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EDITED TRANSCRIPT

SPM.MI - Saipem SpA 2013 Guidance: Detailed Breakdown Information
Conference Call

EVENT DATE/TIME: FEBRUARY 07, 2013 / 5:00PM GMT



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PRESENTATION

Operator

Good day, and welcome to the Saipem 2013 guidance detailed breakdown conference call. Today's conference is being recorded. At this time, I'd like to turn the conference over to Mr. Umberto Vergine, CEO. Please go ahead, sir.



Umberto Vergine - Saipem SpA - CEO

Good evening, everyone, and thank you for joining us for the conference call. With me here today is Hugh O'Donnell, Deputy CEO, as well as Stefano Goberti, our CFO. Let's start, and move to slide number 3.

We have had ongoing discussions with investors and analysts since our announcement on the 29th of January. Therefore, we have decided to take the opportunity to provide a more detailed breakdown and clarification of the information we presented on the 2013 outlook.

With this presentation, we'll include a review and more details on the (inaudible), a breakdown of our forecast for future earnings, information on net debt and working capital, as well as confirmation of our profit recognition policy. This detail is one-off, and is limited by the level of commercial sensitivity of information (inaudible).

We will (inaudible) the timing of announcement, slide number 5. We confirm we will publish the Q4 and full year 2012 preliminary results next Wednesday, 13th of February, as planned. As you know, following the Board approval of our 2013 budget, we immediately go forward and release (inaudible) 2013 guidance to the 29th January, because of the (inaudible) reality of difference in our 2013 expectations versus market consensus. As we had announced, in spring, we will report on the result of our ongoing operational review.

Next (inaudible) is our 2013 outlook. You have seen this slide before, as we provided it on the 29th of January. (inaudible), but just as a reminder, we have included this again. A number of factors contributed to the reduction in the Engineering and Construction EBIT 2013, relative to 2012, including a number of high margin projects which were executed in 2012, [up] or nearing completion. The lower expected margin of contracts to be executed in 2013 was reduced, which we are cutting out and concluding in 2012, and the (inaudible), the highly competitive market conditions faced in prior years, and the (inaudible) delays of new large contracts performed versus our prior expectations.

We have decided to take a more prudent approach to forecasts, reflecting evidence of new contract (inaudible), as seen during the last half of 2012. As a result, we have revised certain outlook with respect to the timing of new contract awards, and new project execution, as well as certain estimates on the (inaudible), of which we can (inaudible). To reiterate, all changes in assumptions that have been related to future project awards, and not existing backlog.

Looking at slide number 8, to illustrate the reason for the expected decline in profitability in 2013, this slide shows our contract mix for 2012 versus the current year, which total (inaudible) approximately 40% of our revenues were derived from higher margin projects, which in turn made up the majority of our (inaudible) during the year. Many of these projects have been completed, or are close to completion, and so, have limited impact on 2013.

In 2013, we expect 80% of our revenues to come from contracts which were awarded in previous years, and in general, at lower profitability for the reason explained previously.

New contracts, which we believe would be awarded this year, are expected to reflect the historical margin mix, and hence, to improve overall margins. This is a reflection of recent contract awards announced today of EUR3.2 billion, of which EUR2.3 billion refers to the Engineering and Construction business, where we have seen evidence of an improvement in margins.

I am pleased to say that since the announcement on the 29th of January, we have signed a new important contract, and in addition, we have received prior authorization for communication to the market, and we (inaudible).

Slide number 9. Looking more closely at the timing of our (inaudible) project and their execution and backlog, this slide demonstrates our expectations for when current lower margin projects under execution will be completed, and the new contracts will begin to contribute to earnings. As you can see, in 2014, we project the percentage of lower margin contracts to reduce, leading to a balanced profitability.

Let's talk on those lower margin contracts and move to the next slide, number 10.



Although it is difficult to give full details for commercial reasons, we have been stated on this page the timing of the remaining execution of the main lower margin contracts currently in our portfolio. As you can see, in total, we have 16 contracts, of which 9 are scheduled to be completed by 2013, 5 by 2014, and the remainder in 2015.

In the [chart], the main regions we are discussed refer to the Middle East, (inaudible) and Europe, related in the Offshore, we have selected we have selected contracts in Middle East, Brazil, and (inaudible).

On this slide, number 11, we have highlighted a selection of Offshore Engineering and Construction projects whose characteristics are compatible with our strategy and operational strength. This serves to emphasize that the market is in a very good shape.

On the next slide, number 12, we highlight the selection of Onshore contracts which further support our view on the strength of the market going forward. And, as I mentioned earlier in the presentation, we see a bright future for Saipem, and the status which can rebound in total performance. We remain confident that our (inaudible) business model, and medium term outlook for recovery remains robust, due to our ability to manage margin contracts (inaudible), state of the art of the Offshore fleet, (inaudible) capability, (inaudible), and focus on technology. All of these factors leave Saipem very well positioned to capitalize on opportunities in Offshore and (inaudible) market, and continue good high quality of our backlog.

Let's now look at some more detailed breakdown information. On slide 15, moving now to our net debt position for 2012, net debt increased from EUR3.2 billion to EUR4.3 billion, largely due to an increase in our working capital position. This is due to two factors. The first is the value of our Australian closeout claims, mainly the (inaudible) project, which, in total, amounted to circa EUR500 million. The second is due to selected existing normal margin contracts, which were negotiated (inaudible) favorable payment terms for Saipem.

Moving to next slide, net debt in 2013 is expected to modestly reduce by year-end. Operating cash flow is estimated to contribute EUR1.2 billion, and CapEx and dividends are estimated to remain in line with the prior year, assuming the dividend policy remains in place.

Working capital is estimated to contribute in total (inaudible) EUR200 million, predominantly due to the receipt of previously mentioned claims worth EUR500 million. This gain will be offset by the increased conformance in 2013 revenue, of those same contracts with less favorable payment terms. The components amounted to EUR300 million.

In addition, our estimates also reflect the current (inaudible) approach taken to (inaudible) payment terms for new contracts, upon which we are projecting a neutral working capital position for the majority of the (inaudible).

In 2014, according to our projection, we estimate a further modest recovery. We're now closer to be clearer (inaudible) commission (inaudible) on slide number 18.

Saipem's accounting policy (inaudible) in profit remains the same as in previous years. Costs and revenues are estimated at the beginning of a project, and are then reviewed and updated each quarter. Margins are calculated as a fixed percentage of revenue. And the last point, we book revenues and margins based on progress of the project, which is estimated by the associated costs incurred.

As I said at the start of this presentation, the objective was to add clarity to our current guidance for 2013, (inaudible) discussed last week. As a final message, I would like to reiterate our positive medium term view on the market, and Saipem's strong prospect.

(inaudible) clarity, and we are also ready to take any questions you would ask. Thank you.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator instructions) We will take our first question today from Alex Marie from Exane. Please go ahead. Your line is now open.

Alexandre Marie - *Exane BNP Paribas - Analyst*

Hello, good evening, sir. I'd like to ask two questions, please. First, on the new contracts that you announced today that you've taken in December and January, can you please confirm that their impact is already included in your 2013 guidance? And also, can you give some color vis a vis the embedded margins on these contracts?

Second question is on the Algeria investigation. There are news that this is (inaudible) to Eni, so I'd like, if you could please confirm that at the moment, only Italian authorities are involved. Are you seeing any indications that the US authorities might get involved at some point? Thank you.

Umberto Vergine - *Saipem SpA - CEO*

Thank you. On your first question, on the new contracts announced, yes, they are included in our 2013 outlook. I cannot disclose too much about, of course, their margin, but I can just say that we start seeing an indication of the market recovering to a normal pre-crisis level.

On your second question, about Algeria -- sorry, about Nigeria --

Alexandre Marie - *Exane BNP Paribas - Analyst*

No, sorry, it was about the Algeria investigation, yes.

Umberto Vergine - *Saipem SpA - CEO*

Yes. On the Algerian investigation, we have no evidence of any possible other implication of those that we are aware of, that are related to the action of (inaudible) prosecutor.

Alexandre Marie - *Exane BNP Paribas - Analyst*

Thank you.

Operator

Thank you. We will take our next question today from Phillip Lindsay from HSBC. Your line is now open. Please go ahead.

Phillip Lindsay - *HSBC - Analyst*

Yes, thanks, and good evening. A couple of questions, please. First of all, are things -- well, you're saying that your profit recognition hasn't changed, but your approach with respect to margins contra-execution and timing for new awards has. But were you not tempted, given what's happened, just to go one step further, and perhaps make your accounting more conservative? I think most E&C contractors in Europe, and indeed, the US, I think, tend to recognize profits at a much later stage in the project than you do. Maybe IFRS makes it more difficult to be overly prudent for everyone, but do you think you're being conservative enough?

Umberto Vergine - *Saipem SpA - CEO*

We -- we have no intention to change our accounting policy, as we have already stated, because what we deem as necessary was to project in our forecast the actual indication that we got from the market in terms of speed of new contracts coming to tender, level of expenditure that we believe



to be able to win, and the margin that the oil companies are expected to pay for these new contracts. We didn't want to be too conservative or too bullish. We decided to be prudent.

