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CORPORATE PARTICIPANTS

Umberto Vergine *Saipem S.p.A. - CEO*

Stefano Goberti *Saipem S.p.A. - CFO*

Hugh O'Donnell *Saipem S.p.A. - Deputy CEO*

CONFERENCE CALL PARTICIPANTS

Philip Lindsay *HSBC - Analyst*

Mick Pickup *Barclays Capital - Analyst*

Christyan Malek *Nomura - Analyst*

Alejandro Demichelis *Exane BNP Paribas - Analyst*

Amy Wong *UBS - Analyst*

Andrew Dobbing *JPMorgan Cazenove - Analyst*

Katherine Tonks *RBC Capital Markets - Analyst*

Rob Mundy *Liberum Capital - Analyst*

Guillaume Delaby *Societe Generale - Analyst*

Rob Pulleyn *Morgan Stanley - Analyst*

Henry Tarr *Goldman Sachs - Analyst*

Andrea Scauri *Mediobanca - Analyst*

Ian Macpherson *Simmons & Company - Analyst*

PRESENTATION

Umberto Vergine - *Saipem S.p.A. - CEO*

Thank you and good evening and welcome to the 2013 first-quarter results conference call. With me here are Hugh O'Donnell, Stefano Goberti and Salvatore Colli. As you know, we will present our operational review from London tomorrow, so this afternoon I will limit my comments to the first-quarter results. Let's start with the financial results.

The background to this Q1 2013 result is that, as you will recall with no doubt, 2013 is a trough year while 2014 should see a gradual recovery. Results for Q1 are generally in line with the expectation as they have been communicated at the end of January. Against this background in essence the overall revenues stood at around EUR3.1 billion and are lower than Q1 2012 by 1.5% and by 9% compared with Q4 2012.

But if we go through the different business units, in Engineering & Construction onshore revenues were EUR1.3 billion, lower than Q4 2012 by 12%. The onshore revenues decline is the main cause of the decreasing revenues of the quarter at group level and it is mainly due to slower progress in North Africa activity mainly in Algeria. The onshore margins continued the downward trend evidenced in Q4 2012 and in line with the 80% year-on-year reduction that was communicated in our guidance.

The offshore revenues amounted to EUR[1.3] billion, slightly up with respect to Q1 2012 by 5%, mainly due to increased activity in the Middle East. The offshore margins are declining as a result of less profitable workload mix and as a result of the completion and no replacement of a very profitable project in 2012. And finally, of the execution of low-margin [entry ticket] contracts in Brazil, as we have previously announced.



(Inaudible) revenues are significantly up in offshore compared to Q1 2012 by 25% thanks mainly to the full contribution of Scarabeo 8 and they are slightly up in onshore drilling plus 5% thanks to good level of activity. The margins are improving as expected and are at an EBIT level for the first time above 30% since end of 2012 -- 2010, sorry -- mainly due to full fleet utilization and improving efficiency and offshore activity.

Looking now at the market and the new contract award. Regarding the market, the first quarter has been characterized by economic uncertainties and the fact that some projects that Saipem was [pushing], especially onshore, were suspended by the client. This notwithstanding, the outlook remains positive, especially in the offshore sector and in certain areas where Saipem has a competitive advantage.

In fact, [Daily Month] has confirmed the good momentum and we have been awarded good contracts in West Africa, Latin America and the Mediterranean. And further good news appears likely in the near future. This contract has been tendered for and won within our new stricter commercial parameters.

(Inaudible) in the first quarter has been positive with new orders for follow-on activities where the Saipem 10000 and Scarabeo 4 have increased rates where we'll kick in at a later stage. This trend looks like continuing.

On onshore drilling, as already communicated, we will have an impact due to the necessity to relocate some rigs from Algeria when their contracts expire during the year. However, since the onshore drilling market is also strong this will be a one-off effect. Generally we are optimistic that the 40% of onshore drilling whose contracts expire in 2013 will be renewed or re-contracted with some scope for rate increase.

On CapEx -- in Q1 2013 the CapEx amounted to EUR350 million mainly due to yard development in Brazil, completion of the Castorone pipelaying vessel which is about to commence work in the Gulf of Mexico, and development of five new rigs for [Saudi Arabia] along with (technical difficulty) CapEx.

