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CORPORATE PARTICIPANTS

Umberto Vergine *Saipem SpA - CEO*

Alberto Chiarini *Saipem SpA - CFO and Chief Compliance Officer*

Gigi Caselli *Saipem SpA - COO*

CONFERENCE CALL PARTICIPANTS

Fiona Maclean *Merrill Lynch - Analyst*

Phillip Lindsay *HSBC - Analyst*

Peter Testa *One Investments - Analyst*

Christyan Malek *Nomura - Analyst*

Nick Green *Bernstein - Analyst*

Mukhtar Garadaghi *Citi - Analyst*

Rob Pulleyn *Morgan Stanley - Analyst*

Amy Wong *UBS - Analyst*

David Farrell *Macquarie - Analyst*

Andrew Dobbing *SEB - Analyst*

Luigi de Bellis *Equita SIM - Analyst*

Andrea Scauri *Mediobanca Securities - Analyst*

Bertrand Hodee *Raymond James - Analyst*

PRESENTATION

Operator

Good day, and welcome to the Saipem preliminary 2014 consolidated results conference call. Today's conference is being recorded. At this time, I would like to turn the conference over to Umberto Vergine, CEO. Please go ahead, sir.

Umberto Vergine - Saipem SpA - CEO

Thank you, and good evening and welcome to the 2014 Saipem's preliminary results conference call. I'm here with Alberto Chiarini, our Chief Financial and Compliance Officer; with Gigi Caselli, our Chief Operational Officer; and Vincenzo Maselli Campagna, Head of Investor Relations.

Before going through the detail of our results, with slide number 5, I would like to give you the key highlights of our 2014 performance. This time last year, I presented our guidance for 2014, and I said it would be a year of transition during which we must work hard to progress on the execution of our legacy contracts and rebuild the profitability of the business by improving our performance and acquiring new, good contracts.

Today, I am pleased to say that the underlying business has achieved most of those transition goals. At an operational level, the business has performed in line with our expectations. However, while we were successful in converting approximately EUR200m of pending revenues into cash, in light of the deterioration oil price environment, we have also written off EUR130m.

In addition, the application of the new IFRS 10 and 11 principles has had an impact of EUR24m on the results. Taking those two factors into account, we have delivered an adjusted EBIT of EUR465m.



Importantly, for the first time in three years, we have reduced our net debt from EUR4.8b to EUR4.4b. This has been driven by working capital improvement and the resolution of some pending revenues negotiations.

A further achievement in 2014 is that Saipem has built a record order intake, which is particularly important in facing the new oil price scenario. This has been achieved in a deteriorating macro environment which is heavily influencing oil CapEx -- oil companies' CapEx plans.

But Saipem's 2014 results have not been immune from these headwinds, and today we're therefore providing both adjusted and reported EBIT and net income, as we have taken a non-cash impairment of EUR410m following an assessment of our assets under the new market conditions.

I will now take you through the details of our 2014 performance and then set out our guidance for 2015 and the actions we are taking to position the business in this period of oil price instability.

Turning to slide 7, here we have outlined our EBIT and net income for 2014, showing both the adjusted and reported results, with the impairments we have accounted for. Since the fall in the oil price, the attitude of some of our clients towards negotiation on claims has become more challenging. Taking this into account, we have reduced the original expectations of pending revenues on certain legacy contracts. We have therefore written off EUR130m of pending revenues in the E&C onshore business. As a result, 2014 adjusted EBIT is EUR465m.

Moreover, in accordance with IAS 36 and due to Saipem's market capitalization falling below the book value of its assets at year end, we have also carried out a test on all 21 of our cash-generating units. This has resulted in an impairment of EUR410m on four of these assets.

This impairment relates to both E&C onshore, for EUR160m, and drilling offshore, for EUR250m. It is largely driven by the impact of the new oil price scenario on future daily rates, rather than a contraction of current utilization or any contract cancellations. A small portion of the impairment is also connected to the potential future disposal of certain old assets with a low residual book value.

Therefore, 2014 reported EBIT, including this impairment, is EUR55m. 2014 adjusted net income is EUR180m, while 2014 reported net income is minus EUR230m.

On the next slide, we have outlined our key results with adjusted figures for proper comparability. Please note that all 2014 figures are compliant with new IFRS 10 and 11 accounting principles governing the consolidation of joint ventures, with a minus EUR24m impact on EBIT, and 2013 figures have therefore been restated.

In addition, note that 2013 EBIT has also been restated, EBIT from minus EUR98m to plus EUR157m in accordance with Consob requirements and pursuant to IAS 8.

Taking all of that into account, in 2014, revenues grew to nearly EUR13b, with a 56% contribution from E&C offshore, while E&C onshore accounted for around 30%. E&C onshore revenues are down on 2013, due to a more selective approach to new business and stricter commercial discipline, as well as the write-off of EUR130m of pending revenues in the onshore business.

The drilling business has delivered a good revenue performance, with the results in line with 2013.

Turning to EBIT, the positive performance is largely the result of the significant improvement in the E&C offshore business, which contributed EUR435m, while the drilling offshore result of EUR360m was slightly impacted by the longer-than-expected maintenance period on Scarabeo 7. Onshore drilling EBIT is at EUR91m, in line with expectations.

The E&C onshore business continues to report negative adjusted results of EUR281m before the write-off as a consequence of further deterioration on legacy projects in Q4. This is mainly linked to the extra cost and some equipment repair works incurred in the final commissioning and testing phases of projects close to completion, and to unabsorbed structural costs, as well as the poor performance of one subcontractor, an issue that is now resolved.



The evolution of the legacy contracts and the progress on pending revenues both had a significant impact on 2014, and we will take you through this now on slide number 9. The construction activities are progressing according to schedule, towards project completion.

Under the worsened market scenario, some difficulties and delays in negotiations with clients are arising due to their new budget constraints and their increased focus on cost cutting. In view of this and the possibility of future arbitration as an outcome of the negotiations, we have reduced our estimates and accordingly have written off EUR130m of pending revenues in E&C onshore.

At the same time, we successfully completed some negotiations during Q4, generating approximately EUR200m. In total, pending revenues are today reduced to EUR1.1b.

As you know, pending revenues are a normal part of project delivery in our industry, as the majority of large projects experience changes from original plans, which require commercial negotiation. We believe that a natural level of rolling pending revenues, for an E&C business the size of Saipem, would be in the region of EUR500m.

Turning to net debt, on slide number 10, we are very pleased to report that 2014 net debt reduced to EUR4.4b, thanks to the working capital improvement we delivered during the fourth quarter, as well as consistent cash flow, which more than offset CapEx throughout the year.

CapEx was slightly below our guidance of EUR750m, at EUR694m, and this also contributed to net debt reduction.

The working capital improvement is related to a number of projects, driven by good progress on their execution and by the positive outcome of pending revenue negotiations. As you can see in the slide, this has been partially offset by the impact of exchange rates.

It is then encouraging that in the first weeks of 2015, we have taken positive steps on a number of working capital issues including Venezuela, and this will contribute to continued net debt reduction during 2015.