Phillip Lindsay - HSBC - Analyst

Okay. Also, with respect to claims, based on what happened in 2012, it seems that perhaps historically, your approach to recognizing claims may have been too aggressive. Can you confirm whether you've changed the policy with respect to recognizing margin on claims, please?

Umberto Vergine - Saipem SpA - CEO

No, we didn't -- we don't have the need of doing this, this change. And we are reasonable editors of all possible recovery of existing claims, for which we are working based on our -- I mean, working on the negotiation with our client. And we have seen some progress in some other cases where discussion is still open, but continues.

Phillip Lindsay - HSBC - Analyst

Okay. Just one last follow up from me. Project payment terms, can you just explain maybe how this is changing around the world, how sort of structural are these adverse payment terms that you're seeing in the contracts, or -- as the market looks like it may be beginning to tighten somewhat, are the contracting terms already looking more favorable?

Umberto Vergine - Saipem SpA - CEO

Yes, Phillip, this is a good question. I will ask Stefano to comment on that.

Stefano Gobert

Well, first of all, if I would like to first, to comment on the projects we have in our backlog at the moment, the ones that are these term and condition as award position for Saipem, in which we have during the negotiation, of course, we have to say, we have to (inaudible) for that, give up on some payment conditions. So at the moment, we are in a position of financing our clients, because we have to maintain the projects ongoing, and then only when the milestones are approved, we get the payment.

And far as you have to [fix] this milestone in different terms, meaning that you have to wait two or three months to get to the subsequent milestone, you get this aspect of being penalized.

Of course, we have learned from that, and we have -- are putting much focus on the new contracts coming on, so what we want for our new projects, as a minimum requirement, well, we call it (inaudible) funding position, meaning that we want to have a position in which our costs are paid by the client in time for us to maintain this equal or near balance in our project, and then having the margin to flow in just toward the last part of the project.

Phillip Lindsay - HSBC - Analyst

Okay, thanks. Appreciate the answers.

Operator

Thank you. We will take our next question today from Ryan Kauppila from Citigroup. Your line is now open. Please go ahead.



Ryan Kauppila - Citigroup - Analyst

Hey, good evening. It -- just looking at the magnitude of the drop, obviously, in 2013, 2014 from the projects rolling off, what gives you the confidence that the structural -- the business has not changed structurally, and that you can return to that level of profitability from 2007 and 2008 that you indicated in the last call?

Umberto Vergine - Saipem SpA - CEO

Well, Ryan, what we said and what -- I try to explain that better now, is that we have seen the delay of several high margin new contracts, and many of them are expected, are still expected to go ahead in Q2. What has been our assessment is on the timing, for which we said that some timing has become more uncertain.

But these projects are robust. They are in the plan of the oil operators, the international or national oil companies, and in general, the oil and gas business is really getting -- remaining very strong. And we say that because we are under, really, a discussion for a number of contracts that we expect to see coming to the market in the next month.

Ryan Kauppila - Citigroup - Analyst

Thanks. And I know it's hard to play this game, but as a new management team, is there a minimum margin threshold that you would need to accept work? Even in a period of low utilization, is there a threshold that you simply just view as unacceptable?

Umberto Vergine - Saipem SpA - CEO

Well, our -- I would say, first to simplify, straightforward, the policy is, not volumes but margins. That means that we will apply the selective criteria with a high selection of new contracts. We take, based on the combination of factors, that as you (inaudible), and it has to reflect a -- all opportunities that can exist, both Onshore and Offshore, related to our fleet or to our yards. So all of the (inaudible) to be optimized.

But that is clear in minds that revenue is not our target. Our target is to take advantage of the better margins that the market is already projecting for the years of the crisis.

Ryan Kauppila - Citigroup - Analyst

Okay. Thanks very much.

Umberto Vergine - Saipem SpA - CEO

Thank you. Does anyone have a question?

Operator

Thank you. We will take our next question today from Christyan Malek from Nomura. Your line is now open. Please go ahead.



Christyan Malek - *Nomura International PLC - Analyst*

Hi, good evening, gentlemen. Two questions, if I may. First, you mentioned a focus on profitability rather than revenue. Can you identify which projects Saipem have lost money on, or have had execution issues, and whether it's Onshore or Offshore? And please, just identify what, exactly, you mean by low margin projects. Are these projects that are making money but on a low return, or these projects are losing money and you've had execution problems? Just clarity on that would be great.

And second, Mr. Vergine, how comfortable are you, as a management team, that you're aware of all the issues across the portfolio of Saipem, you've understood these projects from the bottom up? And what's the risk, from your perspective, that there are things that you don't know or that you will be told in the future on these projects that could mean that we have, perhaps, other conference calls that follow this one on, again, levels of profitability? Thank you.

Umberto Vergine - *Saipem SpA - CEO*

Thank you. Well, what we call the low margin contracts, particularly the ones taken in 2009, 2010, this is actually what we refer to, contracts that have low margin, because they were taken at the time of very high competition, and they're very concentrated in specific areas.

Execution problems can exist, always, but this is not the reason why these contract have become low profit. And we have well identified them. We have well assessed all the most important critical cases that we have in relation to execution, to outstanding [tools], to further scope of work, maybe it's the [ongoing] negotiation with the client, and as I said last time, we have really used as much as possible the skill of all our people, referring to always the 20 most important countries we have with projects, to analyze one by one all the cases that could have had any risk or potential unexpected impact.

So today, as a new manager, together with my existing and new managers, we are very confident that we won't have any surprise that can hit us, other than all the execution risks that are intrinsic in our job and for which we are well organized to minimize them. But of course, unexpected can (inaudible), and our job is to reduce and to avoid this resulting impacting the value of the Company.

Christyan Malek - *Nomura International PLC - Analyst*

And just to follow up on that, in terms of the lines of accountability in your business, how -- you have a high degree of confidence, then, there are no projects that you're losing money on, and that this is more about revision of low margin projects. Those individuals that have sort of shed light on this in the last few months that we haven't been able to -- well, obviously, this is -- these projects have been low margin and been in place for, presumably, more than a few months, but more like 12 to 18 months. Those individuals and teams, are those the same individuals and teams that are telling you these projects are actually on a lower margin? Because -- the question I'm getting to here is, how can you be sure that you know exactly from those people what's right and what's wrong, because they've sort of been in place well before the last few months.

Umberto Vergine - *Saipem SpA - CEO*

Okay, I try to clarify this. Your question implies that the problem, the general problems related to these contracts that were not properly identified in the past, and this is not the case. The problem that made a substantial difference between 2012 and 2013 has been the evolution of our mix of contracts in our portfolio. It's not the fact that problems that were existing, they were not properly presented by our people. So it's not an issue of reporting, or of trustability of our project directors and project teams. It's a matter of going over this phase, acquiring the new contracts that are now back in the (inaudible) more often to the market in line with our strict policy about marginality, and we build a portfolio similar to the one that we had a few years ago.

The people are in full control of the execution, and there is always support also on the commercial side, from the top management, in order to iron out any possible commercial issues that could have a -- been generated in the past [month].



Christyan Malek - *Nomura International PLC - Analyst*

Okay. (inaudible). Thank you very much, and -- just to be clear, no losses on projects, that's good to know. Thank you.

Umberto Vergine - *Saipem SpA - CEO*

Thank you.

Operator

Thank you. We will take our next question today from Amy Wong from UBS. Please go ahead. Your line is now open.

Amy Wong - *UBS - Analyst*

Hi, there. My question relates to the large number of identified opportunities on slide 11 and slide 12. If you look at those projects and compare the expected margins on those projects, and looking back, say, five years ago, do you feel that the mix of these projects are structurally higher margin for the complexity, or kind of similar margin risk adjusted for the amount of risk you have to undertake to execute on these projects, or -- I guess the question I'm getting to is, are we moving to a structurally, kind of lower margin era for E&C?

Umberto Vergine - *Saipem SpA - CEO*

Yes. The answer is yes. We -- I can say that we have already seen valuable signs of recovery, and (technical difficulty), and it's even that some of the contracts we are announcing today start to reflect improving margins than those that have been executing in 2013.

As you pointed out, these projects are, in general, very large projects, very complex, some of them in difficult areas or in difficult operational conditions, and that this is where we know to be in a good position to be competitive, and to obtain success in a significant number of them.

Amy Wong - *UBS - Analyst*

Great. Just one follow up question as well. Obviously, you've taken on this role, and you've identified areas on the accounting where the controls need to change, and you're changing accounting estimates. I appreciate you're going to give an update further into the spring -- in early spring, but have you identified other types of controls, monitoring controls or whatnot, that need to be improved in the organization?

Umberto Vergine - *Saipem SpA - CEO*

Well, I would like to clarify. It's not true that we identified needs of change of control or change of accounting. We need to optimize our operational structure and our approach to a market where the complexity of the projects needs to be evaluated to enter in -- avoiding entering into difficult economically contracts, where we will have then a difficult management commercially with our clients. We need to use the strength of Saipem to remain on the average historical margin mix that we had, and this is where Saipem is going to be focused on.

Certainly, all changes in assumptions that I referred to have related to future projects, in order to improve terms of condition, and we are not planning to revise any of our system of project control or project accounting.



Amy Wong - UBS - Analyst

Thank you very much.

Umberto Vergine - Saipem SpA - CEO

Thank you.

Operator

Thank you. We will take our next question today from Fiona Maclean from Merrill Lynch. Please go ahead, your line is now open.