The debt -- in the quarter we have seen an increase of EUR600 million in net debt due to further increases in working capital. To a very large extent this is due to the EUR500 million claims that have already been agreed or are almost finalized, but which haven't yet been received, along with the fact that in 2013 we are working through previously awarded contracts that do not have favorable payment terms.

The new orders won in Q1 2013, however, do imply payment terms that are broadly in line with (inaudible) in principle. They do not include significant down payments and so they have not contributed to working capital reduction. We expect that the negative effects will gradually decline so we still expect to finish 2013 with a slight reduction in net debt.

In conclusion, our guidance -- in the light of this we confirm our guidance for 2013 for revenues of approximately EUR3.5 billion -- 2013 --.

Stefano Goberti - *Saipem S.p.A. - CFO*

No, EUR13.5 billion. EUR13.5 billion.

Umberto Vergine - *Saipem S.p.A. - CEO*

EUR13.5 billion, excuse me; EBIT of approximately EUR700 million; and a net profit of EUR450 million. We can take your questions. And in light of tomorrow's operational review, I would ask, if possible, to limit them to the Q1 results. Thank you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Philip Lindsay, HSBC.



Philip Lindsay - HSBC - Analyst

A couple of questions please. As you say, the backlog position is credible in light of some difficult market conditions. However, you have missed out on some high-profile awards of late. I'm not talking about Browse here, more Yamal and the contract in Abu Dhabi. So perhaps you can just share with us the reasons why you think you are losing out on some of this work, particularly when it looks like you have been quite competitive on price? That is the first question.

Umberto Vergine - Saipem S.p.A. - CEO

Okay, we already commented in a previous conversation the contract -- the potential of a new contract in Abu Dhabi. And we expressed our intention to verify the quality of our original submission. That resulted in Saipem approaching the client with some qualification to our initial offer and I think that that was the right decision even though that has resulted to the client deciding to look for another contractor able to stick to the original proposal.

This is part of our new discipline on the commercial approach that is, in my opinion, the fundamental change that we are introducing in order to recover our margins.

Philip Lindsay - HSBC - Analyst

Okay. The second one for me, I know it is early days still, but from what you are seeing in the market today in terms of project momentum, your clients' appetite to invest, the competitive situation and so on, is there anything that makes you nervous that the P&L and the cash flow profile will not recover to the extent that the market currently assumes?

Umberto Vergine - Saipem S.p.A. - CEO

No, nothing specific. I think that one thing that we have observed that in many respects gives us more confidence on what we have decided to do and what we have also concluded from our analysis is the fact that the impact -- the negative impact of the tight market of 2009, 2010 seems to have hit, but in also some of our competitors, particularly the construction companies from Far East that have announced similarly to what we did maybe just one, two months in advance the same difficulties.

I think that this indicates the fact that the ability to change the commercial strategies for Saipem essential today is going to be probably something that others will have to follow. So that will keep us in the right level of competition because the pain seen by others will force them also to look at their commercial strategy, I believe.

But more important is the fact that the engagement that you are having with our client and potential client is very high. And even though, as you have indicated, not all the tenders -- you can we know the tenders, we have quite a number of very promising contracts that we are looking ahead of us.

Philip Lindsay - HSBC - Analyst

All right, thank you.

Operator

Mick Pickup, Barclays.

Mick Pickup - *Barclays Capital - Analyst*

Good afternoon, gents, I'll try and keep this onto the quarter. I didn't see in your review where you are with your Brazilian facilities at the moment. Can you just tell me where you are with that? And obviously Petrobras during the quarter talking about more flexibles, how has that changed your thinking during the quarter? And secondly, first on the financial side, depreciation seemed to drop from 4Q into 1Q by quite a sharp amount. Can you just tell me what was driving that? Thanks.

Umberto Vergine - *Saipem S.p.A. - CEO*

Okay. I will ask Hugh to comment on Brazil as he has done in the past. And then maybe Stefano can take the second question too.

Mick Pickup - *Barclays Capital - Analyst*

Okay.

