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SPM.MI - Q3 2016 Saipem SpA Earnings Call

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PRESENTATION

Operator

Good day, and welcome to the Saipem third quarter 2016 results and strategy conference call. Today's conference is being recorded. At this time, I would like to turn the conference over to Mr. Stefano Cao, CEO. Please go ahead, sir.

Stefano Cao - Saipem SpA - CEO

Good evening, ladies and gentlemen, and welcome to our strategy update, third quarter and 9-months results presentation. I'm here with Giulio Bozzini, Chief Financial and Strategic Officer, and Gigi Caselli, Chief Operating Officer.

You are all familiar with the way in which the oil and gas markets have evolved this year. It is apparent to us all that meaningful market recoveries, despite any stability in the oil price, is now delayed into 2017 and beyond. This, of necessity, substantially changes the planning assumption that we had made more than a year ago. As a result, we are bringing forward decisive measures to reshape our business model and organization to address the landscape we face today and next year. But these changes, I firmly believe, will also prepare us better to exploit the future up cycle when it comes.

Firstly, let's look at our organization. We have made great progress at Saipem in the last 18 months, but as an independent business, after deconsolidation from Eni, we can now bring forward a further set of radical changes to deliver greater accountability, significant advances in efficiency and effectiveness, and to promote our strategic flexibility.

Also, we are announcing today the establishment of a new high-value engineering services division. We see a significant market opportunity in this segment, and have identified a set of competitive advantages unique to Saipem in this field. You will have seen from our announcement that we are conducting a significant rationalization effective to our balance sheet at Q3 close, to align the valuation of our assets with our updated market outlook.



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And finally, a vital part of our updated strategy will be an enhanced role for technology and innovation in underpinning Saipem's competitiveness and future growth opportunities.

Turning to the performance highlight for the period, I'm pleased to report a continued strong performance showing by our offshore business through the quarter, both in E&C and drilling. We are continuing to deliver it.

On our deleveraging efforts, net debt is now below EUR1.7 billion, credit in part to positive working capital evolution. Furthermore, we have successfully completed our EUR1 billion inaugural bond issue, strengthening our capital structure.

We have enjoyed a strong order intake of EUR6.6 billion, returning the backlog to growth at EUR14.6 billion. I'm pleased to say that we expect our trading performance through the full year 2016 to meet the guidance target previously set. However, we must now adjust our numbers for the write-offs and impairments, and this will be addressed in our reported results.

Today, we are also releasing our 2017 guidance, which I will address at the end of the presentation.

Let's now turn to the market outlook, which remain uncertain. Much as when we last spoke to you, current oil price levels are still delaying industry CapEx recovery, and we need to see development costs reduce further if E&P spending is to rise. Upstream operators continue to be strict in their management of any cash outflows. In these market circumstances, you should expect further industry consolidation and/or development of alliances.

E&C offshore faces continual fleet underutilization, although certain brownfield and a few greenfield projects are being enabled by smart and cost-effective technology. The pressure facing onshore has had not changed, with a few bright spot in the Middle East, downstream, and non-oil-related segments. The outlook in the offshore drilling industry is as challenging now as at any time in the cycle, and in onshore drilling there is really only good visibility in the Middle East, while South America remains weak.

Slide 7 explains the continuity between the strategy as we have explained in the last year. You will be familiar with our strategic pillar on the left of the slide, and the [face of] reforms we are putting through our business. To be clear, our strategy remains the same, but we are making a very decisive response to continue market circumstances and to be ready for the market upturn.

Our cost reduction program is firmly on track. Now, additional radical changes to the business model will deliver further significant efficiencies, bring real strategic flexibility, and introduce Saipem to a new high-value engineering market.

On this slide, I would like to bring your attention to our emphasis in continuing to build an innovation culture on our business, and our readiness to support this with selective budget increases. I would also highlight the continued focus on working capital management and CapEx control. Giulio will talk to you about our confidence in delivering these last two in his section.

If we turn to page 8, allow me to spend a few moments on the rationale behind the organization overall we are launching today. Historically, Saipem has possessed an highly centralized organization, supporting business activity. In the past, this has represented the pillar of growth and a competitive advantage for us. But as an independent business outside the boundaries of Eni, in a very different market context, it requires urgent adaptation.

Our new business model demands agility in decision-making; autonomy for its division in identifying its priority and targets; and the capacity for divisional management to focus on operational performance. We intend to achieve those objectives via more effective structures and processes, designed for each business and its own market peculiarities; full divisional accountability for decisions and results, with objectives tailored to each business; strategic flexibility to enable the Group to pursue M&A and/or joint venture opportunities.

The new organizational model, once fully deployed, will become one of our main drivers of growth upon market recovery. A significant factor in delivering accountability and effectiveness is the de-layering we can achieve to eradicate bureaucracy and bring Management closer to clients and project delivery.



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Five separate new divisions, to become legal entities, will be introduced, each with appropriate organization and management to allow it to take independent responsibility for performance and cash flow. These entities will be supervised by a lean corporate structure which keeps the steering and control responsibilities; defines Group goals and strategies.

The five entities will be characterized by operational and financial targets aligned to the characteristic of their target market; dedicated engineering, procurement and construction resources; individually lean and customized processes, methodologies and tools; the opportunity of a [fee] with a greater effectiveness in innovation project specific to each business, relying as required on the corporate center's core competencies and control.

We anticipate an initial head count reduction of around 800 staff in Europe, with further cost savings enabled by process efficiency. Today marked the beginning of a dramatic change in the way we run our business. We do not know yet the full span of the changes, but personally, together with the whole Management team, we are committed to exploit the full potential of such a change.

In the context of the new organization, I am pleased to announce the establishment of a new entity, high-value engineering services. Let me explain the major commercial opportunities we identify here for Saipem, and how we see our competitive advantage in entering this market.

Clients throughout the oil and gas industry are beset by rising complexity in their projects. With our experience in solving the biggest technical challenges, our capability in EPC services, and our leadership in certain technology, we see an opportunity to work with clients from the very earliest phase of a project to reduce complexity and cost, and better manage risk.

It's worth pointing out that this has been a fruitful area for Saipem before. Snamprogetti was highly regarded in the industry for its work across the entire oil and gas value chain, and that we can add significant value for clients; or, just as importantly, remove substantial costs from projects. The return for Saipem can be highly attractive.

Furthermore, the new business will be able to exploit rather more effectively Saipem's considerable library of [proprietary] knowledge. It will take charge of the management of some 200 licenses, controlling Saipem's highly-regarded body of intellectual property, including a portfolio of over 2,100 patents in various fields.

The new divisions, initially bringing together around 600 employees, will operate across the spectrum of the businesses in which we are already active. It will provide services such as feasibility study and master planning, pre-FEED and FEED, as well as project management consultant services. This will allow us to strengthen our relationship with clients, via early engagement and fit-for-purpose, efficient solutions; increase the opportunities for future awards; and de-risk project executions.

