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## PRESENTATION

### Operator

Good day, ladies and gentlemen, and welcome to the Saipem preliminary 2015 consolidated results conference call. For your information, today's conference is being recorded.

At this time, I would like to turn the conference over to your host speaker, Stefano Cao, CEO. Please go ahead, sir.

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### Stefano Cao - Saipem S.p.A. - CEO

Good afternoon, ladies and gentlemen, and welcome to today's conference call. I am here today with Alberto Chiarini, our CFO. And today, we will present our results for the fourth quarter and full year 2015, provide an update on our strategic progress over the last few months and set out our guidance for 2016.

Looking at the highlights, we confirm that 2015 results met the guidance set in July. Notwithstanding the current negative environment, the fourth-quarter EBIT margin stands at around 6%. It should also be noted that that E&C onshore business unit is showing breakeven for the second consecutive quarter, thanks to the progressive cleaning of the backlog from the legacy projects.

With regard to 2016, the guidance disclosed during the strategy presentation is confirmed, based on the current good revenue visibility for the year. Indeed, 74% are granted by the backlog at the end of 2015, and we are convinced that we can reach the target, consider our near-term opportunities variation orders, and short-term contracts we expect to be awarded this year. The management focus is very much oriented to the target set by the Fit for the Future program, and there is a continuous effort in improvement efficiencies.

We are also evaluating further initiatives as part of the ongoing process. In line with our expectation and strategic plan, we have now completed the rights issue as well as successfully finalized the refinancing syndication. The deleverage of the balance sheet, reinforced by the expected \$500 million cash generation in 2016 will provide us with the necessary resources and flexibility to deliver the strategic targets, maintaining our strict commercial discipline, even under this tough environment.



I will now hand you over to Alberto, our CFO, who will guide you through the full-year 2015 preliminary results.

**Alberto Chiarini** - *Saipem S.p.A. - Chief Financial and Compliance Officer*

Thank you, Stefano. Looking at the slide, we can see that, thanks to our good performance in the second half, we have delivered results in line with our guidance for 2015 provided in July last year.

Reported revenues were 11.5 billion, and the June write-off of unbilled revenues has impacted mostly E&C onshore, as you can see from the comparison year-on-year. Reported EBIT at the end of 2015 showed a negative result of EUR452 million, which was impacted by the write-off of the working capital items and the nonmonetary items for a total amount of EUR916 million, as well as the early termination of the South Stream project.

Net results was negative for EUR806 million after reporting higher financial cost year-on-year due to increased average gross debt and slightly higher interest rate. We have -- in slide 7, we show and we reconcile reported and adjusted results, showing the effect of the write-off of working capital and non-cash items, as mentioned, and highlighting our underlying performance, which we will keep as a reference in the analysis shown in the next slide.

The underlying results are an appropriate measure when comparing operating performance year-on-year and including the special and one-off items. Let me just remind you that, out of EUR780 million write-off related to working capital items, EUR618 million refers to unbilled revenues and EUR100 million to PDVSA receivables.

Underlying revenues were in line with the guidance confirmed in October. 2015 underlying EBIT performance was 22% lower results year on year as a result of the challenging oilfield services environment and some specific events. Lower contribution in the engineering and construction [onshore] -- offshore mostly connected to the South Stream early termination was mitigated by stronger second-half improvement in engineering and construction onshore operating margins. As legacy contract spends were replaced by newly awarded initiatives and good activity progress.

In drilling, offshore performance has been lower year on year due to the suspension of Scarabeo 5, early termination of Saipem 12000, together with Perro Negro 8 and Saipem 10000 class maintenance, lower activities connected to Scarabeo 4, which has been scrapped in the second quarter. Notwithstanding that, yearly margins have been resilient above 27%. Drilling onshore performance was lower than last year, mainly due to reduced activity in South America.

It should be noted that by the second half of the year, we pushed the strategy of reducing exposure versus PDVSA by suspending activity on several rigs in Venezuela.

Turning to look more closely at the fourth quarter, revenues were in line with management expectation, although 13% lower year on year, and mainly reflecting the higher commercial selectiveness and the overall more challenging environment. However, the underlying quarterly EBIT was nearly 20% higher year on year, thanks to the recovery -- mainly to the recovery of the engineering and construction onshore, showing the second consecutive quarterly performance at breakeven. As Legacy contracts are in their ending phase, replaced by new contracts awarded under enhanced commercial discipline.

The engineering and construction onshore results improvement was able to affect lower results elsewhere in the business, impacted by a deteriorated environment. The marginal loss in onshore drilling was the result of increasing idleness mainly due to contracts in South America which were not extended in the oil downturn, as well as the negative impact of Venezuelan activities, which, as I mentioned, were suspended -- most of them.

As far as net debt, at the end of 2015 the net debt reached EUR5.4 billion, including the impact of hedging the derivatives of EUR0.5 billion -- EUR500 million, and performing slightly better than the July guidance. The underlying operating cash flow generation exceeded the investments but was not able to absorb the working capital deterioration throughout the year. The worsening of working capital was mainly driven by increasing difficulty in receiving recognition on change orders and claims, and that was also (inaudible) acknowledged by the write-off in June.

