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SPM.MI - Q1 2016 Saipem SpA Earnings Call

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

**Gigi Caselli** *Saipem S.p.A. - COO*

## CONFERENCE CALL PARTICIPANTS

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**Mukhtar Garadaghi** *Citigroup - Analyst*

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

**Alessandro Pozzi** *Mediobanca - Analyst*

**David Thomas** *Credit Suisse - Analyst*

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## PRESENTATION

### Operator

Good day and welcome to the Saipem first-quarter 2016 results 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.

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

Good afternoon, ladies and gentlemen. I am here with Alberto Chiarini, our CFO, and Gigi Caselli, our COO, and I'm pleased to present our results for the first quarter of 2016.

Although the oil price has trended up since year-end lows, market conditions have continued to be challenging. In this context, we are pleased with Q1 results that were on track for our full-year guidance and underpinned by robust offshore performance.

E&C Onshore has recorded positive results, albeit marginally, for the third consecutive quarter. Meanwhile, the onshore drilling results worsened as a result of South America continuing to suffer the impact of the downturn.

Net debt at the end of March stood at EUR2 billion, following the completion of our EUR3.5 billion right issue.

Turning to our order pipeline, backlog stood at EUR14 billion at the end of Q1, down 11% on Q4, primarily due to a weak order intake. However, we confirm that we have good visibility on material new orders expected to be awarded in next few months. Since the end of the first quarter, we have been awarded more than EUR400 million new contracts, including the TAP project.



Finally, we maintain our focus on cost rationalization. Fit for the Future target has been raised by EUR200 million to a total EUR1.7 billion over the period 2015-2017. These additional savings are a result of further footprint rationalization and fleet obsolescence management.

In a nutshell, I am pleased to confirm our 2016 full-year guidance as announced in October last year.

Let me now hand you over to Alberto, who will go through the financial results in more detail.

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

Thank you, Stefano. Let me walk you through the key elements of this first quarter.

We saw a 6% reduction in revenues versus Q1 2015 to EUR2.8 billion, mainly due to lower activity in the E&C Offshore and Drilling, slightly mitigated by E&C Onshore increased revenues.

However, we delivered an improvement in our EBIT performance over the same period, up 13% to EUR179 million, primarily thanks to better E&C margins and the Group operation on projects such as Egina, Kashagan, Jazan, and Ichthys, the latter in its ending phase.

This performance offset the deterioration in our onshore South American drilling business and the increased idleness in the offshore drilling business, mainly at 12000 and Scarabeo 6. We are now preparing to scrap Scarabeo 3.

Finally, net profit of EUR61 million was down versus Q1 2015, despite our improved EBIT performance. This is mainly due to one-off items positively impacted in 2015 -- in 2015 and increased minority interest charges in 2016 related to projects managed in joint venture.

Following the completion of the capital increase, we have closed the first quarter with a net debt of EUR2 billion, in line with the estimated pro forma net debt disclosed at the end of February. Our careful financial management has allowed us to offset the negative seasonal working capital dynamics that normally affects our Q1. As a reminder, in Q1 2015 the negative seasonal swing in net debt was EUR800 million.

The operating cash flow exceeded investments, partially offsetting the quarterly variation in working capital. We confirm our target of net debt below EUR1.5 billion by year-end.

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 a brief operational update of the business.

Our backlog stood at EUR14 billion at the end of the first quarter, with an order intake of EUR1 billion as the result of the award of Ital Gas Storage project and the number of smaller initiatives, as well as variation orders on ongoing projects.

A weak order intake has affected the first quarter, but we see a good number of opportunities in the near future that I will cover in next slide. In the second quarter, we started to see some positive signs with the award of EUR430 million of new contracts, including Trans Adriatic Pipeline.

Looking ahead now, I would like to elaborate further on some of the near-term market opportunities that we are particularly confident about. These opportunities are currently at an advanced stage and we expect contract awards to be announced shortly, possibly within the first half. The combined value of these near-term initiatives are approximately EUR5 billion.