Fiona Maclean - Merrill Lynch - Analyst

Hi, yes, it's Fiona here at Merrill Lynch. I had a question about some commentary that's been in the market over the last few days, both from Saipem and from Eni, saying that (inaudible) too aggressive in revising then the numbers for 2014. Given that you are sounding very bullish on project awards for the next 12 months or so, could you give us an indication on where you think expectations should actually be sitting for 2014, please.

Umberto Vergine - Saipem SpA - CEO

(technical difficulty) --- and we can anticipate, particularly for projects of basically two years from now. But -- and those are also numbers that are extremely confidential for us, because of the business, of our ability to be competitive. What I can say is that we are starting to see signs of more and more contractor recovering a level of profitability that reflect basically two things, the higher demand from the oil and gas sector, and the complexity of the projects that are getting in our launch.

This, again, is the mix that Saipem is built to exploit, and of course, the variety of the type of projects also make a variety of level of profitability. So it's really an impossible answer for me to give to you.

Fiona Maclean - Merrill Lynch - Analyst

Okay, then. And just to go back to the conference call from last week, I'm still struggling to understand why Saipem felt it was necessary a number of -- you know, over the last few years, to be bidding so aggressively on projects. And I'm still struggling to understand what the actual aim of that was. So, why should we have confidence in you able to price projects more in line with market expectations going forward, and why can't you end up being in the same position again, because clearly, the competitive environment is still very aggressive in front of your end market.

Umberto Vergine - Saipem SpA - CEO

Okay. Looking to the reason of the (inaudible), I will ask Hugh to formulate this answer, (inaudible).

Hugh O'Donnell - Saipem SpA - Deputy CEO

Yes, Fiona. You probably remembered that -- following the crash in 2008, it was a very particular period, because what happened was that almost all of the international oil companies stopped their CapEx. And the only opportunities that were available in the market were by the national oil companies, especially in the Middle East.



Now, they brought to bid, if I can put it that way, a lot of work, but they also invited an awful lot of competitors. Quite a few of them were new competitors. So you had a very -- this very strange situation, where you had a strong market in the Middle East, but a very competitive market, because there were a lot of new players.

What Saipem has always succeeded in doing was to have a healthy mix, and that's what Umberto has been emphasizing, I think, both in the conference call on the 29th and tonight. At that particular period, one part of the mix was predominant, and that was the part of the, if you like, the low margin contracts.

So we competed. We have said that we always were prepared to give up a percentage point or two, and that's what we did.

And so, I think it stands to reason that these are low margin contracts, because of the fact that -- then, subsequent to that, it took quite a while, and it is -- continues to take quite a while for the big, higher margin projects to develop, and the timing has been a bit uncertain. And the result of those two phenomena is what you're seeing in 2013.

So there isn't anything dramatic, from that point of view, about the fact that we took on low margin contracts and didn't take care about the high margin contracts. We expected them to come, and statistically, they haven't come through in 2013.

Probably the only major thing that we've seen as a result of that happening in that period is the fact that we relaxed. We let our guard down probably slightly more than we would normally have done on the margins, so they're a little bit lower, perhaps, than we would have normally accepted if there had been a booming market on the Onshore side worldwide, and relaxed on the terms and conditions.

You can always improve operationally, and that's why Umberto has said that we have to have this operational review in order to tighten up on terms and conditions, and to improve operationally, and not to let our guard down even slightly, I would say, on the profitability even on the low margin contracts in the future.

So, you know, I would say that the -- just to recap, the big problem for 2013 is not the fact that we had led -- completely out of control in 2009 to 2011. We let our guard down slightly, but the main problem was that the high margin contracts then didn't follow through to achieve the mix that we would have expected in 2013.

Fiona Maclean - Merrill Lynch - Analyst

Okay, and just a follow up question. On the policies note, we show a -- one of the larger projects (inaudible) in Nigeria today. Can you please give an update on what your thoughts are on Nigeria, and specifically, why you think that (inaudible) can come through in the short term?

Umberto Vergine - Saipem SpA - CEO

No. We can't anticipate decisions that are taken by our clients, and they are extremely [short] commercial sensitive. Sorry.

Fiona Maclean - Merrill Lynch - Analyst

Okay. Thank you very much.

Operator

Thank you. We will take our next question today from Tom Ackermans from Barclays. Please go ahead, your line is now open.



Tom Ackermans - *Barclays - Analyst*

Hi, good evening, everyone. I just wanted to try and clarify a little bit further on what you're seeing on contracts, and I'll try and ask my questions one by one. I'm going to focus on Onshore Engineering and Construction. First of all, so can you absolutely confirm there are no projects in there with a negative sales margin?

Umberto Vergine - *Saipem SpA - CEO*

Well, it's a mix of contract, is -- as I said, we show, I guess, 16 of them in the chart. These are the main contracts ongoing. There are writeoff situation. I can assure that we don't have a situation where the average profit of this contract is made by one of two main negative contracts. We have, in some cases, small or medium, where discussion is ongoing with the client, because the margin very low, almost nil. But the problem is the trend. It is not the fact that we have one or two major disasters that we are now -- to try to rectify. So this is the picture of the situation on the existing contracts that Hugh was referring to.

Tom Ackermans - *Barclays - Analyst*

Okay. And then, on the existing contracts, in your latest quarterly project review, have you, in that review, embedded any of the assumptions around these contracts in the Onshore market? You indicated earlier that you had reviewed all of these things, and you have looked at the issues on all contracts. Does that mean you have indeed updated assumptions for these contracts in the latest review?

Umberto Vergine - *Saipem SpA - CEO*

Well, yes. This has been the basis for which we have identified the status quo, on which we have projected our expectation to complete the forecast on this year.

Tom Ackermans - *Barclays - Analyst*

Okay. So does that also mean that for certain projects, where you initially might have anticipated, for example, a 10% project margin, that you are now on that project anticipating an 8% project margin, as an example?

Umberto Vergine - *Saipem SpA - CEO*

No, I mean, this is not the case. The review doesn't introduce any substantial review of the profitability of our backlog. However, our analysis identified the fact that these contracts, unfortunately, are representing the bulk on what we had managed in 2013.

Then, of course --

Tom Ackermans - *Barclays - Analyst*

Okay, but --

Umberto Vergine - *Saipem SpA - CEO*

Sorry, I just want (inaudible). Of course, during the review, you pick up and you identify and you put more attention on a number of issues that are, of course, present in -- so, big at some times, and all the time, complex projects. But no, no major change in the result of the previous analysis of three months ago.

Tom Ackermans - *Barclays - Analyst*

Okay. And what I'm struggling to understand is that if I look at your execution schedule for all these projects, it seems that the mix is changing quite gradually, and if I look back at the work you executed in 2011 and 2012, we also saw a quite gradual shift in terms of the mix of contracts.

How is it then possible that your Onshore margin drops from above 7% to only 1% so suddenly? Why is that not a much more gradual trajectory?

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

Yes, Tom, I don't think that -- you know, if you look at slide 9 in particular, I don't think that could be considered as a gradual change. I think that's quite a significant change in the overall scheme of things. Hello?

Tom Ackermans - *Barclays - Analyst*

Yes, sorry, I'm just trying to see how the mix changed from 2012 going in to 2013. I mean, I understand projects completed in 2012, but other projects that are going to finish in 2013 were also being executed in 2012. So if the mix -- if the margin assumptions on these projects haven't really changed, then why is there that sudden dropoff going from Q4 or Q3 2012, at above 7% margin to next to nothing in -- for the most part of 2013?

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

Yes. I think the issue here is that the mix is fundamentally very different. If you look at slide 8, I think it is, although of course, for reasons of commercial sensitivity, we can't give the breakdown of the sales margin, but -- and I know I don't want everybody to be going along measuring the height of the various performances of that histogram. But fundamentally, the mix is very, very different to what it is in 2013, and that is the big issue.

Tom Ackermans - *Barclays - Analyst*

Okay.

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

And some of those contracts are -- a lot of them, I guess, are Offshore, quite a few of them in particular areas are Onshore. I mean, when we're doing a contract in the -- when we're bidding a contract in the Middle East, essentially, you have 10, 12, 15 competitors. When we're bidding a similar kind of contract in another area where we're very strong in terms of local content, the number of competitors that we have is far reduced. So of course, local content costs. So our competitive advantage would be greater in those kind of areas on the Onshore side.

On the Offshore side, the things you well know, Tom, are the ones we'd emphasize, these kind of -- where we're utilizing our investments to the maximum possible extent, where we're doing jobs in cold environments, in very deep or ultradeep water, and where we have local content, where they're [epic turnkey] projects.

The more of those factors come together, the better our competitive advantage, and the difference in the margins is as a result. So although we're representing this as being a mix of quality, there is also a mix of margin. But fundamentally, the mix -- the revenue mix and the profitability associated with that revenue mix in 2013 is quite dramatically different to what it was in 2012.

Tom Ackermans - *Barclays - Analyst*

Okay. If I could have one more small follow up. There have been some stories about you being the frontrunner on the Umm al Lulu project in Abu Dhabi. That, to me, sounds like a contract that, again, is a mix between Onshore and Offshore type construction work. Perhaps in a similar fashion as the (inaudible) contract is.

