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CORPORATE PARTICIPANTS

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

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

Giuseppe Caselli *Saipem S.p.A. - COO of Engineering & Construction*

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

CONFERENCE CALL PARTICIPANTS

Guillaume Delaby *Societe Generale - Analyst*

Geoffroy Stern *Cheuvreux - Analyst*

Andrea Scauri *Mediobanca - Analyst*

Christyan Malek *Nomura - Analyst*

Rob Pulleyn *Morgan Stanley - Analyst*

Mick Pickup *Barclays Capital - Analyst*

Alejandro Demichelis *Exane BNP Paribas - Analyst*

Ryan Kauppila *Citi - Analyst*

Amy Wong *UBS - Analyst*

James Evans *Canaccord Genuity - Analyst*

Phil Lindsay *HSBC - Analyst*

James Talbot *Citi - Analyst*

PRESENTATION

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

Ladies and gentlemen, good afternoon and thank you for joining us today for Saipem's operational review. It was about three months ago when, I think during my first conference call, I announced the intention of having such a meeting with the objective of giving you a little bit more detailed presentation about how we are organized, how do we work in the context of our markets.

Today with me I have Stefano Goberti, our CFO; Hugh O'Donnell, the Deputy CEO; and Giuseppe Caselli the new COO of the Engineering & Construction Business.

Today I will first give you my initial impression since becoming CEO in December and an outline of the action that I have taken in these first few months. I will then take you through the operational review with Hugh going into some details on our approach to risk management and Giuseppe laying out the detail behind the operational improvements that we have been implementing across the E&C business.

Following the presentation of the E&C review I will talk you through my vision for the future of Saipem and explain how we will restore margins and put the Company back on the path of growth. Then I will start up with (inaudible) Q&A. Since the presentation today is mainly focused to operation, Stefano will not be making any formal presentation, but he is here with us to answer to any question you could have that may have a financial element.



Although I have met or spoken to most of you since I was appointed CEO in December, this is the first time that I have presented to you in person. So I'd like to give you a sense of my first impression of Saipem since taking on the CEO role. It is very clear to me now that Saipem's business model is founded on a unique combination of strength and these are shown in the slide, but I'd like to highlight some of them in particular.

First, our strength in managing large and difficult projects; second, the value of having an integrated and engineering and construction capability, covering both onshore and offshore activities; third, a quality fleet that has benefited from a very robust CapEx program particularly over the last six years; fourth, an excellent drilling business with a positive outlook. And finally, a strong commitment to the development of cutting edge technology and a matched safety record which are both very fundamental for Saipem business.

You are all aware that a number of events -- of the number of events that led us to today meeting, including the discussions that we had earlier on the 2012 financial results and 2013 guidance. Of particular importance, however, was the appointment of Giuseppe Caselli as COO of the Engineering & Construction business unit.

Giuseppe Giacomo, also known as G.G., has been at Saipem for 27 years with over 20 years in Engineering & Construction. He has a deep knowledge of the business, both operating -- at operating and corporate level and, in addition, has many years of international experience including in some of Saipem's key countries of operations.

One of the main issues that my initial review of the business highlighted was the importance of our relationship with our clients and with excellent contents amongst both NOCs and IOCs, G.G. has a strong relationship across the sector, which will be invaluable to our business. After his appointment together we launched a comprehensive review of our E&C operation, which, as you know, is the center of topic for today's presentation. So let's move straight to this.

There were two clear objectives in our minds when we started this. The first was to identify the reasons behind the recent reduction in margins and the action we would take to combat this. To achieve this objective it was decided that the review would focus on our current risk management system, our approach to new business, the quality of our project execution and our client relationship. The second objective was to develop a vision in order to optimally position Saipem for near-term margin recovery and for a sustainable growth for the future.

In order to analyze what went wrong it is important to understand the market context in which we were operating at the time. And we must therefore look back to the period when the problematic contracts were run by Saipem; and this was in 2009 through 2011 when NOCs dominated the market and they were able to impose considerable pressure on the service sector.

Then in 2012 the delay or postponement of mega-contracts which were not compensated for an (inaudible) [entry] low margin workload deriving from this period had a big impact on our 2013 results. There were two fundamental and linked problems that caused the workload to [below] margin and that led to the downward revision to margins.

First, during the commercial phase we dropped out (inaudible). We deviated from our golden rules on an increasingly regular basis without adequate compensation. Taking risks like endorsing the FEED or offsetting the impact of soil condition or of bad weather or of local infrastructure, sometimes based on limited information, are very tough calls and need to be wisely made and by people of a very considerable experience.

Then during the execution phase we sometimes gave in to the temptation of trying to improve margins in ways that sacrificed quality and schedule. Two examples, we tried in vain to convince clients after contract signature to accept cost effective optimization and we employed cost effective suppliers and subcontractors that eventually underperformed.

The time and money that we spent on these initiatives which were frequently futile were casually impacted on our client relationship. Generally we maintained our target of doing the best possible job for the client, but in the cases where we tried to take margin announcing shortcuts, we had the opposite effect -- further (inaudible) margin erosion.

An important part of the measures we have in place to protect against this is our risk management system. Hugh O'Donnell is now going to talk you through and to explain how the proper use of the system is going to protect our margin. G.G. Caselli will then set out the organizational



background to the shortcomings identified in his review and will tell you about the actions we have undertaken to address the way we do business. Please.

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

Thank you, Umberto, and good afternoon. I am going to describe to you now something that I believe is unique in the oil and gas contracting business and, when used to its best effect, is of immense value and that is Saipem's risk management system. A little bit of background.

Although this system contains decades of experience, mainly on jobs that have gone wrong but to some extent the jobs that have gone very well also, the system was formally inaugurated in 2006. After a few years of coming to the conclusion that a very small number of bad projects were destroying the value of a very large number of good projects, there is some kind of a corollary -- a Murphy's Law corollary which seems to dictate that bad projects get worse much more aggressively than good projects ever get better.

So the result was that this small number of bad projects was creating an awful lot of damage. And so, we came up with the mantra that no contract is better than a bad contract.

The charts on this slide I think you are familiar with, over the last few months we have use them quite a bit. And the use of this risk management system has enabled us to a large extent to avoid bad projects to avoid black holes. However, it hasn't enabled us to avoid poor contract and, as you see on these charts, it is the poor contracts that are dominating the workload in 2013 and to a lesser, but still unacceptable extent, 2014.

So now what we have to do is to utilize the system not only to be able to avoid bad contracts but to be able to eliminate, reduce at least and eliminate eventually poor contracts.

Saipem's approach -- Saipem's general approach to risk is summarized on this slide. On the right-hand side you can say the red risk bucket, if you like, which contains the typical client risks, the overall risks, the risks associated with the profitability of the overall development, geopolitical risks, overall country risks, risks associated with the pollution deriving from the field, et cetera.

And on the left-hand side in the yellow bucket, as it were, there are the typical contractor risks. Of course the risks associated with project execution, engineering, procurement, construction, installation, interfaces, logistics, our own security, et cetera.

And then in the middle in the orange bucket you have what we would call the negotiated risks, the kinds of risks that our clients are always trying to encourage us to take, risks like the ones that Umberto had mentioned -- FEED endorsement, exceptionally bad weather, soil conditions, risks associated with exchange-rate or commodity pricing.

In our opinion a good contractor, a good EPC/EPIC contractor will avoid the right-hand risks, the client risks, structure himself in order to be able to control the typical contractor risks and then only take the negotiated risks -- those risks in the middle -- if he can hedge the risk or if he is adequately compensated or find a way of controlling or at least having a strong influence over those risks.

I mentioned the fact that it is fundamental to have a model, an industrial model which allows the contractor to control the typical contractor risks and to help with the negotiated risks. And Saipem I believe is unique in the industry in having this industrial model because we control all of the critical phases of a project. We do control our own engineering, our own construction and our own installation, and that allows us to observe the first and fundamental unwritten rule which is to do a good job for our clients.

Umberto has repeated several times since his arrival that -- suppose you don't have a good contract or a particularly strong set of terms and conditions in your contract. If you do a good job you have some chance. Whereas even if you have a very strong contract and you are not doing a good job you have no chance. So rule number one is to do a good job for our clients and to have an industrial model that allows you to help him in this area of negotiated risks.



In addition, our industrial model, through those feedback loops which you see on this slide, allow us to improve from one project to the next, the idea being that a mistake on one project effectively becomes an investment on the subsequent project. So we achieve project-to-project improvement.

Then the risk system itself can be viewed in terms of these four perspectives -- the risk system is clear, it is structure, it is proprietary and it is comprehensive and we'll have a single slide on each of those so that you can understand the system.

First the system is clear. At the core of the system is a set of rules and guidelines; we call them golden rules and silver guidelines. This is a project-based system that takes us from the commercial phase through to the execution phase and everybody associated with projects in Saipem, the commercial manager who is the process owner during the commercial phase and the project manager or project director who is the process owner during the execution phase.