Management is and continues to be focused in improving working capital, but we must consider the potential consequences of the current market circumstances on our net debt evolution and, in addition to this, we are foreseeing some impact connected to currency fluctuations on certain financial contracts we have in stock.

Moving to slide 11, in line with the indications provided in October 2014, we confirm a strong backlog increase to EUR22.1b at year end. In the fourth quarter, we saw new order intake of approximately EUR3b, including a fabrication contract in Kazakhstan and the award by Saudi Aramco of E&C and drilling contracts, namely the Khurais expansion field project and the three-year extension for Perro Negro 7.

The backlog of EUR22.1b includes the South Stream contract, which as you know is presently operationally suspended, but does not include the new Kashagan pipeline project, which was awarded after the year end. We will provide information on South Stream later in the presentation.

This strong and growing backlog is proof that Saipem has been able to strengthen relationships with its customers, and crucially, has reinforced Saipem's resilience in the near future, enabling us to continue to deliver our recovery.

If we now look now at the backlog by year of execution in the next slide, we see that the current backlog for 2015 is nearly EUR9b, of which only 24% -- approximately EUR1.8b of the E&C total -- is represented by legacy contracts, confirming the recovery trend under the new commercial discipline.

As we will explain in the next slides, the large backlog we have built supports our business performance both in drilling and E&C during 2015, despite the very challenging market scenario, and provides good visibility beyond.

In addition, our backlog is well diversified between IOCs and NOCs customers and between upstream and downstream projects, and therefore provides a good level of protection to future oil price fluctuations.



Let's now talk about 2015 business scenario, and let's move to slide number 14. Looking forward to 2015, Saipem's recovery is progressing well, although it will take longer than expected, given the worsened market context.

The sharp slowdown in upstream investments announced by oil companies is likely to impact the negotiations on new contracts, both in terms of timing and rates. In addition, the introduction of cost-cutting and efficiency programs will inevitably also affect our clients' attitudes on operational and commercial issues related to ongoing projects.

Factoring in these headwinds, Saipem will continue to focus on the execution of its legacy contracts and the resolution of pending revenue negotiations.

Regarding South Stream, the project is under suspension and we are awaiting our client's decision in order to better assess the impact on 2015 results.

However, the solid and diversified backlog we have built up during 2014, which was further reinforced by the recent Kashagan contract win, provides Saipem with a very good base to face the current environment. Finally, as we will see, we have new business opportunities that suit our technical capabilities and where we can continue to maintain our commercial discipline.

Given this context, I will now provide you guidance for 2015 in the next slide. Revenues are expected to be in the range of EUR12b and EUR13b, mainly reflecting the possible impact of South Stream. EBIT will be in the range of EUR500m and EUR700m. Net income will be in the range of EUR200m and EUR300m.

CapEx is expected to be around EUR650m, slightly below previous long-term guidance, as we aim to improve efficiency and drive net debt reduction. Most of the expenditure relates to maintaining the standards of our asset base, while a small amount is linked to project-specific investments.

And finally, excluding the potential impact of currency fluctuation, we are targeting net debt of less than EUR4b.

Let's now go into some of the factors considering our guidelines. Let's start with South Stream. As you know, the South Stream is a critical contract for 2015. As previously announced, Saipem has received notification from the client that it does not expect significant changes to the suspension status until late February 2015 and that it has reserved the right to amend the suspension in accordance with the contract terms. The suspension relates to all vessels currently engaged in the activity.

At present, it's not possible to fully evaluate the economic impact of the suspension on Saipem's business, due to the uncertainty around its duration.

At the moment, Saipem is fully mobilized and can restart marine activity from the Russian coast in a few days. We know that market rumors have indicated a possible pipeline rerouting. Any change in the pipeline destination could be engineered while the pipe-laying activity proceeds.

A possible termination of South Stream in the first quarter would lead to a reduction in the E&C offshore revenues of approximately EUR1b. In this case, Saipem would receive early termination fees, broadly offsetting the costs of the resulting vessel idleness.

Looking now at drilling, slide 17 provides you with an update of our existing offshore contracts and gives visibility on the contract extensions we are currently negotiating. As you can appreciate from the slide, we have a number of negotiations currently taking place, and if these are concluded successfully, we will have a good level of rig utilization both in 2015 and 2016.

During 2015, we must undertake certain class renewals due to the expiration of certifications on some units. We also plan to anticipate some maintenance activities to satisfy client requirements in terms of CapEx reduction. This will have an impact on actual utilization, but we expect this to support the stability of our offshore drilling business.

We are starting to see some pressure on daily rates in negotiations on contract extensions, where clients are reacting to the current market environment.



Moving to onshore drilling, the majority of our rigs are under long-term contracts and we expect their utilization to be more stable. Other rigs, however, may be impacted by the current market scenario, both in terms of the level of rates and utilization during the year.

The strong and diversified backlog we have built up has improved our resilience, and we are still seeing significant new business opportunities. Slide 18 illustrates the principal E&C projects that we are targeting today. Despite the depressed market scenario, as you can see, we have a number of new projects, which were not present in our slide last October.

For most of these projects, we have already submitted offers or are in the process of doing so. We hope to see these being awarded according to the schedule outlined by clients and to secure further wins that will continue to strengthen our backlog.

I would like to take this opportunity to say a few words on the new contract won in Kashagan, moving to slide number 19. This is another challenging project. We are very proud that once again a consortium of some of the most prestigious oil companies has given this opportunity to Saipem.

This initiative is complex due to very high pipeline specifications and the consequent welding technology required, which suits Saipem's unique capabilities. We have done a lot of preparatory work with the client and we are very focused on ensuring its timely delivery under a fast-track schedule. We expect a contribution to 2015 revenues of about EUR700m.

In conclusion, as we have outlined during the presentation, our underlying business recovered significantly in 2014. We returned the business to profitability, reduced debt levels and delivered an excellent order intake.

Our results were impacted by a dramatic deterioration in the oil price and the resulting change in attitude amongst our clients to both CapEx plans and negotiation on claims. We have made significant progress over the last year in cleaning up the legacy issues, and management actions have strengthened the business. A reduced and declining tail of legacy contracts remains outstanding, on which execution continues on schedule.

The new oil price environment creates a fresh set of challenges for the industry in 2015 and, as a management team, we are positioning Saipem to face these challenges while delivering on our robust commercial strategy.

We believe that this underlying momentum will offset the significant market headwinds and therefore expect to deliver further EBIT progression and net debt reductions in 2015.

Thank you for your time, and of course we are pleased to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Fiona Maclean, Merrill Lynch.

Fiona Maclean - Merrill Lynch - Analyst

Thank you very much. Yes, it's Fiona here, at Merrill Lynch. I have a question relating to slide number 9 of the presentation, where we're looking at the pending revenues on these four projects. Now, I know it says that you've reduced that number over the quarter, but when you actually adjust it for the write-down that you've taken, there's not that much improvement. So realistically, how much of this EUR1.1b do you expect to actually pay for during 2015, and how much of that is included in your net debt guidance number for this year? Thank you.