Hugh O'Donnell - *Saipem S.p.A. - Deputy CEO*

Yes, Mick, in terms of the Guaruja -- the development of the yard in Guaruja, that is going well and also the permits have gone well. You may remember that there were kind of three sets of permits required for each of the two phases of development, it was a small yard -- a small preparatory phase of development and then the large yard proper.

So we have achieved the -- four of those six permits, if you like, and the four relate to the approval in principle of the plan and then the approval to perform the development of the yard. Then we still have to achieve the license for the approval of the use of the yard. But of course you can't achieve that until you finish the development.

But the development is also going very well. And so we are pretty confident that we will be able to use the yard at least for storage and for some minor fabrication in the short-term on the first of the contracts which probably will be (inaudible), and then as the year progresses we will be able to use it further. So there it seems to have been pretty positive.

With regard to the flexibles, I think the story is very much as we have said before. There is room for both, as Petrobras has also said, and I think they probably have to see what a good successful rigid base SURF project looks like in order to gain confidence where that is concerned, whereas the flexibles will help them to achieve early production.

And so, I think that what seems to be coming out of this is that they will use, to the extent that they can, flexibles in order to achieve first oil as early as possible and that they will progress increasingly towards rigid based full field SURF -- fulfilled development SURF solutions.

Mick Pickup - *Barclays Capital - Analyst*

Thanks, Hugh.

Stefano Goberti - *Saipem S.p.A. - CFO*

Okay, this is Stefano, Mick. Good afternoon. I'm -- I believe you are referring to the first quarter 2013 compared to the fourth quarter 2012. The difference there, it is mainly related to an accelerated depreciation in 2012 of the BOP of the [Scarabeos] that we have fully amortized during 2012 and that is the main difference for the two quarters.



Mick Pickup - *Barclays Capital - Analyst*

Okay. And the offshore construction number dropped us well sequentially.

Stefano Goberti - *Saipem S.p.A. - CFO*

Is only four.

Mick Pickup - *Barclays Capital - Analyst*

Okay. I just expected that to be moving upwards over time.

Stefano Goberti - *Saipem S.p.A. - CFO*

Sorry, Mike, can you repeat your question please?

Mick Pickup - *Barclays Capital - Analyst*

No, I just expected that number would be moving upwards, this asset start work (multiple speakers) ought to be going down.

Stefano Goberti - *Saipem S.p.A. - CFO*

Thank you, yes.

Mick Pickup - *Barclays Capital - Analyst*

Thank you.

Operator

Christyan Malek, Nomura.

Christyan Malek - *Nomura - Analyst*

Two questions, I mean first of all, in terms of your negotiations on payments, are there clients or customers that you are concerned won't pay you? And are their customers that are negotiating on projects that is not due to payment but to a dispute around the project performance? To offset the question -- second question after that.

Umberto Vergine - *Saipem S.p.A. - CEO*

No, we have already indicated that the nature of this delay -- or unexpected delay in securing the payment from the work done in relation to the nature of the terms, the condition that a good number of contracts have particularly on the onshore.

So the point is generally the technicality of a (inaudible) of a milestone, particularly when the milestones are very far apart, means that each milestone is made of a significant amount of work. And therefore this amount of work is covering a lot of components of the activity.



So it's not unusual then when the part becomes bigger before the positive takes that everything is included could take a longer time. And this is -- this results in that, as already proved to be the case last year, is continuing this year.

We are trying to anticipate this as much as possible, of course, by discussions that are more presented in a positive sense more than in a litigation mood. But it still is not automatically providing an immediate result.

Christyan Malek - *Nomura - Analyst*

And just on that point, I mean for my next question, in terms of your linear recognition policy, do you feel that you have enough contingency in place in case things don't go your way or the project direction becomes negative? Is there enough in the tank in terms of buffer if the situation deteriorates?

Umberto Vergine - *Saipem S.p.A. - CEO*

Well, I mean the linear representation is also a linear accounting of the contingency that we have into the project in the full life. So they should almost be in -- available at the time when the contingency was supposed to have been in case are necessary.

One thing that maybe is worth to mention is that, as we have indicated, there is a tendency now to have a less easy discussion with -- about the project in Algeria. And this is related to the fact that the investigation is -- has moved significantly in Algeria in terms of activity compared to the level here in Italy.