How should we think -- should we be thinking about that project? Anything you're getting revenue recognition at some point, and then margin recognition, would that be a project that we should expect to have a lower than average profitability in the Offshore Construction division, if indeed you were to be awarded that contract?

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

Yes, Tom, I think probably -- I appreciate the question, but fundamentally, you know our culture and our track record. We don't tend to comment on projects which are being bid.

Tom Ackermans - *Barclays - Analyst*

Sure, I understand.

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

And I have to stick with that. And different contracts have different margins, structurally, etc., etc. But we don't comment on projects that we are -- that are still under bid.

Tom Ackermans - *Barclays - Analyst*

Okay, completely understand that. Thanks a lot.

Operator

Thank you. We will take our next question today from Paolo Citi from Intermonte. Please go ahead, your line is now open.

Paolo Citi - *Intermonte - Analyst*

Hi, good evening, everyone. Just two questions. The first one is on the net debt. First of all, out of your EUR4.3 billion net debt year-end last year, is it possible to have an indication about your advance payments to -- from your clients, and also advance payments to your subcontractors?

Then, second question on net debt. I'm looking at the slides 15 and 16. Please, that's in 2013, you are going to recover your claims from EUR700 million, while what you like, the terms and conditions is still an increasing figure also this year. So you have EUR0.9 billion last year, and EUR0.3 billion, so around EUR1.2 billion. I'd like to understand better when you expect to recover this figure going forward, is this a structural setup in your net financial position?

Then the second question is, again, on the margins issue. Frankly, I'm very surprised, regarding the indication you gave, particularly the Offshore segment for this year. For sure, you will have some better (inaudible) at the Castoro 6, you'll have the Castorone working this year on some projects. You had where -- you had in your backlog, what [poor] margins projects in Offshore in Italy, but also in Brazil, so I'd like to understand if you are satisfied or not with the margins you are expected to gain with the Castorone, in particular, in Brazil, and also the FDS2, again in (technical difficulty).



And then, my final question is still on margins, slide 9. I know it's extremely difficult to answer this question, but we look to 2012, and we see around 10% EBIT margins for the Engineering and Construction divisions. For this year, we have roughly 3%, according to your guidance. If we have to put a figure, the last bar was to be the most realistic figure. I know it's difficult to answer, but I think for us, it's important to understand what could be the -- I would say, the new normal margins for both Offshore and Onshore, (technical difficulty).

Umberto Vergine - Saipem SpA - CEO

Well, Paolo, I think that on your last good question, as you appreciate already, it is impossible for us to satisfy. But I will ask Stefano to give you some more details on the net debt. And then you probably can talk a little bit more about margin and vessels.

Stefano Gobert

Okay. Paolo, on the net debt details, advanced from clients and to our suppliers, you will have the full detail at the 13th of February -- on the 13th of February, when we publish our -- I know this is a preliminary result, after the Board approval. Instead, on the -- when our working capital, we don't fold in our projection, and we have used a conservative approach to our estimate on working capital, we believe that we will have the unfolding of the working capital during 2014 slightly, and then in 2015 completely.

Hugh O'Donnell - Saipem SpA - Deputy CEO

Then with regard to -- I think the main question was the profitability of the workload for the Castorone over the next year or two. So, just to recap, the Castorone is undergoing trial -- (inaudible) trials at the moment, then will travel to the US, and spend most of the rest of this year in the Gulf of Mexico doing [three] contracts. And they're deepwater, very deepwater contracts, but they're pure [pipe laid] in a very competitive market. And then it goes to Brazil to do pipeline, or part of the pipeline in Brazil. And then, in 2014, to Australia to (inaudible).

That's all good, profitable work. Obviously, in terms of what I had previously said, and what Umberto had said, if you take the kind of key factors for us as being projects that exploit to the maximum possible extent the capabilities of the vessel associated with epic contracts, in areas where we're strong in terms of local content, then it doesn't tick all the [markers]. So it wouldn't be as profitable or as valuable to Saipem as, you know, perhaps one or two of the big blockbuster projects, if you like, that we talked about, that had been postponed, and hopefully will come to fruition during 2013.

Basically, what we believe is that the profitability will be good on those -- on that workload, which should be -- the real, kind of icing on the cake will be when those blockbuster projects come in. We can't be more specific than that, as you will understand, and we don't talk about margins, in any case, on specific projects.

In addition to that, however, I have to say that Saipem is -- or, if you like, there are two other competing phenomena at work. The first is the fact that the Castorone is a new vessel, and there always is a learning curve, in retrospect. It might turn out to be better for us, that we're working on those less taxing jobs while we're waiting for the blockbuster project to come in, so that we are even more efficient on the blockbuster job.

On the other hand, we are structured in a way that makes us responsible for our own destiny, in the sense that we have -- we do put an awful lot of R&D into improvement, and I know that that's part of what the operational review is intended to achieve. So we'll have those two things competing. Hopefully, under the new management, and the new CEO and Giuseppe Caselli, we'll be able to see that the productivity trends over the learning curve on a new vessel. But time will tell. Okay?

Operator

Thank you. We will take our next question today from Andrea Scauri from Mediobanca. Please go ahead, your line is now open.



Andrea Scauri - *Mediobanca - Analyst*

Yes, good evening, everyone. I have a couple of questions. The first one that is on -- again, on Algeria, and the investigations there. I was wondering why, given the fact that you have adopted a conservative approach on the business, on 2013, that you didn't decide to include any provision for a potential fine, really, to the investigation in Algeria.

The second question, again, is on page 9 of the presentation, and the last column on the right. I see that the mix is changing, with the 65% of new contracts. I was wondering, what is the visibility, or let's say, confidence that you will have this 65% of new contracts, and what the overall potential could be the timing of the award of these contracts, I mean, the second half of 2013, end of 2013? Thank you.

Umberto Vergine - *Saipem SpA - CEO*

Okay. Talking about Algeria, I do repeat our previous statement. We have, as per today, no evidence that will -- can make us thinking of the need of taking any provision for the eventual results of this investigation.

About 2014, we tried to present the slide in slide 11 and 12, an example of all the important projects that we see in our horizon. And we start to see that we have suffered this year the delay of several high margin contracts, and many of these are still expected to go ahead in the future, with a certain -- with a level of uncertainty on the timing. However, many of these are still very robust projects, and as I said, (inaudible) the Company needed to continue to grow their production basis over time.

We believe it is prudent to assume that the majority of these contracts will filter into our 2014 as opposed to 2013 estimates. And we have identified which are the main targets that we have, and which are the highest profitability for this main target. And this is, of course, part of our strategy, commercial and industrial strategy.

Andrea Scauri - *Mediobanca - Analyst*

Yes, very clear, but if I may, I see on slide 12, for example, that you have included the Shtockman, for example, or Arrow. And it seems that these contracts are basically dead at the moment. And so, this is the reason why I was asking the visibility on that 65% in that point.

Umberto Vergine - *Saipem SpA - CEO*

Well, of course. There are different options for each of these contracts to come to reality soon, or maybe later, or maybe never. But just to be clear, here we have a list of things of about 55 projects. Our target is, of course, a fraction of them, and I want to give you a (inaudible) number, but we haven't that number for which we are targeting. And, we are anyway more entering all of these projects as an option, because unless they get announced, and we follow the announcement of the -- either the shareholder of the company owning these projects, or the partner from the joint ventures.

Andrea Scauri - *Mediobanca - Analyst*

Okay. Thank you very much.

Umberto Vergine - *Saipem SpA - CEO*

Thank you.



Operator

Thank you. We will take our next question today from Henry Tarr from Goldman Sachs. Your line is now open. Please go ahead.

Henry Tarr - Goldman Sachs - Analyst

Hi, thanks. I just wanted to ask a couple of questions. Firstly, the working capital terms and conditions. I assume they've deteriorated, primarily in the Onshore, or have you also seen pressure in terms and conditions in the Offshore?

Umberto Vergine - Saipem SpA - CEO

Stefano?

Stefano Gobert

Yes, mainly Onshore. You are right, Henry. Mainly Onshore, but also some example in the Offshore, especially where we have -- working with national oil companies, that they are tougher than international companies on payment conditions. Yes, on those years, of course. Now we are working on -- also on that aspect.

Henry Tarr - Goldman Sachs - Analyst

Okay. And then in terms of the contracts in the EUR500 million working capital, which you expect to come back into the Company, can you just give an indication of which contracts they are, or a region, or whether they're Onshore, Offshore?

Stefano Gobert

Well, because these are very, very sensitive commercial information, these are claims closed or almost closed, but -- I mean, I don't -- really don't want to have a negative impact on the negotiation. But let's say, around West Africa, the middle part and the end of Africa.

Henry Tarr - Goldman Sachs - Analyst

Okay.

Stefano Gobert

Okay?

Henry Tarr - Goldman Sachs - Analyst

But you're very confident that this EUR500 million should come in 2013?

Stefano Gobert

These are -- this is, of course, the level of (inaudible). We consider our confidence in line.



Henry Tarr - *Goldman Sachs - Analyst*

Okay. And then, just lastly, it's perhaps an unfair question to the new management team. But I guess, if the margins here haven't changed, and the accounting estimates, etc., haven't changed, it should have been clear to the Company for some time that this was likely to happen in 2013. So I just wondered on -- why it was in January that it was communicated to the market, rather than earlier.