All of the people in Saipem know that our risk system is based on these golden rules and silver guidelines and that the golden rules are mandatory, that the only people who can approve deviations to the golden rules are the CEO or the COO. Whereas the silver guidelines are very strong recommendations but allow a certain degree of customization depending on the local context.

Then the system is structured. You are not expected to be able to read this slide, but the risks and the opportunities as categorized in the system are organized in these nine categories -- external factors; client; execution plan; economical, tax, financial; and then obviously risk associated with execution -- engineering risks; procurement and subcontracting risk; construction; installation; and finally risks associated with HSE.

And then each of those categories has got a breakdown of risk so that we end up with a system of in excess of 500 golden rules and silver guidelines. And this system, as it is structured, allows our people to look at the risks in terms of each individual project, in terms of each individual area of risk, in terms of sectors such as LNG, in terms of countries. So it is structured to be utilized in this kind of way that you can read -- you can cross rate -- cross identify the risks in various sectors.

The system is proprietary, it has been developed by Saipem and the software is proprietary. You are not, again, expected to be able to read this slide, but on the left-hand side there is a typical screen viewer, a page of software showing the project risk register. All of the projects within Saipem are entered into the risk management system.

And on the right hand side you can see a view of something which is very important which is called the Golden Rules & Silver Guidelines Conformity Reports, which needs to be maintained for each project that Saipem is performing from the commercial phase through to the end of the execution phase.

Then the system is comprehensive. I mentioned the fact that it has in excess of 500 golden rules and silver guidelines in each of these nine categories of risk and opportunity. Approximately 140 of them relate to drilling and the rest relate to onshore and offshore E&C business.

These are just -- we show four of these rules typically on this slide and the legend, as you can see on the bottom, refers to the fact that the rules are either for onshore or offshore or for drilling or for the commercial or for the execution phase and they are either golden or silver.

So the tool is a very impressive risk management tool, but it's important to realize that it is only that, it is only a tool. The use of the tool is what is really important. The tool is only as effective as the way in which it is implemented and the people -- the experience of the people who are implementing it.

As I said at the outset that the risk management system has allowed us to avoid bad projects, black holes. Now we have to use the system in order to avoid these chronically poor contracts. And I am sure that we can use the system and we are already using the system in order to be able to avoid the poor contract. That requires that there is a more rigorous adherence to the approval of deviations of the golden rules and that we have upgraded some of the rules.



Two examples, for instance, are -- you'll remember the fact that we are suffering in terms of work and capital. Part of the reason for that is because of the fact that within our system the rule, if I can call it that, associated with payment terms and conditions was in fact a silver guideline and that last year was upgraded to being a golden rule which now emphasizes and insists on [near-term] funding.

The reason why it was a silver guideline in our system is because of the fact that up until then within Saipem and within the industry contractors were not expected to finance their clients. But now of course the rule has been upgraded to golden and I would be used very surprised if Umberto or G.G. approved deviations to that rule.

Another example which comes to mind is the example of -- associated with insurance on the drilling sector as a result of what Transocean is experiencing post Macondo. So this system is now being implemented more vigorously and it is being updated -- upgraded to be a better system. The result of this I believe is that we will now have a system which not only avoids bad projects, but allows us to implement the new mantra which is that no contract is better than a poor contract.

I'll now hand you over to my friend, G.G., who I have known for decades and who will take you through the revision and the overhaul of the E&C business. Thank you.

Giuseppe Caselli - *Saipem S.p.A. - COO of Engineering & Construction*

Thank you, Hugh, and good afternoon, everybody. It's a really great pleasure to be here and I look forward to meeting you all individually either after the presentation or any moment from now. Umberto, our CEO, has already outlined our objectives in conducting this review and I will now talk to you to the new way that we are looking at the organizational structure of our business.

Apart from the many strengths with our review revealed and which continue to form the fundamental basis of our business model, we identified a number of shortcomings and areas for (inaudible) improvement. This falls under three main areas, but more than enough of the problems we identified can be attributed to the organizational structure which sits above and feeds into the other two areas, commercial and execution, which our CEO has already talked about.

At the organizational level the business was overly centralized with two main reporting lines directly to the CEO leading to the bottleneck in decision-making processes and an undefined accountability structure. In my view this situation arose gradually over the years of growth and in the end was not functional to the business.

Turning now to Saipem's commercial approach. On top of the serious problem with the organizational structure, the business was operated in a very weak market and was therefore forced to be aggressive in its bidding. However, it went too far along this road and following to adequately apply the risk management system that my friend Hugh has just discussed. We accepted onerous terms and conditions on certain contracts.

The risks associated with these terms and conditions were not adequately hedged or compensated in the contract price, putting pressure on client relationships and ultimately compromising the profitability of our portfolio.

Finally, we identified the [certain] shortcomings during the negotiation phase, namely that in executing such challenging projects Saipem at times looked to make certain fit for purpose organization aimed to improve the performances during the execution phase and not to reduce cost in a win-win scenario. Such optimizations were not accepted by our clients, mainly international operating companies that have regional organizations, they are not used to deviating from the signed the contract and, more important, are not used to deviating from specification.

This alongside the onerous terms and conditions that we mentioned previously and a new reliance on a weak partners (inaudible) contractor led to the delays in system [networks] resulting in claims which further damaged our relationship with clients. All these factors contributed to the dramatic margin erosion that we have seen.



As a result of the findings we identified four areas for immediate management focus. We have reorganized the E&C business unit. We are revising our commercial approach, we have outlined an efficiency enhancement to make during the execution phase, and last but not least we are working to improve our relationship with clients. The ultimate objective of these actions is very clear -- it's to accelerate the recovery of our E&C margin.

I will explain over the following slides what we are doing under each of these headings and how these actions will lead to a rapid and sustainable improvement of profitability. The pillars, the principals upon which the new organizational structure has been founded are fivefold.

The first involves establishing where our core competencies lie and better integrating deals within the product line around which our business unit is organized.

The second, ensure that we identify synergies across the productlines we offer and maximize the value we can extract from the different markets in which we operate.

Third, as I will already outlined, we want to create a clear accountability structure and reduce the number of reporting lines within the business units.

As Saipem is a global organization with operations all over the world, the four principals would allow us to empower regional managers to take responsibility in the region improving flexibility and responsiveness to clients' needs. However, the local responsibility must be balanced by stronger centers of excellence overseas, particular areas of competence and ensure guidance and support is given to all the regions. As an example, we have a center of excellence for deepwater in Paris which oversees operations in West Africa and Brazil.

I would like to turn now to the first of our four actions, the organization of the E&C business unit. There are several key components to business structure. We now have three business lines -- onshore, offshore and floaters. And (inaudible) this business line report directly to me. They have a full P&L responsibility and they will play a key role in product strategy as well as throughout the entire project since they each have project directors, project managers, managers who report directly to them.

They are all sitting here with us. I am pleased to introduce Mr. Ettore Magnani that is the head of the business line onshore; Mr. Fabio Pallavicini that is the head of business line floaters; and Mr. Stefano Porcari that is the head of the business line offshore. We have also the pleasure to have with us the head of drilling, Mr. Egidio Palliotto that was my (inaudible) my former colleague.

Finally, the three central functions cover the commercial engineering and (inaudible) parts of our business. This function adopts a monolithic approach, sitting alongside all business lines and providing specific competencies in support of the new business and execution.

Finally, to balance the overall knowledge within the Group and to take responsibility for particular geographies we have the regional functions consisting of eight regional managers who also report directly to me. These managers ensure integration between the business line, good management of our [local] capabilities and to lead the local commercial development activities.

I am [most] introducing what I consider another important element, a new approach in the commercial process to [share out] the decision making on whether or not to bid on a project on the pricing or on the pricing policies, and/or. Under the new approach this decision will be taken jointly by the [central] function and the element of business line adds.

So to summarize, there are three main changes which we have made to the structure. Now we have three business lines with full P&L accountability and productline [utilization] headed by persons -- professionals that have a deep knowledge of their business and what they are best at; eight regional entities each with its own regional manager to decentralize the responsibility, promote local integration across products and support career growth opportunities for key managers.

And finally, our major engineering center has been organized with the engineering and tendering function are located to (inaudible) central business unit functions.



In terms of commercial, our second real improvement is to revise our commercial approach. We will do this in the following way -- we will leverage our unique slant which includes cutting edge technology, strong local (inaudible) and high-quality assets to better position Saipem during competitive bid processes in relation to its peer.

We will implement more effective risk mitigation measures to ensure expected margins are attained. It means by using properly the tool -- the most powerful tool that we have that my friend Hugh just explained. We will systematically pursue opportunities to increase project profitability starting from the tendering stage through the design optimization, evaluating alternative proposal and leveraging our integrated engineering and construction strength.

We will build on our [own] strategy partnership, for example in LNG, to improve our market position and expand our activities. And finally, we are reassessing some of the bids that we have issued recently to assure that they stand up our new commercial approach.

So our commercial approach can be summed up as relying upon the satisfactory assessment of a business opportunity against three main criteria -- is the scope of the project covered by one or more of the Saipem's core (inaudible) strength? Second, can Saipem bring to real potential competitive advantages such as our capping gas technologies on a particular vessel that could do the job thus [limiting] the number of competitors? Three, does the project offer meaningful margin potential?