As clients are reluctant to approve variation in such a cost driven environment. In addition, we experienced a receivables payment delays, mainly Venezuela and Brazil, as well as the well known on disputed amounts linked to the termination of South Stream project. Overall, unbilled revenues at year-end stand at EUR0.9 billion, mainly associated to legacy contracts, some of them currently under arbitration of court cases.

Divestments and other accounted for our cash inflow of EUR190 million associated with the settlement of the disposal of Fertinitro in Venezuela, the sale of environmental services, as well as the Vibo and Rome engineering centres. After the recently completed equity increase, our net debt is currently today around EUR2 billion.

Thank you for your attention. I will now hand you back to Stefano.

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**Stefano Cao** - *Saipem S.p.A. - CEO*

Thank you, Alberto. Now, let me give you a brief operational update of the business and what the order book looks like for 2016 and 2017. Our backlog stood at EUR15.8 billion at year end, which also reflects the impact of the cancellation of South Stream and the early termination of Saipem 12,000 contract. Against a background of final investment decisions delays, project postponements and cancellations, in 2015 Saipem was awarded EUR6.5 billion of new contracts, of which approximately EUR1.2 billion in Q4 including Karan in Saudi Arabia, Eni's Est Hub in Angola and Johan Sverdrup pipeline for Statoil.

The backlog does not include approximately EUR500 million related to the second phase of Codelco water line announced in Q3 but still awaiting for environmental authorization prior to final investment decisions, which should now be imminent. Also, not yet in the backlog are EUR360 million of contracts awarded in Q1 2016, which includes Ital gas storage an onshore projects in Italy. Codelco and the 2016 awards are related to projects not influenced by the commodity scenario. As a result of the contracts awarded by end of 2015, our backlog coverage for 2016 has risen to EUR8.1 billion, equivalent to 74% of our target revenues for the year. That is supporting our confidence in meeting 2016 guidance.

For 2017, existing contracts account for about 41% of targeted revenues. Showing the usual slide with the E&C opportunity, I would comment that our commercial effort is highly focused on new potential opportunities worth a total in excess of EUR38 billion. As you can see in this slide, there are a number of new initiatives, and particularly in the onshore space and in the Middle East, where Saipem has traditionally had a strong presence. These initiatives are of course a different level of maturity. Among the ones that we expect to be awarded in the earlier part of the year, we are most confident about the Trans Adriatic and the Tangguh pipeline projects. And, indeed, the Zohr early production development in Egypt.

Turning to offshore drilling, we have extended two contracts for the Saipem 10,000 with Eni and for the Pero Negro 4 with Petrobel. In November, we announced the early termination of Saipem 12,000 contract by Total for which we have received a break fee partially covering in the remaining original contract commitment. We also received notification from Statoil that Scarabeo 5 will restart activities in May 2016, extending standby time by farther two months.

We are actively marketing Saipem 12,000, Scarabeo 6 and Perro Negro 3 for a possible activity this year. Scarabeo 3 is currently planned to be idle throughout the year, with no short-term opportunities. As its class expires in 2017, we will soon evaluate a possible scrap as part of additional actions within the fit for the future program.

In drilling onshore, we are experiencing the impact of the slowdown in South America, namely Venezuela and Peru, with a number of land rigs coming off contracts. We are focusing our efforts in Middle East and have recently entered the new markets in Kuwait.

Let me now give you an update on strategy. In recent months, we have made significant progress on the strategic objectives we announced last October. On the left of slide 17 are shown the five pillars of our strategic plan, and on the right are the key achievements to date. We continue to rationalize our footprint, rightsizing our presence in Canada, Brazil, the UK and Australia. In terms of the disposal, we have finalized the sale of the environmental services activities and Vibo, Rome engineering and project management centers.

We are continuing to work on the evaluation of possible disposal of our leased FPSOs and Italian infrastructure businesses. We estimate to generate an overall amount of approximately EUR300 million from disposal by 2017, a further contribution to financial deleverage currently not in the set targets.

We are continuing to de-risk our business model in enforcing strict commercial disciplines and managing the tail end of our legacy contracts. This now accounts for less than 4% of forecast targeted revenue in 2016.

Our Fit for the Future program is on track, and I will tell you more about the program in the next slide.

In terms of technology and innovation, we recently announced the alliance with Aker Solutions, which we believe will create a new leading integrative player in the FPS SURF sector, complementing unique engineering and technological capabilities with manufacturing and installation expertise.

Of course, it goes without saying that the biggest strategic delivery has been the success of restructuring of our balance sheet, reducing debt and diversifying lenders without affecting the low cost of our borrowings.

Looking now more closely to the Fit for the Future program, in 2015 we achieved a target EUR150 million of gains and are on track to deliver the EUR370 million targeted for 2016.

Slide 19 gives a closer look at the actions which we have put in place. EUR150 million of EBIT enhancement delivered in 2H 2015 was largely the result of yard rightsizing and operating offices optimization, vessel maintenance and manning process enhancement, and re-negotiation with suppliers.

During the year, we also reduced our total headcount by 7,000 people, both because of the lower project workload and of initiatives launched through the efficiency program. For 2016, we expect to further reduce our workforce even beyond the set target.