Umberto Vergine - *Saipem SpA - CEO*

Well, EUR1.1b is the result of two actions that we have taken and achieved during the year. First of all, is a very positive progress on negotiation on some of the most critical of these legacy contracts, plus the EUR130m reduction that we have decided to take in terms of assessments on the previous estimates.

The remaining EUR1.1b is believed, is very even more solid figure for which we are convinced to recover these revenues, even in light of third parties' opinion that have revalidated at the end of this year under the new market condition, and with the progress that we have through the year on this project, the situation.

This is, as you said, one of the biggest commitments of the management. We have a good part of that that, as previously indicated, is subject already to an arbitration project -- process, and for which will be the result of the arbitration, giving us the final outcome.

In terms of what we have introduced in our numbers, Alberto can confirm that all of these are consistent.

Alberto Chiarini - *Saipem SpA - CFO and Chief Compliance Officer*

Yes, I can confirm that. I can also add a bit more about the timing of recovery of these amounts. If you look at project four, as you know, it is a project that is currently under arbitration, and so the potential recovery will follow the timing of the arbitration.

Project three is a project that has already been completed, and it is most likely going the full potential process of arbitration. As far as project two, we believe that 2015 will be the year where we will resolve the issues with the -- in terms of negotiations with the client, and project one I expect a final discussion. Hopefully, we will have some progress in 2015, but I expect final discussion to take place when the project will be completed, so in 2016.

Fiona Maclean - *Merrill Lynch - Analyst*

Okay, that's very clear, thank you. So of that EUR1.1b, how much do you think will come through in that project one in 2016, and how much do you expect to get in this year?

Umberto Vergine - *Saipem SpA - CEO*

Well, project one is something in the range of about EUR150m what is outstanding as a pending revenue today. Project three and project four are related to arbitration, and --

Alberto Chiarini - *Saipem SpA - CFO and Chief Compliance Officer*

It's about 50%. 50% should go through arbitration, and the remaining 50% should be sorted out in 2015 and 2016.

Fiona Maclean - *Merrill Lynch - Analyst*

Okay, thank you. And just one further question. Forgive me, but I missed what you said on the South Stream contribution you're assuming in your guidance and if that project is withdrawn -- could you just repeat what you said the impact would be on the numbers?



Umberto Vergine - *Saipem SpA - CEO*

We have said that, as we go back to the slide number 16, that if during the first quarter, the project will be terminated, we will have an impact of about EUR1b on our revenues. And if you remember, when we got the information about the suspension that was before year end last year, we indicated that the revenues associated to the project during 2015 were in the range of EUR1.25b.

Fiona Maclean - *Merrill Lynch - Analyst*

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

Umberto Vergine - *Saipem SpA - CEO*

You're welcome.

Operator

Phillip Lindsay, HSBC.

Phillip Lindsay - *HSBC - Analyst*

Yes, thanks. Good evening, gentlemen. Two questions, please. First one's about the balance sheet. I think in the past, as a management team, you've expressed frustration relating to your balance sheet and the inability to capitalize on market opportunities. Obviously, now, with a -- moving into a downturn, I just wonder what the plan is and how advanced your plans are in terms of a potential recapitalization of the balance sheet.

So, first of all, can you just update us on your latest thinking regarding your balance sheet, please?

Alberto Chiarini - *Saipem SpA - CFO and Chief Compliance Officer*

Yes, I think I'm afraid the situation has not improved from our previous frustration. Of course, we have still very much -- we believe that we are still very much driven by debt, by debt reduction, and this is currently our main target. So we are not thinking about any potential operation or major reinvestment. Luckily, we can afford that, because we are coming from a big period of heavy maintenance, so we are not too much suffering because of that, especially in the current downturn of the market.

And we are aiming to reduce our debt in 2015 below EUR4b, and if we review our long or medium-term target of EUR2b, which we have always stated is what we consider our physiological debt level for a company like Saipem, it is now fair to say that we could reach that during 2018, late 2018, rather than 2017, as we previously announced.

Phillip Lindsay - *HSBC - Analyst*

Okay, understood, and then secondly, I'm hearing that some equipment providers in Brazil are being asked to reschedule product delivery. Can you comment whether you're also being asked to reschedule work phases, either in Brazil or maybe a broader comment, just anywhere?

Umberto Vergine - *Saipem SpA - CEO*

No, in Brazil, we have already reported that during the year, we reached an agreement with Petrobras in order to optimize the scheduling all our vessels involved in the different projects that we were coming out offshore.

We have agreed this integrated schedule. We are working according to that schedule, actually, with the satisfaction of the client, and we are not involved, I would like to say, even though it was not part of our question, we are not involved in any of the projects that have been recently targeted by or indicated to be a target of investigation in the country. And we hope to continue with the positive relationship that we have, even if we will have to go through a possible change of the management of our client.

On other situation, yes, there are a lot of rumors about how our client could implement their strategy of reducing spending in 2015 without having major impact, like cancellation, on big projects, either ongoing or to be launched during the year. At the moment, certainly, there are a number of rumors about this. We have not entered into any discussion with any of our clients in order to implement any change in -- significant change in this direction.

Phillip Lindsay - HSBC - Analyst

All right, thank you.

Umberto Vergine - Saipem SpA - CEO

Thank you.

Operator

Peter Testa, One Investments.

Peter Testa - One Investments - Analyst

Hi. Thanks very much. Maybe just continuing on from that point you just made, you mentioned in the presentation that there were some risks of clients essentially being aggressive and negotiating around variance orders, I guess, is what you were implying, or any sort of changes in contracts. I was wondering if you could help us understand what your buffer that you put in your guidance for this sort of behavior might be.

Umberto Vergine - Saipem SpA - CEO

Well, there is a lot of color associated with this. As you can imagine, it's quite a different world now for us, facing clients that, instead of sitting on an oil price of \$100, they sit on average \$50. Clearly, cost-cutting initiatives, CapEx reduction, discipline on investments, are now keywords in all organizations of oil companies. This causes a number of issues that could be critical for us.

One is, of course, what we have in many aspects accounted for when we look up any assessment of our pending revenue situation, as well when we look at impairment test of our cash-generating units. Then, there is what we have to now factor it in in our guidance, when we consider the pressure on margins that could be simply a pressure on the daily rates of the extension of our drilling rigs contracts that we could result to have to accept during -- on the new contracts.

It's a variable -- is a number of variables that of course could be applied. In all cases, we try to have an approach that is line with the attitude that Saipem always had. On the drilling, as we said, we have long-term clients, and we have them as a client because we show them flexibility through the years, during the cycles of the reprice, and this is a kind of approach that we will not deny this time.

On the onshore, luckily, we had in the E&C -- luckily, we had started to focus at projects of size and complexity for which Saipem is already competitive and can [then] try to minimize the risk of price pressure from smaller competitors. In the offshore, we are so far well engaged with a number of projects.



We are somehow protected by the fact that technology and the asset availability gives us certain [imaging]. We have to hope that, of course, this type of large projects that suit well Saipem will continue to be part of the plan of our clients. This is something that, being at the beginning of the year and having most of our clients still to confirm clearly which are their programs, we will have to monitor -- will monitor carefully during the year.