So the authorities there and our counterparts are somehow subject to all the pressure that is also coming from the media. And they feel may be less comfortable in facilitating a certain discussion that we were having. I expect that this trend will at least continue for the next month because I don't see any way to engage with them in order to go back to the usual practice.

Christyan Malek - *Nomura - Analyst*

Sure. And what is the worst case in there that comes out of Algeria then in your view?

Umberto Vergine - *Saipem S.p.A. - CEO*

Pardon?

Christyan Malek - *Nomura - Analyst*

What is the worst case scenario that comes out of that in your view in Algeria?

Umberto Vergine - *Saipem S.p.A. - CEO*

I mean for the time being we are having some difficulties to get to the recent payments. The worst scenario will be that we will not get to these payments for a number of months.

Christyan Malek - *Nomura - Analyst*

Sure. And what is that -- can you say how much that is roughly?

Umberto Vergine - *Saipem S.p.A. - CEO*

We are talking about for the time being about EUR500 million.

Christyan Malek - *Nomura - Analyst*

EUR500 million. So the worst-case scenario is you don't get paid EUR500 million from (inaudible)?

Umberto Vergine - *Saipem S.p.A. - CEO*

The worst-case scenario up to today, yes.

Christyan Malek - *Nomura - Analyst*

Thank you very much.

Operator

Alejandro Demichelis, Exane BNP.

Alejandro Demichelis - *Exane BNP Paribas - Analyst*

A couple of questions if I may. Just to follow up from the previous question. And you're talking about the same situation in Algeria constraining your payments. Can you actually get to your target about decreasing slightly net debt without that payment in Algeria?

Umberto Vergine - *Saipem S.p.A. - CEO*

Algeria is somehow critical on both sides, both on the payments of the claims that we have agreed with the operator in relation to (inaudible) and of course in the payment of (inaudible) activities. As you know, we have a number of contracts in Algeria. Some of them have been concluded but some are still active and they continue to be active throughout the year. So it's important that we are able to solve the situation and to understand how to guarantee that -- and if the ongoing activity is positively recognized by the client.

Alejandro Demichelis - *Exane BNP Paribas - Analyst*

So just to be clear, if the Algeria payment does not come in you do not expect net debt to decrease this year, yes?

Umberto Vergine - *Saipem S.p.A. - CEO*

Yes, correct.

Alejandro Demichelis - *Exane BNP Paribas - Analyst*

Okay, that is very clear, thank you. And the second question probably a bit more technical. Your tax rate for the quarter seems to have gone up a little bit. Should we expect that in this kind of environment of more depressed earnings from the E&C business that we are going to see that tax rate moving up to a higher level?



Umberto Vergine - *Saipem S.p.A. - CEO*

No, no, that is not -- that is due to a specific issue that I will let Stefano to explain in detail.

Stefano Goberti - *Saipem S.p.A. - CFO*

Well is, first of all, Alejandro, it is the mix between the E&C business and the drilling business. What we are projecting for the year is a 31% tax rate and this is also due to the fact that [import] to other tax rate is increasing due to tax condition of the country where part of our fleet is located.

Alejandro Demichelis - *Exane BNP Paribas - Analyst*

Okay, that is very clear, thank you.

Operator

Amy Wong, UBS.

Amy Wong - *UBS - Analyst*

Good afternoon, two questions from me. The first one is on your working capital build up and your treatment of variation orders in Q1, can you just clarify if there has been additional -- more variation orders that were incurred during the quarter and how they were accounted for and if that works into the working capital movement as well. And then secondly, can you just give us a breakdown of your backlog for execution into 2014 by division, please? Thank you.

Umberto Vergine - *Saipem S.p.A. - CEO*

Okay. On the first one, no, we don't have any new change order, variation order or claim adding up from the group as well from [one]. And on the breakdown, Stefano, please?

Stefano Goberti - *Saipem S.p.A. - CFO*

I mean you ask for 2013, is that correct?

Amy Wong - *UBS - Analyst*

2014, please -- 2013 is already [time] -- yes, 2014, yes.

Stefano Goberti - *Saipem S.p.A. - CFO*

So at March 31 we account for EUR19.5 billion of backlog of which in 2000 -- this backlog will be executed in 2014 for the offshore for an amount of EUR2.9 billion, onshore for EUR1.8 million and then drilling offshore EUR900 million, drilling onshore EUR250 million -- 266 million, actually.

