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## PRESENTATION

### Operator

Good day and welcome to the Saipem third-quarter 2013 results. Today's conference is being recorded. At this time, I would like to turn the call over to your host for today, Mr. Umberto Vergine, CEO. Please go ahead, sir.

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

Thank you. Good evening, ladies and gentlemen, and welcome to our conference call to discuss our third-quarter results. With me I have Stefano Goberti, Hugh O'Donnell, and [Gigi Curzelli].

Referring to slide number 5, first of all, I would like to say that Q3 has been a more normalized quarter of financial results for Saipem with revenues in the range of EUR3.5 billion; EBIT and net profits back to a positive result of EUR209 million and EUR101 million, respectively.

The main new contribution to revenues in E&C is the [Rampalo Regina] and the Castorone activities.

In Drilling, on the other end, we saw a slight reduction in revenue due to the lack of contribution from Perro Negro 6 following the accident to the rig and the maintenance period of Scarabeo 5.

In terms of margins, the positive results of the quarter were sustained by the steady performance of drilling.



Slide number 6, turning to the new order intake, the third quarter has been weaker than expected due to the continued postponement in the awarding of targeted contracts. At this point in time, given the unpredictability of the timing of new contract awards, we expect that the new orders for E&C for the full year will be slightly below the EUR11 billion that we originally set.

Nevertheless, in the quarter we have won a good number of smaller contracts, collectively around EUR1.4 billion as we continue to engage successfully with our main long-standing clients.

Furthermore, in the early days of the current quarter, we have already been awarded new contracts both in Drilling and in E&C for an overall amount of EUR1.2 billion. All of these new contracts have been awarded under the most stringent commercial policy and will contribute to the improvement of the average embedded profitability of our backlog.

Moving now to the next slide, net debt has increased during the quarter and partly by working capital evolution. Following positive movement in the second quarter, we have seen a working capital deterioration of around EUR700 in the third quarter. This is due to the cyclical nature of major working capital, mainly driven by the impact of those contracts under execution with unfavorable payment terms, resulting in valuable timing of cash-in depending on the resolution of multiple factors by the client.

The working capital deterioration in the quarter is mainly associated to our activity in the Middle East and Algeria where the bulk of contracts won and our traffic condition are concentrated.

In addition, such recent deterioration has been driven by postponed payments for projects in Venezuela and in Egypt due to the political tension and the economic difficulties in those countries.

Finally, the lower pace of new orders, new in 2013, has also limited the positive impact of advanced payment.

Looking to the end of the year, we do not expect to be able to cash in all of those payments pending, and therefore, we now expect the net debt to slightly increase compared to the previous full-year target provided in July at the Q2 results.

Moving to slide number 8 to our operation. I am pleased to report that we've made positive progress across the board. Gigi Curzelli and his team are doing an excellent work.

I would like also to update you on the contract we discussed in July. In Brazil, the situation has not moved on materially from the update we provided in July. We continue to confirm what we have said on the progress of the contracts already under execution. Instead, on the most recent contracts, we are currently engaged with the client on the definition of the peak operational schedule for the marine activities.

We are also producing new contracts. We maintain our belief that this is one of the most interesting groups of deepwater markets, and even it could take time to make the Brazilian context less prone to risks and difficulties for the foreign company, Saipem can benefit from its high end fleet capabilities and this local focus build publication article.

In Algeria, we have good news on our projects from an operational point of view. We are now running the commissioning activities for the Arzew LNG, the last project still under execution. On all the other projects we have now completed, we have received the Provisional Acceptance Certificates. I am pleased with the operational progress that has been achieved in 2013, while from a commercial point of view, we have seen no improvement in the relationship with [Sonic]. These are progressively still deciding to a longer process for [micell] approval and subsequent payments for contractually agreed activities.

We were also informed in June of some difficulties on two projects, one in Canada and one in Mexico, which have led to cost rises and the strained relationship with the client on those projects. With our renewed focus and construction and project management, the quality and speed of execution has really improved. Our efforts are starting to pay off, and we have had positive feedback from clients in both Mexico and Canada in recent weeks. We have restored a much more constructive relationship thanks to the progress we have demonstrated in the execution of these projects. And these allow us to continue in our effort to expand in these important markets.



As part of this strategy, in Canada we have now completed our [Hamilton] winterized fabrication yard, and it will be inaugurated next month.

Moving to slide number 9 and an updating on the cost of proceeding in the ongoing investigation. As part of the Consob proceeding, we believe that what we have issued in the press release is a constructive step forward in finding a common understanding with the regulator. We have recognized an accounting adjustment to be posted in a pro forma statement with no impact on the financial statement of today.

Regarding Milan and the Algerian prosecutors investigation, we understand that the activities are still ongoing, and we're not aware of any specific development which differs from that reported by the media.