Peter Testa - *One Investments - Analyst*

Okay, and on the rig part of it, could you help us understand the degree to which you're therefore reflecting current market rates for rigs? Or are you expecting the past flexibility and relationships to accord you a less-volatile rig pricing outcome, offshore rigs?

Umberto Vergine - *Saipem SpA - CEO*

Without going into many details, as you have seen in the slides, we have certainly a large number of ongoing negotiations on extensions. Each of them has its own peculiarity.

In the variability of our results in the guidance for 2015, we have the uncertainty about the South Stream, and we have the potential impact of these general uncertainties on price, rate and workload that comes not only from the offshore in drilling but also from the onshore and onshore in E&C.

I think that we have a factor, an estimation --

Alberto Chiarini - *Saipem SpA - CFO and Chief Compliance Officer*

Correct. To give you a bit more color, I would just state that in the range of EUR500m to EUR700m, we haven't included the situation where everything goes wrong, but not even a situation where everything goes fine. So among those uncertainties that Umberto has shown, we took a sort of probabilistic approach, and we believe that this range reflects in a fair way what is the situation of Saipem, taking into consideration that South Stream is already a big uncertainty in itself.

Peter Testa - *One Investments - Analyst*

Yes, and on that, can you give us some understanding on how you have factored in the uncertainty on South Stream, and maybe while there, elaborate on the points you made during your presentation, that perhaps the engineering for a different route might be able to occur during the installation of the pipeline. And then, on top of that, maybe if we could understand the permitting situation, geopolitical situation, how you think that also could be dealt with during the pipeline lay. Thank you.

Umberto Vergine - *Saipem SpA - CEO*

Well, in terms of permitting, we are still covered by the assessment that was made and green light given to the project by the European authorities in terms of potential application of the sanctions on this project. So that is not certainly a risk.

What we said -- I mean, why it for us has a meaning to say that the engineering of the last part of the route of the pipeline could be executed while we are working is because we start from the Russian coast. That was the original program. And we will have to get up to almost a kilometer -- 600 out of the 1,900, roughly, so certainly we have a number of months in front of us to reengineer -- to reengineer the landing point of the pipeline.

So that is not in our opinion an issue that could prevent the client to tell us to restart. So we don't have to know exactly where we are going to go in order to restart, because we have sufficient times to work that out, also from our operational and technical point of view.



Certainly, as we know that has a strong geopolitical importance, so what we don't know is how the discussion on that site progress, either with Turkey -- with Turkey, or potentially if there is a potential comeback to the European courts. Certainly, that is a matter out of our control.

Peter Testa - *One Investments - Analyst*

And in terms of variation apart -- that you've allocated for South Stream in your guidance, please? That's my last question.

Alberto Chiarini - *Saipem SpA - CFO and Chief Compliance Officer*

We have something in terms of revenues, as far as the EBIT, I would simply reiterate the fact that we have taken into consideration all the uncertainties, and we have made a probabilistic exercise. We don't give specific figures on South Stream.

Peter Testa - *One Investments - Analyst*

Okay, thank you very much for the answers.

Umberto Vergine - *Saipem SpA - CEO*

Thank you.

Operator

Christyan Malek, Nomura.

Christyan Malek - *Nomura - Analyst*

Hi, and good evening, gentlemen. Three questions, please. First of all, with -- despite the improvement in balance sheet marginally, given you've got a balance of EUR1.1b of revenues that might or might not be written down, potential other legacy charges associated with that, what probability would you assign a to potential equity raise in the course of this year? Do you think your balance sheet is robust to still be able to bid for work, given the challenging environment?

The second question is, if I may, and I'll ask the third one after you answer -- the second question is regarding your drilling business. Given the impairments that you've done so far, would that imply that if the drilling outlook deteriorates further, there may be further impairments in the drilling segmenting?

Alberto Chiarini - *Saipem SpA - CFO and Chief Compliance Officer*

Okay, as far as a rights issue, we have no current plans to undertake a rights issue. As you know, Eni recently announced that it is suspending its plan to deconsolidate its stake, and of course, the refinancing was very much linked also with the potential deconsolidation of Eni.

Currently, I would say that we are continuing to benefit from -- we continue to benefit from the financial relationship with Eni, and we are fully focused in trying to reduce the debt organically. So that is our current situation.



Umberto Vergine - *Saipem SpA - CEO*

On the drilling, the process, actually, exactly the process that we have followed, evaluating the commercial perspective of our cash-generating units, I think that puts us in a stronger and better position to face even a prolonged downturn situation in the business. We have not accounted in the criteria that we use what are not current reduction rates but exactly the projection of what -- which could be the rates in future years under the present scenario.

And we consider that the present scenario has been factored in in consideration of the worst case.

Christyan Malek - *Nomura - Analyst*

Right. And just a follow up, if I may, on South Stream, you talked about starting the pipe with the potential to book the profits on that. Just to be clear, what would you assume as the -- I know it's difficult, but the outcome of that. Will you just stop when asked to and then book whatever profits you have?

And then just to be clear around the range in your net income, does the low end of the range imply no profits from South Stream. I just want to understand to what degree you're assuming in your 2015 ns.

Umberto Vergine - *Saipem SpA - CEO*

I don't know --

Alberto Chiarini - *Saipem SpA - CFO and Chief Compliance Officer*

The range -- I try to repeat. The range of EUR500m to EUR700m includes a lot of uncertainties, not only South Stream. So I'm not in a position now to tell you which would be the number in the worst-case scenario of South Stream.

Certainly, assuming that South Stream should -- could be terminated in the first quarter of this year, we would lose -- we would lose EUR1b of revenues, and that is what is mainly reflected in the revenues range.

In terms of EBIT, it is very difficult to say, because first of all, there is an issue on -- also on standby of an idleness of the Scarabeo 7 and the Saipem 7000 -- Saipem 7000 and Castoro 6, sorry. Certainly this is an issue and currently we don't have the possibility to estimate that.

Broadly speaking, termination -- the termination fees should offset the cost of the items but there are a lot of uncertainties on that. So we are not in a position to tell you the worst-case scenario with a number on the EBIT.

Christyan Malek - *Nomura - Analyst*

Okay. And then just to finalize, not to put words in your mouth. But so EUR200m is not necessarily the floor, given the risks around South Stream.

Alberto Chiarini - *Saipem SpA - CFO and Chief Compliance Officer*

Given all the risk, we have talked before. So assuming everything goes wrong means that there are renegotiation on the offshore drilling rates; there is a re-phasing in engineering and construction, either onshore or offshore; there is a stop spend of some clients on some of the negotiations; there is South Stream termination. If everything goes wrong, which I don't believe it will. But of course, if everything goes wrong, we could land even at a lower number than EUR500m.



Umberto Vergine - Saipem SpA - CEO

Yes, but this is a concept that is valid every year because every year, in our business, we have a level of uncertainties that not only relates to commercial aspects on market scenario, but even to operations. So certainly, every year, when we produce our guidance, we try to come out with an assessment that we consider to be realistic, based on the information available at the time, that does not discount all possible risks in the world, where we try to be sufficiently courageous to consider which are our capabilities and our strength, so the mitigation that we could have.