In general Saipem will try to focus its resources on bidding from projects which satisfy these three criteria. You can see our strict adherence to the risk management system that Hugh discussed and the organizational consideration that I outlined earlier underpins this commercial strategy.

Then returning to enhanced efficiency [that will happen]. There is a significant potential for improvement in execution efficiency. Part of this is actions to be taken immediately and part refer to continuous action. First the immediate action.

In addition to the organizational overhaul that I have been illustrated, which definitely increase -- incorporate increased accountability choosing people with strong operational experience and knowledge, we need to be more rigorous in some additional areas.

The first one is the optimization which gives the client what we consider a revised (inaudible) solution. It is a good idea but only if the clients agree and agree in advance, going ahead in hope that we convince him later when he is presented with (inaudible) complete solution is frankly a waste of time and money and also risk eroding their relationship.

Second, we need to be more careful in our selection of partners and contractors. Although they are useful, if they help us win work it is much more important that they are competent during the execution phase with partnering work as (inaudible) the long-term relationship is far preferable to the one night stand. With some contractors when in doubt -- and this is another key element that we are addressing -- [direct] hiring is our preferred choice so we do it by ourselves.

Quite often -- as a third element, quite often when the terms and conditions are weak the only option is to do a good job and that is for contribution [after] claims when the work is advanced enough to convince the client of our competence and our good faith, we are already doing this where necessary on some projects but is a long painful process.

In general the best option is to have the strongest terms and conditions if possible and implement the continuous rigorous management of changes, versus the closeout claim syndrome. Bear in mind the weather that early agreement on deals operation order may not be advisable since they are not going to impact our changes (inaudible) only (inaudible) much, much later.

By the way, most of these contracts that they just realized our enshrined -- deeply enshrined in our golden rules and silver guidelines related to the execution phase. So in summary, we need to restore our (inaudible) of putting our clients first.

Another part of efficiency improvement which is continuous but perhaps extremely important in the medium term relates to work processes. It is a bit more complex to explain but it is fundamental. Please do remember that Saipem's [industrial] model is unique in that we control all the critical phases of the work, as Hugh was just explaining, including engineering, construction and installation.



A typical large EPC or offshore EPIC comprises up to 80,000 task level four activities. The activities are widely (inaudible) and are interdependent within each phase (inaudible) face-to-face. They include primary production processes and a huge number of support processes.

Efficiency, as everybody can imagine, is maximum (inaudible) engineering phase and decrease and (inaudible) to proceed from factory to sight to [see]. Risks go the other way around -- lower in the office, high during onshore construction, especially during the final stage on mechanical completion and commissioning when everything is supposed to work and much higher in the offshore.

It makes sense to invest, so to spend more money on engineering say to save a lot more and have less risk later on site or offshore. Please kindly note that if you subcontract or joint venture on a project-by-project basis there is no point in making such a commitment; you are contributing to somebody else's profit. Saipem has the potential to do this, but it demands powerful integration between engineering and construction.

And another key element is our major focus on method of installation. Offshore some improvement has been (inaudible) impressive in the past and currently, (inaudible) welding, inspection, trenching, lifting, just to name a few of them, especially on mega projects. We have had E&C on our offshore business for longer and the capital invested is much higher.

You cannot afford poor productivity on a \$1 billion vessel like a Castorone, but ensure what's possible if we fully exploit the Saipem investment model in areas such as onshore construction, offshore fabrication, smaller offshore projects. Although exploiting these will be a continuous process, I find this an extremely stimulating opportunity and this is what we are looking for.

Finally, talking about our clients, those that pay our bills. Recognize that we are a service business and that our long-term [sustenance] depends entirely on the satisfaction of our clients, we are now more than ever going to focus on ensuring that our relationship with our clients are as good as they can possibly be.

Ultimately client relationships can drive profitability as by strengthening these relationships we can reduce disputes, ensure projects are finished on time, avoid cost overrun and generate repeat business from satisfied clients.

With our eight regional managers we aim to be closer to our clients, manage critical issues as they happen and at the same time support our commercial strategy. We will also increase effort on the clear early agreement around allocation of respective client contractor risks outlined by Hugh. We believe this will lead to further improved client relationships and better facilitate the subsequent work process.

We strongly believe that all these actions will come together to result in a more flexible, stronger and more client focused business unit promoting not only a stricter approach to sign more profitable contracts, but also to protect and even enhance margins by way of efficiency and effective execution. Thank you very much.

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

Thank you, G.G. Thank you all. Let's now try to summarize on the key actions which we have discussed. The actions that G.G. has outlined and which are summarized on the slides are already being implemented and will [direct the operator] deficiencies that we believe has impacted the business in the past few years.

We took the risk to go maybe a little bit too much into the details so to be sometimes too technical, but my contention was to clearly illustrate to you how we were working and what we are doing today. Our ultimate focus is on driving margin recovery -- we have said that, we repeat that. And I trust that today's presentation should have illustrated to you how we are moving to accelerate this recovery throughout the E&C division by way of these targeted and highly focused actions.

Today's presentation has focused on the E&C business and the changes that we have implemented to address some of the issues from our past. But I would like also to look at the future and to talk you through on some of the other factors that will drive a positive outlook for Saipem and will restore its profit and margin growth.

I think that by now you are familiar with Saipem's unique business model and our core strength which I believe confirms our status as industry leader. The strength of our business model and of our reputation has been further proven in the past few months as we have seen a more significant impact on the business from the recent events.

We continue to have an excellent relationship with our major clients and the flow of invitations to tender has not been affected. And on top of that we are not experiencing any retention issue for key personnel.

Finally I would like to highlight that while this review has resulted in significant changes to the organization structure of the business, we see no need to change Saipem's strategy. On the contrary, I continue to believe that the current strategy, coupled with the operational improvement that we have just made, will optimally position Saipem for the future.

Looking at the outlook for the oil and gas market in the next 24 months and we believe that it presents significant opportunities for Saipem. In fact we have identified prospects for more than EUR100 billion worth of projects that suit Saipem's characteristics and Saipem's market positioning.

These pie charts represent an outlook of known opportunities which Saipem will be in a good position to win broken down by geography and by product. It is significant to note that on the left-hand side almost all geographic regions of the world are covered showing how Saipem is stronger [present] worldwide.

And if we look at the breakdown by geography it's clear that the most significant commercial targets for Saipem are in West Africa, Asia Pacific, Middle East, North and South America. However, Saipem is also looking with great interest at the new upcoming challenges in East Africa and also to Russia. Although these areas are not yet offering as many EPC opportunities as the traditional ones, they will definitely be of crucial importance in the future.

On the right-hand side we see that Saipem is in a position to target a very wide range of opportunities in terms of product. Our commercial portfolio is very well balanced between our business lines. You can see that we are also considering, and with great interest, some of the new challenges such as floaters and LNG, both onshore and offshore, where competition is less aggressive and particularly for the latter we can rely on our excellent joint venture with Chiyoda.

This slide looks to the same market opportunities, but shows them broken down by region. And you can see also the volume of opportunities available in each of them by the size of the pie chart. So if we go through some of the different areas, in West Africa Saipem has a good number of opportunities especially offshore. We are very well-positioned and we can leverage on the consolidated presence we have with a strong local content oriented approach.

In Asia-Pacific Saipem focuses especially on LNG opportunities. The recent announcement on Browse has been disappointing, but we still have a number of target projects in the area. Moreover, Indonesia and Southeast Asia represent also growing market for offshore, in particular deepwater, and here our recently developed [Kerman] Yard is definitely an advantage that we will exploit.

I mentioned before North and South America. North America we have a strong focus on Canada that is an interesting market for both LNG and onshore including pipelines. Our strategy here is based on the availability of our own fabrication yards and a combined offer of engineering and construction capabilities. We are already present in the Gulf of Mexico with good exposure to deepwater.

In Central America, particularly in Mexico, we have already good market -- sorry, Mexico is a good market for onshore, especially upstream plants and pipeline, and we have already some interesting projects under execution.

In South America we all know that there are good offshore opportunities in Brazil. There we are developing the Guaruja yard and we will tackle the most challenging project thanks to our powerful deepwater fleet.

In the Venezuela Saipem is already very well-positioned both in the EOC and in drilling and we hope to take advantage of any future positive development in the country as particularly in the oil sector.



I said that we are also looking to new areas. East Africa is not yet a big market in terms of EPC opportunities, but Saipem is paying great attention to the development of this market. And we are already starting to work on implementing the local contract approach that we have implemented in West Africa.

Russia is potentially a huge market for Saipem, but there are not currently many EPC opportunities. Our relationships in the country are very good and we are carefully monitoring any opportunity. In Kazakhstan Saipem is very well-positioned for any future development on [Tangit] or Karachaganak and of course at Kashagan. Our [Kuryk] yard and logistic base along with our Caspian fleet are a powerful establishment and will give us a dominant position in the Caspian and including also projects outside Kazakhstan.

