering or on the horizon, they really push that the operators are having in trying to monetize the discoveries done in the quarter.

We have really -- and this is where our fleet and our experience put us in front line for getting these contracts that are generally very good contracts. We have a number of subsea under development, including all the aspects from the engineering to the installation, and then the link to floaters that are, as Hugh was saying, an important component of the work of most of the oil companies in the years to come.

This is where we have our yards; our yards are perfectly placed, also geographically, to satisfy the requirements for these contracts. And, when we talk about local content and we refer to our yards, particularly in the Caspian but mainly in West Africa, is because the first party of the international operator [do not see] of the country wants the work to be done in the country. So who have the yard, who have the personnel properly trained and organized to execute the work in the country is likely to win the contract, and this is why we are very, I wouldn't say optimistic, we are very aggressively looking for these projects. And between Nigeria, Angola and Congo, there is certainly a number of opportunities.

Indonesia, we mentioned it before, we have some discoveries there that are finally being sanctioned both by two different operators, one is Chevron, one is ENI, and we are really trying to get the most [opportunity] of these two developments.

There is also the component of some big trunkline and not any more international trunkline, but trunkline connected to some of the marine development like in Brazil, and in Australia.

South Stream is not a project too far to come. We have seen that there has been a clear sign from the shareholders of the project to continue. They approve the financial commitment from November 2012 to mid 2013, but mid of 2013 is coming pretty soon and we will see if, as I indicated by not only the Russian partners but also by the other partners, this project will be sanctioned. And Castorone is perfectly positioned to get this contract.

Erik Karlsson - *AKO Capital - Analyst*

That's very helpful. And just to clarify, so you did help us with the long-term profitability outlook and potential for the Onshore E&C business, and just very directly, do you think the Offshore E&C can ever return to the margins we saw in '08 to '11 where you saw margins between [18% and 19%] every year, and I'm not talking about this year or even next year, but if we look more slightly longer results.

Umberto Vergine - Saipem SpA - CEO

Yes, you are referring to the Offshore, right?

Erik Karlsson - AKO Capital - Analyst

Offshore E&C margins, for the longer term.

Umberto Vergine - Saipem SpA - CEO

Certainly, yes, Offshore, if I have to give a ranking, Offshore will pick up quicker than Onshore.

Erik Karlsson - AKO Capital - Analyst

And do you think those kind of margins that you saw in '08 to '11 is possible to have in that segment again, or is that just now a structurally slightly more competitive business?

Umberto Vergine - Saipem SpA - CEO

Well, I think that, within the next two years, the demand and the rate of new development that the oil companies will put in the market will help to get back to this level of profitability.

Erik Karlsson - AKO Capital - Analyst

Very helpful. Thank you so much for that.

Umberto Vergine - Saipem SpA - CEO

Thank you. I thank you all. We hope to have been sufficiently clear and detailed in answering to your questions. I think that we have presented you our view for 2012 and '13 but also, we have seriously tried to convey all our conviction about the potential of Saipem and the potential that we have for a strong rebound in 2014. Thank you very much.

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