This year, certainly we have more uncertainties from the scenario. On top of that, we have this issue of South Stream that is a geopolitical risk, I would say. It's not directly linked to the scenario for which we have assumed a situation that is very clear. The worst could be that the project is terminated. It could be terminated when, within the first quarter of this year.

In that case, we will remain with the payment that we have received, up to that point for the standby rates, the cancellation, the termination fees that we will receive, and probably our vessel, we will be unable to place them.

If you recall, in last year, when we spoke about South Stream, I always said that in case the project would have been terminated -- that was like June or October last year, we had very good cancellation fees. And they are still valid. But it would have been different if the project had been cancelled or terminated six months ago. We would have had all the winter to try to resell the Saipem 7,000 for the summer activity in the North Sea.

Trying to find a job for our vessel now that is basically all the games are already closed is extremely difficult. That's why we will have a stronger impact than we had foreseen.

Christyan Malek - Nomura - Analyst

Would just be -- but I just want to make clear, you are continuing to install the pipe at this point, or have you just stopped completely, awaiting the outcome of whether it's -- the project has been suspended?

Umberto Vergine - Saipem SpA - CEO

Well, when we received the indication of suspension in December, we were basically -- that was a Friday. And on the Sunday morning, if we hadn't received the suspension, we would have started to lay the pipes. So we are technically at that situation, ready to restart laying the pipes.

Christyan Malek - Nomura - Analyst

Okay. Thank you very much. Appreciate it.

Umberto Vergine - Saipem SpA - CEO

Thank you.

Operator

Nick Green, Bernstein.



Nick Green - *Bernstein - Analyst*

Thank you. Good evening. Thanks for taking my question. Two questions, please. One -- and apologies for continuing with this theme of the guidance. I'm just a bit unclear, then. If the revenue guidance is between EUR12b and EUR13b, and that EUR1b moving part in South Stream, how does then the rig renewal program fit into that equation because would that to be imply that the rigs agenda negotiation being discussed currently, the revenue level at least will be continued on their existing contracts?

Alberto Chiarini - *Saipem SpA - CFO and Chief Compliance Officer*

We think that this EUR12b, EUR13b range of revenues is factoring mainly South Stream because South Stream is around EUR1b. In terms of EBIT, if that is the question, if I understood the question -- in terms of EBIT, there could be other factors that could play in the range, which is pressure on margins, negotiation rates,

Also and here I told you maybe in the reasoning, also potential rephrasing. We didn't include potential rephrasing impacting the revenues on the revenues. But we decided to include that in the EBIT because otherwise the range would become too wide, and it was too difficult to factor this. And as I say, these are some of the issues that we consider maybe unlikely but we are not excluding.

Nick Green - *Bernstein - Analyst*

Okay. That sounds reasonable.

Alberto Chiarini - *Saipem SpA - CFO and Chief Compliance Officer*

Did I answer correctly to your question or --

Nick Green - *Bernstein - Analyst*

Yes, exactly the reconciliation I was after. Thank you. A second point then, perhaps to broaden it out a bit, if we -- could just talk through the impairments that you did take? I see in your note -- just had time to look at it before the call that you -- there was an impairment to the offshore drilling unit, and then to the offshore E&C unit as well.

Could you just -- I guess the drilling unit is fairly self-explanatory. The offshore E&C business, that would imply construction vessel write-down. Are you able to give any further details on the source of the impairment there?

Alberto Chiarini - *Saipem SpA - CFO and Chief Compliance Officer*

Yes, we took an impairment which is -- I can also give you some numbers, some figures. In the offshore drilling we took EUR250 million and that relates to rigs, cash-generating units with the method of discounted cash flow. In the engineering and construction offshore, EUR160 million, the vast majority relates the FPSO, one FPSO. And of course it was quite easy with a discounted cash flow method to evaluate an FPSO.

So the big change there from the previous situation is that the FPSO has a contract that is expiring in 2017, with possibility of three years expansion. And we found more cautious take a write-down on this asset though because with the current oil price it is difficult to expect prolonged utilization of this FPSO.

The remaining is just a minor offshore vessel, one which is currently not let's say, it's an old vessel and we are taking an accelerated depreciation, considering that the life of this vessel will probably conclude next year or in 2016.

Nick Green - *Bernstein - Analyst*

Okay. Thank you for that. And just one final question, then please, again trying to broaden it out a bit. Could you talk a bit about your cost base and any cost reduction plans you may have, whether that's headcount, whether that's footprint in various regions? I see you've got a fairly positive outlook on how much work may be out there. But, again, working through the downside scenario a bit, if there isn't as much work won in the next year as you currently expect, what levers do you have to pull around cost reduction and how -- I guess when we may expect you to start pulling those levers, if the market turns out to be less strong than you expect. Thank you.

Umberto Vergine - *Saipem SpA - CEO*

Okay. We have -- certainly, as you have seen, we are putting more and more pressure on CapEx reduction. If you recall, we started in 2013 with a figure that was original target in the range of --if I remember -- EUR900 million. Then we landed to EUR750m. Then we tried to reach EUR700m. We did that, and for the next year we are even assuming a lower number.

And that is a number that certainly has to discount the fact that we have to maintain our fleet. And our fleet is not only maintained by doing the good work to keep equipment in perfect condition or repairing, whichever breaks down. But also we have to take the recertification. And in 2015, we have a good number of drilling rigs that by coincidence almost simultaneously they have to go to dry docking for recertification.

On top of that, we have always the component of the cost associated to specific projects. And we look at that very carefully. We have identified that we should be able to control expenditure also in that area. Of course this continues to support net debt.

Then we have a number of other general internal cost components, from commercial cost, to cost of the business, to G&A in general. Well, we are starting now a more detailed project on the G&A. Now what we have already introduced during 2014 is the cost of the business, and particularly looking at area of our business where cost could have been linked to inefficiency. So not a matter of cost cutting but more quality and more efficiency.

That has to do with effective time utilization on the rigs, with better utilization of our yards, their capabilities, their resources allocation, considering that we have a network of fabrication yards. And we are basically putting our yard to work as a network, particularly for the first time because they were developed through the years under different criteria, to certain extent.

We are now looking at also at another measure that is what we call the cost of non-quality, so basically is on our E&C business the cost of non-quality in the supply that is mainly linked to the work also by our subcontractor and the quality of execution, in order to minimize reworks, redoing of activities, repair activities, all matters that remains directly in our cost.

This is a process of course. It is not an initiative that we can launch and decide that we kept from night to day a certain amount. But we have already identified a quite ambitious target for 2015, but that is a process that due to the complexity of our business needs some months to be able to quantify exactly the potential positive impact.

Nick Green - *Bernstein - Analyst*

Okay, thank you. So, just to clarify what I heard then, and I don't want to do math here. But you're saying that you don't see a need to cut headcount, to close renew offices, to take immediate radical measures to bring the cost base down. That's not a priority at the moment but is something you'll keep close tabs on going forward?