Finally, in July we delivered the findings of an internal investigation to DOJ. Since then, we're not aware of any further requests. We remain fully cooperative with all the authorities.

Moving now to slide 11, we expect a slight decline in the forecast revenues for 2013 due to the delay of two contract awards seen across the industry and due to a slight postponement of scheduled activities. We, therefore, expect to deliver 2013 revenues in the range of EUR12.5 billion.

Beyond that, and due to the impact in Q4 of contracts won during year, we are confirming our guidance for the full year with EBIT at breakeven and the net loss in the range of EUR300 million to EUR350 million. CapEx is expected to be as planned at around EUR1 billion.

As mentioned before, net debt is now forecast to be in the range of EUR5 billion to EUR5.2 billion at year end.

The extent of the recovery profitability for 2014 will be driven by two factors. First, the execution and completion of low-margin contracts entered our backlog up to 2012. And second, new contracts won this year under our most stringent commercial policy with much better terms and margins.

On the first factor, the successful effort in achieving the highest possible quality and speed of execution is, as already indicated, helping our efforts to mitigate the commercial and economic risks on these contracts.

And on the second factor, the recently won contracts are already supporting our target of achieving improved profitability. The timing of new contract awards in the forthcoming months will now determine the pace of recovery for 2014 and for the medium term.

Across the industry, delays have been seen to contract awards, and therefore, our acquisition has not moved forward materially since we last presented to you in July. In this relatively quiet quarter, we have not lost contracts or market share to competitors. Instead, the major contracts that we have been pursuing have for a variety of reasons each taken longer to resolve as clients have needed to really specify their requirements.

Other opportunities that we discussed in July are still very much on the table, and we continue to believe that Saipem has excellence prospects in these markets thanks to its capabilities and high quality, well-positioned assets and a stronger local content.

Indeed, we have recently won an important award, which is the drilling works contract for the South Stream. Although this contract relates only to the preparatory activities, it is an important step as it represents the first financial commitment significantly taken by the client to proceed with the project.

Moving to slide 13 and my conclusions. I would like to sum up by two key points. First, we have made some good important progress operationally during the third quarter, and our relentless focus on delivering high standard of contract execution has already given the desired results. Very important, this is paving the way to improve our commercial position with clients, both in the continuous effort to improve margins on existing projects and in the effort to win new contracts.

Second, we are rebuilding a profitable portfolio of new contracts, and we continue to see a broad mix of opportunities in the markets as indicated in July, although the timing of these contract awards remain uncertain.

Thank you very much for your attention. We are now happy to take your questions.

## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Alejandro Demichelis, Exane.

### Alejandro Demichelis - Exane BNP Paribas - Analyst

Alejandro Demichelis, Exane BNP Paribas. A couple of questions from my side. Of the backlog that you have announced today, how many are for execution for 2014? Maybe you can give us the scheduling of this backlog?

And the second question is regarding that buildup in working capital, can you give us some comfort that this buildup is not because of a contract that are lossmaking or having really a lower profitability by just delaying the payments?

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

To update the expected revenues to be booked in 2014 as of the end of September, we are now looking a value in the range of EUR9 billion. That is basically EUR7.5 billion in E&C and the remaining part in Drilling. And this is a significant increase compared to what we had indicated in June, and I think that I would like to give you immediately a reason for that.

Because they were -- there is the share of contracts won in Q3 that have generating activities in 2014, of course. Then there is the balance between postponement of activities from the end of 2013 to 2014, but those are some rescheduled activities that we will in from that now we see that they will be executed next year.

And going to the working capital, I maybe turn your question to Stefano to give you a little bit more of insight.

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

Thank you, Umberto. Alejandro, of course, we have no loss-making contract, otherwise we would have declared those contracts. The working capital movement, as Umberto was mentioning during his presentation, is linked to the factor already outlined.

First of all, we have to take into account the major path of our revenue this year is related to contracts for which we already declared and explained that we have not very good terms and conditions in terms of payment terms. So when the milestone hit the month at the end of the quarter but the subsequent month, of course, you see the worst position for the Company, and this is the main factor.

So, again, constant with milestone payments far apart, one from the other. In the area in which we are accumulating the situation are the usual areas, meaning Middle East mainly, but also South Pacific, Australia, and South America on the other side.

Then the second part that Umberto highlighted has also affected a little bit our drilling activity because we have invoices not paid in Venezuela and in Egypt. In Venezuela the situation, I think, is well known now. Our client is the first party there, and they are accumulating debt. We are figuring out with them which solution can be found out.

And also the other situation is in North Africa and Egypt, again on the drilling where the client has difficulty to source dollars. But also in this case, we find good solution already implemented those solutions in October.

And then, of course, we have the last new contract entering with a reduced contribution of contract advance.