The work of this new division is in part already embedded in a number of our services, through focusing highly specialized competencies, currently dispersed across the engineering entities of our Group. The new division will also act as a catalyst to develop internal engineering capabilities further, advancing our competitive edge in technology and innovation.

We anticipate the new division should be able to generate, in the first year, a revenue stream of around EUR80 million, growing to a stable stream of around EUR200 million in the coming 4 years.

Let me now turn to the Fit for the Future program. The cost saving program is progressing on schedule. Within the program, 36% of the planned initiatives are now completed, while the balance is in line with plan schedule. We can confirm the expected beneficial impact to Company's results, EUR1.7 billion of expected savings, with accumulated EBIT improvement around EUR1 billion. Among the completed action, it is worth mention the successfulness and rationalization of our centers in Romania, South America and UK. We are on track to achieve the planned program head count reduction.

As part of our updated review of the business, we have also aligned the size of our asset base to reflect the market environment the longer timeframe of recovery. In particular, we have taken action for those asset for which, currently, we do not see near-term business opportunities.



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The most severely affected business is offshore drilling. Here, we have written off the value of several assets with negligible near-term commercial prospect, while for those assets currently in operation, with viable medium-term prospects, we have realigned their value to reflect expectation all over the (inaudible).

In onshore drilling, we have written off around half of our Latin America drilling rigs to reflect local market circumstances and also idle equipment in the CIS area. In the E&C, we have further reduced the value of the yards and logistic bases in areas such as Canada, Brazil and Iraq, where we anticipate a lack of significant future activity. For these assets, monetization options are being explored. Finally, we confirm our previous targets with reference to disposal of non-core assets compatibly with market conditions.

Let's now turn to technological innovation. Saipem has a long tradition in innovation, driven by [frontier] operations. However, a step change impels, and the new innovation strategy is now a necessity, both in scope and intensity, to cope with the current market scenario.

We have decided to take a two-pronged approach. Firstly, last June, we launched a new initiative which we call the innovation factory -- an idea incubator aimed at testing solution to address the challenges of the energy sector, but adopting new technologies and methodologies, and gaining a boost in terms of productivity to secure competitive advantages.

Currently, a cluster of our most talented young people, drawn from different professional backgrounds, are working on strategic themes identified by top Management. They are working in a dedicated physical space, where they can express their creativity without constraints. Their task is to leverage lateral thinking and creative problem-solving to generate innovative idea and take forward to prototype those deemed valuable. This experience is helping to promote an innovative and collaborative culture throughout the Company.

Secondly, as regards the more conventional world of technology innovation, our efforts are continuing in the strategic market of subsea; also, widening our portfolio to areas not yet commercial. I will address a few examples of ongoing development on the next slide.

As regard to onshore business, while we intend to leverage our excellence in fertilizer and LNG, at the same time we are developing new breakthrough approaches for CO2 management; also for upstream applications. In the area of assets, we intend to modernize our fleet through adoption of new products and automation and digital technologies, and devote time and attention to new concept selection for construction vessel of the future.

Innovation in technology will progressively attract an increasing share of our spending in the coming year, and the further growth is forecast. We'll plan to deploy more than 100 full-time employees in this area. At the same time, our patent portfolio continues to grow, registering a number of new patents. Much of this intellectual property is monetized through licensing activity, especially in fertilizer and petrochemicals.

We are currently working on innovative solution capable of changing how existing subsea fields or new subsea infrastructure will be developed, by reducing the total cost of ownership. As an example, our active heating technologies are enabling the tie-back of fields at longer distances and with larger pipe diameters.

The SPRINGS subsea technology, developed together with Total and Veolia, is able to reduce the sulphates contained in the sea water injected into a reservoir, and as a consequence to increase the field's production.

We are also working on a new concept of a permanent subsea infrastructure. This is chiefly composed of a new hybrid ROV called HyDrone, which will enable the life of field management services to be conducted as an extension of our EPCI offering.

In the LNG market, Saipem has long experience and comprehensive know-how. In floating LNG, we have recently fully qualified a tandem offloading floating system together with a highly-regarded specialist firm, and one of our subsidiaries recently achieved a pioneering development in the market for conversion of LNG carriers.

Moving to our business opportunities, our backlog increased to a healthier EUR14.6 billion as at the end of September, fueled by EUR3.3 billion awards in the third quarter, mainly driven by the Zohr project in Egypt, the Tangguh LNG development in Indonesia, as well as onshore drilling



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new contracts, mainly in Saudi Arabia. As usual, the backlog also benefited from valuation orders for (inaudible) various ongoing projects, and other smaller awards which are normally not subject [to] announcement.

Turning to page 16, you can see that residual orders to be executed in 2016 amount to around EUR1.9 billion. Taking into account the revenues already booked in first 9 months 2016, we have reached a revenue coverage closer to 95%.

The share of backlog to be executed in 2017 amounts to approximately EUR6.7 billion, with a revenue coverage on target 2017 revenues of approximately 67%.

Now, I'll provide our usual look across the various E&C projects on which we are currently bidding, or initiatives we are negotiating with the clients. May I remind you that the list includes projects already assigned to us, although still pending final investment decision. The overall total value is exceeding EUR33 billion, reflecting certain cancellations and awards to competitor, mitigated by the addition of a few new initiatives such as subsea field [development] for ONGC; the Baku refinery for SOCAR; the high-speed railway, Moscow-Kazan; and the phase II ethane deep cut project for GASCO.

We also provide the [customized] schedule of our offshore drilling fleet commitments. This, while highlighting the good level of coverage in 2016, thanks to long-term contracts awarded in the past, also shows that 2017 will be a more challenging year, with a number of contracts coming to an end.

Although we are currently in negotiations of [attention] and possible new initiative, it is clear that our long-term commitment model needs adapting to clients' lower demand, focused on utilization and shorter-term contracts. As previously illustrated, you can see in the slide the three vessel currently unemployed, and whose value has now been written off.

During the quarter, we negotiate with our clients the extension of the Scarabeo 7 and the Tender Assisted Drilling respectively for approximately 4 and 7 months, in exchange for an equivalent stand-by period. Also, after a period of negotiation with our client, we received confirmation of early termination notice for the Perro Negro 8, which will stop activities at the end of 2016. We are currently exploring possible alternative interests in Middle East.

In onshore drilling, the stability of our fleet actively deployed in Saudi Arabia, but coupled with increasing [reguidaments] in South America, led our weighted average fleet utilization rate to fall to 67%.

I shall now hand you over to Giulio Bozzini to take you through the financial performance for the period.

Giulio Bozzini - *Saipem SpA - Chief Financial and Strategy Officer*

Thank you, Stefano. Consistent with first-half results, this slide excludes item outside the ordinary course of business, most particularly asset write downs and the devaluation of drilling onshore receivables in a specific country. Reported figures inclusive of the abovementioned extraordinary effect are shown in following slides.