The Fit for the Future plan would support 2016 targets, with the efficiency action launch in the second half of 2015 continuing to feed through. And additional initiatives such as, amongst others, rightsizing our supporting functions, off-shoring of IT services and supply chain optimization.

In the present landscape of a deep crisis lasting longer than expected, we have to continue to maintain -- and indeed that we are -- a front focus on cost discipline, both in terms of operating costs and investment through a constant review of our processes and activities. This is a continuous improvement process, and we will update you on additional savings as they are identified.

On the more positive side, allow me to spend some words regarding the alliance with the engineering and service company Aker Solutions, which represents an exciting recent development for our Company. This initiative will see both Saipem and Aker working closely together to provide full delivery and full -- and life-of-field services in the subsea market. For Saipem, this means that we can collaborate together and unlock a wide range of new business opportunities, offering our clients a compelling and competitive full-service model. It will also allow both companies to mutually benefit from complementary geographies in which we operate, help reduce costs through the elimination of duplication in the supply chain, and move our offer up the value chain into higher margin segments like FPS and life of field.

And now I will take you through our guidance for 2016. We confirm this year's guidance in terms of revenues, profits and then financial position. Also, thanks to the further optimization of our investment programs, indeed, CapEx for 2016 is now forecasted at EUR500 million, EUR100 million lower than previously guided as the result of our continued focus on efficiency.

Our revenue target of over EUR11 billion is within reach on the back of our existing backlog and near-term opportunities, which will further contribute to our revenues. On EBIT, the target for over EUR600 million is well-supported by ongoing projects, and it is underpinned by our cost-saving program.

Net profit will be around EUR300 million, coherent with our EBIT target and projected taxes and lower interest costs.

Finally, we are on track to end the year with a net debt below EUR1.5 billion, with positive cash flow from the business and working capital contributions, including the impact from the unwinding of hedging derivatives, further supporting our deleveraging process.

In conclusion, we have achieved a business performance as planned for 2015. We have reduced and refinanced debt and now have a stronger balance sheet for this stage of the commodity cycle. Looking to 2016, we believe we are well-positioned to withstand current market headwinds thanks to our backlog, our near-term opportunities and the efficiency with which we are actively pursuing. We will continue to review our business portfolio footprint and cost structure in order to increase process efficiency and business flexibility. And we are applying our disciplined commercial policy to a significant number of new opportunities.

Last, but not least, not only are we now geared to successfully complete the crossing of the desert, but we are investing and working to strengthen the foundation that have made Saipem one of the leading contractors in the world -- consolidating our technology, competencies, assets and people.

Thank you for your attention. Alberto and I will now be pleased to answer your questions. The floor is yours.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Fiona Maclean, BOA.

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### Fiona Maclean - BofA Merrill Lynch - Analyst

I have a couple of questions, please. Firstly, just to clarify, on the debt side of the restructuring of the balance sheet, can you confirm the timing of when that money -- when that will essentially transfer and when ENI will be paid the payments that they are due? And could you also confirm for the end of 2015 what is the total number for the ENI debt that needs to be repaid to them? Thank you.

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### Alberto Chiarini - Saipem S.p.A. - Chief Financial and Compliance Officer

Okay. In terms of the money that we have already cashed in from the capital increase, we have cashed in the full amount, so around EUR3.5 billion. And we have already repaid Eni with this money for the same amount. We are going to drawdown the financing next Friday or, maximum, next Monday, which will allow us to repay the full debt of Eni that is currently -- that was, at the end of 2015, EUR6.4 billion, and that will be completely paid out in the next week.

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### Fiona Maclean - BofA Merrill Lynch - Analyst

Okay. So it will be a quarter-one event.

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### Alberto Chiarini - Saipem S.p.A. - Chief Financial and Compliance Officer

Yes. Absolutely. (multiple speakers)not later than next week.

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### Fiona Maclean - BofA Merrill Lynch - Analyst

Okay. Perfect. And just second question -- there was some confusion earlier this quarter in regards to some numbers and sensitivities in your prospectus. Is there any risk that you see currently that you may have to revise the various metrics that you have within your guidance for 2016?



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**Alberto Chiarini** - *Saipem S.p.A. - Chief Financial and Compliance Officer*

No. We have just confirmed that we confirmed the guidance for 2016. And what is underpinning this confirmation is the revenue visibility. So 74% is already granted by backlog. We have to also account for the EUR360 million that we have been awarded for the gas storage project in Italy. We are accounting on near-term opportunities like Zohr Egypt and other near-term opportunities. As well as, all those short-term contracts and variations that are statistically awarded during the year. So we are pretty confident and we confirm our guidance.

If you refer to the sensitivity in the prospectus the sensitivity analysis, I think we have many times explained that the sensitivity at EUR55 flat was an exercise that has been done at that time as a stress test with some assumptions that are now superseded by the current situation. Of course, the key year will be 2017 onward, and we are now working on that.

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

Okay. So we shouldn't expect any downgrades to the 2016 guidance, certainly over the next couple of quarters. And you don't feel there is any need to rewrite the strategy that you came out with in October. Is that correct?