Finally, what we had -- if you remember, we had at the end of last year, we had almost EUR400 million of closeout claims, for which we are discussing with the clients the recovery West Africa and North Africa. So we reached out to those EUR500 million cash-in already for EUR270 million. We agreed with the clients the next subsequent payment for another EUR55 million, and we're discussing with the third client the remaining part of the amount to be paid to us. And this is the situation as of today.

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**Alejandro Demichelis** - *Exane BNP Paribas - Analyst*

Okay. That is very clear. Just as a follow-up question on the first answer, of the EUR9 billion that you're talking about for execution next year, can you give us the split, how much of that is legacy contracts versus, let's say, contracts under the new regime?

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

Yes, Alejandro, let me collect the figure because I have it somewhere here, and I'm looking here.

So we have EUR4.8 billion in relation to contracts already in the portfolio at the end of 2015, and then the remaining part is new contracts acquired in 2013. So the EUR4.1 billion that we had at the end of June now is EUR4.8 billion. Okay? And part is due to the postponement of activity that Umberto was referring before of some contracts from 2013 and 2014, but also anticipation of some offshore campaigns in the capital from 2015 back into 2014.

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**Alejandro Demichelis** - *Exane BNP Paribas - Analyst*

That's very clear. Thank you very much.

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**Operator**

Mick Pickup, Barclays.

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**Mick Pickup** - *Barclays Capital - Analyst*

A couple of questions, if I may. You talked about delays of projects, and I think you mentioned, Umberto, there were large projects that your clients were just taking longer to go through. Given that there's a lot of concerns out there about spending within the industry, can you just talk to what you think is holding these projects up? And on the subject of delays, I think in your press release, you mentioned Asia and Brazil where those projects delayed because of your clients' changes of scope it seems to read out.

Can you just tell me how you look to be compensated should schedules change and what you do with idle time should that materialize next year?

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

Well, the main reason of delay is linked to delays in the bid process and awarding. But, of course, the moves was corp toward the end of the year and maybe beginning of next year.

On the one that I was referring before, there are some difficulties, as we said, there two activities now directly responsible where we don't have direct responsibilities, but that nevertheless require that we consulted with our clients in terms of identifying the best possible schedule of these projects that are in our portfolio. And this is exactly the process that is ongoing at the moment. These are not unsolvable issues, only a matter of agreeing the logical solution for them.



**Mick Pickup** - *Barclays Capital - Analyst*

Okay. And can I just say thank you for your presentation; a lot cleaner.

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

Thank you.

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**Operator**

Fiona Maclean, Merrill Lynch.

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**Fiona Maclean** - *BofA Merrill Lynch - Analyst*

It is actually Fiona Maclean from Merrill Lynch. I have a couple of questions. Firstly, it is positive to see the South Stream project in your order intake. Could you please remind us of what the full scope of that project can be in terms of contract value?

And then secondly, in your outlook you talk about improved profitability in 2014. Could you maybe start to give us an understanding of where you think margins could be in 2014? thank you.

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

Thank you, Fiona. Two difficult questions to answer. The first one about the South Stream, as you know, the South Stream is a number of pipelines supposedly to carry gas under the Black Sea. We don't know yet what the client, what the owner of the project has decided in terms of schedule execution for a number of lines and the sequence of the laying of these pipelines.

So we don't have any more information. We know that it is a (technical difficulty) to a maximum of 4. As I said, it would be 1 plus 1; 2 plus 2; or whichever combination they're going to choose there we don't know yet. But it is clear that we're talking about this type of project.

No, I cannot give you any flavor yet on the expected profitability for next year. I think that as we already indicated with some press releases in the first half of the year, in general we are very satisfied with the margin of the new contracts because the quality is in general better than the picture that we had in mind last February. So we are seeing a general improvement across the board that indicates that our view at the beginning of the year about the potential of the market.

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**Fiona Maclean** - *BofA Merrill Lynch - Analyst*

Okay. That's fine. And just one follow-up. Given we're getting toward the end of the year, can you maybe give us a bit of color around what the board are thinking with regards to dividend payments for 2013 earnings?

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

This is an even more difficult question. We have not met internally nor with the board even presenting the potential budget for next year. This is something that, of course, the board will be able to decide on the full picture of that.

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**Fiona Maclean** - *BofA Merrill Lynch - Analyst*

Okay. Thank you very much.

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

Sorry. Thank you.

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**Operator**

Ryan Kauppila, Citigroup.

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**Ryan Kauppila** - *Citigroup - Analyst*

Just related to employment levels in 2013 on 2012, I understand the increase in the offshore, but you also showed a 13% increase in onshore headcount in the first half of 2013. I was just wondering if there were any particular geographies where you were ramping headcount in the onshore?