3Q revenues are broadly in line with our expectations across our businesses. The 9-months revenues decrease versus 2015 is due to the following -- lower activity, chiefly in the Middle East and in Far East, in E&C offshore; higher inactivity in offshore drilling; lower utilization in onshore drilling, mainly in South America.

Turning to margins, E&C offshore margins proved to be robust and resilient despite the already anticipated slight decrease versus Q2 2016 peak, as a result of good operational efficiency. In E&C onshore, operating margins are approximately at breakeven. Drilling offshore, despite a steady trend of revenue decrease due to the deterioration of the market, posted extremely resilient margins in the quarter and in the first 9 months of 2016.

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I have to remind you that drilling offshore results are still partially backed by long-term contracts negotiated in significantly better market environment. As rates are renegotiated, they will align to current market conditions. Drilling onshore results continued to be penalized by depressed South American activity. The reutilization rate was approximately 67% in 9 months 2016 versus 92% in 9 months 2015.

For sake of clarity, no more activity is previously ongoing in Venezuela. Receivable exposure is now totally provisioned in reporting figures, as anticipated on our July call, should no additional payment be received. 9 months adjusted net profit is in line with full-year guidance. The quarter recorded an increase in financial charges, mainly due to higher hedging costs as the result of a credit spread increase and the effect of the bond issuance.

The 9 months reported results include following special items. The write-off associated with asset rationalization and preliminary impairment test, as described in following slide, totaling EUR2 billion, consistent with first half 2016, given the fact that we did not succeed in obtaining payment in one specific country and onshore drilling activity in that countries was consequently totally stopped, all the outstanding credit was provisioned.

This leads to a EUR144 million charge, inclusive of EUR87 million already provisioned in Q2 2016. EUR100 million were provisioned in 2015. The totality of our credit, either overdue or not, is now 100% provisioned.

As a result of the above, the 9 months 2016 net reported result goes from a profit of EUR200 million to a loss of 1.9 billion. The full-year reported result will include the abovementioned special items. As better explained in following slides, the write-offs and impairment charge will be fine-tuned at the year-end according to final numbers. In addition, the reorganization of the Group described in slide 9 should trigger an additional provision for redundancy, estimated at EUR20 million in 2016.

As previously mentioned by Stefano, the new strategic plan of the Company is based on a market scenario which factors in a depressed level of global E&P investment, especially in drilling and deepwater, for longer than was previously anticipated. This plan is the basis for an asset rationalization and preliminary impairment test, whose results are hereinafter summarized.

In offshore drilling, some rigs, mainly semisubs, were partially devaluated as a result of the impairment test. In addition, two old jackups and one old semisub were fully written off, since foreseeable market conditions do not predict their utilization over the planned period. Total drilling offshore write-off and impairment is estimated at approximately EUR1.1 billion.

In onshore drilling, some rigs were partially devaluated as a result of the impairment test. In addition, all assets present in a specific Latin American country, and not usable as [were], were fully written off, since we are prudently assuming no activity over the planned period. Total drilling onshore write-off and impairment is estimated at approximately EUR200 million.

In E&C offshore, one old combination vessel with expensive 2017 class requirements was fully written off. Two FPSOs were partially devaluated as a result of the impairment test. In addition, given the expected reduced workload over planned period, and less strategic role of our fabrication yards, some of them were partially devaluated. Total E&C offshore write-off and impairment is estimated at approximately EUR400 million.

In E&C onshore, one yard, no longer strategic given reduced [country] prospects, was fully written off, while a logistic base was fully written off. Total E&C onshore write-off and impairment is estimated at approximately EUR100 million.

The abovementioned impairment, coupled with forecasted reduced activity and marginality in some countries in the new plan, determine a fiscal asset devaluation estimated at approximately EUR200 million. As a result of the above rationalization and preliminary impairment exercise, we envisage an extraordinary 2016 charge estimated at approximately EUR2 billion.

Please note that this write-off and impairment exercise will have to be fine-tuned at year-end as the result of, inter alia, final net capital employed and [VAC], as well as any major events impacting planned projections. The exercise was preliminarily executed given 2016 timetable, with 2017 guidance backed by the new strategic plan in October. Since 2017, we will be back to the usual timetable, with guidance for 2018 and plan approved in February/March 2018, together with 2017 actual figures and impairment tests.



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The working capital dynamic in the third quarter was positive, and in line with our expectations.

Commenting on first-half results, (technical difficulty) some positive cash flow as long as the relevant projects progress, as well as payment difficulties or delays with some clients. In third quarter, these sources of working capital deterioration continued, but we succeeded in more than offsetting such trend through a day-to-day focus on projects and clients, and strict monitoring of expenses, inclusive of CapEx, which reached an historic low in 9 months 2016.

Third-quarter positive performance benefited from advance payments stemming from newly-awarded contracts, although this effect was significantly counterbalanced by a one-off cash outlay related to the purchase of shares to serve the recently-approved long-term shares incentive plan recently approved, as well as by the call -- totally undue, in our opinion -- of a project first demand guarantee.

Third quarter also benefited from the positive [evolution] of cash in one major joint venture, following the completion of a project. We expect this trend to continue in the fourth quarter and partially reverse in first quarter 2017, when dividend will be paid to our partner.

With regard to projects and clients, unanticipated difficulties in receiving previously-agreed payments related to Brazilian contracts penalized the quarter performance. Working capital management remains one of our main priorities, and we target the positive conclusion of some of our long-lasting pending revenues exposure between fourth quarter 2016 and first half 2017.

Slide number 24 summarized our financial structure. Let me take you through our latest accomplishments. Following the signature of our EMTN program and monitoring of the evolution of the [debt] market after Brexit event, our inaugural dual-tranche bond was successfully placed at the beginning of September for an overall amount of EUR1 billion. The proceeds of the bond were used to partially reimburse the Bridge to Bond financing, originally amounting to EUR1.6 billion.

I would also remind you that prior to the bond issuance, we had positively negotiated the new export facility, guaranteed by GIEK, of up to EUR554 million, and available in (inaudible) tranche of 8 years each, which is at the moment only partially drilled down for approximately EUR200 million. An additional drilldown for approximately EUR100 million shall be available by the end of the year.

Also, prior to the bond issuance, we had completed the successful refinancing with Unicredit of a bilateral facility of EUR250 million, now expiring in 2019, in improved terms. All this led to a reduction of our Bridge to Bond receivable exposure, expiring mid-next-year, with an option to be extended in 2017 to EUR400 million, and improve our financial flexibility, which could be further enhanced should we succeed in current negotiations for some additional facilities.

As a result of the above, we are not at the moment contemplating additional bond issuance dedicated to the Bridge to Bond reimbursement. As a matter of fact, we expect that the unutilized facility in place in our negotiation, coupled with some excess liquidity and forecast cash flow generation, should be more than sufficient to cope with the residual Bridge to Bond exposure. We will, however, monitor market evolution, and remain flexible to future options to further strengthen our financial profile.