Amy Wong - *UBS - Analyst*

All right, that is very clear, thank you.



Operator

Andrew Dobbie, JPMorgan.

Andrew Dobbie - *JPMorgan Cazenove - Analyst*

(Technical difficulty) group guidance for 2013, I can see that. But are you content with the segmental guidance? I'm thinking in particular of the guidance for increased idle time within offshore drilling. Is that -- should we expect that to come down a little bit and maybe offset by better performance somewhere else? Thank you.

Umberto Vergine - *Saipem S.p.A. - CEO*

No, the idle that you are referring to is mainly due to the fact that we had some of the unit (inaudible) [certification]. So basically this is -- has been done; we don't have any major activities this year, any major stoppage due to this this year. So this issue automatically will be an improvement.

Andrew Dobbie - *JPMorgan Cazenove - Analyst*

Okay, I mean it looks like the idle time has increased the guidance relative to the guidance you gave at the end of -- into Q4. So I mean that should result surely in lower revenue for those rigs seeing as they are going to be idle. Are you getting paid while they are idle?

Hugh O'Donnell - *Saipem S.p.A. - Deputy CEO*

Sorry, Andrew, this is Hugh O'Donnell. I think probably we have -- when you look at the idle, as you can see, that it is dominated in the second -- for the rest of the year by the Scarabeo 5 and the Perro Negro -- and the Perros, the jackups. And I think that is taking -- we have taken account of that in giving our guidance.

And so, that is all programmed stoppages; we don't tend to get paid while we are idle of course, but it is compensated for -- at least we think it is compensated for, we hope it is compensated for in the fact that we are more efficient and the rates have gone up somewhat.

Andrew Dobbie - *JPMorgan Cazenove - Analyst*

Okay. Thanks very much.

Operator

Katherine Tonks, RBC.

Katherine Tonks - *RBC Capital Markets - Analyst*

Good afternoon. I wondered if you could give us any clues on the timing of some of the big projects that we are expecting for the industry or for Saipem like South Stream and [Ajina]. And maybe any particularly big projects that you see onshore?

And then secondly, I just wanted to confirm -- your onshore drilling backlog seems to be down about 20% year on year, is that all Algeria or is some more units that will be getting contracts in the next couple of quarters?

Umberto Vergine - *Saipem S.p.A. - CEO*

Well, tomorrow we will try to give a broader view about the market perspective. I think that about today the two projects that you have mentioned, we have no news (technical difficulty) the timing, the possible timing of South Stream. While on Ajina, as you know, we are under commercial discussion with our client. So for the time being we are not giving further details. And if you accept I will postpone the answer on the market view tomorrow.

Katherine Tonks - *RBC Capital Markets - Analyst*

Thank you.

Umberto Vergine - *Saipem S.p.A. - CEO*

On your second question, you asked if we had a decrease in the backlog for the onshore.

Katherine Tonks - *RBC Capital Markets - Analyst*

Onshore drilling.

Stefano Goberti - *Saipem S.p.A. - CFO*

This is Stefano, Katherine. What we have is the (inaudible) to ensure that they will reach the end -- the five-year contract term by 2013 and the first months 2014. But we have a place indeed with the new Saudi Arabia slightly and we are not particularly worried about that because the onshore drilling market is very dynamic and asking for (inaudible), so it is not something that is worrying us.

Katherine Tonks - *RBC Capital Markets - Analyst*

Thank you.

Operator

Rob Mundy, Liberum Capital.

Rob Mundy - *Liberum Capital - Analyst*

Two quick questions for me. Can you give any indication on the seasonality over the next three quarters for the E&C divisions? Number one. And number two, the EUR450 million adverse working capital move, some of the reasons that are given in the text are significant down payments from new contracts and ongoing or settled negotiations with clients with payments still outstanding. Can you give a breakdown of that EUR450 million amongst those reasons that you provided?