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**Stefano Cao** - *Saipem S.p.A. - CEO*

No, what we are saying is that we don't expect too many changes in 2016 guidance, and this is important to state. We are strongly convinced that we will make the results which we are -- which we had announced before and which we are confirming today.

As far as the more general question, it is a matter of fact that we have taken the view that we have to be totally transparent to the time of coming to the markets for the capital increase, and that we have to show a longer-term target. It is obvious that, should there be a situation which continuing in confirming the present trend, there might be some difficulties in getting more contracts in 2016, which will imply that for the subsequent year there may be changes. But we are, as an industry, where there are no indications such as longer time spans. We believe that we made a very transparent attempt to provide the market with all indications needed to take a judgment.

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**Operator**

Gregory Brown, HSBC.

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**Gregory Brown** - *HSBC Global Research - Analyst*

Just a quick question around payment dates. You mentioned that there is an uptick in receivables in Venezuela and Brazil. Are there any other reasons -- regions where you are having any issues, perhaps in the Middle East? And thinking along the lines of execution, can you please give us an update on the Kaombo project and where you stand there? Thank you very much.

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**Alberto Chiarini** - *Saipem S.p.A. - Chief Financial and Compliance Officer*

Okay. On the payments, yes, Middle East -- it is well-known that there is a tendency in the Middle East from Saudi Aramco and other National oil companies to postpone payment. And that they have officially told us that they will pay within 15 days of [delay]. But this is something that we are not concerned because it is a completely different issue than the one with PDVSA or with Petrobras. I mean, that we might suffer a further 15 or 30 days working capital in the Middle East. But the payments are, let's say, completely safe from that side, so we are not too worried.



**Stefano Cao** - *Saipem S.p.A. - CEO*

Can you repeat the project you were? All (inaudible). Sorry. Kaombo is progressing according to the plan. We are in the process of building the floaters and in the process of building also the topside facilities. Kaombo, I think, is a good example of the dialogue which we manage to have with our clients in the direction of optimizing the cost without squeezing -- necessity squeezing the contractors margin. As a matter of fact, working together with our client, we have managed to come to a more cost-effective solution which has been recognized by our client and in particular by Total during a recent meeting, which I personally had with the CEO of Total.

So I think -- I am glad you mentioned it. But because that is a good example on the way forward in terms of necessity collaboration of both client and contractors in the direction of both reducing their own cost structure, at the same time, working together to identify more cost-effective solutions.

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**Operator**

Christyan Malek, Nomura International.

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

Three questions, if I may. First of all, on your pipeline on slide 14, it shows quite a few number of new opportunities since Q3. I just wondered if that's what is driving the delta. Is it due to improvement in the balance sheet? Qualifying for more work? Or is it more work in the Middle East? Just surprising that oil price has fallen, and yet there are more opportunities that you have identified of projects this year.

The second question is regarding drilling, which looks meaningfully at risk in 2017. How do you plan to mitigate that as rig contracts roll over and day rates move to spot, which shows significantly lower than what you have contracted?

And the third question is what percentage of projects do you expect to win this year are Eni related and Middle East related? Thank you.

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**Stefano Cao** - *Saipem S.p.A. - CEO*

Okay. Let me say I think you noticed that it is customary for us to show this slide with all the opportunities, which are projects which we are either receiving the tender documents. Or we are working on the preparation of the bids, or we have present an offer and we are negotiating.

I think if you make a comparison, you will see that there is a continuous change in names of the projects. Some of those projects, they disappear simply because they are awarded to other contractors. Others are postponed or canceled. But indeed there are others which are getting added to the list. We do not intend at all to give -- to provide an inference that we see things getting better. This is not what we view. Actually, we are -- as I mentioned in the presentation, we confirmed that we are feeling the trough of the cycle. But I think the purpose of the slide is to show that in our commercial department, they are indeed very busy and analyzing opportunities. Then, whether they become -- they mature as contract awarded or not, this is a different situation.

But I think the overall work that we find interesting is to show that we have a 38 billion of opportunities which somehow they are been looked at by our commercial people.

In terms of drilling, you are absolutely right. In 2017, we have a number of contracts -- long-term contracts expiring. This is, indeed, a reason of the utmost attention. We know that we haven't got a very large fleet of assets. We have built most of our capacity on the back of long-term contracts and on the back of our long-term relationships with clients. Of course, we know that we shall review the expectation in terms of rate. But all in all -- and we have also actually reduced the EBIT margin, which we expect from the business. But at the moment that there will be turnaround of the market; that we all know that the drilling market will be the first to react.

What we keep monitoring right now is the number of units, in particular in the offshore drilling, which are being scrapped. And we see that these numbers keep going up. My personal experience is that during deep crisis, and indeed had twice the same experience in my working life, by the time there is a recovery on the market, there is certainly the new capacity which is coming to the market, but that is also a lot of attrition. So crises are instrumental in the renewal of the asset based.

In terms of Eni related, I think Eni as always in the whole history of Saipem has been treating Saipem. And you probably know that I have been 8 years leading the E&P division of Eni so I was the client of the contracting entities. So I can confirm that Saipem is very much treated as any other contractor, and we will not get any specific advantage.