The final comment on the guarantee. Out of the total EUR7.2 billion lines utilized, EUR2.3 billion are provided by Eni, and will expire once the relevant projects are completed. Total guaranteed lines with banks amount to EUR6.5 billion, out of which EUR4.9 billion is currently utilized.

I will now hand over to Stefano for the final remarks.

Stefano Cao - Saipem SpA - CEO

Thank you, Giulio. And now, on slide 26, you find the guidance for 2017. In keeping with our decision announced in April, we are today providing our guidance for 2017. You will notice that our reference metric now includes EBITDA instead of EBIT, which in our opinion better reflects the operational performance of the Group.

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Revenues for 2017 are estimated at around EUR10 billion. 2017 EBITDA should be in the range of EUR1 billion. As a reference, please consider that our annual D&A post-write-off and preliminary impairment is expected to stand at below EUR600 million, with preliminary forecast of net profit at above EUR200 million after around EUR30 million of cost provisionally estimated for the reorganization.

CapEx spending will be limited mainly to maintenance and replacement costs to grant fleet higher standards, and to innovation and technology, for a total around EUR400 million. 2017 net debt will be penalized by the distribution of cash in one major JV, as well as by the temporary negative cash flow of some project in Middle East, as a consequence of that contractual framework, which will reverse positively in 2018. As a result, net debt is expected to stand below EUR1.4 billion at the end of 2017.

Resolution of outstanding payment of pending revenues with clients is presently assumed, and prior and/or better-than-expected conclusion of some situation could improve the year-end position.

Let me now summarize today's presentation. 2016 continues to be a year of robust operational performance, and we have significantly strengthened our financial profile. Saipem has come a long way in a short time. However, in recent months, industry dynamics recognize that the recovery will be slower and more attenuated than was previously expected. Consequently, we have brought forward today a package of measures that will present decisive response to this delay.

We firmly believe that our strategy remains the correct approach. The evolution of our business model and the right-sizing of the asset base fit with the existing strategic framework. Vitally, we can take advantage of our independent status to accelerate the reforms.

What you will see emerge is a Saipem based on five divisions, each significantly better dedicated to its target market. Divisional management will be more accountable for strategy and performance, closer to customers and delivery, and supported by significantly leaner organizational structure. Overall strategic guidance, portfolio management, and control will be retained by the corporate head office.

One of those five divisions is newly formed. It reflects our decision to exploit Saipem's very considerable heritage and expertise to offer our clients high-value engineering services. We are confident in our commercial prospect in this field, and anticipate that it may be contributor from year one.

In light of the market outlook, we have also taken a cold, rational look at our expectation for the performance of a range of assets in the business. As a result, we have conducted a thorough rationalization of their value, and this is reflected in the asset [re-base] announced today.

But overall, as a result of this package of changes, Saipem will be better focused and will enjoy considerably greater flexibility, operational and strategic, for the eventual upturn. As a result, despite current challenges, I continue to be excited about what we are achieving at Saipem; by our readiness to change; by the speed at which we are delivering change; and by the future [rise].

Thank you very much, and now I hand the floor to you for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Phillip Lindsay, Credit Suisse.

Phillip Lindsay - Credit Suisse - Analyst

I've got two main questions, please. The first one --- you've suggested that industry consolidation should be a theme. Perhaps you could elaborate on what parts of the market you expect to see M&A activity, and specifically for Saipem, other than the disposal plans that you've got for the FPSOs and the yards and the engineering offices. Perhaps you could elaborate on what broader role Saipem may or may not play in this consolidation.



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And then the second question -- I suppose it's really around just looking for an update on the various arbitration situations. It's clearly a major overhang for the stock, so perhaps you could just provide an update on any recent progress with respect to the legal situations and arbitrations, please. Thank you.

Stefano Cao - *Saipem SpA - CEO*

Okay. Industry consolidation. The reference to industry consolidation was related to what we see at the moment happening on the market, and in particular I'm referring to the Technip FMC and the various alliances. This seems to be a sort of a vertical integration in the direction of complement and complete the range of services which can be provided to the clients, in an effort to obviously be more effective and efficient.

You know that, in this respect, we have launched a much lighter alliance with Aker. We are at the moment confronting ourselves already with the market. We are bidding a project in India. We'll see how things will develop.

But in more general terms, I would say that the reason why I specifically made reference to industry consolidation is because I think we are still in a deep trough of the crisis, and we barely see the future upturn. However, we are taking the opportunity to prepare ourself.

And an important step forward for us is the divisionalization, and eventually it might be the incorporation of separate companies, for the four traditional business of ours. Only having done that, obviously, we can consider what is the best way forward for the -- for operation. I think you heard me saying a number of times that offshore E&C is what remains the core business of ours going forward. Of course, we have to start looking at the industry evolution, and we have to take due note on how things developed.

In terms of disposal, we maintain the indication which we had given a year ago of an overall disposal within the previous plan, up to a total of EUR300 million. At the moment, we have achieved something more than \$50 in disposing engineering offices. We have -- we are obviously continuing monitor the market for the [leased] FPSOs. I don't need to explain the reason why that is not moving particularly quickly ahead, but we are not -- in any case, we are not giving up.

So, we maintain, in our view, the target of disposing non-core asset. But at the same time, as I said, we have to prepare ourself. Anything which will come will be -- in terms of disposal, will be an upside to the plan.

As far as the update on various arbitration, I would say that there are no particular arbitration since the last update which we have provided in the call at the end of --

Giulio Bozzini - *Saipem SpA - Chief Financial and Strategy Officer*

(inaudible) particular news.

Stefano Cao - *Saipem SpA - CEO*

News.

Giulio Bozzini - *Saipem SpA - Chief Financial and Strategy Officer*

(Inaudible).



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Stefano Cao - *Saipem SpA - CEO*

No. Sorry. There are no particular news in terms of an update since those which we provided during the call in July. We are moving forward, preparing the paperwork, addressing questions; but I would say, for the time being, this is an ongoing exercise.

Phillip Lindsay - *Credit Suisse - Analyst*

Okay. Thanks very much.

Operator

Alessandro Pozzi, Mediobanca.

Alessandro Pozzi - *Mediobanca - Analyst*

My question is about the 2017 guidance, and I was wondering how conservative or aggressive that might be, and your assumption about any potential pickup in CapEx for next year, and margins across the various divisions. So, if you can give us a bit more color on the 2017 guidance, please.

Stefano Cao - *Saipem SpA - CEO*

In terms of guidance, you heard the numbers which we have provided. 2017 is bound to remain challenging. I think, in referring to the opportunities related to disposal in -- there are certainly some potential possible upside which could be added to the result expected for 2017. Obviously, we continual bidding projects, and the upside may come from some new project which we may obtain in the process.

So, I would say, at this stage, it is very early. The guidance is what we are relying on. We maintain -- the organization remains fully committed to find additional upsides.

Alessandro Pozzi - *Mediobanca - Analyst*

And can you give maybe an estimate of what idle cost you are assuming for next year?