Stefano Goberti - *Saipem S.p.A. - CFO*

Maybe I'll take the first one while we are -- we will ask you to replay a little bit the first part of your question afterwards, this is Stefano. We have, as we said also at the end of 2012, EUR500 million of claim open with a couple of clients. We have reached a very good understanding on the amount



of this claim also from the client. We are just waiting to get the financial inflow, so there is more the payment of the claim. And we are projecting this within this year.

On the advance payment, we received during this first quarter EUR50 million of equivalent of advance. That is why we say that out of the EUR2.9 billion of new contract and take the amount of advances is very minimum, not significant. And so this is the -- to me the answer to your second question. So now maybe I can ask you to repeat a bit the first question, if I may.

Rob Mundy - *Liberum Capital - Analyst*

Thanks. Yes, the first question was if you could give any idea as to some seasonality of the earnings or revenues over the next three quarters given the unchanged guidance and the Q1 results?

Stefano Goberti - *Saipem S.p.A. - CFO*

I think we didn't give these number to the market and what we want to say is that our focus for the year is EUR13.5 billion. Then you know the progression during the quarter can vary from one quarter to the other. But we don't give this -- normally this number out to the market.

Rob Mundy - *Liberum Capital - Analyst*

Okay, thanks.

Operator

Guillaume Delaby, Societe Generale.

Guillaume Delaby - *Societe Generale - Analyst*

If I remember correctly I think during one of your conference calls last January you mentioned that on the 15 legacy projects eight should be completed in 2013, 5 in 2014 and two in 2015. Just on the eight legacy projects, which have to be completed in 2013, could you give us maybe a sequential breakdown that's (inaudible) at the end of H1 of 2013, how many of the eight will be completed, half, maybe four? Or are all those eight projects to be completed at the end of the year? It is another way to ask the same question done previously.

Umberto Vergine - *Saipem S.p.A. - CEO*

We don't tell the exact breakdown in detail. What I can say is that the analysis which we provided were -- was first of all referring to the most important contract, Qatar (inaudible) the 80% of the contracts from previous year we are under execution. At the moment we don't have any major -- major delay on the execute -- in the progress of activity of this contract. I think that this will be probably an analysis that could be more meaningful when we look at that towards the end of the year.

Guillaume Delaby - *Societe Generale - Analyst*

So you are a not about to provide me with more flavor, maybe half of the eight projects to be completed end of H1? Because -- you don't provide me a lot of details here.

Umberto Vergine - *Saipem S.p.A. - CEO*

If you remember the bar chart at the (multiple speakers).

Guillaume Delaby - *Societe Generale - Analyst*

Yes.

Umberto Vergine - *Saipem S.p.A. - CEO*

We had no names. We indicated that the majority of them, as we said, were going beyond 2013 and just a few of them were ending within the year. This program of execution is what we are today still confirming.

Guillaume Delaby - *Societe Generale - Analyst*

Okay, thank you very much.

Operator

Rob Pulleyn, Morgan Stanley.

Rob Pulleyn - *Morgan Stanley - Analyst*

Just a couple of questions from me. First of all, the CapEx for the onshore yard in Canada was relatively large this quarter. Could you just let us know how much of the CapEx for that yard is outstanding? And secondly, what your view is on the outlook for oil sands projects which obviously that yard was built for.

Secondly, could you give us an idea -- I know you have mentioned about the claims on payments owed in Algeria, but is there any update as to whether you would face a financial fine from the prosecutor's office in Milan, which obviously is an investigation that is ongoing? Thank you very much.

Umberto Vergine - *Saipem S.p.A. - CEO*

Starting with the second question. No, we have no indication on how to judge the possibility of any financial impact as a result of this investigation. And this is because literally we have no information coming from the prosecutor or no further contact on the status of the investigation.

As you know, as we have indicated, we have doing and we continue to do our internal assessment. And what I can confirm is that from our internal assessment we have not as well identified a reason that should indicate that the risk exist.

Of course -- I mean we are not the magistrates, we are not investigators, so our ability maybe to cover the full ground is it not the same as they should have. But based on our understanding of the Company position, we don't consider to take any precautions in light of this occurrence -- possible occurrence.

Stefano Goberti - *Saipem S.p.A. - CFO*

As I can recall, Rob, on the top of my mind, we should have another (inaudible) EUR20 million investment on that yard in Canada.