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

Well, you know, in the onshore, as you may recall, we have described one described highlight our new approach to quality of execution from the operational review that we're moving away from heavy subcontracting to direct supervision and in some cases even to direct hiring. This has been, for example, the remedial measure that we have used in Mexico where we have directly employed a large number of subcontractor personnel that is now working directly reporting to us. This has been very successful, both in terms of execution because of the responsibility to employ somebody that was an employee of a local company and to find that this has allowed us to immediately change the quality of execution that is, as I indicated, well appreciated by our clients.

There has also surfaced the top in Canada in relation with the mining of the new yard.

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**Ryan Kauppila** - *Citigroup - Analyst*

Okay. That's very clear. And just a follow-on, I know you're not talking specific projects, but are you seeing any pickup in Iraq tendering over the last three or four months since you last spoke to the market?

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

Well, not really. Even though we are, of course, very carefully observing the evolution of some of the perfect tenders and/or the discussion between the client and the authorities there on the new projects that have been somehow postponed. Nothing really important has yet materialized.

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**Ryan Kauppila** - *Citigroup - Analyst*

Okay. Thank you.

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**Operator**

Peter Testa, One Investments.

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**Peter Testa** - *One Investments - Analyst*

I was wondering if you just -- I understand you are being cautious on 2014 profitability, but maybe if you could help us just understand at the end of the year based upon your 2013 guidance, what proportion of the remaining backlog will be effectively at zero margin due to provisions made earlier this year?

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

Well, I think it is a little bit premature to enter into this data. I think that as you can appreciate, the profit warning of June has basically taken into account the situation of all the contracts that were identified as difficult contracts up to that time. We are now basically in front of us a road made of two components -- contracts with a relatively low margin for which we are managing carefully both execution, as well as the contractual relationship with our clients, and the new contracts that are not automatically free of risk, of course, because as we start into execution, criticalities can evolve, can apply in any of these contracts and in any of these countries. But, of course, they start with a much better contractual acquisition both in terms of margin and terms.

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**Peter Testa** - *One Investments - Analyst*

Okay. But of EUR19.5 billion now, can you say what the low margin portion is out of the backlog?

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

No, I cannot.

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**Peter Testa** - *One Investments - Analyst*

Okay. And then just on the onshore business where the intake is obviously tougher to realize, can you give us some sense as to what you think about the pipeline going forward and what needs to happen for you to be able to manage through this low intake phase as a business?

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

So just to make sure I understand, you are referring to the existing onshore projects or the ones that we are targeting?

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**Peter Testa** - *One Investments - Analyst*

Well, I am looking at the onshore intakes generally, which is obviously low this quarter, and it has been a difficult market. And just thinking about what you feel out of your opportunity set on onshore, you need to realize to allow you to manage your way through this difficult period on orders and sales?

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

Well, on the offshore, as I already commented other times, I think that the onshore is a market where we have to balance. The visibility of a high number of opportunities, most of them, at least a good number of them, of very big size, and also all of them with big clients, with important clients for which we have all the necessary capabilities in order to compete before winning these contracts.

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So the balance is to be in order of targeting a significant amount of work without entering into the territory of needing to compromise our commercial opportunities, and we're very carefully monitoring the opportunities ahead of us.

And just to give you a feeling about our reach and, of course, how it is possible for us to discriminate in what is interesting or not interesting from the points of view that I indicated, if I look at the opportunities that we are targeting only to consider contracts possibly awarded up to the second quarter of next year, we have in front of us offers presented for something like 20 projects, in the range of 20 projects that are the typical big projects where the biggest component, of course, is downstream facilities, petrochemical and a certain number of upstreams.

Of course, we have to be very selective in how we make our offers. So we expect to win a limited number of these, but the ones that we could win will be based on quality of execution and, therefore, the capability of the client and, of course, our economic offer. Our economic offer, our discipline is now very high.

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**Peter Testa** - *One Investments - Analyst*

Okay. And then just last question, if you could help us understand, there are some issues remaining with the technical issue of the Castorone and also some yard stays in Scarabeo 8. I was wondering if you could just update us on your view on how and when -- how long it will take for these factors to be resolved and work their way through the P&L? Is that something done in 2013 or also affecting 2014?

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

Okay. I would like to give you some comment on Castorone performances.

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**Gigi Curzelli** - *Saipem S.p.A. - Representative*

Regarding Castorone, Castorone currently is performing quite satisfactorily, has gone through this quite tough learning curve in the past, especially due to the fact that this is a prototype vessel that has been designed, engineered, and built to produce a massive quantity of pipe per base. And so today the situation is dramatically improved, and the production is picking up steadily. We are going through different installations for different line items really and complex and has been so far perfectly installed so the situation is quite okay.

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**Peter Testa** - *One Investments - Analyst*

Okay. And then Scarabeo 8?

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

You mentioned another point, sorry?

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

Yes, I think it may be the Scarabeo 5, Peter. The one that is --

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**Peter Testa** - *One Investments - Analyst*

The 5, maybe. Sorry, yes.