Giulio Bozzini - *Saipem SpA - Chief Financial and Strategy Officer*

Idle cost for next year should be somewhat lower than the idle cost that we have for this year, in particular in the E&C offshore segment. Whereas, it will be more different in the drilling segment. In any case, let's say, overall, the idle cost will decrease next year compared to this year.

Alessandro Pozzi - *Mediobanca - Analyst*

Okay. Thank you. And also, on order intake, I believe you mentioned a few projects you may win. I just wondered what could be potentially the size of project you can win over the next few months. And give us, again, a bit more color there.

Stefano Cao - *Saipem SpA - CEO*

I am -- you see the -- we are currently negotiating a number of opportunities. I would say that a couple of names which we can refer to is the -- one of the LTAs, which is -- we have been bidding for, Saudi Aramco, one of which should be in the -- should become an acquisition; and probably also



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another one. Then we are in the process of negotiating a project in Angola, and this is something which we would expect. The -- I would say overall that the combination would account for about EUR1 billion.

Besides, we are in the process -- and since I understand you are Italian, and you may be reading newspaper, there is the possibility of signing, before the end of the year, the extension of the contract for the high-speed train going from Brescia to Verona.

Alessandro Pozzi - *Mediobanca - Analyst*

Okay. Perfect. Thanks a lot.

Operator

Rob Pulleyn, Morgan Stanley.

Rob Pulleyn - *Morgan Stanley - Analyst*

A few questions from me. Firstly, can I sort of just ask you, around this new business model, moving from centralized to being sort of a slightly more agile, I think was your word, and flexible approach, the key question there is, how do you maintain risk control over lumps -- over EPC execution within that new framework? If you could maybe speak to that, that would be appreciated.

Secondly, I notice from your slide on upcoming contracts, there's no South Stream, unless I didn't see that. But there is, of course, Nord Stream. Could you maybe talk a little bit about South Stream -- Turk Stream, as it's now called -- and whether that's something you're also targeting? And whether you would have the available assets to do both of them at the same time, as per what seems to be Gazprom's plan?

And then finally, just to clarify on the D&A guidance, presumably the net income of EUR200 million next year includes this new circa EUR600 million of D&A, and maybe if you could just break that down per the main divisions. Thank you.

Stefano Cao - *Saipem SpA - CEO*

Okay. I'll start. Referring to the new organizational model, let me stress once more where we come from. We come from a model which was largely driven by the controlling shareholder -- [it was] a sort of organizational model for to run an oil company. So, there were a lot of coordination functions; a lot of interfaces which, in the present market circumstances, we cannot afford any longer. So, the view and the idea we have taken is that we have to divisionalize the business.

But bear in mind, referring to the control of the risk associated with the business, that on top there will be the -- let me say, the holding company in a way, that's defined in the model -- an holding company. And amongst the functions which will be retained by the holding company, certainly there is the management or the governance of the various company, as well as the definition of the risk appetite. And so, the willingness to undertake risk, which then will be the driver for the control company's [index] in their operation.

You call it South Stream. South Stream is dead. Now there is Turk Stream. Quite frankly, I had the opportunity a number of times to make the same comment. This is an issue which is highly related to the politics. We are a contractor, so we don't do any politic. We have -- the highest priority for us is to recover the expenses which we had in the process, and that's why we are moving on with the arbitration.

Having said that, whenever there should be the -- an opportunity to sit around the table and to find an acceptable compromise for both parties, which may be in (inaudible), the possibility of doing some work in the new Turk Stream -- fine. I many times had the opportunity to tell the Gazprom top management that we are indeed willing at any time.



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Nord Stream is a project which we have been bidding. If we get it, will be added to our backlog. We have built the Nord Stream 1. We know the corridor. We know the area. We have the tool and equipment to do an excellent work, should the project go ahead and should we be entrusted with the work. Then, should we have the equipment for both, I would say that we have plenty of idle equipment at the moment, so we'll find a solution.

Giulio Bozzini - *Saipem SpA - Chief Financial and Strategy Officer*

Okay. In terms of depreciation, let's say in terms of guidance for next year, both drilling offshore and onshore should be in the range of EUR150 million; probably slightly less. Whereas, E&C offshore should be higher than EUR200 million, and the onshore should be limited. I would repeat that the final figures will be according to the final impairment numbers, which will be given in February. In any case, this is basically the range.

Rob Pulleyn - *Morgan Stanley - Analyst*

Okay. Thank you very much. And, sorry, just one more before I turn it over. There are many questions this evening. But just on the net debt guidance, I was a little bit surprised that you're guiding for EUR1.5 billion for the end of this year, which is as it was, but only under EUR1.4 billion for the end of 2017. That seems to suggest not a lot of deep gearing of the balance sheet through 2017. Is there a particular reason for that?

Giulio Bozzini - *Saipem SpA - Chief Financial and Strategy Officer*

Yes. Basically, there are two main reasons for that. The first reason is the fact that, next year, we will be distributing dividends in a couple of our joint ventures to third parties, which are presently in our cash and will be distributed.

And secondly, the fact that we have a couple of project -- of significant project in Middle East, which have, according to the contractual framework of these projects, particular cash flow trends that will be penalized in 2017 and benefit in 2018, due to the contractual, I would say, framework of these contracts. This is customary with this client in the Middle East.

Clearly, should we manage, let's say, to negotiate something with this client, or should we manage to do something better than anticipated with our pending revenues, which are prudently estimated in terms of cash for 2017, this could be improved; but that's the reason why, of this guidance.

Rob Pulleyn - *Morgan Stanley - Analyst*

Okay. Thank you very much.

Operator

Mukhtar Garadaghi, Citi.

Mukhtar Garadaghi - *Citigroup - Analyst*

Thanks for taking my question. Could I come back to the working capital outlook, and [so to] the cash movement questions? First of all, you've mentioned some Brazil impact on 3Q numbers. You've also talked about the project guarantee impact. Could you please quantify that, and just explain what exactly has happened that you've listed as negative impact?

And then, on a go-forward basis, could you specify, what is this JV cash [disbursement]? What exactly is that, and how much impact will it have next year?



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Also, in this guidance, what sort of intake are you assuming in terms of repayments, et cetera? So, I'm just wondering, on projects such as Zohr-2, are you assuming certain level of intake in that EUR1.4 billion guidance? Thank you.

Giulio Bozzini - *Saipem SpA - Chief Financial and Strategy Officer*

So, first of all, regarding Brazil and the guarantee, in the third quarter of 2016 we were expecting to receive some payments from our Brazilian contracts, and these did not materialize. So, basically, this is something that was not factored in when we gave the previous guidance of EUR1.5 billion. However, we managed to offset this deterioration with other improvements.

Another deterioration that we had in this quarter, but this is an effective deterioration, was the fact that a guarantee for a project of 2, 3 years ago, if I were remember, which was then cancelled, was called by the client. And this effect is in -- is something be -- above EUR50 million.