Rob Pulleyn - *Morgan Stanley - Analyst*

Okay, and on the outlook for oil sands?

Umberto Vergine - *Saipem S.p.A. - CEO*

Of the contract for the (multiple speakers).

Hugh O'Donnell - *Saipem S.p.A. - Deputy CEO*

Outlook for the oil sands.

Umberto Vergine - *Saipem S.p.A. - CEO*

(Inaudible) this is your question?

Rob Pulleyn - *Morgan Stanley - Analyst*

Yes.

Umberto Vergine - *Saipem S.p.A. - CEO*

We have a number of conversations with the operators in Canada that we expect could result in some new contracts in -- specifically on the upgrade of expansion of some of the existing projects.

Rob Pulleyn - *Morgan Stanley - Analyst*

Okay, thank you. No doubt we will talk more about this and the other market outlooks tomorrow. Thanks very much.

Operator

Henry Tarr, Goldman Sachs.

Henry Tarr - *Goldman Sachs - Analyst*

I just had a couple of quick questions. Please can you give a little bit more detail on the bidding strategy? You talk about having changed to some extent the bidding strategy. It would be great if you could give a little bit more color on what you are looking for now versus previously for new contracts.

And then just secondly, on Algeria clearly we have limited information. Do you have a timeline as to when you expect news flow or indications to come out on that investigation, please?



Umberto Vergine - *Saipem S.p.A. - CEO*

Okay, thank you. On the bidding strategy we will have a quite a detailed review tomorrow. I can just anticipate that our bidding strategy implies mainly a deep analysis of the risk associated with the contract that you are taking and our ability to minimize the impact and therefore to incur an extra cost that could impact our final margins.

So what we are today implying is in a sense a more precautional approach in not under estimating this risk and in not upsetting risk for which we are not duly compensated by the contract itself. If you have the possibility to listen to our presentation tomorrow I think that we will have quite a detailed explanation of the technical background that we apply to this commercial approach. But in essence I gave today the basic reason.

On Algeria, no, we have no timeline, we are really totally blind about the investigation, timing and the content. We know the documents, the information that we were required to provide and we will be left to that point.

Henry Tarr - *Goldman Sachs - Analyst*

Okay, thank you. Just one last one. When bidding on projects do you take a view on the likelihood of that project moving forwards from the commercial standpoint? Or do you tend simply to take the client's view on timing?

Umberto Vergine - *Saipem S.p.A. - CEO*

Sorry, I don't understand it. Would you mean just to move forward?

Henry Tarr - *Goldman Sachs - Analyst*

Yes. I mean so we have seen you bid on a number of large contracts over the past 18 months or two years, (inaudible), South Stream, Stockman, Browse, all of which look to have relatively marginal economics and have been postponed or delayed as a result. I wonder whether this is something that you look at when you bid for a contract or whether you simply try to take what the client is telling you at the time on the likely timing.

Umberto Vergine - *Saipem S.p.A. - CEO*

We take -- necessarily we take the contract specification for the bidding and the fact that the client by doing that shows his intention then. If on the back of our mind we prevent some doubt about the strength of that initiative is something that is not for sure conditioning -- being a condition that impacted the quality of our submission or the attitude -- commercial attitude of our submission.

I think that particularly on the contract as large as the one that you have mentioned, even if we could feel that cost of preparing this submission that of course is not new for us is a cost that we have to incur because we cannot leave certain out of the tender process.

Henry Tarr - *Goldman Sachs - Analyst*

Okay, thank you.

Operator

Andrea Scauri, Mediobanca.



Andrea Scauri - *Mediobanca - Analyst*

A couple of questions from me. The first one is just a clarification. At the beginning of the call you mentioned EUR700 million EBIT as guidance if I remember well, in February it was EUR750 million. Is it a lapse or are you fine-tuning downward the guidance for 2013?

And second question, the timing of a new contract award, in particular offshore, if these contracts are awarded let's say after the summer, would that risk the gradual recovery in 2014 that you mentioned at the beginning of the call or this gradual recovery is already in your hand on the back of -- the backlog that you have now? Thank you.

Umberto Vergine - *Saipem S.p.A. - CEO*

First of all, I apologize for the lapses of saying EUR700 million instead of EUR750 million. We confirm our guidance for EBIT of approximately EUR750 million.