Added to that, there is indeed an opportunity which I would like to mention. This is Zohr. In order to meet -- and this is not me talking, but this is Eni and the Egyptian talking. In order to meet the very aggressive date for the first production of Zohr, they need to skip all the process of developing and engineering, developing the bid documents and going through the motion of a formal bid. So they have decided to move straight on and avail themselves of the services of Enppi, Petrojet and, indeed, ourselves. So this is indeed the case where we are working in our perspective new acquisition with Eni.

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

Just if I can follow up, if I may, on just the point around -- first on drilling. Assuming there is no inflection point in 2017, or even 2018, half of your EBIT is drilling. So what is Plan B, exactly? Still just want to be clear about that. Is it Eni that can support you on the fleet? Or how much of the fleet is Eni or long-term relationships? But how will you mitigate it assuming we don't see a turnaround?

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**Stefano Cao** - *Saipem S.p.A. - CEO*

We will mitigate just participating into the tender for the available opportunities. And we should have to reduce rates. But bear in mind that the [Saipem] 10,000 for instance is contracted throughout 2020. As well as the Scarabeo 7 is contracted to be early 2018. So you see the slides so you can work out the figures ourselves.

If there is a continuing (inaudible) as well as all the other drilling contractors are going to do, which means reducing rates and participation -- to participate into the competition.

Let me just allow to add that this is, in a way, the beauty of the portfolio composition of Saipem. We are not only a drilling contractor; we are a drilling contractor, and onshore and offshore contractor. So at the moment, the exposure to the onshore E&C, which, in the past, has given us so many problems, it is certainly a plus. So I think the combination of three businesses is what makes it different for Saipem.

Finally, I repeat it many times throughout the presentation, certainly the more the crisis go on, the more we shall have to continue to cut down cost and, indeed, putting equipment out of line and scrapping them.

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

Sure. And would you be kind enough to give us a percentage of your work this year that you think will be Eni-related or a range, given historically in crisis times it has been up to 40%? Is there any indication of what you expect?

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**Stefano Cao** - *Saipem S.p.A. - CEO*

Listen, I will answer indirectly. The first -- the client of ours is called Aramco, and the second is Total. So Eni comes third. And I will say an important part, in this case you are right, is on the renting of the offshore rigs on the back of long-term contracts. It is true that we have built capacity, relying on long-term contract coming from Eni. But we have done the same also with other clients.

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**Operator**

Mukhtar Garadaghi, Citi.

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**Mukhtar Garadaghi - Citi - Analyst**

My first question is for Stefano. Could you quantify some of these offshore E&C opportunities you talked about Zohr the Trans Adriatic pipeline and Tangguh, how material they are? My second question is, could you comment on the Saipem 10,000 rate extension -- the extension you have achieved? At what rate has it been done relative to the current rate? And just a quick one for Alberto. Do you have any concerns about your ability to issue bonds as a part of your refinancing if you do get downgraded below investment grade? Thank you.

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**Alberto Chiarini - Saipem S.p.A. - Chief Financial and Compliance Officer**

Okay. Obviously, the numbers are fairly sensitive, but I will give you an indication. The phase 1 of Zohr in excess of EUR1 billion. The TAP pipeline is in excess of EUR200 million. And the opportunities in Indonesia is (multiple speakers) -- it's in the range of EUR500 million.

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**Mukhtar Garadaghi - Citi - Analyst**

(multiple speakers) Okay. And that is net to Saipem?

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**Alberto Chiarini - Saipem S.p.A. - Chief Financial and Compliance Officer**

This is all net to Saipem. Yes.

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**Stefano Cao - Saipem S.p.A. - CEO**

Okay. A 10,000 extension, I think, is a good case of collaboration. Whereby we have accepted in the short term to reduce the rates of the Saipem 10,000. But in exchange of that, we extended the contract by one year. So we have a contract extended to the full 2020. As far as the rate is concerned, also we renegotiate rates if it is reasonably attractive to us. I will say it is north something north of EUR400,000.

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**Alberto Chiarini - Saipem S.p.A. - Chief Financial and Compliance Officer**

Yes. As far as the issuing of the bonds, first of all, I should like to remind you that we have 24 months. Of course, there is a step-up cost of the bridge to bond facility. And I would say that we are not planning to issue bonds right now because, clearly, the market in the , for the oil sector, the market in general, as well as the current situation of credit watch would not be a favorable window for issuing bonds. We expect to have a more favorable window farther down.

Nevertheless, we are also working in terms of diversifying potential sources of financing we are currently in discussion, and we have export credit agencies and other potential sources of financing. So we are working in a wider spectrum of options. I don't think that in any case we will have any difficulty in issuing bonds. It is just a matter of finding the right window that will, minimize the cost for the Company.

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**Operator**

David Ferrell, Macquarie.



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

Two questions for me. Firstly, on the Saipem 10,000, I think that you haven't -- I just wondered what the revenue -- sorry, the Saipem 12,000. What revenue contribution are you anticipating for 2016?

And then my second question was, you have obviously reiterated all of your guidance and also pointed to CapEx being lower by EUR100 million. Yet, the net financial position for year-end is still held at EUR1.5 billion. Should that -- could we assume that that should be nearer EUR1.4 billion, or is there something happening within working capital which has deteriorated? Thank you.