All this, together with the fact that in this quarter we had also distributed some dividends to a joint venture partners, and we had purchased the share for our plan, totaled an amount of something above EUR100 million. This basically counterbalanced the effect of the advance payments received mainly on the Zohr project, which was in the range -- the total repayments that we received in this quarter were in the range of EUR150 million, roughly. So, the balance between the repayments and this not-anticipated effect was something lower than EUR50 million.

In the EUR1.4 billion, we're not factoring in any particular intake in terms of advance payment. I would say that, given the recent attitude of the client, which significantly decreased their willingness to give us advances, we are not any more factoring in very significant amount of advances in the payment. Basically, we are probably factoring in something around EUR100 million; not more.

Mukhtar Garadaghi - *Citigroup - Analyst*

Okay. That's very helpful. Sorry. On -- and that Middle East project that will cause the outflows in 2017 -- is it a project you have already won? Could you please clarify? Or is it something you're bidding on?

Giulio Bozzini - *Saipem SpA - Chief Financial and Strategy Officer*

[No, no]. Project which are already ongoing. So, we have -- unfortunately, we have already this cash flow trend, which is progressing.

Mukhtar Garadaghi - *Citigroup - Analyst*

Okay. Sorry. And one more follow-up question, if I may. Just on cost-cutting number, you've impaired the value of a number of offshore assets, which -- rightfully so, you're taking a view on lower rates and utilization. Are you stacking or scrapping -- I mean, cold-stacking or scrapping these assets? And if yes, why didn't we see an upgrade to the cost savings number as well?

Giulio Bozzini - *Saipem SpA - Chief Financial and Strategy Officer*

In terms of cost saving, I think that the amount, which was priorly described by Stefano, is not including any effect due to the lower cost deriving from this asset rationalization and impairment. The amount which was mentioned before, the EUR1.7 billion, is relevant to the first Fit for Future cost-capping program, and is not taking into consideration the effect of this program, also because, as I said before, they are still estimated until the final numbers will be given at the year-end.

Mukhtar Garadaghi - *Citigroup - Analyst*

Okay. Thank you. That's very helpful.



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Operator

James Evans, BNP Paribas.

James Evans - Exane BNP Paribas - Analyst

Thanks for taking my questions. Just a couple, if I may. Firstly, just on the guidance, I'd appreciate just a little bit more clarity on the margin range by division, if that's at all possible. And particularly, to what extent do you expect the onshore E&C margins to sort of improve to that longer-term 4% to 5% target?

And secondly, could I just ask a little bit about this high-value engineering services you're developing? I mean, is this something where you think it's a missed opportunity, or it's developed as a result of the current market environment? And who do you really think you're taking work from? Is it taking work from the consultants, or do you think you're actually taking it from your customers and you're better placed to manage what they do already? Thanks.

Giulio Bozzini - Saipem SpA - Chief Financial and Strategy Officer

In terms of margins, I would tend to say that, for 2017, we are not factoring in the margins that you mentioned, which were the long-term margins which were mentioned in the previous plan. The actual situation of the market is still challenging. We are progressing. We are now at breakeven. We are estimating margins for the E&C onshore division above the given next year, but not at the full 5% amount which we mentioned in the previous plan.

For the other business, I would tend to say that, for sure, the drilling offshore margin will decrease next year as long as contracts will expire.

Stefano Cao - Saipem SpA - CEO

In terms the new division -- the high-value engineering -- I would say that, since the acquisition of Snamprogetti, the engineering capabilities -- they were largely put at service of the larger EPC contract.

So, the idea and the view for the number -- for the reasons I largely explained in the presentation, is to set a group of people aside in a dedicated organization, and utilize the very valuable expertises in order to offer different services to our client. I'm referring to pre-FEED. I'm referring to FEED. I'm referring to development of concept. I'm referring to the possibility of working with our client since the very early stages of the idea development, in order to help them and assist them to devise the best possible development scenario. This largely -- these competencies were always kept within the organization.

Now, the idea is, in a way, to free such an energy, providing them with a dedicated commercial function, going and looking for opportunity outside the boundaries of the traditional business -- EPC business of Saipem.

It goes without saying, just as a -- that those people will continue to provide the same services to the traditional business. Take into account that the -- in terms of volume, we are dramatically reducing the volume of revenues which we expect. So, there is indeed the capability, and what we are saying is that there is a very valuable capability which can be put to work in the downturn of the volume.

James Evans - Exane BNP Paribas - Analyst

Thanks. And if I could just ask one more question, a slightly different tack -- I mean, Stefano, obviously, you've seen a few cycles, without wishing to be rude. How does this current one, in terms of competitive and pricing intensity, compare to what you've seen in previous cycles, at the moment?



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Stefano Cao - *Saipem SpA - CEO*

Thank you for your kindness. Yes, I'm sort of an old (expletive), and I know. But having said that, I would say, if I had to identify this crisis, I would say that definitely it's longer. I never seen before, a crisis lasting so long as this one. And I'm afraid that it's longer and deeper. Yet, in the end of the '90s, we saw the oil price going down to \$10, or even lower, a barrel; but it only lasted for a limited amount of time. Then they were in -- very soon, there were signs of recovery.

This time is -- I think we have to get accustomed to a situation whereby the crisis is going to last longer. So, lower for longer, I would say. So, really, we have to do something which is drastic, in terms of, on one side, devising the solution to make the project valuable -- the project which are the most valuable to us; and at the same time, we have to improve our efficiency and effectiveness.

James Evans - *Exane BNP Paribas - Analyst*

Thank you. Very kind.

Operator

Guillaume Delaby, Societe Generale.

Guillaume Delaby - *Societe Generale - Analyst*

Thank you very much for taking my question. And sorry, this is an old, traditional, extremely boring question. But just -- I would like to have an idea about the amount of legacy contracts which were still in your Q3 numbers, and what we should be looking at for Q4, Q1 and Q2. The other questions I had have already been answered.

Giulio Bozzini - *Saipem SpA - Chief Financial and Strategy Officer*

In terms of legacy contracts?

Guillaume Delaby - *Societe Generale - Analyst*

Yes.

Giulio Bozzini - *Saipem SpA - Chief Financial and Strategy Officer*

Which means -- in terms of revenues still ongoing from the legacy contract, basically, we have finished. With fourth quarter, there are still less than EUR100 million to be executed.

Guillaume Delaby - *Societe Generale - Analyst*

Okay. So, it's behind us.

Giulio Bozzini - *Saipem SpA - Chief Financial and Strategy Officer*

It's behind us, yes.



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Guillaume Delaby - *Societe Generale - Analyst*

Thank you so much.

Operator

Amy Wong, UBS.

Amy Wong - *UBS - Analyst*

I had a question about your new business development into the high-value engineering services. Will you be -- how do you envision that this business will help you actually pull through more EPC business, and how do you get around the restriction sometimes, where fee providers actually are precluded from moving forward into the EPC phase? Can you talk me through that a little bit, please? Thanks.