Umberto Vergine - *Saipem SpA - CEO*

No, no. Our headcount, if we look at the headcount is anyway a headcount that is a function of projects revenues. So, today we have a strong backlog. We have a number of projects ongoing. All our sources are directly located and that is true also for good part of our assets. Having said that, there is a lot of room for improvement and we are already working on that.

Nick Green - *Bernstein - Analyst*

Okay. That's all from me. Thank you very much.

Umberto Vergine - *Saipem SpA - CEO*

Thank you.

Operator

Mukhtar Garadaghi, Citi.

Mukhtar Garadaghi - *Citi - Analyst*

Good evening, gentlemen. Just a couple of questions from me. First of all, could you please elaborate on what you cap the movement in the fourth quarter and how much of that EUR782m movement is prepayment and how much is general recovery of the outstanding working capital? And could you just recover -- sorry, remind us how much is still there remaining?

And my second question is just to come back to the impairment. You were quite clear on what you did. But in terms of the wider offshore E&C fleet and your drilling fleet, what needs -- what other triggers for you to impair further? Is it the need -- the utilization need to drop to certain level? How do you think about further impairing some of the offshore installation assets and such? Thank you very much.

Alberto Chiarini - *Saipem SpA - CFO and Chief Compliance Officer*

Okay, I will answer both questions. So as far as the working capital, we had an improvement of EUR300m this year in the working capital, and this is mainly due to some resolution of our working capital issues in a project in Saudi Arabia was it -- maybe you recall that this was cited in the past, that the project had very bad phasing terms. We managed to sort out part of this and also all the pending revenue issues. So, broadly 50% is due to better -- reduced working capital in terms of receivables and partly from the pending revenues resolution.

Of course it is difficult, when you talk about working capital, to capture the whole moving parts. For example, we did not have a very good result with the receivables in Venezuela year end. But we managed to have a good payment in January which brought us to this decision not to write down any Venezuela receivables. But at the same time, if you look at year end which is a snapshot, the receivables in Venezuela are still high.

So other issues, there are currently some problems in the speed of the payment in Brazil and we believe that this is mainly due to the Petrobras situation that is currently a bit unclear. But apart from that, the trend is in reduction of the working capital which was a very good result for us.

In terms -- the second question, in terms of impairment. In terms of impairment, as I said, we performed an impairment test from 21st, the cash generating unit, all the drilling rigs offshore, the FPSO, plus the two engineering and construction onshore and offshore, in order to make sure that we could maintain the goodwill.



We still have a goodwill on those two business units because of the former acquisition of Bouygues Offshore. And the test was performed in accordance to the [IFRS] 36 and in coordination with our auditors. So except what we have written down, we do not see at the moment any reason for other impairment on our asset base.

The other unit that we performed an impairment test is drilling onshore unit as a whole. So we didn't perform impairment test on any single onshore drilling rig because this is not in line with our business model and with our presence in the countries, in the drilling onshore.

Mukhtar Garadaghi - *Citi - Analyst*

Thanks very much. And so just to come back to the working capital question, how much sort of -- I remember you were talking about EUR500 million of sorts being in question in Algeria to be recovered in terms of working capital. How much more working capital recovery from complicated places do you assume in 2015 to get to your below EUR4 billion guidance in net debt?

Alberto Chiarini - *Saipem SpA - CFO and Chief Compliance Officer*

We need around EUR200m, in order to reduce below EUR4bm.

Mukhtar Garadaghi - *Citi - Analyst*

Okay. That's clear. Thank you.

Operator

Rob Pulleyn, Morgan Stanley.

Rob Pulleyn - *Morgan Stanley - Analyst*

Yes, good evening, gentlemen. Just really one question for myself left over and that's regarding Algeria. If I am not mistaken, the Italian authorities have finished their investigation, I so believe, anyway. So I was wondering what the next step was. There was some reports in the Italian media that perhaps they had a story. And I was wondering whether that meant you guys were preparing for legal proceedings or whether this is a storm in a teacup, and from your perspective that problem is completely behind you. Thank you.

Umberto Vergine - *Saipem SpA - CEO*

Well, on the investigation here in Milano, the situation is like this. The investigation phase has been closed and the prosecutor requests the court to bring charges to all the parties under investigation, therefore including also Saipem. Now where we are. We are at a point where the court will decide in the coming months probably, whether to bring charges. So at this moment in time, this is exactly the situation. And what is reported by the media is somehow correct, somehow less precise but this is actually the situation. I don't know if you have something --

Alberto Chiarini - *Saipem SpA - CFO and Chief Compliance Officer*

The only thing that we can say is that when the prosecutor decided to bring to close the investigation, of course we have been -- we had access to something like 84,000 pages of the investigation. So we're reading that with our lawyers and we are examining that to see if there are something different and additional, from what we knew earlier.

But in the synthesis of the investigation result, there is nothing so far that is changing our view -- our previous view on [them all].

Rob Pulleyn - Morgan Stanley - Analyst

Okay. Because obviously you guys or Saipem had its own internal investigation, which as you reported, found no evidence of wrongdoing. So I was wondering what the prosecutor -- the investigator found that he's requested the court to look at that you guys didn't find. Is there anything definitive that's different between their conclusion and your conclusion?

Alberto Chiarini - Saipem SpA - CFO and Chief Compliance Officer

Of course but we cannot compare our internal investigation which was mainly a documentary investigation, even if forensic with the investigation of the prosecutor which has access to telephone calls and any kind of potential hardware to find accessing to bank accounts and other things that of course we couldn't do. Having said that, I can tell you again that notwithstanding all that, so far we don't have any real element to change our view on the Algeria investigation.

Rob Pulleyn - Morgan Stanley - Analyst

Okay, fair enough. Thanks, gentlemen.

Operator

Amy Wong, UBS.

Amy Wong - UBS - Analyst

Good evening. I just have a question relating -- to get your view on the order intake outlook. Given you have quite a specialized fleet to do a lot of work on the deep water, in contrast to that, there were a lot of -- your clients are talking about how cost structure, they just need to come down, especially for areas where the complexity has increased a lot, like such as the deep water.

How do you respond to that, and how does that affect your outlook on the deep water and the ability for clients to move forward on some of these large projects? I appreciate your slide 18, where you talk about a lot of projects on there. But what's the likelihood of your clients being able to move forward on those types of projects, given the constructal costs are just so high in the industry?

Umberto Vergine - Saipem SpA - CEO

Well, our opinion is always secondary to the opinion of our clients. That is obviously seems a very simple statement but I think that this is what we have to consider. When we look at where our -- most of our clients particularly the IOCs have today the largest amount of undeveloped reserves. It is certainly an issue that will proceed with a lot of pressure, in terms of cost -- controlling cost reduction for which, as you know, we have already identified measures of trying to work more carefully and closely to our clients, in order to reduce their cost, like our initiative to create a dedicated company to study preliminary phase of subsea project.

But certainly today we don't see any indication of our clients moving away from this project, both in terms of projects under execution, or going under execution, or being on tender. I think that would be a very tough call from our client, particularly an international oil company because they need to continue invest to build their reserves.

Of course also we have a number of projects that are not strictly linked to IOCs, international oil company strategies for which we are more confident that the impact during 2015 could be less severe, at least in terms of pressure on cost.