**Stefano Cao** - *Saipem S.p.A. - CEO*

Yes, let me answer the 12,000. As you know, the contract has been discontinued by the Total, and we got repayment in the range of EUR80 million. Having said that, we are currently marketing the vessel in a number of opportunities in the Atlantic basin and in Latin America and in the east of Africa. But at the moment, we have no commitment for the 12,000.

**Alberto Chiarini** - *Saipem S.p.A. - Chief Financial and Compliance Officer*

Okay. Just a technical clarification. We have not accounted in the P&L for the termination fee in 2015 because we are using the termination fee all throughout the original duration of the contract. So we will have, from a P&L perspective, some revenues coming from the 12,000 equal to the termination divided by the duration of the contract. Just a technical thing, but to make it clearer.

In terms of the EUR500 million, well, we stated in the previous guidance that investments were lower than EUR600 million. We have now focused a number to EUR500 million. We have a net financial position lower than EUR1.5 billion, so we didn't really find the necessity to change the guidance of the net financial position, is a kind of further buffer in order to achieve the target. I think that the target of having that lower than EUR1.5 billion at year-end is pretty challenging and really satisfactory as long as we get this target. I think that is what we want to achieve.

**Operator**

(Operator Instructions) [Michael Ray, Redburn].

**Michael Ray** - *Redburn - Analyst*

Thanks for taking my three questions. The first one -- I'm sorry to troll over the same topic again. But just looking at the numbers a year ago, you had about EUR9 billion in the book for execution in 2015 and you have delivered it by EUR11.5 billion of revenues. This year, you have got EUR8 billion in the book and you still expect to deliver more than EUR11 billion.

And I can understand that some contracts are likely to still come through, but the numbers appear to imply an improvement in short-term work and variation orders. So can you just give a bit more color on what gives you the confidence to expect that? And then I will just ask my next two after you have answered that, if that's okay.

**Alberto Chiarini** - *Saipem S.p.A. - Chief Financial and Compliance Officer*

Yes. You are right. The EUR9 billion was the number. You have to compare the EUR9 billion of last year with EUR12 billion because actually the EUR11.5 billion are reported, and they have been hit by the write-off of the pending revenues. So actually, the underlying revenues are at EUR12 billion. So this is reducing a bit the gap.



Then, the confidence, I think that one of the main areas that we have taken into account to be confident to reach this target is the Egyptian contract of ZOR. Of course, we have not yet signed this contract, but I think that also the recent press release from Eni, that everything has been signed between Eni and the Egyptian authorities is providing even more confidence that the contract will be an important element of the contribution for 2016, considering that we are already working on it in terms of engineering and upfront work.

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**Michael Ray** - *Redburn - Analyst*

Okay. That's clear. And then the second question is just on the offshore construction space, more generally. Are you a bit more tempted now to reduce capacity more aggressively than you have been doing, just given the kind of weaker order flow outlook there? And I just wondered if you could give a bit more color generally on the competitive environment in that space in particular.

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**Stefano Cao** - *Saipem S.p.A. - CEO*

We already have scrapped four units in the offshore construction. And I think it is implied in my words around that we will do whatever we need -- it needs including scrapping more units and rationalizing the composition of the fleet. Just allow me to restate a little bit the obvious. As far as when it comes to big pipelines, when it comes to complex and sophisticated offshore development projects, we are a natural participant to the industry. And the competition, it is indeed limited to the number of other contractors with, having units with similar features.

Indeed, there is a market that we see shrinking down at the moment, but we don't see new participants; certainly not in the present environment. So we continue to pursue all the E&C opportunities -- offshore E&C opportunities in the market. Maybe the margin on the basis of the, let me say the original cost structure are going to be reduced. But that is the real bet which we are playing. We are reducing the cost structure dramatically, and we shall have to continue doing so. We have to remain competitive and we have to safeguard our margin.

Then, of course, in parallel, we have to rethink the industry and devising what is the way forward at the moment the market will reopen. We strongly believe that we have done what we have to do in terms of restructuring of the balance sheet. We are lighter now. We are more cost effective. So we are getting gear -- naturally gear to the rebound of the market whenever that will occur.

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**Michael Ray** - *Redburn - Analyst*

Okay. Thank you for that. And then the final one is just a bit more of a housekeeping question. Can you quantify the positive cash flow impact of the hedges unwinding in 2016, please?

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**Alberto Chiarini** - *Saipem S.p.A. - Chief Financial and Compliance Officer*

Yes. We have estimated taking a bit of -- we have been a bit cautious because, of course, this will also depend on the movement of the US dollar/euro exchange rate. But we believe that around EUR150 million, EUR200 million will be unwind in 2016 and will be cash in.

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**Operator**

Nicholas Green, Bernstein.

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**Nicholas Green** - *Bernstein - Analyst*

I would just like to return to your comment just then about the additional cost of (inaudible) to come out of the business. And I suppose there is three questions in one, really, but what is stopping you to go further today and announce more cost-cutting efforts? The strategy that you reaffirmed

today was announced back in October. Oil has fallen a lot worse -- fallen further since then. CapEx cuts have come through stronger. So what is stopping you, first of all, to announce an additional round of cost-cutting?