All of this of course needs to be sustained and a robust and well targeted CapEx program rolled out over the last few years has put Saipem in a solid position at the forefront of the industry. Since 2006 we have spent over EUR8 billion on our best in class assets. In the short term there are no requirements for significant new investment and we will focus CapEx on the maintenance and upgrading of our assets to preserve our very high standard of quality.

If we look down at the medium-term we will reassess our CapEx requirement to focus on activities in unexplored or undeveloped areas of the Arctic region to the development of new oil and gas provinces like East Africa and a new deep and ultra deepwater market both in E&C and in drilling.

Talking a little bit about drilling, I would like to say that drilling remains an integral part of Saipem's business model. The long-standing international experience in the drilling division (inaudible) Saipem's strong reputation and exceeds its pure economic value. In fact the combination of drilling and EOC provides clients with integrated activities and continuity of Saipem presence in all the key countries.

Saipem also benefits from significant counter cyclicity of the two businesses and from savings in the management of the whole Company fleet. The expansion of the drilling fleet, both onshore and offshore, over the last few years has delivered a (inaudible) business on a day rate basis, long-term contracts covering the entire top end of the range and distinctive competencies which are highly valued by our clients.

So in conclusion, we have undertaken a comprehensive review of our business which has included, as we have shown to you, an honest assessment of the areas in which we need to improve. I hope it is clear to you that we have taken very direct and decisive action to address the shortcomings that have been identified, including also making radical changes when needed to our organizational structure and apply a much more rigorous (inaudible) to our risk management processes.

So having looked in detail at our business model, we remain very confident that the unique characteristics of Saipem and the distinctive strength will (inaudible) the geographic and project focus of future market opportunities plays well to our clearly articulated commercial strategy. I think that all in all this paints a positive picture for Saipem to drive a recovery in profitability and to continue to grow the business in the future.

This is the sum up of all the work that we have done in the past few months and that we already implemented throughout the Company. I thank you for your attention and we are ready to take any questions you have. Thank you very much.

QUESTIONS AND ANSWERS

Guillaume Delaby - *Societe Generale - Analyst*

Good afternoon. Guillaume Delaby, Societe Generale. Two questions, if I may. Historically, you believed that one of these trends of the Saipem business then was local content and just a basic question. Assume that you have, I don't know, 2,500 employees in a given country and that suddenly the market dries up. Don't you think there is a kind of contradiction?

Because if you want to maintain your good long-term relationship with a country, you are more or less forced to take the orders at whatever the price is? So going forward, don't you think that either too much local content, contrary to what you have been saying or contrary to what might have been the history, might be an obstacle in the recovery of margin?

My second question is a little bit more conventional, I would say. Regarding CapEx, if we assume that maintenance CapEx at Saipem is roughly EUR400 million to EUR500 million per annum, is it reasonable to say that going forward for the next three or four years the normal CapEx should be in the region of EUR700 million? Thank you.

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

Okay, I would like to give maybe the answer to you about how do we manage the local content activity, related activity. On the state of CapEx, to your question, the answer is yes, this is reasonable. I don't know if that will be lasting for three or four years. As I say, in the short term certainly we don't see any reason to enter into bigger investments beyond what is required for keeping up our assets. But as I said, in the medium-term we are ready to reassess if opportunities suggest to take a different approach.

Giuseppe Caselli - *Saipem S.p.A. - COO of Engineering & Construction*

Thank you very much, Umberto. In terms of local content, I believe that we have to expand a little bit the concept to try to clarify your question, if I can. Local content can be stated in two parts. The first part is the assets. So the asset is something that when you develop it there and then maybe you can take it out.

And these assets for Saipem is a plus because it's a distinguished sign in the country where we operate that definitely will promote our capability, our knowledge, and our leverage in those countries where these are essential. When I mentioned -- for instance I mentioned in Kazakhstan.

We have one of the major assets in the Caspian that is our fabrication yard that is (inaudible) that has the largest port that exists in all Caspian. Our fleet is I believe one of the largest fleets in the Caspian, excluding the tankers, and definitely this is an element where everybody is looking at from whichever angle in the country and those are not creating -- as far as depreciation, are not creating something that over and above the normal (inaudible).

In terms of resources, as you may know -- as you definitely know, sorry -- in our organization, in our type of business we have a large number of employees. We have the blue-collar and the white-collar. When you have a downside cycle as is happening in a few countries, definitely what we are doing, we have retention policies that definitely retain all those core resources that are meaningful for our business so we are large and large and we shrink depending upon the market condition.

Luckily I can say that in the country that we just mentioned, for at least in Kazakhstan, since our yard was established there, I think it takes an example because I want to provide you with some elements and not just simple words. Since established under this Company when it started in 2003, I can tell you that the number of people has been increased up to 3,000 people, 3,000 employees.

As of today we are 1,500 because we are in a down cycle. And the people that were released somehow were of the lower ranks, laborers that you can definitely take and discharge. So we see it not as a negative element, but an extremely positive element. I hope that I was able to clarify the question.

Geoffroy Stern - *Cheuvreux - Analyst*

Geoffroy Stern, Cheuvreux. Several questions. During the presentation there is one topic that has not been mentioned, it's the margin reconnection policy. It sounds like you have a fairly aggressive policy with the leading (inaudible) reconnection compared to most of your peers.

So [what if you not] change the way you recognize margin? That is my first question. And then with regard to 2014, when you are talking about margin recovery potential could you be a bit more precise? And would you consider 2014 as being a kind of let's say halfway through year in terms of margin recovery between 2013 to 2015 and beyond?



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

Another margin recognition policy besides maybe letting Stefano to elaborate more, I think that we have no doubt on the validity of the system independently of what others are doing. And this is particularly true, we believe, because of the type of contracts that we are considering.

Contracts where we go on a cost [coast-to-coast] basis is clearly the one that better represented the evolution of the impact that an EPC contract gives to our results. It is the different -- maybe the different [additives] if it is to contract with our base on time and quantities. We have no problem with continuing this accounting structure that is properly capturing, as we have seen, both the up cycle as well as the down cycle. And we have not noticed even through this cycle that we are in any way either representing the current situation of our results.

Talking about 2014, we are not elaborating today already the figures for 2014. We are just presenting the fact that there is in the market a potential that is made of two elements. The appetite of our client to get new projects ongoing and our ability to stay in the market and to capture any possible advantage. As I said, we believe -- starting from the second one.

I believe that we are well positioned for that and we see from the market a continuous positive trend in terms of the number of projects, number of tenders, number of initiatives in general. Are starting to see also some of the main operators competing on time in order to secure contractors, yard, vessel, to not suffer any delay in their production plan. But as you know, all announce very aggressively this year. I don't know if, Stefano, you will add something more on there.

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

Thank you for the opportunity. I don't have too much to add to that. apart from the fact that I have been back to really again the accounting principal. And I believe that the way we apply the accounting principal is absolutely in line with what is provided for in the reading of the rules. Meaning that the coast-to-coast it is the principal.

And apart from that, also that represents according also to Umberto the -- correctly the business. But the principal is stated like that. So we are not doing anything different from what the accounting principal provides for.

Andrea Scauri - *Mediobanca - Analyst*

Good afternoon, Andrea Scauri, Mediobanca. I have a question on last week price indications that we are mentioning that you were being disqualified from a tender in Abu Dhabi. First of all I want to know if --- I would like to know if that is correct. And second point, if yes, how do these news based on the fact that the tender was too aggressive matches with the indication that you gave that a zero contract is better than unprofitable contract? Thank you.

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

Yes to the second question, no to the first question. Yes, this fits exactly to what G.G. was explaining and Hugh was indicating with the mantra -- the new mantra. We --- you remember the last time we had the conference call, the subject of this contract just was out on some sub paper, on some specialized paper a few days in advance of that conference call. And we were actually wondering if we had to look into that since what was announced was a big up gap between our offer and the second best offer.

As it was out, G.G. had decided to approach the client opening a discussion on our initial offer. We are not fully disqualified. The client of course was not very happy for us doing that, but we explained to them ostensibly before doing that officially and I believe that that has partially saved our relationship and lowered our potential to be part of maybe repeating that is getting organized now in that specific project.



Andrea Scauri - *Mediobanca - Analyst*

Thank you.

Christyan Malek - *Nomura - Analyst*

Good afternoon. Christyan Malek, Nomura. Two questions, please. First, how can you be so confident that these pour contracts aren't going to become bad contracts over the next six months? Or put another way, how can we be sure that in six months time you don't turn around and say one of these lump sum projects has become quite bad because your client is very difficult to whatever?

And the second question regarding your strategy in the portfolio, it seems on a relative basis overly concentrated to West Africa, the Middle East. Has management considered the scenario where there are no projects in West Africa, Middle East or very little over the next 12 months -- what the backup is or what you would consider to do in order to re-diversify or re-concentrate on other regions? Is that part of an outlook that you have considered in a scenario like that?

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

Thank you for the first question because it is a matter that we are also discussing internally. And we are putting a lot of effort in order to avoid that from happening.