Umberto Vergine - *Saipem SpA - CEO*

Well, the -- I mean, historically, in any one year, we have a mix of high and low margin contracts, and there were no previous reasons to assume that 2013 would be any different. This came very clear as towards the end of 2012. The new expected awards that, as we see, are not so far now, or some of them are even starting showing some new life, we are not -- it was not happening. And this has been the main element of change that has impacted the 2013 year on year as we have explained.

This can be judged as something to be -- to be limited only to these minor or major shift of contracts. But if you consider the type of contract that Saipem is handling, I can confirm that it is sufficient one or two very good and very big (inaudible), very big contracts, I would say, to be very good, and to have a sensitive impact, a large impact on the performance of the Company on a temporary phase that is only 12 months.

And there is no -- when a contract comes in, it requires a little bit of time to become an operational machine, so this (inaudible) is moving our potential more down in the second part of 2013 as the difference, the big difference between one year and the previous year.

Henry Tarr - *Goldman Sachs - Analyst*

Okay, thanks. And then, I guess just lastly, is the market today sufficiently good such that if some of these blockbuster contracts come, you would get margins similar to the margins that you have been executing on these contracts in 2011 and 2012?

Umberto Vergine - *Saipem SpA - CEO*

I'll let Hugh give you a short view on the market situation.

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

Yes, the -- Henry, the market has been difficult to interpret during 2012, and we don't want to get it wrong again, so that's the reason for the prudent approach. However, there is a lot of optimism, and -- but I would have to emphasize again what I think we've said now previously, if this would perhaps be -- I don't know whether the second or third time, that the sweet spots for Saipem are these areas where we're talking about very large projects, very large epic projects, projects in deep, ultradeep water (inaudible), mega-pipelines, jobs in isolated areas which may mean by cold areas, and jobs where [we'll probably] have local content. LNG, of course, is going to be a significant driver, and we're not talking about a specific LNG project. We're talking about the fact that there are a lot of contracts in these categories.

As I've said before, some of them take all of the boxes, some of them take the majority of the boxes. If they take the majority of the boxes, then they should be good projects for us. So we're kind of pretty confident from that point of view.

Henry Tarr - *Goldman Sachs - Analyst*

Okay, thank you.



Operator

Thank you. We will take our next question today from Rob Mundy, from Liberum Capital. Please go ahead. Your line is now open.

Rob Mundy - *Liberum Capital - Analyst*

Yes, evening, guys. A couple of questions from me. The -- what are the reasons for the EBIT reduction in 2013? It was decided to be a more conservative approach to the estimates on margins on new contracts? Just looking on the Offshore, can I just ask what you guys are seeing that's different to the previous management, that's made you have a more conservative approach on margins on contracts currently being bid on?

Umberto Vergine - *Saipem SpA - CEO*

Well, we have seen a market change. We have seen a market change that is referring to a specific example of our previous portfolio, the contracts that were executed, that are not of the size or the nature on the (inaudible) that you expect to be coming up next.

And, we also consider that some (technical difficulty), that is, to consider more competition, and more -- real strict commercial approach also from the other companies in order to curtail on the cost. In the past, in (inaudible), quite (inaudible) times, that the cost had really increased a lot, and the other companies are, of course, trying to put in production [not the] reserves, but larger reserves in very difficult environment. So the cost of development cannot be claimed an obstacle to the development of reserves themselves.

So this is a part of how their company are trying to get this project from [all sides]. They've executed, being executed by the right contractors. On the other side, they are not ready to pay the competition the maximum price.

Rob Mundy - *Liberum Capital - Analyst*

Okay, and just one follow up. I appreciate you probably won't want to talk about net debt at the end of 2014 yet, given the uncertainty of operating cash flow. But you said the working capital movement terms and conditions should unwind over 2014 and 2015. Can you give any idea of how much you expect to have unwound by the end of 2014?

Umberto Vergine - *Saipem SpA - CEO*

Yes, maybe Stefano can try to give you some insight without disclosing actual figures.

Stefano Gobert

Yes. Well, I said the unwinding would be in 2014, and mainly in 2015. Of course, it's a matter of the [bottoming] out of these contracts we are executing now with these penalizing (inaudible) terms and conditions in the contract, and how much we'll be able to enforce better terms and conditions regarding payments in the new contract entering. So that's why we take this prudent approach for 2014, and saying that in any case by (inaudible), 2015, we'll be able to [call] that completely. More precise than that, I'm afraid I cannot be.

Rob Mundy - *Liberum Capital - Analyst*

Okay. Thank you.

Operator

Thank you. We will take our next question today from Rob Pulley from Morgan Stanley. Please go ahead. Your line is now open.

Rob Pulleyn - *Morgan Stanley - Analyst*

[From myself, if I may]. First of all, following on from that question about working capital, when you talk about full recovery for 2015, can I ask whether a negative working capital position, similar to what Saipem has had in the past, is actually viable in the future? Sort of -- by future, I mean 2015 and onwards, given perhaps change in terms, particularly with Saudi Aramco, and the nature of the industry. That's my first question, and I'll ask the second one in due course.

Stefano Gobert

Maybe I can take this question, Umberto.

Umberto Vergine - *Saipem SpA - CEO*

Yes, do.

Stefano Gobert

What we are projecting is, as I said, try to work on (inaudible) for funding, and then having the cash position moving to the positive side towards the end of the contract. So to me, this means that if you are factoring also the amount of -- stock of material you need to have onboard, you consider also the increased fleet, offshore drilling and onshore drilling as well, I don't think that we will see in 2015 the minus EUR700 million of net debt balance that we were according at the end of 2011.

I would see, rather, a number more close to zero, or slightly below that. But that's very difficult to predict today, by 2015.

Rob Pulleyn - *Morgan Stanley - Analyst*

Okay. No, that's very clear and helpful. Thank you very much. And the second question I had, that regards to your scheduling and the mix of contracts, looking back at my notes from quite a while ago now, at end of 2011, which obviously is the period for which the vintage of contracts you're saying are particularly tough margins, I believe you had EUR4.8 billion worth of work for 2013 at the end of 2011 across your two E&C businesses.

Looking at your guidance for 2013, that suggests that that margin business back then is extremely low margin, which is more than sort of percentile to sacrifice that you alluded to earlier. So the questions here I have, and my apologies for the length, first of all, again, why wasn't it evident that these contracts were extremely low margin as much as two years ago, or say, as much as 12 months ago? And secondly, what -- why did you pursue a policy of achieving work at almost no margin?

Umberto Vergine - *Saipem SpA - CEO*

Well, the -- as you said, and I can't really comment now on the exact numbers, but as you said, these contracts were entered into those few years, and they are the result of a strategy that was mainly linked to the fact that there was a need for Saipem to continue to compete for large contracts, because when you do that, you keep (inaudible) yourself with a major client, with which you don't want to lose contact, also because you wait for the rebound of the market.

Second, because our organization is well prepared to handle these contracts. There was, of course, the confidence that we were able to maintain the marginality that, as low as it was, would have been anyway positive, as in most of the (technical difficulty) is (inaudible) to be. And the fact that there was a situation also of entering or remaining in certain countries. As we entered into Brazil, as we have explained many times, because it is



a -- it's kind of a new frontier country, there was a good reason not to leave from the Persian Gulf countries. It would have been extremely difficult to regain the position in the years to come, and some of the projects that had been executed at a low -- at relatively low margin have been executed with great satisfaction of the client in terms of [progress], efficiency, etc.

So this for us has been a little bit painful, a little bit expensive investment, but it was part of this larger strategy.

Rob Pulleyn - Morgan Stanley - Analyst

Okay, thank you very much for the explanation. I appreciate the strategic relationship has some future, as opposed to all the intangible value. And maybe take one forward, looking at obviously future markets, and I know there's some questions on this earlier on the call. If we were to have a scenario whereby there was another major slowdown in contract awards, and those same national oil companies believed that they could get their projects done under very competitive terms, would you still look to secure contracts in those regions at very low profitability to maintain that strategic relationship for the future?

Umberto Vergine - Saipem SpA - CEO

Well, I mean, it's already difficult for me to plan properly for this year, so to create an imaginary scenario is difficult. But, if, by having the portfolio of contracts of low margin, (inaudible) able to project an operating margin of EUR760 million, probably, I would look that with some attention.

Today, this is not the requirement. I can look at the more profitable contracts, because there is a shift in the market after the crisis. It -- I think that retrospectively, it was impossible that contractor job in our service company was not impacted by this huge financial (inaudible) and economical crisis.

Rob Pulleyn - Morgan Stanley - Analyst

Okay, thank you. And one final question from me, if I may. I think many people would agree that the earnings potential for Saipem in terms of your capabilities and assets and experience remains extremely strong in the marketplace. And I suppose a large caveat to that is whether all of the executive operational management and other engineers within the Company remain to control that potential, shall we say. Obviously, we've seen some fairly high profile departures from the Company, and obviously, given your views on the discipline (inaudible) in the past, is it likely, or should we expect to see further leavings from Saipem in the near future, or do you think the core team, which has delivered success in the past, is going to remain in the past?