Amy Wong - UBS - Analyst

All right. That's very kind. Thank you.

Umberto Vergine - Saipem SpA - CEO

Thank you.

Operator

David Farrell, Macquarie.

David Farrell - Macquarie - Analyst

Thank you. Just one question from me, it relates to the offshore margin guidance. Previously you said margins could move to mid-teens and closures in the high single digits. I guess giving your comments around impairments, that guidance still holds. And I'm just wondering on what kind of timeframe that may be, given the outlook for order intake.

Umberto Vergine - Saipem SpA - CEO

Yes, the guidance is still valid. Certainly when we look at 2015, we have a combination of elements that are very important in order to understand how we put together our numbers. First of all, we have the impact of the closures activity. During 2015 the component coming from [John Creek] and Colombo is certainly pretty high in the total year activity. And that of course brought down the average margin that we expect to have. We still have about EUR900 million of legacy projects related to offshore, and this of course is a component that not only generates zero margin but creates poor absorption or no absorption of cost.

We have mentioned about the uncertainties about the South Stream and we have certainly a growing component of idleness on the lower part of our fleet that certainly we consider too that would suffer a certain aggravation during the year. Then this is about what we have already on end.

Then there is the new component that we still have to acquire, in order to reach our expected revenue that is in the range of about EUR1.5 billion, if it's correct. And of course we are factoring a certain pressure on margin, particularly linked to the present situation of the scenario driven by the oil price.

Kashagan also is a project that will go in our offshore business unit. Of course Kashagan is 50% offshore and 50% onshore, in terms of pipeline. So that is solving that probably. When you used to look at the Kashagan contract of Saipem of the past year, it was not so relevant because the pipeline project was part of many other projects that of course were a premium for Saipem, in terms of location and predominant position of Saipem. Today, we are talking about one project and at least we don't have the mitigation effect from other activities there, or not mitigation but premium effect.

And of course don't forget that for our client, this is a petition of work already done, so certainly during the negotiation it was very clear that the attitude of the client has been particularly severe, and I would say that we have agreed with that to put together not only a very tough schedule but also an optimized commercial proposal.

David Farrell - Macquarie - Analyst

And that's great. Thank you very much.



Operator

Andrew Dobbing, SEB.

Andrew Dobbing - *SEB - Analyst*

Good evening. Assuming South Stream doesn't go ahead, I'm trying to get a feel for how long the two vessels that are allocated to that contract could be sitting idle. What are the next scheduled projects for the Saipem 7000, the Castoro Sei? That's the first question.

Secondly, when we're looking at the upcoming FPSO deliveries in Brazil, I think, at least if we look at Petrobras's most recent presentation there is about six that should be up and running in 2016. I don't think that there has been any surf awards for any of those units, which I guess implies it's all going to be flexibles. Is that a fair statement in your view or are you actually bidding EPC work for some of those FPSO deliveries in 2016? Thank you.

Umberto Vergine - *Saipem SpA - CEO*

Okay. I will ask Gigi Caselli to give you some of this comment.

Gigi Caselli - *Saipem SpA - COO*

Good evening. Regarding your question about fleet utilization and namely Saipem 7000 and Castoro 6 I believe what our CEO just mentioned before is the fact that the market for Saipem 7000 during the summertime, the ideal market is in the North Sea, Norwegian continental shelf, and the North Sea itself. As you can easily imagine, in case of termination, it would be extremely difficult, I would say almost impossible to find any suitable work for a vessel like that. Whatever work has been already assigned and everything is planned. So basically, depending upon when the termination will arrive, we could think about reallocation by the next year, end of this year, late end of this year, and next year.

Andrew Dobbing - *SEB - Analyst*

But do you have anything at all in your backlog for those vessels? I would have assumed that there were contracts. I'm kind of -- I'm pretty bearish about opportunities to fill the gap. But, I mean, what are the contracts you have in your backlog already for those vessels? I assume there are contracts in place for those vessels, to do work in 2016. Is that correct?

Gigi Caselli - *Saipem SpA - COO*

One is it's a very challenging question because of course you can use the 7000 for doing certain activities, although in the vast, vast majority, the vessel will be overcapacity. So it would be a tremendous cost just to use it. But there is a possibility of course to fill some activities that otherwise you have to find an alternative solution. But as you can imagine, to lay a 12-inch line, a small track line with the 7000 is a lot of shot.

Regarding Castoro 6, this is a completely different story, because Castoro 6 is a very specified -- very specific vessel for very specialized activities, and I don't see anything this year that we could use Castoro 6. I think it would be next year.

Andrew Dobbing - *SEB - Analyst*

Okay. So there is actually nothing at all in your backlog at the moment for those vessels?



Gigi Caselli - *Saipem SpA - COO*

No, not for this year. Not this year.

Andrew Dobbing - *SEB - Analyst*

And for next year?

Gigi Caselli - *Saipem SpA - COO*

Next year. Yes, of course, next year. Then Saipem 7000 is supposed to have completed the South Stream and will resume its own strings of activities that we already have booked in our backlog.

Andrew Dobbing - *SEB - Analyst*

Yes, that was my question. What work is that and when does it start?

Gigi Caselli - *Saipem SpA - COO*

This of course will be at the end of alleged South Stream, so it mean by next year, as soon as we be over with South Stream.

Andrew Dobbing - *SEB - Analyst*

Okay. Thank you. And the question on Brazil?

Gigi Caselli - *Saipem SpA - COO*

Okay. On Brazil, as you rightly mention, these FPSO are going towards the flexible solution. We are engaged for the activities that was mentioned before, regarding the [techno grado]. And for the time being, there is no current anything, just in the short term.

Andrew Dobbing - *SEB - Analyst*

Okay. So it does look like all those next six units will be a flexible solution and you won't have any exposure to that.

Gigi Caselli - *Saipem SpA - COO*

This is what I speculate.

Andrew Dobbing - *SEB - Analyst*

Okay, very clear. Thank you.

Operator

Luigi de Bellis, Equita SIM.



Luigi de Bellis - *Equita SIM - Analyst*

Yes, good evening. Two quick questions for me and the first one on the guidance. Could you split your EBIT guidance for 2015 between drilling and E&C pointing out if you expect still a loss at EBIT level for onshore E&C.?

And the second question on the net debt guidance, do you expect to reach below EUR4b of net debt, also in a scenario of cancellation of South Stream or putting in another way what is the cash flow linked to the South Stream in 2015? Thank you.

Alberto Chiarini - *Saipem SpA - CFO and Chief Compliance Officer*

Okay. As far as the split among -- as far as business units in 2015, we still see a loss of EBIT level in the onshore business and this is due to the fact that the recovery in the onshore is proceeding with a much slower pace than the offshore and that the margin on the product is not sufficient to cover the fixed cost impact.

As far as the drilling, we expect in the drilling with of course all the -- what we have said in terms of guidance. We expect the drilling to be lower than this year, slightly lower than this year for some pressure on the margins that we can foresee but not with a major impact.