It is true that there is a potential risk that the prolonged discussion on contracts where you have already some difficult terms and conditions and where you are trying to recover from some difficulties during the execution as the one that G.G. has explained how they --- how you end up adding some of them Sometimes are risky because we are dealing with a counterpart.

So we can try to be as convincing, as diplomatic, as kind as possible, but are you going to go there talking about money. And when you talk about money people can at a certain point turn their back to you and not being ready to listen.

This is a risk, but for the time being I believe that we are managing this on the basis of the approach that we are taking and the long relationship that we have with this client and in those countries, and to the fact that we have a clear sign also from the clients that they will like to see us continuing working in their countries.

So the answer, the correct answer is yes, there is a risk that I cannot exclude, but I have no indication that we are getting to a point where we have to make the count with that.

In terms of your second question on strategies geographically, I think that what we have shown now is just how our not critical is the focusing only on a few areas. For sure West Africa is very important for us. We really count a lot on West Africa particularly for short-term recovery. And we believe that we are right in focusing on that.

We are right because our historical presence there, the value of the investment that we have done that is what we call local content, but at the end of the day is Saipem being one of the few big contractors able to satisfy the country indication and sometimes it's more than an indication that information operator will see it, that in order to get the project approved they must guarantee local content.

It is of course sometimes something that is more in the favor of the country than the operator, but still the operator has to do it. And we are positioned well to take advantage of the investment that we have done. Now we are turning those investments that maybe at the beginning was opportunistic to something that is also economically sound and guarantee some return. But sometimes we could be still not fully competitive with some construction yard for example in the Far East.



Difficult to be so good in Nigeria to be competitive with Korea. But you must perform some work in Nigeria. This is mandatory. But as we have seen, we have also much other areas of interest in terms of deepwater, like from South America to Indonesia. So we are not confined to West Africa. This was my intent in giving you this quick panorama around the world.

Unidentified Audience Member

A follow-up on the first point. So you identify there is risk that projects could clearly get worse, but you are confident. Is there internally a provision or a number against that risk?

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

No, there is not because we are talking about an ongoing negotiation -- not only an ongoing negotiation but an ongoing negotiation on ongoing execution activity. So things are very dynamic and we understand that sometimes we are walking on thin ice, but we are still walking and we will see the positive reaction. So I don't have any reason to not be --- I wouldn't say optimistic, but to be concrete in continuing that approach. For the time being I am haven't received a negative size back.

Unidentified Audience Member

Thank you very much.

Rob Pulleyn - *Morgan Stanley - Analyst*

Thanks. Rob Pulleyn here, Morgan Stanley. I'd like to focus on this optimization issue, to use your word, in the presentation. On the one hand you mentioned that that has damaged relationships with some of your core clients. On the other hand, later on in the presentation you highlight that a franchise is still very much intact and you're still invited to bid.

How do we reconcile the two? And do you think there's going to be any lasting damage from the effects of optimization? Has this had any impact on the, shall we say, disappointing order intake year to date? And the last question on this sort of train is will that impact your ability to get the claims you have outstanding back from some of those clients? Thank you.

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

I think I'll take part of your question, then maybe I'll let G.G. to complete the rest. Now I do think that this is something that is now impacting any potential recovery of the claims. And in many respects, I think that the attitude that Saipem had and has with the client is still guaranteeing a positive relationship, explaining myself better.

In the sense that when Saipem tried to pose -- had to propose to the client some revised engineering for example, that was done to the point that were not accepted; we had to start to have higher costs. So the evolution of the discussion was not in anything either confrontational or tense in terms of relationship.

And when today we are going back to them approving the impact that we have because of that and what we are suffering in some area of the project that could be either the logistic or the cost of subcontractor.

We are also proving to them that nevertheless we are doing all the best possible to continue to work well when we were going well or to recover when we had some slippage in the schedule. And this is then the best ticket to continue the discussion with a positive attitude from both sides. I think G.G. can be a witness of this because he's doing that on a continuous basis.



Giuseppe Caselli - *Saipem S.p.A. - COO of Engineering & Construction*

I believe that our CEO explained clear the principle why this type of implementation did not generate --- is not generating any type of hard feelings or deterioration. Of course you have to segregate issues. For (inaudible) situation whereby the optimization is definitely the proposal based on certain -- we believe it's important to say you approach the client in providing a certain design that can fit the purpose and is providing the same result.

Then if the clients disagree you need two for tango. So you have to go back to what the specification clearly states. And so again it's easy to understand that [building] this cash up most probably the temperature raised, but today you have to do with the clients tell you and what the [contracts] will sell.

There are other cases where our CEO was trying to explain the principle, where we believe that we are overexposing ourselves on some requirement of the specification. These are those that we are trying to recover when basically the clients took certain advantages of this position and we are trying to recover on the --- from that side. Of course the discussion is going on and whichever discussion in our business sometimes get hotter, sometimes get cooler, so ---.

Rob Pulleyn - *Morgan Stanley - Analyst*

Thank you. A quick follow-up on a slightly different tack. When we had the conference calls earlier in the year, the commentary around 2014 was for a significant rebound after what obviously looks like a bit of an abnormal year in 2013. Is that still the case? It seemed like a little bit more of a moderation in language yesterday when you spoke to us.

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

The rebound is a rebound because it was a significant reduction of 2013 in the sense that I am not saying that a significant rebound means to match 2012 or 2011 results, but I expect to see a significant improvement on our results.

We are one (inaudible) to the year at this moment in time. And I am pleased to say that from a Company point of view that I want to repeat what we have said today. I think that we are properly dressed. We could be dressed better than what we are today in terms of doing the business that we have to do.

The market is not negative, actually it's positive in the sense of amount of work that is coming up. And our intake of contracts so far has been satisfactory both in terms of quantity and in terms of quality. So I hope that this will continue through the year and we'll have the opportunity to mitigate the impact of the [parts] project that this year are [severely] impacted the results in 2014, as we indicated, by having a component that is significantly reducing of the workload that we have.

Rob Pulleyn - *Morgan Stanley - Analyst*

Thank you, I will let someone else ask a question.

Mick Pickup - *Barclays Capital - Analyst*

Mick Pickup, Barclays. A couple questions, if I may. Firstly on mix, one of the disappointments I think in this year's numbers is the big superhero project didn't materialize because of delays. And once Superman doesn't turn up, the bodies tends to take over.

Just wondering if you have had any thoughts about the portfolio balance between large projects and some of the smaller projects and if there's any industries you think you can go into trying to address that balance.



And secondly, on the operational side on the execution, you mentioned quite clearly the risk on execution is towards the end. I wonder if you've thought about bolstering up some of the activities you do towards commissioning electrical and instrumentation and whether buying things in at that end of the spectrum might help execution going forward?

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

Okay, Mick, the question was --- the first question, given the fact that Superman hasn't turned up yet, what about the portfolio balance? I think what we've said and what we continue to say, and I think this is extremely important to understand, is that even without Superman we believe that with the improvements which we have illustrated here today we can return to profitability. That's the key point.

We should have a lot less, if you like, of the chronic core contract as part of our normal workload and that will be achieved progressively through 2014-2015. We have no doubt, on the other hand, that Superman will turn up. He always has in the past.

The reason why we think that that is the case, as you recall, and I think it's an obvious thing, is that these jobs are either extremely strategic or else economically very robust even at much lower prices for oil and gas or both. They just take a long time to put on the rails. Then once they are on the rails they don't tend to get derailed so easily.

So whereas he has disappointed us I think with regard to the portfolio mix, the way in which we have addressed the problem is to say let's assume for argument's sake that he doesn't turn up at all. Okay, fine. Well, not fine, but let's say we have a mix of work which is profitable to the extent that it should be able to restore the profitability which we had in 2011-2012, even without that.

And then when those projects do turn up of course that will be probably not just icing on the cake, but even the whole top tier of the cake or whatever. But then there was the second question.

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

(Inaudible) maybe I ask G.G. to give you some detail.

Giuseppe Caselli - *Saipem S.p.A. - COO of Engineering & Construction*

I'm sorry if I was too technical in the presentation. Excuse my background. When I was talking about either the mechanical recompletion or commissioning, what I would like to mention is that we're talking first of all about EPC projects, so engineering, procurement, and construction projects.

And that definitely is like -- it's quite normal that at the end when we you have all the machines that you have to run the machines and the system that works you will discover and certainly figure this, certain challenges and any (inaudible). So this is the reason why at the end of the day you can have a certain situation that you have to address and to solve it.

This is the reason this is the explanation of the slide. Not because at the end it's difficult, but at the end you have to run all your machinery, the turbine, the compressor, the scatter system, the (inaudible) and control and automation system. And at that point in time you see if everything is working like a stopwatch. And at that point in time you have to provide your utmost in order to overcome whichever challenge may arise.

Mick Pickup - *Barclays Capital - Analyst*

Perhaps if I could (inaudible).

Giuseppe Caselli - *Saipem S.p.A. - COO of Engineering & Construction*

Absolutely.