In addition to the nearer-term initiatives, by our usual slide we are providing an overview of the range of other opportunities that we are actively monitoring and pursuing. These opportunities are worth approximately EUR35 billion. As you can see, a large number of projects on the list are still there as a consequence of oil companies delaying investment decisions and awards.

Not included in this slide, I wish to highlight our midterm opportunities in Iran, a country in urgent need of investment in order to expand its production and export capacity. We enjoy a good reputation and an excellent track record in Iran and we have recently signed three significant MOUs.

Regarding offshore drilling, we are currently discussing contract extension with our clients and we are pursuing short-term opportunities for S12000 and Scarabeo 6, both currently on warm stack. The suspension of the Scarabeo 5, for which we continue to receive a standby rate, has recently been extended by Statoil up to the end of July. We're announcing today our decision to scrap the mid-water semi-sub Scarabeo 3.

In onshore drilling, the impact of the slowdown in South America, namely Venezuela and Peru, has lowered utilization rate to 75% in the quarter. We are currently reducing our exposure in Venezuela, where we now have three rigs in operation out of 28. We continue to pursue opportunities in the Middle East and we are also exploring other alternatives in South America, where we could relocate some of the rigs now available.

Moving to our cost optimization program, Fit for the Future, as I mentioned earlier, over the course of the quarter we have identified a further EUR200 million of cost savings. This has led to an increase in our total cost-saving target to EUR1.7 billion. These additional savings are mainly avoided costs and are related to additional optimization of engineering operations centers in Europe, UAE, and Far East; further optimization of Company presence in west Africa; scrapping or disposal of two additional vessels, one in drilling and one in E&C; other action on compensation policies for expatriates.

Our headcount was down over 1,800 during Q1 and stood at 41,700 employees at the end of March. For your reference, at June 2015 the employees were around 48,000.

We see indeed the Fit for the Future program as a great opportunity to shape up a leaner and more flexible organization.

Now, a few closing remarks. In autumn, we launched a number of far-reaching initiatives to create a stronger Saipem, achieve financial independence, and reaffirm our position as a world leader in the oil service market.

Good progress has been made since October; however, market conditions are still challenging and require our organization to stay focused on the five key pillars of our strategy.

Number one, business portfolio refocus, which we are pursuing through a worldwide footprint rationalization and an ongoing plan of disposal.

Number two, business derisking, which is key and I am confident that our improved risk management process, commercial discipline, and early engagement with clients will positively impact profits and protect margins. Good example of improved working capital management and the stabilization of the performance of E&C Onshore.

Number three, cost optimization, which is progressing on track and now is being raised to EUR1.7 billion.

Number four, technology and innovation, an asset which I intend to strengthen in Saipem as it is essential to enhance our competitive edge. Our alliance with Aker goes indeed in that direction.

Number five, through capital increase we have achieved a stronger balance sheet and financial independence, lowering cycle leverage to industry standard.



In conclusions, the challenges for our sector are far from being over, but we are on track to meet our strategic targets. Meanwhile, I can assure you that Saipem is doing what it does best, delivering quality and reliability to our clients. Alberto, Gigi Caselli, and I would be pleased to take your questions. Thank you very much.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions). Guillaume Delaby, Societe Generale.

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### Guillaume Delaby - Societe Generale - Analyst

Good evening. Congratulations for the great results. Two questions, if I may. First, very small technical, can you just repeat the number of employees at the end of March, because I missed it?

And more importantly, when you read your 2015 annual report, clearly you have the impression that most of the working capital items in 2015 in fact are, I would say, relatively well positioned to release some working capital in 2016. I can see in your cash flow statement that this quarter change in working capital has been a significant cash outflow. Could you give us some color regarding change in working capital for the rest of the year? Thank you.

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

Okay, as far as the number of the employees at the end of March, the number was 41,700.

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### Guillaume Delaby - Societe Generale - Analyst

Thank you.

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

As far as working capital items, yes, Alberto, if you wish to (multiple speakers)

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

(multiple speakers) working capital item you correctly, so worsening in the working capital in the first quarter of something between EUR200 million and EUR300 million.