Secondly, you talked about your major vessels there and where you feel some you may be able to stack and some you will keep in the market. Can you talk through a bit more your thought process about when would be the right decision to stack those? Are you waiting for a trigger point or some information to come which will allow you to decide it is worth more even cold-stacking them?

And then just a final point, again, as a reference to what you mentioned earlier, is that do you still believe having a combined E&C construction business with a drilling business is the right model for Saipem going forward? And why do you believe that hedge is necessary if the cycle remains tough for another couple of years? Thank you.

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**Stefano Cao** - *Saipem S.p.A. - CEO*

Okay. In terms of launching a new round, I think the straight answer is it's a matter of credibility. We launched a program of EUR1.3 billion in July last year. We increased by EUR200 million in October. I think we have in the process very aggressively to deliver this cost-cutting. And in parallel, we are working. I think it is just a matter of doing the right thing at the right time.

I think we are investigating a number of opportunities. We will let you know whenever they will be ready to be implemented. But for the time being, believe me, the whole Company structure is busy achieving those targets, which are not to be given for granted at all.

In terms of the trigger of more scrapping, till the units are working and why we should have to scrap that. So in offshore construction, we have scrapped the vessel which were idle. At the moment, we have the Castoro One, which is idle. Certainly, we will not scrap it. Actually, we are planning how to best utilize the vessel, and that will be either or both on Egypt and on the crossing of the Adriatic Sea.

What was the third question?

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**Alberto Chiarini** - *Saipem S.p.A. - Chief Financial and Compliance Officer*

The combination of businesses.

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**Stefano Cao** - *Saipem S.p.A. - CEO*

Oh, the combination of businesses. Yes. Sorry. Combination of business, quite frankly, this is part of my natural heritage. I was born in a company on the -- working on three business lines. I could see that over the history that has been very useful, especially in the three business being on different phases of the hydrocarbon cycle. Having said that, if you ask me whether I am adamant in keeping the three business indeed no. I think, again, it is a matter of phasing.

At the moment, we are in a sort of survival game. At the moment we complete the survival game, indeed we might divest in any of these businesses with only one exception, quite frankly, which is the offshore E&C which I think is bound to remain a core business for the Company. Clear enough?

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**Nicholas Green** - *Bernstein - Analyst*

Yes. That's very good. Thanks.

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**Operator**

Daniel Butcher, JPMorgan.

**Daniel Butcher** - JPMorgan - Analyst

Just maybe one question for me to follow up on others' questions. Just looking at your onshore rigs utilization, it says 90.5% for the full year. Given the much higher utilization on that for the first three quarters, my back-solving sort of says it is about 80% for the fourth quarter to reach that utilization for the full year. Is that right? And, if so, can you talk broadly about what is happening there and what you see happening in 2016-plus?

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**Stefano Cao** - Saipem S.p.A. - CEO

I did not run the mathematics, but I assume you are right because this is the figure we are providing. The onshore drilling -- I think the good example is what is happening in Venezuela at present. These rigs which we have there, they are definitely needed -- by the Country, in order to maintain this level of production. Having said that, since they are not in a position to pay, we are progressively reducing and shutting down those rigs.

You probably heard that we got the payment in January -- very insufficient payment in January in Venezuela. Which, in a way, suggested us to keep a minimum number of rigs in operation. At the moment, there are only 7 left, which means that our cost base is substantially reducing in the Country. If we don't see signs that there will be a new flow of payments, that will stop also the remaining 7, and we shall see having the cost associated with the operation.

I know this is a defensive move, but, quite frankly, it is very difficult to take any other attitude. We look, obviously, much more positively in the activities which we are running in Saudi Arabia and Kuwait. Yet, indeed, there is a pressure on rate, but it is quite normal. But we are enjoying a long-term relationship with Saudi Aramco and at the moment we are keeping all our onshore rigs in use.

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**Daniel Butcher** - JPMorgan - Analyst

That is good news on Saudi. If I could just follow up, I think from memory, Venezuela nationalized another operator's rigs a few years ago when they tried to go slow and they received slow payments. Do you think there is a risk of nationalization with your rigs there?

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**Stefano Cao** - Saipem S.p.A. - CEO

Quite frankly, I will give you a straight answer. So what? What do they do when they were nationalized the rigs. I think we have seen example, but I think the experience tells us that they fire back dramatically. I was at Eni when they made the nationalization of that (inaudible). And then they had to fulfill their commitment. I mean, you have things which we can do every now and then if you are driven by a desperate situation. But it doesn't work on the long term. So that is not really a big concern to us.

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**Operator**

Mick Pickup, Barclays.

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**Mick Pickup** - Barclays Capital - Analyst

A couple of questions, if I may. Firstly, can you just comment on pricing in the ZOR contract, please?

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**Stefano Cao** - Saipem S.p.A. - CEO

Okay. You said two.

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

No. That one first, please.