Mick Pickup - *Barclays Capital - Analyst*

Maybe G.G. could explain the commissioning team. We have a very strong commissioning [competence inside].

Giuseppe Caselli - *Saipem S.p.A. - COO of Engineering & Construction*

Well, this is another element. The commissioning team in our organization is extremely peculiar and I'm sorry if I go a little bit in technical. It is a part of the engineering. Why is it part of the engineering and why is it so large and so high technological and highly qualified?

Because as I was trying to explain, at the end of the project the project has to deliver a product. To deliver a product you have to part to certain processes, certain machines have to run, certain --- electrical instrumentation has to work. Of course everything is computerized. So you need engineers that have participated to the development of the engineering while developing the engineering for that project and at the end those that take the plants and make it running.

And in these terms we are quite unique because in our reorganization we have included all the commissioning people that is quite large and high qualified within engineering group in order to, as I was trying to explain the slide, to integrate better the engineering, the construction, and the commission so it means the final run of the plant itself that we are building.

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

We have no scope in running operations and that's why we have the commissioning team in engineering, not in operations like other companies have.

Alejandro Demichelis - *Exane BNP Paribas - Analyst*

Alejandro Demichelis, Exane BNP Paribas. Two questions for me, the first one to follow up a little bit on the cost side. You have talked about the subcontractors being one of the problems that you have had before. Do you think that you need to internalize that kind of cost into your structure, that like the cost base needs to go up in order for you to perform a bit better on the profitability?

And the second question is it's clear that your objective of restoring profitability is there. Do we need to see a smaller Saipem, a smaller backlog, a smaller kind of revenue base for you to achieve that quicker?

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

I will let the first question to G.G. to answer. On the second one, I say no for the time being, no, in refers that today the target that --- the target project we have this year, and the ongoing discussions on some of the tender that you have submitted indicates that potentially in this market cycle we should be able to get --- to acquire the target backlog that we have even though you need to margin of a higher-level than in the past.

I think that this will continue as long as the price of blank, the price of gas is sustained. Of course if we move into a cycle where a lower oil price will make only bigger and truly economical projects to fly, that will be a shrink in the volume, but not necessarily margins. Because at that point only big projects will be the one standing a reduction of price and something that's made for big projects actually is the territory in which we like to compete.



Giuseppe Caselli - *Saipem S.p.A. - COO of Engineering & Construction*

To try to give an answer to your question, unfortunately I have to go back in history. In Saipem, when I started, 1986 in the onshore activities we were doing everything on our own. We were not using contractors, just so you know. Whatever I was calling minor, minor contractors.

Then unfortunately Saipem had terrible growth and now we have the mega projects. So definitely could not cover all the aspects, all the process of the construction itself and so we had to. It was a must. We had to go to avail ourselves about a major contractor that was basically a construction contractor because this is what we are referring to. We are not talking about engineering contractors or any other else but the construction contractors.

And recently as we are trying to do with our -- under the indication on our CEO we are trying to recover this position. Of course not covering all the construction on the world because it will be impossible, but definitely to review the situations as explained as I was trying to (inaudible) in my slide, where we prefer to do on (inaudible) basis. So basically we have yet to [increase] ourselves of something that made us extremely good, extremely big and extremely capable.

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

But answering to the cost element of this decision, what we said before was that in order to improve the contract, there was a plan to use a cost-effective subcontractor, the (inaudible) subcontractors that were coming in on low rates, but then not delivering properly. So at the end of the day the delay caused -- cost us a fair amount of money and then we have to go on direct hiring.

So the balance is either to do on -- by yourself with direct hiring or by filing and then making a partnership with a good subcontractor of [custom action]. And then you will stand right in terms of cost and efficiency, so the balance will be always based on opportunities to find a sufficiently good subcontractor or to go in direct hiring.

Giuseppe Caselli - *Saipem S.p.A. - COO of Engineering & Construction*

Or a blend of the two.

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

Or a blend of the two for the different disciplines.

Unidentified Audience Member

So structurally you can go back to the margins that you had let's say back in 2011 or 2012, that's what you're saying?

Giuseppe Caselli - *Saipem S.p.A. - COO of Engineering & Construction*

Absolutely, yes.

Ryan Kauppila - *Citi - Analyst*

Ryan Kauppila, Citi. On your commercial and execution slide on page 22, you list subcontractor under the execution segment. But then later in the presentation you mention that part of the problem was that subcontractors were often used to win work. I was just wondering where in the process do the hire of the subcontractors come in.

And as an extension of that, does the project manager have any input into the commercial side or is he simply handed the bid and the specification and told to deliver a good project? And then one for Stefano. If you could just refresh how the financing relationship with E&I exactly works in practice. And then if some of these claims prove to be a bit trickier than maybe is in the current budget, if you think the balance sheet is strong enough to withstand that?

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

Maybe we answer together again to the first question. When we make an offer, we left as clear as possible our cost structure, okay? That means that we have a clear reminder at that time how much is going to cost, what we are going to do and from that we put a margin and that is the price that we offer.

So the identification of the use of subcontractors that are supposed to make us win in the contract is when you assume to contain the cost by going for cost-effective subcontractors, as I said before. That is something that you take to the market as quickly as possible before you make your offer, so you don't wait to re-tender then to go to find how you are going to execute.

You must have clear in mind up front how and with who you are going to execute, from whom you are going to buy equipment, who is going to provide turbines, preferably the expensive one or the pieces of the equipment that you have to deliver. So that comes in advance and that was the risk that was taken to be able to get good performance by utilizing cost-effective subcontractors in order to stay in the market and to compete when the market was very tight.

This in some case proved to be not successful. And that's why all the work that now we are doing in changing the strategy on the site as we are under execution, minimizing the cost and trying to get the client to accept that in order to protect the schedule, they should shoulder us these extra costs.

Giuseppe Caselli - *Saipem S.p.A. - COO of Engineering & Construction*

And as you have seen in our presentation, my presentation, we are trying to help the situation not to recur by doing what -- by taking a strategic decision at the pricing level. So it means that during the formalization of the offer that is not anymore a single man decision but it is a shared decision between the commercial and head of the business line.

So in this case a solution that could be seen from the commercial side is extremely attractive will have on the other hand the head of the business line that do understand the business, do know this business, we're doing this business as ever as an input to say well, this could be efficient from a commercial side, from a (inaudible) side, but it's not efficient from an objective. So we will intervene and this we will -- we think and we believe we've solved the issue that we had in the past. What commercial solution was not the proper solution during the execution.

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

Okay, you asked me to refresh the financial relationship with E&I. I think you are referring to how much of the net debt or the gross debt of Saipem is financed through E&I. 92%. 92% of the financial debt at December 31 or at March 31 is financed through E&I. The cost of this financial that is 2.25% in the first quarter were natural inclusive.

We do go to E&I for any financing need apart from those areas or parts of the world in which we use so-called exotic currency like for instance Brazil or Venezuela, we go direct to any other financial institution of E&I.

On the claims you said, on the claims you had at the end of December 2012, we have, as I said, almost EUR500 million of our three main claims, closeout claims at the final stage of negotiation. We are still confident of that amount, otherwise I would have to revise my financial state and I would have that -- and I would have done that if I were not convinced of what I am stating.



So the claims are good. The claims are valid. It's the process of getting the claim out of the cash and having the inflow in our bank that will take some time. As we said, within this year we foresee to cash in this money.

Amy Wong - UBS - Analyst

Amy Wong, UBS. Two questions from me. The first one relates to your presentation on the risk management system. I understand it's partly computerized, but there's also a big human element to that risk management process. So can you help us characterize and understand how much time senior management devotes to risk management?

And if there is something happening during the execution phase? How quickly does that feedback loop work to --- you have a very global footprint, so how quickly does that come back to senior management to address the issue? I have a second follow-up question as well.

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

Yes, Amy, the --- you are absolutely right that, as we emphasized, the risk management system, although it's a very powerful tool, unfortunately we don't have enough time during a presentation such as this to go through it in detail. However, it is a very comprehensive system, but as we say, it's only a tool.

And as Umberto was saying during his introduction, we did probably drop our guard both during the commercial phase and during the execution phase in ways that Umberto and also G.G. have talked about during their presentations in the past. And I think that's well appreciated, well realized and it was -- I would say there's nothing structural about it. It's a question of having people who pay attention to the work and who aggressively utilize the tool in order to make the decisions which are, as Umberto said, very, very tough calls.

There are so many examples, I won't bore you with all the examples, but if you are bidding in Saudi Arabia, you can accept certain levels of limited liability because you know in general that Saudi Aramco historically has never utilized the clauses. So there is that kind of call that needs to be made by management during the commercial phase and then during the execution phase, as I was emphasizing, the conformity to the golden rules and silver guidelines needs to be maintained and needs to be updated.

And when we do not adhere to those rules, for instance selection of a subcontractor or a partner, or a supplier, or for instance one of the rules is that we need to have a customer satisfaction system implemented and it needs to be updated. If we don't implement those rules, the tool flags the fact that it isn't being implemented.