Umberto Vergine - Saipem SpA - CEO

Rob, the core team is still in place and will remain in place. We are undergoing an operational review in order to assess exactly which are the needs for the future of the Company in terms of information and international managers, in terms of reporting lines, but the men and the women of Saipem that are in the key position are still the ones that will work in 2013 and 2014.

Rob Pulleyn - Morgan Stanley - Analyst

Thanks very much. That is good to hear, and thanks for taking the time to add some clarity following last week.

Umberto Vergine - Saipem SpA - CEO

Thank you.



Operator

Thank you. We will take our next question from Yan Lager from Franklin Templeton. Your line is now open. Please go ahead.

Yan Lager - *Franklin Templeton - Analyst*

Hi, thanks. Just two very quick clarification questions. The first one, I know I'm sort of splitting hairs, but in your press release -- and I don't know if you mentioned revenues in 2013 of EUR13.5 billion, and in your slide deck now, you're mentioning EUR11.4 billion. Just wanted to make sure that -- you know, if there is -- what's changed, if anything, or -- yes, that's the first one.

And then, I apologize if this was already covered, but in terms of dividend, in your last call, if I recall correctly, the conversation about dividends was, as a percentage of earnings, meaning that you stipulated that a third of your earnings will be paid out in dividend in 2013, which implies, I guess, a 50% cut in dividends paid out. Yet, in your slide deck today, you're showing that dividends stay the same, at that EUR300 million. So are you -- so, will the payout for 2013 be raised, so that you maintain the steady dividend, absolute steady dividend? So those are the two clarification questions, please.

Umberto Vergine - *Saipem SpA - CEO*

Sure. On the first one, the easy, the EUR13.5 billion including [Billing], while here, we have focused on Engineering and Construction. This has been the area of major change, compared to last year.

On the dividend policy, as I said, I repeat, I don't see any reason to propose to the Board a change to our existing dividend policy at this stage. But still, I have to see what the Board will then approve. In order to explain the misunderstanding that you have in the figures, I'll ask Stefano to give you a brief explanation.

Stefano Gobert

Thank you, Umberto. Yes, in 2013, we will be paying out the dividends relating to 2012, meaning that we will pay one third of the 2012 results, so roughly the EUR300 million.

Yan Lager - *Franklin Templeton - Analyst*

Okay, thank you. So that's just the timing of it -- the dividends. Okay.

Umberto Vergine - *Saipem SpA - CEO*

Yes, that is the reason.

Yan Lager - *Franklin Templeton - Analyst*

Thank you.

Operator

Thank you. We will take our next question today from Edward Ross from Fidelity Investments. Please go ahead, your line is now open.

Edward Ross - *Fidelity Investments - Analyst*

Thank you very much for taking my question. Just looking at your slides, you've got another EUR300 million of working capital outflow relating to terms and conditions in 2013. (inaudible) as your working capital in terms and conditions, about EUR1.2 billion. Does that mean -- just looking through that, is that new contracts that will have a negative -- poor working capital characteristics, do you expect to sign in 2013, or was this a continuation of poor contracts that you are starting the year with?

Umberto Vergine - *Saipem SpA - CEO*

Okay. I ask Stefano to comment on that.

Stefano Gobert

It is a combination of the two factors. The predominant factor is the fact that we will have, in 2013, almost 80% of the revenue represented by these (inaudible), so most part of those are there -- or has a less, less good terms and conditions, not to say bad terms and conditions. And then what we are working is, work on, as I said, or tried to explain, (inaudible) terms and conditions for contracts, meaning that the margin for those contracts will be paid off mainly towards the end of those projects.

So, the first is a projection. If you like, it is a conservative projection of the movement of working capital in 2013. As I said before, we are projecting to rewind these by 2014 and 2015.

Edward Ross - *Fidelity Investments - Analyst*

So just to clarify that question, are you intending to sign new contracts in 2013 that have poor working capital conditions, or is the market such that you don't need yet to do that?

Stefano Gobert

Okay, sorry, I've (inaudible) get this question before. No, we are working to sign contracts with good terms and conditions, in terms of margins, or economic and cash. So, payment terms, of course.

Edward Ross - *Fidelity Investments - Analyst*

Is that for (inaudible) by implication, (inaudible) that working capital is basically linked to contracts that you currently have in the backlog that will finish in 2014, of which there are -- or in 2015, of which there are only two?

Stefano Gobert

Yes, that was -- okay, yes. This is referring to these contracts, and the explanation on the number of contracts finishing was -- actually, it was just showing the main contracts. Of course, when a contract's finished, the cash position of the contract goes [away], because you sometime, we have retention provision, by which the client pay us after the end of the guarantee period. So that cash position is going to unfold gradually during the next years.



Edward Ross - *Fidelity Investments - Analyst*

Effectively what you're saying is, when those two contracts complete, you're very confident about working capital all coming back to you?

Stefano Gobert

Yes.

Edward Ross - *Fidelity Investments - Analyst*

Okay, thank you very much.

Stefano Gobert

Thank you.

Operator

Thank you. We will take our next question today from Mark Van der Geest from ABN AMRO. Your line is now open. Please go ahead.

Mark Van der Geest - *ABN AMRO - Analyst*

Yes, good afternoon, gentlemen. Just one simple question. Could you please explain to me why you did not issue a press release on new contract wins between the 23rd of November and the 7th of February, please?

Umberto Vergine - *Saipem SpA - CEO*

Well, the reason is that, as I said before, one of these contracts have been actually signed, officially signed, only two days ago. And on the others, we didn't have yet, on the main of them, we did not yet have the approval from our counter-partner. There were some already -- ready for communication, but they were very minor, very small. And wouldn't have made any sense to present them.

Nevertheless, those contracts, even if I had presented those contracts before the 29th of January, our forecast for 2013 will be exactly the same as you (inaudible) today.

Mark Van der Geest - *ABN AMRO - Analyst*

Thank you very much.

Umberto Vergine - *Saipem SpA - CEO*

Thank you.

Operator

Thank you. We will take our next question today from Andrew Dobbings from JPMorgan. Your line is now open. Please go ahead.



Andrew Dobbing - *JPMorgan - Analyst*

Yes, good evening. I think it's fair to assume you have a pretty broad range of profitabilities in different types of Offshore projects. Can you outline how your strategy, or your bidding strategy on one project in terms of pricing depends on your anticipation of winning in other projects? So I mean, if you've got one -- and you're expecting to win a big project with high margins, are you prepared to bid more aggressively on another contract, perhaps sacrifice margins on that contract such that you're -- overall, your margins will be okay? Has that been an important trend in the past? And is that a strategy that we can expect to continue going forward? Thank you.

Umberto Vergine - *Saipem SpA - CEO*

Hugh?

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

Thanks, Umberto, for giving me this. (laughter) This is, of course, a very sensible question. It's also a (technical difficulty) question, in the sense that we live from month to month or week to week on these contracts. I mean, just to give you an idea, for quite a period of 2012, we had not contracted the Castorone, and maybe one other vessel, because we believed that Shtockman was going to go ahead. And I think then in the third quarter, Shtockman was suspended, and we had to find work that was essentially available, and it's good work, as I've said previously.

But it's a very delicate matter. Quite often, what you do is, in that case, is that you bid, subject to availability, and then you hope that as you progress through the negotiation phase, you see what you are doing, what your competitors are doing, and you can -- you won't have to delete the subject to availability qualification that you put in your bid, and you give yourself a little bit more time to figure out who is doing what, and what the probability of project sanction is, etc., etc.

But it is a delicate matter, and hopefully, I've given you a little bit of color into the way we do it. I don't think I can go into a lot more details, or specify in particular which jobs we are focusing on, or where we are prepared to reserve the vessel, because we think the likelihood of the project, the underlying project, will go ahead, and that would be a profitable project, etc.

Andrew Dobbing - *JPMorgan - Analyst*

Thank you. One quick question in addition to that. Kazakstan, you've got quite a lot of assets in that country. You've got a bunch of vessels, and you've got a big yard. Can you just talk briefly about how you anticipate utilization of those vessels in that yard in 2013? Thank you.

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

Yes. We're doing some work in the yard in Kazakstan. I mean, we're still doing activity in Kazakstan. It's starting to taper off. But the activity -- there is still a certain amount of activity on the Caspian contract, and that has been supported by the yard in Kazakstan, and also by the fleet. Then, we have also secured a contract called Filanovsky, which uses a significant part of the fleet on the other side of the Caspian, so northeast to northwest.

All in all, what that means is, if you look at slide -- I think it's slide 8, that from an overall point of view, where Saipem is concerned, the structural cost for Saipem is similar as between 2012 and 2013, which includes the idleness of people and vessels and yards and assets, etc. So in the overall mix of things, there isn't much difference between the utilization of assets for Saipem as between 2012, 2013.

In the Caspian, it would be a bit weaker, and in some other areas, it would be a bit stronger.



Andrew Dobbing - *JPMorgan - Analyst*

Thank you. Very kind.

Operator

Thank you. We will take our next question today from David Farrell from Macquarie. Please go ahead. Your line is now open.

David Farrell - *Macquarie Research - Analyst*

Hi, good evening, gentlemen. Two quick questions from me. Firstly, looking at slide number 10, I was wondering if you could tell us how the 16 projects listed there, how many have had a downwards revision to margin expectation (technical difficulty). And then the second question, we'll gain a bit of clarification. I think last week, in the slide pack in the presentation, you talked about EBIT of EUR750 million, and then, Umberto, in the call, you talked around about EUR700 million, looking back at the transcript. Can I just confirm that it is EUR750 million, your EBIT target for 2013? Thanks.