Stefano Cao - *Saipem SpA - CEO*

No. Quite frankly, the idea of forming such a division is not sort of a funnel to get more EPC contract. [It is] the willingness to exploit the capabilities in a segment which is highly valuable, in order to have a fruitful -- and with a risk profile much lower than any EPC contract. So, I will say that that is the driver for doing that. Having said that, we -- the new division will continue supporting the traditional business of Saipem.

Amy Wong - *UBS - Analyst*

Good. Thanks. Okay. Can I just ask a follow-up question on the Middle East project, where you're going to see, it looks like, some current asset investment? Can you detail whether that's more work in progress buildup, or is it actually more kind of favorable payment terms, where you're going to be -- we're going to see an increase in receivables that's not yet collected?

Giulio Bozzini - *Saipem SpA - Chief Financial and Strategy Officer*

Now, this is basically due to the fact that these kind of contracts are structured a way in which all the procurement activities is basically paid by us, and milestones are delayed. Therefore, from a cash point of view, we are paying, and then the client is paying us. So, this is mainly the reason why there is this sort of negative cash flow in the first part of the project, which we reverse in the second part of the project.

Stefano Cao - *Saipem SpA - CEO*

Sorry. Just to go back, there is a piece I did not address -- the question on the high-value engineering. And this is the fact, whether there will be situation whereby we can be prevented, if we are participating to the early stage of the development, from participating to the business.

That is a possibility. Obviously, the evaluation which we made is the amount of opportunity, which we are not at the moment addressing as much bigger than the opportunity which we risk losing in terms of participating into the EPC. We will take a judgment on a case-by-case basis. If there is a sort of prevention from participating to both, we'll decide on a case-by-case basis.

Amy Wong - *UBS - Analyst*

Great. That's very clear. Thank you.

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Operator

Michael Ray, Redburn.

Michael Ray - Redburn - Analyst

Thanks for taking my two questions. First, can I just come back on an earlier question, which was, what's the actual cash impact of the dividends to JVs next year? Is it something like EUR100 million or EUR200 million -- something like that? Some color there would be great.

And then second, just a question on the Saipem 12000, which I think you said at the half-year results that it would be operating in the third quarter for Eni, but it appears to still be sitting offshore in Namibia. So, has there been some kind of delay there? Thanks.

Stefano Cao - Saipem SpA - CEO

[12000] or 10000?

Michael Ray - Redburn - Analyst

12000.

Giulio Bozzini - Saipem SpA - Chief Financial and Strategy Officer

So, with reference to the first questions, is it between EUR200 million and EUR300 million --

Stefano Cao - Saipem SpA - CEO

Yes. No. The -- what you have us saying about the commitment for the 12000 -- it is a commitment for Eni, which then has been shifted for a lack of budget. So we are led to understand. We would expect, now, the commitment to be made -- to be taken in the next year. But under the present circumstances, we cannot exclude the possibility of a further delay.

Michael Ray - Redburn - Analyst

Okay. That's great. And on the dividends to JVs -- I mean, I just threw those numbers out there. But just any kind of color around the actual size of those payments would be very helpful.

Stefano Cao - Saipem SpA - CEO

I think you say -- Giulio.

Giulio Bozzini - Saipem SpA - Chief Financial and Strategy Officer

I think I mentioned before that the range is between EUR200 million and EUR300 million.



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Michael Ray - Redburn - Analyst

Okay. Sorry. I must have missed that. My mistake. Thank you very much.

Stefano Cao - Saipem SpA - CEO

He wasn't [speaking] loud enough.

Operator

David Farrell, Macquarie.

David Farrell - Macquarie Research - Analyst

Got a couple of questions, please. Just, firstly, in terms of the [27] EBITDA guidance of EUR1 billion, could you break that down by division, please?

Then, secondly, previously, in the previous (inaudible) you had a medium-term guidance, which I think was premised upon 2019 numbers. Just in the current world, directionally, do you see 2018 as being up, down or roughly flat with 2017 EBITDA?

And then, final question is, in the world that you're seeing now, how do you think Saipem's offshore E&C fleet is positioned? Do you think you need kind of more nimble, smaller vessels to deal with the flow of work coming through, and are possibly too orientated towards the heavy lift market?

Giulio Bozzini - Saipem SpA - Chief Financial and Strategy Officer

In terms of EBITDA by division, I think that we normally do not give this kind of guidance, and therefore the year after 2018 -- after 2017, we would prefer to wait until we have a better understanding of the market.

David Farrell - Macquarie Research - Analyst

Okay.

Stefano Cao - Saipem SpA - CEO

In terms of the medium-term expectation, in particular of the -- if I understand right, of the offshore E&C business, I would say that our midterm view is, still, we have to come out of the trough of the crisis. So, the day-by-day work is on looking for additional project to have, to improve the utilization of our units.

On the more strategic terms, I would say that, first of all, the organizational changes goes in the direction of preparing ourself to the upturn. Then, we would expect, but this is nothing really which is based on concrete things -- it's based largely on my personal and the Company's experience -- is, at the end of crisis, there are certainly opportunities to improve the range of capabilities for the Company.

We have done it already a number of times, coming out of previous crisis, so we know that we -- there are certain segment of the offshore E&C which we are not covering. And namely, just to set an example, this is the flexible and this is the real pipes, as well as, as I had the opportunity to mention in -- during the presentation, as well as devising what is going to be the tool most -- the new tool in terms of vessel floating tool -- what is going to be the design to follow, to utilize, in order to increase and improve the capabilities of the fleet, going forward, at the end of the crisis.



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David Farrell - *Macquarie Research - Analyst*

Okay. I guess as a follow-up question, I mean, just kind of wondering what the risk is, that before the end of the decade, that we see a material shift up in CapEx to adjust to the new world, and shift your fleet, and spend more than just kind of the maintenance and repair level that's in your current budget.

Stefano Cao - *Saipem SpA - CEO*

But the risk at the end of the decade -- quite frankly, I don't know whether -- what you refer in terms of risk. If you are referring on the fact that we should start investing now in order to have the capabilities ready for the end of the decade, I think that that is in my view a bit of a long jump.

I think we have to utilize in the best possible manner these difficult times, and we have to deploy all our innovation fantasy, and get ready for better times. So, I would say, I'm not consider that we are wasting our time, for the time being. I think, for the time being, still, we have to wait for the upturn that start showing at the horizon. Then I'm sure, if we do our job properly now, we'll be quite quick to react and to be ready.

David Farrell - *Macquarie Research - Analyst*

Okay. That's great. Thanks very much for your time.

Operator

Kevin Roger, Kepler Cheuvreux.

Kevin Roger - *Kepler Cheuvreux - Analyst*

Just one follow-up regarding the net debt position, please. You changed the 2017 guidance, and you explained why. I was just wondering if you still expect to be cash-neutral by 2019, sorry.