What I think we are saying, what we are saying is that whereas we probably dropped our guard, as Umberto was saying, over the last two years in terms of that, because things objectively seem to be going very well, we need to get back to a much more rigorous implementation both during the commercial and during the execution phases, and that's what's going on.

Probably what you'll see in the short term is that on the commercial side the quality of the contracts that we win hopefully will be improved. Hopefully that's already happening. And then during the execution phase that the system is used and upgraded and that whenever there are issues, they will be tackled by Umberto and G.G. aggressively and as quickly as possible, and I think that's what is happening.

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

Yes, when management gets involved, we are getting involved. I will not try to enter into a discussion of any decision, but what we are doing is enforcing with our people, with our key people starting from the four gentlemen sitting in the first row here the fact that this is what we want the Company to use as an approach that was the approach we used in the past.

So it's not really new. It's only a matter of [really] relating what has been done in the past, having ensured that the rules are also fitted for the times that we are through, fitted for the type of projects that we are running now, and this has been already confirmed.



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

It's not a single main process. It's something in my humble opinion, and not because I'm just Saipem, is an exceptional tool. It's an unbelievable value. But in order to provide unbelievable results it needs unbelievable people that know exactly what they are doing. And this is from bottom-top analysis.

So you will have the [expert] of the [analytical] instrumentation that we go through that one and we identify the potential risk and we will hedge the risk either with an alternative solution or with a contingency or with some other elements and the engineering solution in order to avoid that risk, just [specifically expressed] on a technical risk.

So, and then you go up from this level, from an engineering level to the project engineering manager and then from the project engineering manager the valuation to the project manager and then from the project manager to the project director manager, from the project director manager to the head of business line and then finally up to me.

They say well, I agree on that. We have hedged that risk in this way. So it's very, very structured and complex. It's wonderful, but you need to understand what is in there.

Amy Wong - *UBS - Analyst*

Very helpful. Just a quick follow-up, a second question. It's a bit more detailed, sorry. If you took a look the backlog on the order intake and how the 2014 backlog has evolved -- scheduled for execution, not a lot of the order that you've announced so far is actually scheduled for execution in 2014. If my calculations are correct you probably only grew that part by EUR200 million to EUR300 million over the last three or four months.

So if you take a look at the -- you're at the tendering pipeline right now, and take a look at the projects that you are --- that are coming up and that you are hopeful, how do we fill up that 2014 --? Is there enough activity there to fill up your 2014 and 2015 [offshore] execution activity?

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

We've taken so far EUR4.2 billion of new --- EUR 4.3 billion -- no, EUR3.3 billion, sorry -- EUR3.3 billion of new order intake, that should deliver as a component for 2013 in the range of EUR450 million to EUR500 million. So we are almost one-fourth of the --- 20% of new contracts that we indicated three months ago as a component to get the result of the year.

We are also quite anxious to make some new announcements that we see coming very close and that will sustain the inflow of new contractors in order to stay within this target. And this I would like to mention another component that maybe was not discussed so much before, the fact that there are always --- in general the possibility that some of the grown contracts get either increased in scope or increased in duration by choice of the client, not by delay caused by us. Because otherwise that doesn't count much. Actually it's the other way around.

So those type of events you needed the yard, the workload and the result from day one because they're basically a continuation of workflow that is already in the system. And the fact that this year most of these components will play a significant role. Thank you.

James Evans - *Canaccord Genuity - Analyst*

James Evans, Canaccord. Three questions, if I could, please. Firstly, you talked about the sharpening accountability. Are you going to make any changes to your incentivization, the way people are paid both at the senior management level and further down the organization to reflect that?

Secondly, I think you mentioned that acceptance of FEED was a problem with some of your contracts. Do you think there's any value actually undertaking FEED for its own sake, maybe to help you when you come to the EPC bid stage?



And thirdly, you mentioned cutting edge technology a couple of times. We know you've got fantastic assets. Are there any one or two examples of technology that you think will make a difference to order intake, to revenues over the next few years that maybe you've not spoken about so much before? Thanks.

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

Yes, we are of course addressing the remuneration objective of this year to our specific situation. And I think maybe -- that maybe Stefano is our custodian of our remuneration system handles our ---

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

No, I do some calculation. Custodian is the remuneration committee.

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

No, that is a good point and on the high-level numbers really. I would like to talk -- update you today as an update to the third question, maybe then G.G. has a similar point on the cutting-edge technology.

One area that we are very interested about and on which we have been working since quite some time is what we believe could be the further revolution of the deepwater as you go in the ultra deepwater. As you go into the quarter you tend to be normally even more and more far away from cost lines.

So at that point it's difficult to imagine that you develop everything in terms of oil and gas discoveries by SURF that is the spread of basically wellhead and manifold collecting, the reproduction carried all the way to shore and then ensure processing and doing all the treatment. And you will have to do some pre-treatment near the production wellheads in order to limit the amount of fluid that you transport to shore.

And maybe you have to have energy to this fluid in order to be able to come up to shore. So we are talking about undersea production treatment and pumping. So this is something that we are working on. This is something that we try to be as ahead as possible as soon as the market will need to look in projects like this one.

And this, as you can see, coupled very well with the type of experience that we have with the type of fleet, with the type of competencies that we have announced. This is one example that I think is sufficiently representative.

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

On the management by objectives for the incentive for the management, I will be referring to what we call the strategic managers, so talking about 120 to 150 people inside the organization. The objectives are set on three main components. One is the objective for 2013.

And this objective is starting from the objective given to the Chief Executive Officer, our EBIT, so a result of the year; order intake, a certain amount of order intake at a minimum, we call it K factor is the remuneration, the profitability of the --- foreseen for that order; cash generation; and then we have some HAC indicators, lagging leading indicators for HAC KPI, key performance indicators. This is set for the objective of the area.

Then the second part of the packet of the remuneration, value remuneration is set on a three-year period. So we take EBITDA objective for 2013, 2014, and 2015 and if the objectives of this year are achieved or should (inaudible), it will pay off at the end of the three-year period 2016.



And then there is a third component, again on a three-year basis, that compares the Saipem result the number of six Saipem peers. These take the net profit of Saipem plus DD&A starting from the net profit and DD&A of Saipem in 2012 compared with a variation of this element in 2013, 2014, and 2015 compared with the same calculation made with the result of the six peers of Saipem.

If Saipem classified between the first and the fifth place, it pays off in 2016. Otherwise it does not pay. With a proportion, yes, an aggressive proportion of (inaudible) for the position. So the starting point is 2012 (inaudible). And this is of course then given to other single strategic managers mainly the annual objective, the first one I was mentioning in accordance to the real contribution of that particular person/manager to the element, to the four elements I gave at the beginning.

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

An issue about the FEED. Why if we take or we not take as much possible FEED in our end?

Giuseppe Caselli - *Saipem S.p.A. - COO of Engineering & Construction*

We are doing -- again, we have to differentiate. As you know, we have different contracts on why we are doing FEED for clients. For instance in especially a country like former Soviet Union, we are requested to do FEEDs and we are doing FEEDs for them. This is --- we try to do the EPC and not the FEED because the FEED is --- it needs all available resources. It takes and the reimbursement is basically on a daily rate. It's not our type of business. We are oriented for large and big EPC contracts.

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

Okay, maybe I let Hugh that is also heading technology to add some comments about our view about new technologies.

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

Yes, in terms of new technologies and where Saipem is, Umberto has already talked about, if you like, the things that we are working on for the future. The areas in which we need to be investigating. And I think we have made significant progress. But in terms of the present and the future from a plumber's point of view, because you have heard us say in the past that what we are is a plumber and a very specialized plumber and hopefully a sophisticated plumber, and I think a very high tech plumber.

So I wouldn't want us ever to lose sight of the technology which we have developed as a result of the CapEx program over the last two or three years because vessels like the Castorone and the FPS 2 are absolutely bristling with technology. I wouldn't want to say that sometimes you can get vessels that are too high tech, and so we have to spend and devote very considerable effort towards commissioning the vessel.

But to get a vessel which can lay pipe or install a SURF system in between 2,000 and 3,000 meters of water demands extremely high tech systems. And I'm not going to go through them now, but fundamentally all the fundamental processes associated with offshore installation are there and have been developed in a very high-tech way.

And I think what G.G. was emphasizing during his presentation that he sees that kind of potential when applied, if you like, to more routine work processes perhaps in the onshore or on smaller projects provides this immense opportunity to improve in the future.

The other point which I wanted to make was that it is also an extremely high tech approach to be able to take a project in Brazil or in Nigeria or in Angola and say, design a solution which allows it to be built in Guaruja or in Port Harcourt or in [Amboim] and installed by your vessel and will last for 30 to 35 years and will produce 150,000 barrels of oil or whatever it is a day.

That is an integrated very high tech approach which is what we have been concentrating on and fortunately Saipem has the industrial model and the high-tech assets to be able to design these solutions, which our clients we believe even already but even more so in the future absolutely need.