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**Stefano Cao** - *Saipem S.p.A. - CEO*

Okay. Pricing of ZOR is exactly the matter which is being discussed and negotiated at the moment. Bear in mind that our rates -- our cost structure is well-known. We have been -- not only because is Eni, but also the Egyptians, they know very well our cost structure. They have previous contract. So, to be very straight, I have to say that it is not that we can impose a key factor of 1.4 to 1.5. We have to be very competitive. So in order to avoid the risk of the contract going out to tender, it is our interest -- it is both parties' interest to come to a negotiated deal without each party taking advantage of the other. At the moment, the whole thing is working fine, and there should be fairly soon an announcement.

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

Okay. And secondly, I appreciate the guidance for 2016, which is encouraging. As far as I remember, your business plan had a 2017 target in it. Clearly, that coverage is some way behind, and this is more biased towards the onshore business. At what stage do you think you will have to publicly reconsider a 2017 target?

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**Stefano Cao** - *Saipem S.p.A. - CEO*

Okay. Let me again rephrase a concept that probably also -- I think it is also mentioned in the prospectus. So we are conscious that at the time we produced the four-year strategy presentation. The scenario was more favorable and so we have to take -- and we are perfectly conscious that now the scenario looks a bit different.

Having said that, we are not 100% sensitive in terms of backlog and in terms of order intake to oil price because we have the downstream. We have the gas monetisation. We have infrastructure and other areas that are less sensitive to the oil price. So we have to evaluate -- in the next three, four months, we have to evaluate the oil price and the expectation on the oil price as well as the result of the order intake, because this is the main thing for Saipem.

So if the results from the order intake in the next three, four months, we will not be satisfactory, and we have to fulfill more than 50% of the backlog of the revenues visibility into 2017. At that time, we will make a decision of eventually review the business plan.

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

Okay. Thank you. And just a quick follow-up. Have you got any idea what idle time costs are going to be this year?

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**Alberto Chiarini** - *Saipem S.p.A. - Chief Financial and Compliance Officer*

Yes. 2016 we took into account some idleness costs, especially coming from the engineering and construction offshore of more than 100 -- close to EUR150 million.

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

(inaudible). 150. Thank you.

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**Operator**

James Evans, Exane BNP Paribas.

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**James Evans** - *Exane BNP Paribas - Analyst*

If I could (inaudible) my questions. Just actually one. I just wondered if you could comment on how much deflation you have seen in your input costs into some of your offshore E&C projects, particularly around the offshore installation work, given that you are probably one of the few companies that is actually bidding significant number of contracts at the moment.

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**Stefano Cao** - *Saipem S.p.A. - CEO*

Well, I will say that we see very little inflation and we would rather think of deflation having the cost --

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**James Evans** - *Exane BNP Paribas - Analyst*

Yes. I said deflation. Sorry.

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**Stefano Cao** - *Saipem S.p.A. - CEO*

Deflation. Though, the cost of -- definitely -- sorry. The cost -- the prices are definitely going down. But I think I made the comment earlier on, I think it is our bet at the moment to make our operation more flexible and more cost-conscious. We have to offer our client more effective engineering and execution solution. And at the same time, our clients are there to realize that we need to work closely to each other in order to make developments, which otherwise would not be compatible at the present scenario. As still attractive to them. So I would say now in the period of downturn, we have to be innovative and creative. This is the rule of the game at the moment.

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**Operator**

We will now go back to Mr. Nicholas Green with a follow-up question.

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**Nicholas Green** - *Bernstein - Analyst*

Just a quick follow-up on the order intake question. Appreciate that you might want to wait a few months to see what comes in. But having said that, this year you had a [EUR6.5 billion] order intake. Given the commentary about the drilling business, to be producing somewhere close to EUR11 billion in revenue, you will need to have order intake above EUR10 billion for this year, next year. Do you think that is credible at this stage, let alone in a few months' time when you have seen a few projects come in? But it seems that is asking an awful lot to get above EUR10 billion.

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**Stefano Cao** - *Saipem S.p.A. - CEO*

Listen, the time horizon of our industry is much shorter. I think we have -- I don't recall any previous case where we have been so a Company such as Saipem has been so open and detailed in providing the going forward -- the way forward for the Company. And most of the -- our competitors and colleagues, they limit themselves to provide the data for the following quarter and maybe a quarter after; that is what.

We have decided to be more transparent because of the turnaround which we are launching at the moment. At this stage, what we really state quite strongly is that we will achieve the guidance which we have set for 2016 as we have achieved the one for 2015. Then, if the judgment is based on revenues, I'm, quite frankly, far less intrigued. I am much more interested in making the guidance in the EBIT, which means that you have a much better control of your cost structure as well.



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**Nicholas Green** - *Bernstein - Analyst*

Well, really grateful for the additional disclosure you guys are giving. So thank you.

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**Operator**

Ladies and gentlemen, as we have no further questions, I would like to turn the conference back over to Mr. Cao for any additional or closing remarks. Thank you.

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**Stefano Cao** - *Saipem S.p.A. - CEO*

Thank you very much, and have a good evening.

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**Alberto Chiarini** - *Saipem S.p.A. - Chief Financial and Compliance Officer*

Thank you.

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**Operator**

Ladies and gentlemen, that will conclude today's presentation. We thank you much for your participation, and you may now disconnect. Thank you very much. Have a good night.

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