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

Yes, so that is back on site, and we're doing its sea trials, and it should start operation very soon. On aggregate, we probably have lost something between 20 and 30 days as a result of the fire.

Right. Okay. So it is back on. Okay. Thank you very much.

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

And that will be all in the fourth quarter, I guess, but it has been idle, as you know, for the whole of the third quarter already. The guidance has been extended by a month, essentially.

Yes, okay. No, that is great. Thanks for explaining.

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**Operator**

Amy Wong, UBS.

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**Amy Wong** - *UBS - Analyst*

A few questions for me, please. The first one is, in the order into your flagging delays, could you give us a bit more color in terms of which -- is it more so in the offshore or more so in the onshore and which clients how you are relating to the IOCs or the NOCs that you are seeing some of these delays coming through?

And then my second question then is, if I interpret what you said correctly about the 2013/2014 revenue recognition and earnings recognition, there seems to have been some projects that have been delayed from 2013 into 2014, but you are able to maintain your full-year guidance into your breakeven of EBIT. So can you give us some moving parts, whether some things are going better than expected, but then some things are being -- just give us a bridge of how you get there please. Thank you.

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

Okay. Thank you very much. On the delays in order intake, really not to try to give you an answer, a comfortable answer, but it is really a mix of everything and on everybody in the sense that we have a situation that we are referring to both onshore as well as offshore and with either major oil companies or national oil companies.

The key point is that we're talking about contracts of very high value where in many cases, even after receiving an offer, the client quite rightly decided to reconsider either the schedule of work or the breaking down of the packages because they received offerings that in some cases are probably surprising them or above their initial budget.

So they are forced to do some internal realigning among themselves, with their partners, with the first party. And we can see that because in some cases we are engaged in the rediscussion of our offer for them to better understand which are the margins of cost reductions that they can identify. In some other cases, we're not doing that. We're just at the wind of breaking.

But again, I cannot really give you some specifics because it's really something that is a kind of general plan. But say that we don't think we have loss contracts. I think in this case the contracts are still under discussion, and both our competitors are facing the same longer time to get a conclusion to these tenders.

For lot related to your second question, maybe ask Stefano to support me.



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

Okay. Thank you, Umberto. The guidance is confirmed in terms of EBIT. This debt is reduced in terms of revenues simply because the composition, the mixed composition in our E&C business is a little bit better than we were expecting at the beginning of the year. Meaning that the acquisitions are coming a little bit better than what we budgeted at the beginning.

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**Amy Wong** - *UBS - Analyst*

Great. I just want to follow-up on a question that was asked earlier and I miss the answer to it, which was the backlog for execution in 2014. Can we get the split between the Offshore E&C, Onshore E&C and the drilling businesses, please? Thank you.

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

Okay. I will give you the full number, okay? EUR8.9 billion is the 2014 revenues in connection to backlog already in our portfolio at the end of September, of which EUR1.4 billion is the drilling -- EUR1 billion offshore and EUR400 million for onshore. Instead on the E&C, we're talking about EUR7.5 billion. EUR5.1 billion is offshore and EUR2.4 billion is onshore.

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**Amy Wong** - *UBS - Analyst*

Great. That is very clear, Stefano. Thank you very much.

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**Operator**

Phillip Lindsay, HSBC.

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**Phillip Lindsay** - *HSBC Global Research - Analyst*

A couple of questions, please. First of all, can you confirm the project complications that you are experiencing in Australia I think on Gorgon adequately provided for in the current guidance, or is there a risk of a charge on this project?

And then perhaps you can provide a more general update on your book of business in Australia and how this is performing. That is the first question.

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

On Gorgon well, first of all, Gorgon is a lump sum engineer and procurement obligation for the jetty and the marina structure. This is the scope that we are part of. We are in a consortium with [Litim]. There is a vertical split. So the scope of award that we have is engineering and the construction of some structure and technical support.

Litim has a different scope and is particular the construction, installation, and the [ucup].

So the issue is that they are not -- there have been some difficulties in relation to the execution of this work because of some changes in scope, and they'd turned out to be contributable to the contractor and some extension of time also linked to major condition. All of this is perfectly accounted for and is well represented in our figures today. So in other words, I think that we have properly presented the risk that Sonsub as being part of this consortium could have in relation to this scope of work.



More generally, in Australia, I think that we don't have anything specific to report. We have a project on a bigger pipeline, as you know, that is growing according to schedule. Actually I think that we are being recognized by our client of the good performance -- excellent performance, I would say, of our execution compared to the other pipelines that are being executed about our own spiral into our works in the same zone.

So I think from that point of view, either of us wouldn't see any problem.