So in addition to the, if you like, the subsea production which we are working on, I wouldn't want you to lose sight of the fact that -- another example is the Caspian fleet. The Caspian fleet, which I believe the technology which has been developed in order to implement the solutions on Kashagan are going to be extremely important, but not only in the Caspian but also in the Arctic.

And there are things which we don't ever get a chance to illustrate to you because they are extremely difficult to illustrate. So Vittorio has a challenge to try and find a way for us to be able to illustrate these at some stage. But I wouldn't want you to think about the asset as not being a very high tech piece of work in itself, which fits within our industrial model and allows us to produce what is a very high-tech solution for our client.

Giuseppe Caselli - *Saipem S.p.A. - COO of Engineering & Construction*

May I add just simply -- in line what you just mentioned in terms of vessels, please I would like to -- please understand that for instance Saipem did develop a prototype, a semisubmersible drilling rig named Scarabeo 8 that is for harsh environments that is working in the highest north part of the world on the Bering Sea. And Saipem did develop and engineer and build this vessel on --- this prototype on its own, not because it was a partner of this project.

I can tell you that this proves the highest level of capability that we have in R&D because it was something that is going to work up to minus 25 degrees, with heaves that are more than 40 meters, 20 meters wave heights and can withstand. This is just an exceptional thing, but I consider exceptional for instance that if you go on one of our onshore sites in a plant like Shah that has today a number of more than 25,000 people working, so to give you the magnitude of the steel that we are building, installing.

And our assistants go around with the public with an iPad and on this iPad just clicking on the iPad we have each and every part of the plant while constructing. That tells you when these boats have been bought, when they are welded, if [then the results], when it's been installed, when it's been tested, and when it's been painted just in an iPad.

This is to me high technological as well as the subsea completion that Mr. Vergine was referring to in the ultradeep, so we have, as you say, it's quite difficult for us to explain, but we cover 360 degrees.

Phil Lindsay - *HSBC - Analyst*

Phil Lindsay, HSBC. I just want to try to get to the bottom of the working capital situation, please. Since the beginning of last year it looks like you've had close to a EUR2 billion outflow. We know that the claims position is EUR500 million, so that leaves you EUR1.4 billion and you've mentioned a variety of factors that are contributing to that.

But I am hoping you can be more specific and pinpoint exactly where the money is, what's in Algeria, what is elsewhere, and the likelihood and the pace at which that might begin to flow back into the organization.

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

I think it's for me, this one. Okay. Yes, claim we said around EUR500 million. I'm talking about at the end of this period, March 31, that's the number just presented. So the number has not changed. The remaining variation is in connection with working capital. Also, we said yesterday during the conference call that we have credit and working capital outstanding in Algeria for another EUR500 million. Part of this is in connection with one of those claims.

Then the remaining part of the working capital is in connection with the [contracts] we have worldwide. The main areas -- I don't want to go specific on the contract by contract as we don't disclose this information by contract basis.



The main area in which we accumulated working capital items due to the poor term and condition, mainly the milestone payment release. Milestone apart one from the other for a month are Middle East, Canada and Australia. These are the three main areas in which we have accumulated working capital.

Then on the second part of the question is when you foresee to recover this. As we have illustrated, I hope, during prior conference call, the projection is that at the end of this year -- and we confirmed it yesterday, the number -- we see a slight improvement in the net debt position; meaning that what we are projecting is to cash in the EUR500 million of claim, but the working capital also (inaudible) to poor term and condition contract will increase again this year of roughly EUR300 million; meaning that the net debt position at the end of the day, yes, will be a little bit but very little bit better than the position of the net debt at the end of 2012.

Then, of course, with the watering out of this contract with poor term and condition and the replacement of these contracts with new contracts with better term and condition. Also in term of payment terms, we see this situation to be completely recovered by 2015, as this is in line with what we already presented in terms of those poor contracts and the duration of those poor contracts.

I think the word is like with bar chart presented in -- if I remember, it was the 7th of February maybe in which we presented onshore/offshore the main contract with poor term and condition, not only margin but also in term of payment, and those contracts watering out by 2015. So what we see is that this will be gradual recover up to 2015.

Phil Lindsay - HSBC - Analyst

Just a quick follow-up. The advance payments that you talked about yesterday, I think you said less than 2% of the orders secured during the period. Clearly in the past, it's been much, much higher than that. Has the market structurally changed in this respect, or is it just simply a function of where we are in the cycle?

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

No, it is -- to me, I said EUR50 million, right, yesterday. That's corresponding to the percent of the (inaudible) you calculated. This depends mainly on the client. If you talk to national company, if you talk to independent oil company or independent (inaudible) international company, these are more strict in terms of advance. But they now accept the principle of the new (inaudible), meaning that we do not need to or want to finance them due to the project execution.

So we do calibrate our cash flow for the project, and we are careful when we send a contract not to be in a position of being on the financing side of the client, okay. And then it depends on the kind of contract you sign. If you sign a [tie] transpiration or installation contract, normally advance are not provided for. Instead, if you sign BEPC contract, normally their advance are provided.

So I do not exclude that in the future we get contract with good advances. It depends on the client and on typology of the contract maybe.

James Talbot - Citi - Analyst

Hi, it's James Talbot at Citigroup. What are the areas that will be impacted by your compliance with the golden rules and silver guidelines in terms of your competitive edge? Surely by compliance with these, your competitive position will be eroded in some way in some areas. Indeed, all the areas where you will no longer compete, now you comply with these golden rules and silver guidelines.

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

All and none, in the fact that this -- I mean, we are not alone in the world. Our competitors live the same life that we live. It is only matter of which strategy they follow. Maybe they are in the position of entering into a more competitive contract scenario or they're about to exit it themselves.

By saying that, I mean that we naturally believe that there could be a prolonged cycle of competition maybe in the Middle East. That has been historically the area where this type of situation has been already experienced. But as I said, we have seen recently two of the major construction contracts of Korea are now seeing loss due to contracts taken identical to ours in 2008, 2009, 2010.

So are they going to change their strategy? I don't know. I expect that they will change some of their -- part of their strategy. So we see that as a potential area where we would have to look carefully to our ability to win the contract.

I don't expect this to be really a concern applicable to any other area for a variety of reasons that could be either the type of project and the type of fleet needed in case of offshore, or the presence of competitors like the ones that you mentioned like, for example, in Canada where we see ourselves very well positioned for the time being.

So, in general, I don't think that a more disciplined commercial policy automatically will keep us out of some region. Could be a little bit everywhere, for example.

Alejandro Demichelis - *Exane BNP Paribas - Analyst*

Alejandro Demichelis again from Exane BNP Paribas. Just one small question. FMC in the US is now saying that (inaudible) given the green light, you go ahead with [AG now]. If you were to get this contract, let's say near-term, and you were able to announce it, would that kind of contract be with the new guidelines that you're talking about or we should be thinking that this is kind of the old Saipem type of contract?

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

New guidelines.

Alejandro Demichelis - *Exane BNP Paribas - Analyst*

New guidelines. So margins kind of looking a lot better than what we are seeing.

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

Exactly.

Alejandro Demichelis - *Exane BNP Paribas - Analyst*

Thank you.

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

I think that we have to keep up a little bit with the time also, because we have some other commitments afterwards. So maybe we take another, I don't know, two questions if you don't mind.

Unidentified Participant

Sorry, (inaudible) remuneration issue. Give that EBITDA growth really for a capital-intensive industry is not really in line with shareholders' returns, do you see yourself changing or adding some sort of return on capital employed metric to your remuneration package?



Giuseppe Caselli - *Saipem S.p.A. - COO of Engineering & Construction*

What I can answer is that this remuneration policy is the last approved by our remuneration committee and the board of directors. So it's very difficult now to predict whether next year -- because next year will be done in other similar discussion -- they were going to change their medium and long-term incentive packages. For the time being, this is our policy.

Unidentified Participant

Just a follow-up to that question. Is it fair to say that you are going to be basically more returns focused than growth? So if the Koreans keep going and they stay revenue focused, which it looks like they will be, particularly in the Middle East, shallow water, mid water, that you're going to step aside.

You're not going to be as aggressive and, therefore, you will allow for backlog to slip, to fall, and focus on returns. Because that's a scenario that appears to be what's implicit in you talking more about profitability.

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

Yes, we will be focused on return. This is definitely the case. Then to find that that automatically translates in a scenario like you have described is maybe a little bit too strong to the picture.

I would also say that we are also looking at alliance with some of our competitors as happened in the past, and I don't see why she shouldn't continue to do that; in order not to control the market but to share the risk and to put to the best opportunities on specific projects.

I think that we have proved to have the ability to get good alliance worldwide, I mean from Japanese to American companies, as basic convenience, and basic convenience of some target project that we (inaudible). In fact, we have also sound conversation with Koreans about that. But in general terms, our strategy is clearly focused on restoring the margin.

Okay, I thank you all again for your attention. I hope that this one-off presentation that we have put together has been of use for you. It has been certainly of big use for us in trying to promote not Saipem as a brand but Saipem as an organization that is founded on a very specific strength, and to clarify as much as possible the business model that we have and our strategy. Thank you all.

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