Stefano Cao - *Saipem SpA - CEO*

cash-neutral. Cash-neutral over the long -- yes. I know what you are referring to. You came garbled. So, if I understand right, you were referring to the indication which we had given last year, about the target of becoming cash-neutral at the end of the previous full-year plan, which was by 2019. I would say, at this stage, the intention is not to provide any firm indication, but more or less, we are not -- I mean, in 2020, we are not that far from what we expect.

Kevin Roger - *Kepler Cheuvreux - Analyst*

Okay. Thanks. And regarding the revenues that -- the guidance revenue for 2016, if I look at the level that you had for the first 9 months and the level that is [guaranteed] by the backlog for the Q4, it seems that we will miss around EUR800 million that you are expecting to come by the end of the year. So, I was wondering where those EUR800 million of additional revenues would come, please.

Giulio Bozzini - *Saipem SpA - Chief Financial and Strategy Officer*

Yes. Please note that normally our revenue coverage in the backlog exclude already defined but not formalized valuation of existing contracts, as well as (inaudible) linked to [firm] agreements and service contracts, though -- so, by adding these activities, we are very confident that this amount will be reached at the year-end.



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Kevin Roger - *Kepler Cheuvreux - Analyst*

Okay. And just a final question, please, regarding the downpayment level. If I well understood, you had a positive impact of around EUR150 million in Q4. Should we assume that now the level of downpayments at the end of Q3 is around EUR750 million?

Stefano Cao - *Saipem SpA - CEO*

You have come very garbled -- I would say, broken. [I don't know]. Can you repeat, please?

Kevin Roger - *Kepler Cheuvreux - Analyst*

I am sorry. It's just, if I well understood, you had the positive impact from a downpayment of around EUR150 million this quarter, and that at the end of Q2 you had the level of downpayment of around EUR600 million. So, can we assume that at the end of the Q3, the level of downpayment, it's EUR750 million?

Stefano Cao - *Saipem SpA - CEO*

[Downpayment level].

Giulio Bozzini - *Saipem SpA - Chief Financial and Strategy Officer*

Yes, it's correct.

Kevin Roger - *Kepler Cheuvreux - Analyst*

Okay. Thanks (inaudible).

Stefano Cao - *Saipem SpA - CEO*

Almost correct, yes.

Operator

Peter Testa, One Investments.

Peter Testa - *One Investments - Analyst*

I have one longer question, two shorter questions. The first one is, if you think about what has gone into today's announcement on reshaping and future business of Saipem, can you give a view on what the consequences of the decisions taken on the future business or sales capacity of Saipem, going forward, medium-term, taking account of about 30% write-off of tangible assets? Just thinking about what medium-term shaping you are [concluding], based upon this [review]?

Stefano Cao - *Saipem SpA - CEO*

And I don't know why the line has become so bad in the last two -- can you see if you can do -- because (inaudible) --



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Peter Testa - *One Investments - Analyst*

Sure. Can you understand me now?

Giulio Bozzini - *Saipem SpA - Chief Financial and Strategy Officer*

Yes.

Stefano Cao - *Saipem SpA - CEO*

Yes, please.

Peter Testa - *One Investments - Analyst*

Okay. I'm thinking, [I want to hear] a question that goes to the thinking that was behind the significant announcements today, around the future shape of Saipem, and maybe helping to understand what you consider is the future business or sales capacity of Saipem, as implied by the significant asset write-downs -- 30% of tangible assets. If you can just give us a view on the -- that medium-term view that you've come to today.

Stefano Cao - *Saipem SpA - CEO*

Quite frankly, the thinking behind the analysis is something which is quite normal in the way of running the business. We have taken note. We had to take note on the fact that there has been major deterioration over the course of this year. So, we have run our impairment exercise and we have taken consequences.

If then the question is whether there is any specific thinking behind this, I would say that the -- I would tend to answer, saying that the thinking is to boost the Company and its business to be 100% ready for a recovery. We know that there will be a recovery. We know that we shall have to act swiftly and efficiently.

So, I wouldn't take any negative nuance from the fact that we had to do what we have done. We remain very positive for business overall. We know that we have a lot of work to do ahead of us, but we are full of enthusiasm and willingness to do it.

Peter Testa - *One Investments - Analyst*

Okay. But how do you consider your medium-term sales capacity change? Because you've taken [permanent] impairments in some business areas. How do you think about your medium-term sales capacity change on the base that you're creating, before you start to expand again?

Stefano Cao - *Saipem SpA - CEO*

I think we have plenty of capacity to grow the volumes quickly. (technical difficulty) growing in a company (inaudible) of the old days where the lack of resources was the limiting factor. I would say that the situation is completely different. We are ready any time, should the situation show to -- consistent with an expected recovery to cover a much wider footprint with our capabilities.



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Peter Testa - *One Investments - Analyst*

Okay. And then another question was, based upon the guidance of 2017, and maybe to help fill in the gap between the backlog for execution [in] 2017, if you could give us some view on how you expect book and bill business, maybe using 2016 as a base -- the book and bill business to fill in the difference between the EUR10 billion and the EUR6.7 billion?

Giulio Bozzini - *Saipem SpA - Chief Financial and Strategy Officer*

I would tend to say that, in terms of revenue coverage, the percentage that we reach at this stage of the year is more or less in line with the percentages that we had in previous year. Once again, I have to mention that the backlog is not encompassing all the contracts that we have on hand, because there are some activities that is still not formalized, and which we are very confident that we -- will be soon formalized.

So, in principle, having said that clearly, the guidance given at October is different than the guidance given at February, for sure; but in any case, we are at the moment optimistic on the fact that this guidance would be achieved.

Peter Testa - *One Investments - Analyst*

Okay. And then, last question, please. It's just on the cost savings. I mean, there's (inaudible) 800 people who go. You're also spending about EUR200 million over 4 years to reinvest. I was wondering if you could give us some understanding of the cost savings, and maybe the phasing of those in different years.

Giulio Bozzini - *Saipem SpA - Chief Financial and Strategy Officer*

This was relevant to the 800 head count reduction that we mentioned in the call?

Peter Testa - *One Investments - Analyst*

Correct. It's the new cost savings.

Giulio Bozzini - *Saipem SpA - Chief Financial and Strategy Officer*

At (inaudible) we expect the saving to be slightly less than EUR100 million.

Peter Testa - *One Investments - Analyst*

And felt when, please?

Giulio Bozzini - *Saipem SpA - Chief Financial and Strategy Officer*

Sorry?

Stefano Cao - *Saipem SpA - CEO*

At the end of the period.

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Giulio Bozzini - *Saipem SpA - Chief Financial and Strategy Officer*

Toward the end of the business plan, yes.

Peter Testa - *One Investments - Analyst*

Okay. Fine. Thank you very much, and sorry for the bad line. Thank you.

Stefano Cao - *Saipem SpA - CEO*

Thank you. Thank you very much.

Operator

That will conclude today's Q&A session. I would now like to turn back over to Mr. Cao for any closing remarks. Thank you.

That will conclude today's conference call. Thank you very much for your participation. You may now disconnect.

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