As I stated during the presentation, this is quite a good result if you consider that seasonally this item has always been very -- has always suffered a very negative swing in the working capital in the first quarter. This is due mainly to the fact that year-end is normally a period where you try to optimize working capital as much as you can. You use a lot of factoring and you try to make -- to close the year with all the payments. And there is a usual relaxation in the first quarter.

Last year, as we said, we suffered EUR800 million worsening in the net debt. In 2014, it was EUR800 million. So, this is just to tell you that I consider that the working capital in the first quarter was pretty good, in good shape.



In terms of opportunities to improve the working capital, [rather], of course, even more careful management of the working capital, but also possibly the settlement of some of our pendings, so it could be an opportunity, and we expect EUR100 million of improvement, EUR150 million, EUR100 million, EUR150 million of improvement in the working capital coming from the unwinding of the hedging position.

These are areas where we have to work harder in order to achieve the EUR500 million positive cash flow that we expect by year-end.

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

Okay, thank you very much.

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**Operator**

Mukhtar Garadaghi, Citi.

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**Mukhtar Garadaghi** - *Citigroup - Analyst*

Thanks for taking my question and thanks for the presentation. Can I ask on the cost-cutting program, how quickly do you expect to realize the EUR700 million, which you have talked about?

And the second question I had on the offshore E&C margin, clearly a stronger margin this quarter both sequential and year on year. Do you see this as a sustainable number as you manage your utilization down potentially, and is it a good benchmark for us to model forward? Thank you.

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

Okay, as far as the cost-cutting program, we are -- as you probably recall, our cost-cutting program is made by very specific projects. We have more than 150 projects ongoing. Every project has a single responsible for the project itself and we are monitoring closely the program.

We were able to achieve what we promised in the second half of 2015. We are aiming now at more than EUR600 million savings in 2016, and according to our quarterly review, we are on track to achieve that.

Some example are self-explanatory. We have decided to scrap Scarabeo 3, as well as to dispose of the Bar Protector in the engineering construction offshore. This is going to be done as soon as possible and this will improve again what we call avoided costs, so costs that are going to disappear because of lack of activity. And we are working hard to reduce our footprint in the areas where we are impacted by the downturn, mainly Africa, as we say, the Brazil, Canada, and so on.

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

Okay, as far as the margin on the offshore E&C, I would say that, as I'm sure you know well, offshore E&C is our business of election, where we know that we have strong capabilities and we can stand firmly in the market. The better performance, as Alberto was referring to, are related to a number of projects, such as Egina, Kashagan, and Ichthys, which it is completed.

Saying that this is a sign that the business is going to provide a continuing higher margin, I would say that at this stage we would rather prefer to be prudent and record the better performance that we are enjoying and actively working to keep improving the margins.



**Mukhtar Garadaghi** - *Citigroup - Analyst*

Sorry, thanks for your answers. If I could follow up, just on that E&C Offshore margin, again how much of it -- were there a lot of one-offs there in terms of closure of Ichthys that has provided a significant boost?

And if I could just follow up on backlog, could you talk potentially about -- in terms of your target list about North Stream as well and where you are in discussions there, especially around the EUR750 million outstanding that Gazprom posted as well? Thank you.

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

Now as far as the one-off, there is a small element of Ichthys because at the end of the project, you normally release the contingency fee if you have not utilized that and they turn it into margins, but it is not a significant element.

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

The other in terms of backlog contribution coming from the North Stream, I would say that consistently with the message I have been delivering, of course we have been building North Stream 1. We are very interested in pursuing the opportunity to build also number 2. We are going to participate to the bid, but that is indeed a competitive bid and we count on North Stream as much as we count on a lot of other projects.

If you then referred in particular to projects related to Russia, I would like to repeat up to the point of being boring that our highest priority is to resolve the issue of South Stream.

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**Mukhtar Garadaghi** - *Citigroup - Analyst*

That's very helpful. Thanks for your answers.

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**Operator**

Mick Pickup, Barclays.

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

A couple of questions, if I may. Just firstly on the near-term E&C opportunities, can you just talk to the nature of those negotiations, any terms or conditions that might have to change, pricing concessions, et cetera? That is the first question.