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**Phillip Lindsay** - *HSBC Global Research - Analyst*

Okay. Great. And then just a couple more, just going back to the South Stream, I know you don't know the actual scope of works yet, but perhaps you can give us an indication of timing for the initial scope of work that you've got. Say over what timeframe will that be executed over, and are you able to give an indication at all at this point when we may see subsequent scopes of work?

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

You were asking the timing for the preparatory works?

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**Phillip Lindsay** - *HSBC Global Research - Analyst*

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

Yes, well, the preparatory work is already ongoing and will be completed in the initial part of scope within the next two, three months. And we have some progress to report to the client in terms for the client to assess exactly how this work is doing. It is clear the scope -- the client has decided to ride with this preparatory work in order not to waste any time by when -- I mean in respect to when it will be ready to consider the wording of the full contract.

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**Phillip Lindsay** - *HSBC Global Research - Analyst*

Okay.

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

For the next phase, about your question on the next phase, it is a client decision, and we have no -- really, we have no insight about that.

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**Phillip Lindsay** - *HSBC Global Research - Analyst*

Okay. All right. Thanks.

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

Thank you.

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**Operator**

Rob Pulleyn, Morgan Stanley.



**Rob Pulleyn** - *Morgan Stanley - Analyst*

A few questions for myself, if I may. Firstly on working capital, following what you said in a statement, can you give a little bit of color as to how we should think about working capital dynamics next year given that there seems like there's going to be little recovery year on year in 2013. And on that note, how confident are you you will receive these postpone payments from Venezuela and Egypt given, obviously, the difficulty you highlighted in getting them from Algeria?

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

Well, in general, on the working capital, I think -- again, I back to what we started presenting to all of you from the beginning of the year. We are progressively executing all these legacy contracts and one after the other, and we are completing them. I think that on one side, we have to count on the fact that their completion will be achieved month after month. And on the other side, the value of the improved quality of execution allowed us to have a much -- I wouldn't say simpler, but for sure not so strained relationship as we had at the beginning of the year with some of these clients. And, therefore, it is also their advantage to guarantee that us and the contractor are financially supported for continuing the execution. Having said that, there is still a long way to go to get rid of all these uncertainties.

About Venezuela and Egypt, Stefano already give you an indication that some progress has been already made in the past I wouldn't days -- but since the end of the quarter, and we're trying to secure the happening of this payment as quickly as possible, both in terms of identifying the measure with the partners, the international partners, or in the case of Venezuela, to have a direct discussion with [Pedovasa] specifically on these results.

I don't know if you want to add something.

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**Gigi Curzelli** - *Saipem S.p.A. - Representative*

The progress has been done. The constructive progress has been done. And also a solution found for Egypt, while in Venezuela we're still discussing with a third-party on possible alternative payments. Of course, I cannot disclose more than that.

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**Rob Pulleyn** - *Morgan Stanley - Analyst*

Okay, that is very helpful. Thank you very much. And one further question, if I may. Think this has been asked twice already, but I think maybe there's some confusion over what people were asking.

In the operational update regarding contracts you already have ongoing, you highlighted the timing of some of these projects in Asia-Pacific and Brazil may be affected by rescheduling. Could you add a bit more color as to what magnitude of rescheduling and impact on Saipem financials that could lead to? Thank you very much.

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

Well, Rob, as we say there, there are discussions actually ongoing with the client because the reason that there is inclusive and this delay, the reason beyond our control and beyond control of the operator, of the contractors. So we're trying to fully understand from the client exactly their timing in order to verify which is the best solution in order to allocate properly the vessel to the execution of these works.

We are talking, of course, it is not a matter of weeks, but we're talking about some answer. And the solution could be named. So at this moment in time, I'm not really able to give you any specific detail on that. We are talking about work that anyway has to be executed, and we're going to execute.



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**Rob Pulleyn** - *Morgan Stanley - Analyst*

Okay. Thank you.

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**Operator**

Christyan Malek, Nomura.

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**Christyan Malek** - *Nomura International - Analyst*

Just a couple of questions for me. First of all, on the balance sheet, the renewed guidance, at what point in a scenario where you don't get paid by Egypt and Venezuela, where is the threshold which could force a change in terms of terms? Would you need a rights issue in some point and going past clauses on your debt?

The second question is, can you quantify the scale of the costs implied in the rescheduling of vessels? Clearly it is an unknown, but what sort of number are we talking about in terms of additional costs that could be incurred if those vessels are reallocated?

And thirdly, in terms of the run rate of work to achieve EUR13 billion or so revenue for 2014 and 2015, what sort of runway should we be looking for third quarter on terms of contracts won? Because you talked about it being a moving target as a function of those contracts, and what sorts of numbers should we be looking for in terms of contract awarded to achieve that group revenue number?