Umberto Vergine - *Saipem SpA - CEO*

Yes, it is a -- yes, it is a EUR750 million, the target. In terms of the contract (inaudible), no, we didn't have any downward revision of the progress of these contracts. As you can appreciate, most of them are well within their execution phase, so they -- I would say that all the [criticality's] that are associated with the contract are already well known, and they are well handled. Some of them, as you can see, are going to be -- to build them within, even the next six months.

David Farrell - *Macquarie Research - Analyst*

Okay. Thanks very much.

Operator

Thank you. We will take our next question today from James Evans from Canaccord. Your line is now open. Please go ahead.

James Evans - *Canaccord Genuity - Analyst*

Hi, a few questions. I'll try and be as brief as possible, if I can. Firstly, I'm amazed that there's no change in the idleness, and given that we saw (inaudible) tick up in Engineering and Onshore idleness in 3Q, and obviously, you've been not so successful in winning contracts recently. And given you've always talked about your in-house construction personnel as a key advantage, I'd expect some low utilization. If you could just explain why you're not experiencing that, that would be very useful.

Secondly, sorry to hark back to the quantum of difference of margins relative to the base low margin portfolio in the new projects. But if I do get out the ruler, which you told us not to do, I don't actually get that much of a difference between the two, probably on the order of 5%. Clearly, that must be too low. Can you just give us some comfort that it's in the double digit sort of range?

Thirdly, I'd just like to ask, given that you've had no losses on projects, on Arzew LNG, obviously, it's been quite delayed. Some of the subcontractors had to take provisions. Can you just explain about how you've avoided losing money on that contract? Fourthly, I just want to confirm that EUR1 billion net debt is still a target for the Company.

Sorry for the long list of questions. Thanks.



Umberto Vergine - *Saipem SpA - CEO*

Okay. Maybe a few more comments on the idleness issue.

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

Yes, on the idleness, I mean, this is what the numbers show. That doesn't mean that there is absolutely no difference. It means that in the overall sense, the numbers are practically identical, for coincidence (inaudible) in the media. I've explained, perhaps, the fact that -- you know, the FD -- if you take the fleet of Saipem, and you go through it, from the 7000, the FDS 2, the Castorone, the Saipem 3000, the FDS, and all of those, if you like, the more elite vessels, all of those had good workloads in 2012, and have good workloads again in 2013 and indeed, 2014. And so there's very little difference there. And they are, if you like, the big ticket items within the fleet.

The yards, there are some differences in the workloads, but essentially, the idleness costs associated with the yards, there's nothing approaching what it would be for the vessels. And less again is the idleness for the people.

Then on the other side, of course, you know that the -- I think we're referring here specifically to E&C, but just, by the way, of course, the drilling fleet is completely occupied.

What does happen, of course, is that you may be working that fleet on jobs which are either blockbusters, or jobs which have reasonable profitability, and it's the second of those in -- unfortunately in 2013, and that is what we are emphasizing. You know we could go through, if you like, the specific vessels. I don't think we have time to do it now. But that's the way it seems to us. More importantly, that's the way the numbers show it to be.

So it may be a surprise, but it's a fact. For us, that know the vessels and know the utilization, it isn't a surprise.

Umberto Vergine - *Saipem SpA - CEO*

Right. You had a question on the LNG that wasn't too clear to us. Can you please repeat it?

James Evans - *Canaccord Genuity - Analyst*

Yes, obviously, you've said that you've got no loss-making project. The Arzew LNG project in Algeria is quite far behind schedule, obviously not surprising for an LNG project. Given the delays, given that subcontractors have taken losses on this project, I'm just very curious just how you've avoided taking any losses yourself.

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

Yes -- no, I know that there have been changes, and there have been, if you like, one of the difficulties associated with the market in Algeria in general has been the difficulty of getting visas in order to be able to man the job, in particular, in terms of supervision. So it technically hasn't been easy. But we have managed it, and some other contractors have perhaps not been able to manage it so well, depending on their experience in working in Algeria.

So it has led to some delays, but nevertheless, our performance is still intact, and these delays are recognized by the client. And so for us, the job is not without difficulty, but remains, as we had seen it previously.

Now that is, perhaps, not the case for all of the people who are participating on the job, but it is the case for us.

Umberto Vergine - *Saipem SpA - CEO*

Okay, on the EUR1 billion target, (multiple speakers) --

Stefano Gobert

Yes. The question on the long-term net debt position of EUR1 billion (inaudible) understood, James, well, of course, as (inaudible) before, our capitalization and net debt variation now is a little bit more prudent, and I should say that -- yes, it will gear down to that level, but it will take more time. So not anymore. I think it was 2014, now not anymore in 2014, for sure.

Operator

Thank you. We will take our next question today from Sebastian Yoshida from Deutsche Bank. Please go ahead. Your line is now open.

Sebastian Yoshida - *Deutsche Bank Research - Analyst*

Hi, guys. I just want to go back to Andrew's question, actually, around the Offshore business. Going back to the comments that you made previously, that you had been too optimistic that some of these high margin contracts would eventually come through. And obviously, it can't be too bad, because your Offshore backlog is up 50%, over 50% since 2010. So I guess my question is really two-fold.

Over the last couple of years, and I guess generally, in general, how you plan the business, what proportion of the profitability in that business typically will come from, let's say, your two or three most important or profitable contracts? How concentrated, really, is it? And then also, just more strategically, how much of the delay from some of those high margin projects do you think is cyclical versus structural, I guess partly related to the fact that your business model is more dependent on complex, let's say, marginal cost of supply type projects? And if it's cyclical, when do you expect it to turn around, and if it's more structural, why should we be confident that you won't have a more volatile earnings profile going forward in the future, given that you're clearly focusing more on these larger and larger projects, and that's just generally the way the industry is going? Thank you.

Umberto Vergine - *Saipem SpA - CEO*

Well, on the first question, we can't give you this information. This is of course what we have to stick to. I mean, when we say the remunerative contract is something that is very -- in relative terms, then we cannot give any absolute terms.

It is not structural, it's cyclical. It's cyclical, and it's already showing that it's changing. Why it's changing, because the delays were linked to a combination of factors that are sometimes political, sometimes linked to a specific evolution within certain countries, and that, of course, there was an impact on the overall financial crisis.

These are all elements that, in some cases, are getting (inaudible), and are still in place. That's why, for example, contracts that were being our [rudder], and we believe that are much more than just in our rudder. As per today, they have not been announced yet, because there are discussions between their companies and the national oil companies, all the authorities in the countries where these contracts are going to be executed, leading to the evolution of the relationship.

So, and these, of course, are not cyclical, but in a difficult phase, they became much more impacting, and (inaudible) situation. So we believe that the market is rebounding, because the market is actually showing to us a number of (inaudible) of scouting from their companies about availability of contractors to the job, that indicates that there is, for sure, a stepping up of -- in the execution, that I want to have, considering that some delays have been already accumulated.



Sebastian Yoshida - *Deutsche Bank Research - Analyst*

Okay, and just one follow up question, if that's okay. On the contracts that you have going offshore in Brazil in 2014, could you just make some qualitative comments around, firstly, how those contracts are priced relative to the ones that you have going offshore this year, and also, kind of how the pricing on those contracts is relative to the other contracts that you would typically win, let's say, in West Africa. Is it still relatively aggressive pricing, versus what you have elsewhere in your portfolio, or can you get through similar margins in Brazil that you are able to do elsewhere over time? Thank you.

Umberto Vergine - *Saipem SpA - CEO*

Well, difficult to compare country with country or business with business, because there are different type of relationships. Different, sometimes, contractual structure. Some of the terms of the contract are traditional in one place, different than what is traditionally applied somewhere else.

What we can say that is in Brazil, we have to pay the ticket to (inaudible). We pay the ticket, and then, we got already confident that there's better marginality than the first one that you get. We are now investing on having a full efficient yard, and that is the second part of our investment, that we counted to (inaudible) in another machine, securing more contracts since we can guarantee more reuse of local content. That is a requirement from the country.

Sebastian Yoshida - *Deutsche Bank Research - Analyst*

That's great. Thank you very much.

Umberto Vergine - *Saipem SpA - CEO*

Thank you.

Operator

Thank you. (Operator instructions) We will take our next question today from Christine Tiscareno from [SP] Capital IQ. Please go ahead. Your line is now open.

Christine Tiscareno - *S&P Capital IQ - Analyst*

Thank you very much. My question has been answered, but I just want to make sure I completely understand something that I know you repeated several times. If you go to page 9, that 65% of new contracts that you expect for 2014, are those contracts that you are already negotiating in, or are those contracts that will come from the opportunities that you listed on page 11 and 12?

Umberto Vergine - *Saipem SpA - CEO*

Both. Both.

Christine Tiscareno - *S&P Capital IQ - Analyst*

Now, for the opportunities that you show in 11 and 12, would it be fair to say that in order to meet that 65%, you only need to get 5%, let's say, of the opportunities? Because you say a very small amount. What's small for you, 1% or 15%?