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

Gigi, you wish to comment on near-term opportunities?

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**Gigi Caselli** - *Saipem S.p.A. - COO*

The near-term opportunities that we are reporting in the slides are those that are quite known to all the market, to mention Zohr is everybody is talking about this giant project in Egypt.

Then, there was also some release on the press regarding the Tangguh project that still has to be sanctioned by the client. Then, we have certain discussions going on with -- in Azerbaijan with BP. Then, we have provided a bid for West Eni West Hub subsea facilities in west Africa.



Saudi Aramco, even the other day there was some news that they were reporting, some press news regarding the fact that Saudi Aramco will award shortly some packages to a different contractor, the contractor that signed the LTA. And then, we're actively bidding certain pipelines projects in Mexico where recently has been selected the utility company and the utility company now is negotiating with different contractor, among which we are one of those certain pipelines.

And this is the situation, more or less, in the near short term, to mention also Baltic Urea, an urea plant in Russia, plus another offshore plant in LNG for BP Tangguh that is the onshore section of the overall project. So all of them, we are in the race, and all of them, we hope to have the positive results shortly (inaudible).

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

Okay, if I may give you a bit of color on a couple of the projects mentioned in the list, as far as Zohr concerned we are currently working in parallel. We keep developing engineering. We are purchasing the long lead items, and in parallel we are negotiating terms and conditions.

I think you must have noticed that there have been a couple of interesting statements made by both the client, Eni, and the Minister of Energy in Egypt stating that they target still for the start of production by the end of 2017, and I think this is an important message indeed for us, but I believe also for you.

The other color which I would add is that we are negotiating on the Shah Deniz with BP the [extension] 007, and probably if I have to identify which is the project which is nearest to come to fruition, I would identify Shah Deniz.

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

Okay, thank you for that color. And second question, clearly historically, the later your results are out, the more your Board has had to discuss them, given the press release landed in my desk five minutes before this conference call. What are the biggest issues the Board are debating at the moment?

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

The big issues the Board are debating, I am not sure to what you are referring to. But obviously, we are because we have a continuous dialogue with the Board. We have been indeed keeping the Board very busy in the first year of the life of the new Board.

We have revealed the new plan. We have proposed to the Board the capital increase. Then, there have been a number of operations which needed indeed an in depth review by the Board, such as the deconsolidation from Eni and the restructuring of the financing sources for the Company.

So, I would say that the Board has been very busy, has been providing full support to the management, and indeed we are very pleased with the help which we are getting from the Board for the time being.

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

I look forward to results earlier next time.

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

Okay, sorry, probably it is our fault. We are a bit late in distributing information.



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

No worries. Thank you.

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**Operator**

Alessandro Pozzi, Mediobanca.

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**Alessandro Pozzi** - *Mediobanca - Analyst*

Thanks for taking the question. My question is on the backlog. I was wondering if you can give us a bit more color for 2017? I think the backlog has moved around a little bit and I think it's a little bit maybe low compared to historical average, I think the backlog coverage for 2017, and I was wondering, I guess, it's quite clear that essentially you have to update the guidance at some point. And I was wondering if you can help us thinking about 2017.

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

If we talk about 2017, currently if we talk strictly about the backlog coverage in 2017, we are slightly above 50%, which means that I would say the game is still on, and I think the key answer for us is to monitor the next two, three months where we expect those EUR5 billion initiatives to be in one way or another finalized. I am not saying they will all be successful, but of course, these are short-term initiatives and this will change dramatically what will be the 2017.

In view of the above, as we stated in our press release, the Board has decided to monitor the situation and we expect to review the strategic plan and disclose the 2017 guidance end of October this year with the nine-month results.

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

I think if I may, just for sake of clarity, indeed we are, as we said all along, we are quite happy with the opportunity which we had to confirm the guidance for 2016. Indeed, we are fully concentrated now on the improvement of the backlog, and the intention for the least of projects, of opportunities which are in terms of near term, which are closer to becoming part of the backlog, the idea was to give you a flavor of where we are expecting the complement of the revenues will be coming for 2017.