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

Okay, Christian. I'll try to take one question off of that one. Okay? On the balance sheet, first of all, I think we need to put in the right dimension the Venezuela and Egypt issue, okay? The main contributors to the working capital movement are still those countries with non-favorable payment terms and conditions. When we talk about Egypt and Venezuela, we are talking of something in the region of EUR100 million all combined in turnover delayed payment, expired payment. It could be a little bit more, but not too much. No more like that, okay?

Then at which level our net debt should go before we issue rights, I think this is really out of my screen today at the moment because we don't think that we have ever considered the situation or suddenly where we need to issue share capital to finance our debt.

And finally, the question I think you were asking how much to be our working -- our concept intake in the next quarters to 2014 in the region of EUR13 billion. Is that your question?

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**Christyan Malek** - *Nomura International - Analyst*

Yes.

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

I think that on 2014, total level of revenue would be much clear in February when we would issue the normal guidance for the year. So this is not the EUR13 billion revenue. 2014 is not our number.

Then all the rest will be, I think, explained to the market correctly when we come out with the guidance for 2014.



Finally, on the rescheduling of the vessel and their cost impact, I think it's too early days to say to you anything at this moment. Let's see what we are talking about, and then when we come out if needed with the numbers.

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**Christyan Malek** - *Nomura International - Analyst*

Brilliant. And just one more follow-up, please. In terms of the day rates on your drilling, the new orders that you've got in, what is the implicit day rate versus previous contracts?

I guess, more importantly, in terms of the contracts that renew in 2014 and 2015 on the mid-order fleet, what day rates are you expecting or hoping to achieve versus the previous contracts when I say that against a backdrop of weaker day rates in that particular segment of drilling?

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

Normally I can answer (inaudible). But in general, all new contracts are coming in at the rates which are better than the one that we had as of the date of the renewal, and this is particularly true for the biggest right both onshore and particularly offshore. So here again, the market is continuously indicating it is a sales market, and I think that we have properly taken advantage of that.

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**Christyan Malek** - *Nomura International - Analyst*

And on the mid-deepwater fleets going forward, do you expect summer day rates?

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

I think, Christian, yes. I mean what Umberto said I think is clear, and it applies to different sectors in different ways. But I think the important thing is if you are talking about the frontiers, it generally -- and that would apply to the mid-water as well, so long as you're talking about frontiers really.

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**Christyan Malek** - *Nomura International - Analyst*

Thank you very much.

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**Operator**

Geoffrey Stern, Kepler Chevereux.

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**Geoffrey Stern** - *Kepler Cheuvreux - Analyst*

Yes, good afternoon. I just have one remaining question. It's on salt stream actually again. Given the early work you have now been awarded on salt stream, is it fair to assume that there is a very high probability that we get subsequent packages, i.e. is All Seas out of the game now? I know that you were competing against All Seas for this contract. So can you help me assess the complete situation on this project?

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

I think the correct comment I can make is that I really hope that the wording gives Sapien a good position in order to be completely clear for the subsequent full scope of the contract.

**Geoffrey Stern** - *Kepler Cheuvreux - Analyst*

And you should assume that full lines are set to be led on this project. Would it fair to assume contracts are awarded in terms of size of around anything between -- around [\$2] billion? Is it kind of order of magnitude, or --

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

You're talking about the four lines, four core lines. Being clear that this is the client decision that we are not seeing any budget, any indication, I think that nevertheless to lay four pipelines in the Black Sea could be more expensive than that.

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**Geoffrey Stern** - *Kepler Cheuvreux - Analyst*

All right. Thanks for this.

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**Operator**

Jaideep Pandya, Berenberg.

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**Jaideep Pandya** - *Berenberg Bank - Analyst*

Thank you. I have a few questions. The first one is, just to understand, you are guiding for a EURO EBITDA, which means implicit guidance, if I'm not wrong here, is EUR259 million for Q4 EBIT. Can I run rate this for 2014, and if I do so, what are the mistakes I am making on the positive side and the negative side? That's the first question.

The second question is going back to your comment of increasing your own workforce and reducing subcontractors. I mean in general, aren't you increasing the leverage in your business if you do so? That's the second question.

The third question is regarding your net debt. I mean I appreciate that you expect increasing payments, but if I look at your backlog, it is still very much skewed towards Middle East, Central Asia, etc. So do you expect net debt to go down significantly in 2014 versus 2013?

And then finally, if you can give us some color on the vessel utilization in Q3 and how do you think this is developing over the course of 2013? Thank you.

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

I understand, of course, the high relevance of any information about 2014. But I really ask you to be patient because we are still very much concentrating on 2013. And there are many factors that still have to come together in the last quarter of the year, will be important to support us in making our provision for next year. So we will not be in position for giving any comments about 2014 until the normal time, which would be early February.

I think that on the comments you made on our workforce, first of all, you have to consider you're talking about the workforce that are normally employed specifically project by project, for which we take a limited liability on the long-term, but for which we are, of course, extremely satisfied by the changing approach that is proving very positive results.