Luigi de Bellis - *Equita SIM - Analyst*

Thank you. On the net debt guidance --

Alberto Chiarini - *Saipem SpA - CFO and Chief Compliance Officer*

Second question was about the cash flow for South Stream. Yes, cash flow from South Stream it will follow basically what we have said in terms of potential termination. If there is a potential termination, the cash flow within the first quarter, the cash flow should be almost neutral meaning that the cost of the idlement of the two vessels should be compensated and offset by the termination fees.

Luigi de Bellis - *Equita SIM - Analyst*

So, do you expect to reach below EUR4b also in a scenario of cancellation of the contract?

Alberto Chiarini - *Saipem SpA - CFO and Chief Compliance Officer*

Yes, that is the target. And we believe that we can achieve that even in case of cancellation of South Stream, yes.

Luigi de Bellis - *Equita SIM - Analyst*

Okay. Okay, thank you very much.

Alberto Chiarini - *Saipem SpA - CFO and Chief Compliance Officer*

Thank you.



Operator

Andrea Scauri, Mediobanca.

Andrea Scauri - Mediobanca Securities - Analyst

Yes hi, good evening. Thanks for taking my questions. I have two questions. The first one is on asset disposal. Do you expect any possibility to finalize any disposal of some vessels? In particular, I refer to the FPSO that you have in your fleet in order to accelerate, to the speed up the deleveraging process of the balance sheet?

And second question about the Algerian arbitration, I was wondering if a potential settlement with the Algerian authorities have to be put in correlation with the investigations and the finalization of the sentence from the Milan prosecutors? Thank you.

Umberto Vergine - Saipem SpA - CEO

On the issue of the disposal, I go back to what we said a further of times. We have a number of activities that are part of the business model of Saipem, that are potentially not core to the business of Saipem and in light of our financial situation, in case we have opportunities that are interesting for our shareholders, we can look at them and to evaluate if the opportunities fit some of our strategic objective among which of course one of the first is the reduction of our debt. We have worked on that. We have looked at the opportunities. We have some indication for the market in the past, what is a real story today.

Today, everybody is more concerned about is cash flow generation, about is capital investment and the value that we can win to obtain if we had an offer that we don't have for some of our business, would be certainly not sufficient to make our disposal an opportunity, but will be a kind of extreme resort sell -- sale and that is not at all the situation in which we are. So basically for considering what we have said before about the continued support financially from Eni, our need of -- our possible need of continuing with a limited level of investment. Our expectation to generate also next year sufficient cash to reduce our debt that is in my view the short-term approach that we're going to take.

And on the second part of the question, Alberto, maybe --

Alberto Chiarini - Saipem SpA - CFO and Chief Compliance Officer

I think you talked about potential settlement either with Algerian authorities or maybe even with Italian authorities. Is it out of the question? So far we don't have any idea or any reason for looking at the settlements because again, in our opinion there is not yet enough time to do that.

Andrea Scauri - Mediobanca Securities - Analyst

Okay, thank you.

Operator

Bertrand Hodee, Raymond James.

Bertrand Hodee - Raymond James - Analyst

Good evening. Thank you for taking my question. I have two questions if I may. What is your level of down payments at the end of 2014? I recall the chief [disclosure] around the EUR700 million at end of three.

And I am not sure I understood the exact numbers, so can you repeat what is the remaining part of the backlog etc., that you linked to legacy contracts and can you split between offshore and onshore and also can you speak the executions scheduling for 2015 and 2016?

Umberto Vergine - *Saipem SpA - CEO*

Okay, maybe we'll have [partly] repeating your first question. I'll start answering to your second question. We have said that in 2015 we will have a remaining component of legacy projects worth EUR1.8b that I -- this is amount is basically 50%-50% allocated between onshore and offshore. It is -- we expect to complete almost all the work by the end of this year. At the worst we would have a very, very reduced tail at the beginning of 2016 on one of the projects.

Bertrand Hodee - *Raymond James - Analyst*

Yes, it was the level of down payments of contract advances that you have at the end of 2014 knowing that yes, the build in working capital or the positive move in Q4, probably points to some down payments linked to contractor work or?

Umberto Vergine - *Saipem SpA - CEO*

Sorry the line is very noisy. I'll I try to guess on what you were asking. You are asking how the working capital improvement in Q4 was made off, correct?

Bertrand Hodee - *Raymond James - Analyst*

Yes. Or more generally I would say what is your level of down payment you have at the end of 2014?

Alberto Chiarini - *Saipem SpA - CFO and Chief Compliance Officer*

Okay. The down payment at the end of 2014 still in our book is EUR650m around. We have also a number of trade payable of around EUR3.5b as well as trade receivable and work-in-progress inventories in advance to suppliers that is almost balancing that.

The important thing is that in what we are trying, we still have a let's say a sizable negative working capital in our books and all our efforts are trying to reduce this impact of working capital and as I said we believe that we can reduce it by another EUR200m in 2015 and also in 2016 linked to the issue of the pending revenues we should have an improvement in the working capital. So the target is to reduce at least another EUR500m, EUR600m before reaching the EUR2b that target in 2018.

Bertrand Hodee - *Raymond James - Analyst*

Okay, thank you. And one last question if I may. You've indicated that you have still a very large contract in Venezuela at end of 2014. Can you give us an order of magnitude? And also given that you've also hinted for good news on that front in early 2015 in Venezuela, can you give us either I would say both number as of end 2014 numbers and now what is the current level of (technical difficulty) levels in Venezuela. Don't want to have an absolute number but just have an order of magnitude.

Umberto Vergine - *Saipem SpA - CEO*

I think that in Venezuela the effort that we have put in place during I would say all of last year has eventually pay out half end of December, but that is irrelevant. The relevant thing is that not only we got a sizable payment of the outstanding on the outstanding invoices for our drilling rigs,

but we have also eventually cashed in what was a settlement so that was reached years ago on the repayment for a petrochemical plant that was nationalized initially and then we reached a certain agreement in order to get a compensation for that.

And considering the peculiar situation, difficult situation in which Venezuela as a country is, I think that our good relationship with Pedevesa are proved by the ability that our people had in continuing the negotiation and eventually bringing home a large amount of payment during January. And I think that Alberto can give you some more details.

Alberto Chiarini - *Saipem SpA - CFO and Chief Compliance Officer*

Yes, in numbers, at the end of 2014 we had that a credit level of around \$290m of which \$200m were overdue and we managed to be paid around one-third of the overdue in January 2015. Moreover, what we are trying to do with Pedevesa in order to stabilize this -- this working capital that is of course has a lot of up and downs is to reach an agreement whereas we decided to maintain a fixed number year end. But to reduce these numbers during the year in a more say, continuous way and more stable way rather than the current situation where we have a lot of up and downs that are unknowing for our situation, for our cash flow situation.

Bertrand Hodee - *Raymond James - Analyst*

Thank you very much.

Umberto Vergine - *Saipem SpA - CEO*

Thank you.

Operator

Thank you. That will conclude today's question-and-answer session. I will like to turn back the call over to our speaker for any additional or closing remarks.

Umberto Vergine - *Saipem SpA - CEO*

I thank you. I thank you for your attention and for your questions. Good night.

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