Umberto Vergine - *Saipem SpA - CEO*

Well, (inaudible) a number much more than the [55], this is quite obvious, because nobody can handle a number like that. And if you think about a number that can be handled, like the number of the large contracts that you can handle in the next two, three years, it's really (inaudible). I don't want to give you a figure or a percentage, but as as you can appreciate, contracts have a sequence, as Hugh was explaining, that which (inaudible) come in, in order to always keep our overall fleet of equipment and people fully utilized.

Some of the contracts that were announced today are in 2014, with components of revenue, and beyond. Some of the (inaudible) one actually are an extension of an existing contract that will apply from 2015 onwards, so it's always a combination. It's difficult to give a straightforward subdivision.

Christine Tiscareno - *S&P Capital IQ - Analyst*

That I understand. So let me phrase it another way. What your margin of error for achieving that 65%? The estimate that you're giving us now for 2014, how confident are you that you can achieve that? Or should we expect a revision? Because some of those contracts that you listed on page 11 and 12, indeed, they are very, very big, but the bigger they are, the higher the risk of them coming to fruition, or not going through, like Shtockman.

Umberto Vergine - *Saipem SpA - CEO*

Okay, first of all, 2013 is our budget.

Christine Tiscareno - *S&P Capital IQ - Analyst*

[2013], yes.

Umberto Vergine - *Saipem SpA - CEO*

2014 is an estimate, and it's an estimate that we projected today, because this is how we see the ending of the existing portfolio, and the mix of opportunities that is coming up, that is reaching the profitability of this 65% of revenue.

It has to be, in our mind, a list representing the average mix of profitability that we had there historically. This is the only figure that I can give to you.

Christine Tiscareno - *S&P Capital IQ - Analyst*

So that mix of profitability, would it mean that we will revert to the EBIT that you had in 2012?

Umberto Vergine - *Saipem SpA - CEO*

Well, I mean, I can't give you a precise figure for that confirmation, but yes, this is the trend we see in the -- at least in the two years following the -- following this year.

Christine Tiscareno - *S&P Capital IQ - Analyst*

Okay, thank you very much. I appreciate it. And thank you for your patience.

Umberto Vergine - *Saipem SpA - CEO*

No problem. No problem, thank you.

Operator

Thank you. We will take our next question today from David Lieberman from Southpoint Capital. Please go ahead. Your line is now open.

David Lieberman - *Southpoint Capital - Analyst*

Hello. I was curious about, if we go back to page 8 on the last EUR4.5 billion of completed 2012 work. When was that work awarded?

Umberto Vergine - *Saipem SpA - CEO*

Well -- well, I would say we are talking about -- here, we refer to a mix of contracts, of course. The last contracts were awarded at least four, five years ago. These are largely long contracts. And we can't really [establish] the date for the majority of them.

David Lieberman - *Southpoint Capital - Analyst*

Yes. It would be pre-crisis, though?

Umberto Vergine - *Saipem SpA - CEO*

Generally? Generally, yes.

David Lieberman - *Southpoint Capital - Analyst*

And -- all right. Would you characterize them as the blockbuster type contracts, or reasonable profitability ones?

Umberto Vergine - *Saipem SpA - CEO*

No, no, no. They fell more in the first category, of the blockbuster.

David Lieberman - *Southpoint Capital - Analyst*

Okay, blockbusters. Because the margin on those, it's very obvious, the margin is quite high, perhaps (multiple speakers) --

Umberto Vergine - *Saipem SpA - CEO*

That's why we find them a blockbuster.



David Lieberman - *Southpoint Capital - Analyst*

Yes, it's certainly blockbuster. So, then when I look at the right side of the page, the new expected contracts that you hope to get awarded in 2013, it looks like the implied margin there is maybe around 10%, and while the blockbuster margin for the EUR4.5 billion historical one is about 25% margin. So the margin that you're implying on the new work is maybe -- you know, less than half of the rate that we saw in those blockbusters. Is that because we just haven't seen the blockbusters come in yet, or do you feel like -- or some of the blockbusters expected to be just at a lower margin versus what we saw four or five years ago?

Umberto Vergine - *Saipem SpA - CEO*

Well, first of all, this is not [this case] obviously, and we did that on purpose. Second, the new expected contracts that we are foreseeing are remunerative contracts, but as I said, we have taken a prudent approach. We are not factoring blockbusters coming up in the way that we'll deliver a regular result in 2013.

David Lieberman - *Southpoint Capital - Analyst*

Okay. So, understood. And -- but you think those margins that we're seeing, from the EUR4.5 billion that was signed four to five years ago, you think those types of margins are repeatable with the opportunities on page 11 or 12, those really nice margins. Correct?

Umberto Vergine - *Saipem SpA - CEO*

Well, I try to answer to you maybe from another angle. The mix of profitability, the type of portfolio we will get to, will be similar to the mix that you have in 2012.

David Lieberman - *Southpoint Capital - Analyst*

Okay. You're saying the overall margin of profitability?

Umberto Vergine - *Saipem SpA - CEO*

Yes.

David Lieberman - *Southpoint Capital - Analyst*

And is that because you may not expect blockbusters to achieve the same high margin of, let's say, whatever it is, but it may not achieve the same high margin, but you don't expect the pressure from these very low margins, so maybe there's a reversion to the mean of the two, and -- but the mix ends up being comparable to history?

Umberto Vergine - *Saipem SpA - CEO*

Well, I said that we -- to be prudent, this could be the right view.

David Lieberman - *Southpoint Capital - Analyst*

Okay, understood. And then your expectation for 2014, 65%, some of those are blockbuster projects, or do you expect most of those to be the better profitability but little in the way of blockbusters, I guess?



Umberto Vergine - Saipem SpA - CEO

No. We expect to see -- I mean, as time goes by, we believe that it is reasonable to see some of this type of contract to come back to the market, and these are well within our list.

David Lieberman - Southpoint Capital - Analyst

Okay. Thank you very much.

Umberto Vergine - Saipem SpA - CEO

Thank you.

Operator

Thank you. Our final question today comes from Roberto Ranieri from Banca IMI. Please go ahead. Your line is now open.

Roberto Ranieri - Banca IMI Equity Research - Analyst

Yes, good evening, gentlemen, and thanks for taking my questions so late. Two quick questions, please. The first one is a follow up question on the new contracts that you announced today. You said today you announced when officially signed, basically. My question is, if this was the policy also in the past, or if something has changed for these new contracts.

The second question is about the 2013, just -- sorry to go back to the -- I'm sorry for going back to the 2013 estimates and EBIT. Basically, I just was doing some math on the calculation (inaudible) and in 2013, so particularly at the slide 8, you are saying that the -- slide 8 and 9, you are saying that the E&C projects mix of revenues is changing dramatically, and the low margin projects are increasing very much, for about EUR2.5 billion. So my question is, I understood very -- I understood well, if what you are saying, that there are no projects with no margins or negative margins, no projects with negative margins. In that case, it is very difficult to me to understand why the margin is decreasing by 60% for these EUR2.5 billion additional revenues from lower margin projects. Of course, assuming all the rest have been equal.

My third question is -- and final question, is about the Algerian investigation. So basically, you -- just to be sure about that, you said that there are no provisions on this -- on a potential outcome of this Algerian investigation. My question is also if there would be some -- if you consider any value at risk, or any risk of penalty, or something like that, whatever, as an outcome from this Algerian investigation. Thank you very much.

Umberto Vergine - Saipem SpA - CEO

Roberto, thank you. On the first question, about time of announcement of new contracts. Yes, we stick to our policy, but the policy is not only that we announce what has been signed. That is the first requirement. We announced what has been signed, and we have been authorized by our clients to announce, because they -- they must have their own reason to handle their communications, so we cannot (inaudible). That is a [good thing] in our contractual terms, as a matter of fact.

On Algeria, I answered to Algeria. It is your third question. Let me close with Stefano on your second question.

Yes, so Algeria, I can only confirm that as per today, we have no evidence that is justified to make provision, irrespect of the potential outcome of this investigation that is ongoing, and on which we have no details. So literally, there is a position that can be preventable in this way, and (inaudible) this is -- it is also clear to you.



And on your second question, Stefano, (multiple speakers) --

Stefano Gobert

Okay, Roberto, first of all, you -- I am sure you have appreciated that we have tried to give you a lot of information. It is not usual for us, because we thought [it was] the right timing. But then we need to enter in this level of (inaudible), that goes to undermine our commercial sensitivity.

Nevertheless, in the slide, we presented sales margins, first of all, of the project, and hence, when Umberto was referring to the main projects when he said there is no project with significant loss there, he was referring to the main projects. Of course, in the overall bunch of our projects, unfortunately we have a few projects with also, not satisfying margin.

Again, we are talking about sales margin, but then you have to consider also the structure costs, and reaching the EBIT. We consider the real value of these projects. So maybe I did not answer fully to your question, but I understand you can appreciate that, more than that we can't go. The only thing I can say, that these projects are not critical, because we are projecting a positive result for the future.

Roberto Ranieri - Banca IMI Equity Research - Analyst

Okay. Thank you very much.

Umberto Vergine - Saipem SpA - CEO

Okay. I guess this will conclude this conference call. Thank you all for your attendance, and for the questions that I really hope helped to improve the quality of information that we have given, that we today wanted to supplement. Thank you very much.

Operator

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

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