I really hope to be able to continue to take the same workforce, for example, in Mexico by securing new contracts after the completion of this contract for which then to add this expert queue will be actually a competitive advantage. But otherwise, we would not incur in any overexposure on that side.

I realize I would definitely like to finish on that comment. I can confirm that for 2013 our utilization of our fleet. The remaining line will be a result as an indicator of data to summarize everything. There is less cost is committed to be in the range of EUR150 million, that is the same as we had in 2012.

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**Gigi Curzelli** - *Saipem S.p.A. - Representative*

On the net debt, of course, we are factoring a reduction in 2014 and 2015, mainly the later today completion of those contracts with difficult thermal conditions. And also linked to the fact that the new contract that we take into our backlog, now we work hard with the client in order to get better than the condition, and we work with the idea of the cash neutrality on those contracts.

As a matter of indication, we are considered as a target for the Company, and we disclosed that already that we are working for an organic reduction of our net debt in 3 to 4 years at the level below EUR2 billion.

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**Jaideep Pandya** - *Berenberg Bank - Analyst*

Just a follow-up, if I can. On your command of new contracts being significantly better, could you give us a little bit more sense of what would be, if you had to isolate one factor or two factors, what would be the implied sort of pricing on some of your key vessels, just to get an understanding of what makes you so confident that some of your new contracts are much more profitable compared to the older ones? Thanks.

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

Well, we cannot disclose these details. But I would like to point out that we don't price our vessels. In the sense that our vessels are most of the time utilized within their turnkey contracts for which we gave our offer on a general figure that implies utilization of the vessel under different criteria for different phases of the work. So it's really difficult to enter into the territory that maybe some of our competitors have since they came to work on daily rate.

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**Jaideep Pandya** - *Berenberg Bank - Analyst*

Thank you.

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

Maybe I can add that the other factor that is making our backlog decorated is that we are not taking on board contracts for which we are not happy about the payment condition and mainly the marginality. And I think it is well-known that at least a couple of contracts are not taken on by citing in the first six months simply because as before we are not suspecting this is our new commercial discipline.

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**Jaideep Pandya** - *Berenberg Bank - Analyst*

Okay. Thank you.



**Operator**

(Operator Instructions). David Farrell, Macquarie Securities.

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**David Farrell** - *Macquarie Securities - Analyst*

Afternoon, gentlemen. Two questions from me, please.

Firstly, with regards to Egypt and Venezuela, could you possibly say kind of what the level of backlog and exposure is to the clients that aren't paying you? And then the second question is just on Algeria and maybe an update regarding the liquidated damages with [Sanatrack] and how that negotiation is progressing? Thanks.

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

Regarding the backlog with the client is 2% in one country and 3% our book of backlog. Okay? Then I'm afraid I was thinking about the answer to this question, and I lost your second question. Can you repeat it, please?

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**David Farrell** - *Macquarie Securities - Analyst*

It's regarding the liquidated damages you've talked about previously with Sanatrack. Could you give us any kind of indication as to timeline as to when you will have more details of what they may be in the level?

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

First of all, we have already taken into account some of those liquidated damages in some of the contract and the execution in Algeria or even completely with the provision of certain certificates.

So the impact of those liquidated damages hitting certain profit and loss have already been taken into account. With all the information we have as of today, the situation is moving. At the moment, we don't see space for new damage to be taken into account for this situation as of today.

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**David Farrell** - *Macquarie Securities - Analyst*

Okay. Thank you.

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**Operator**

Guillaume Delaby, Societe Generale.

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**Guillaume Delaby** - *Societe Generale - Analyst*

Good afternoon, gentleman. I took the call a little bit late, but can you just repeat your -- not guidance, but more or less your plan for a net debt reduction by 2014/2015? You said around EUR2 billion. Is that correct?

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

EUR2 billion in 3 to 4 years. (multiple speakers)



**Guillaume Delaby** - *Societe Generale - Analyst*

And now I'm going to ask you a very direct question, a kind of yes or no question. Do you have any plans, maybe in your net debt reduction program maybe not to spin off but to list your drilling business? Is it something which could make sense for you, or is it going only to be reduced thanks to higher EBITDA and lower CapEx?

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

The number I gave you is a target organic value, meaning that we want to achieve that level without any M&A operation.

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**Guillaume Delaby** - *Societe Generale - Analyst*

Okay.

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**Gigi Curzelli** - *Saipem S.p.A. - Representative*

At the moment, we are not focusing mainly on any main M&A activity like the one that you referring to.

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**Guillaume Delaby** - *Societe Generale - Analyst*

Okay. Thank you very much.

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**Operator**

Thank you. There appear to be no further questions at this time, sir.

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

Okay. I think that -- I thank you for your attention and your questions during this presentation, and we can close here our communication. Thank you very much.

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**Operator**

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

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