Andrea Scauri - *Mediobanca - Analyst*

Okay, thank you.

Umberto Vergine - *Saipem S.p.A. - CEO*

Sorry about that. And on our intake of new contracts. No, we don't think -- we are quite happy of the level of intake that we had so far in the first quarter, not only in terms of volume but also in terms of profitability of these contracts.

I think that in general we have about EUR3 billion of order intake altogether, which about EUR2 billion on the E&C and in general this compared to the quality of order intake of last year is already showing a gross margin increase -- a significant gross margin increase.

On top of that we have the components of drilling, that is also very positive. But on the E&C I think that we are already moving in the right direction and I hope that the remaining part of order intake for the year will be of the same quality.

If we look at how much of the order intake will be able to produce revenues and margin in 2013, we are also I would say following our budget, our guidance. And I am quite positive that during the year we could achieve our objectives.

I would like also to remember that when we talk about order intake this could be related to new -- brand-new projects, greenfield projects, but in some cases we also have a (inaudible) of scope or a (inaudible) of time of existing contracts and of course when this happened this immediately generates cash flow in the year. So not without the problem of start-up of the activity.

Andrea Scauri - *Mediobanca - Analyst*

Okay. And very less question. Do you expect an acceleration in intake in absolute terms compared to the first quarter, the EUR2.9 billion of the first quarter in the following quarters? Or should we project these let's say EUR3 billion per quarter for the year -- for the full year?

Umberto Vergine - *Saipem S.p.A. - CEO*

As I said, I think that we -- our target of replacing the amount of work executed, so the amount of EUR13 billion, EUR13.5 billion of the year is our target. So maybe a linear progression by quarter is not exactly the case. But overall we are targeting this amount of order intake and we are not far from that on a quarterly (technical difficulty).



Andrea Scauri - *Mediobanca - Analyst*

Okay, thank you.

Operator

Ian Macpherson, Simmons & Company.

Ian Macpherson - *Simmons & Company - Analyst*

At this point I just have a simple sort of detail oriented clarification question, if I can. Hugh, you said that your guidance takes into account the down time for your offshore rig fleet. Could you also just clarify whether you have EUR856 million of backlog for offshore drilling for this year. Does that number also incorporate the downtime or is that sort of a total revenue opportunity number that has not been adjusted for downtime?

Hugh O'Donnell - *Saipem S.p.A. - Deputy CEO*

That is a total opportunity.

Ian Macpherson - *Simmons & Company - Analyst*

Okay, so we should adjust that lower (technical difficulty)?

Hugh O'Donnell - *Saipem S.p.A. - Deputy CEO*

Essentially [it's the sum] of the value of the contract, yes.

Ian Macpherson - *Simmons & Company - Analyst*

Got it. All right, we will talk tomorrow. Thank you.

Operator

(Operator Instructions). Christyan Malek, Nomura.

Christyan Malek - *Nomura - Analyst*

Just one question if I can follow up. In terms of the industry level here, just what are your views around project delays? I mean there have been a number of projects that have been re-engineered, revised and pushed to the right. Are you seeing that trend? And are there any sort of key projects that you are bidding on that are at risk of that trend over the next six to nine months?

Umberto Vergine - *Saipem S.p.A. - CEO*

No, I would say the answer no even though I am trying now to think through what we have as a key target. I think that the example of Browse, since Browse is a recent case that everybody knows about, is not maybe a postponement, it is basically a change in scope or a change in scope of the execution.



So I think that on the other side we are saying we continue to see the opposite. I mean the clients are struggling to place as quickly as possible tenders in the market in order to secure the best contractor, the best vessel, the best rig, the best yard and the best people to get the contract. These are the types of confirmation that we are asked to give to -- by a different number of companies that we are meeting.

Christyan Malek - *Nomura - Analyst*

Brilliant, thank you very much.

Operator

As there are no further questions in the queue that will conclude today's Q&A session. I would now like to turn the call back to Mr. Umberto Vergine for any additional or closing remarks.

Umberto Vergine - *Saipem S.p.A. - CEO*

I thank you all for your attention and I hope to talk to you tomorrow for our operational review. Thank you very much.

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