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**Alessandro Pozzi** - *Mediobanca - Analyst*

That's very helpful. And if I may, a follow-up on the Iran contracts. Do you have any visibility on when you can turn those MOUs into contract award?

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

No, I would say for us it is extremely important to reestablish the ties and relationship with our former partners there before we left Iran.

All in all, we found a very good welcome from the counterparties we have been talking to. Iran, you might have noticed, is not part of the near-term opportunities. We view it as an extremely important market going forward, again on the back of our history there, but for the time being is a market that we have to deal with, but we do not expect any immediate support, not in terms of 2016 or [early] 2017.

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**Alessandro Pozzi** - *Mediobanca - Analyst*

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

**Operator**

David Thomas, Mirabaud.

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**David Thomas** - *Credit Suisse - Analyst*

It is Dave Thomas at Mirabaud. Just taking Alessandro's question about the backlog in a bit more detail, there seems to be a deferral in the E&C Onshore backlog from 2017 into 2018. Can you just provide some color on what the deferrals would be on? That's the first question.

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

Deferrals from 2016 to 2017?

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**David Thomas** - *Credit Suisse - Analyst*

No, 2017 into 2018, sorry if I didn't make it clearer. So looking at the fourth quarter, what you had for executing in 2017 and 2018, there has been a shift of around about EUR700 million less now in 2017 in E&C Onshore than you reported back in the fourth quarter.

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

Okay, okay, these projects are mainly some of the Middle Eastern projects that are showing a few delays in execution. I don't know if, Gigi, you want to add something in terms of -- deferral of projects onshore.

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**Gigi Caselli** - *Saipem S.p.A. - COO*

Well, in terms of deferral project, the one that are currently undergoing -- regarding the one that are ongoing, to the contrary there is one that was for a certain time period on a sort of evaluation that had been last year relaunched and is proceeding as they should.

All the other are -- there are no projects that are currently has been frozen by the client, those projects that we're ongoing so far. To the contrary, there are certain project that supposed to be awarded that has been moved for a certain period of time and those are not, as I repeat, undergoing at this current moment.

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

Did he address your question? Because I am not sure we fully understood what was the point you were asking.

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**David Thomas** - *Credit Suisse - Analyst*

No, I will take this with investor relations off-line. That's fine.

A couple of other questions, please. Just in terms again of E&C Onshore, there was some reports in the press about the long-term agreements and Saudi Aramco possibly looking at price re-openers there. Could you comment around that, please?

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

Long-term agreement to Saudi Aramco, it is -- you see a lot of rumors in the press. Indeed, these are sometimes, I agree, these rumors are contradicting each other. It is true that we are currently negotiating with Aramco a number of our projects.

The one which we decided to leave in the near term is one of the LTA, but it refers to the offshore, the offshore fixed facilities. And that is one of the awards which we consider for current.

That is not the end of the story. You know that Aramco, they are launching a large number of projects in parallel. We are pursuing other opportunities. They would like to get more mature.

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**Gigi Caselli** - *Saipem S.p.A. - COO*

Just if I may add to give additional information, generally speaking, this long-term agreement that Saudi Aramco has signed with four main contractor, one of those is Saipem. The other are other three contractor, and most probably there will be another contractor added to the four.

There are a number of projects that are keep on -- put on the market. It is put on the bid by Saudi Aramco since they are quite eagerly investing in this type of infrastructure activities, oil and gas offshore, in order to increase the quantity of gas.

And the news that you can read are sometime based on one package towards another or a bigger package versus another two, three smaller packages.

As I say, we contractor are bidding whatever Aramco is putting out for bid and there are bids that are undergoing current discussion/negotiation, others that are under evaluation, others that supposed to be awarded. So it is a pipe of projects that are coming through the time.

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**David Thomas** - *Credit Suisse - Analyst*

Okay, that's very helpful. One final question, please. Did the Board today discuss the possibility of consolidating your 10 billion share count to something more reasonable?

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

No, this was not an item under discussion. We know that this could be a subject of discussion in the near future and we are evaluating because they have some pros and cons. Clearly, it is something that could help, but also could imply some issues with the retail shareholders.

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**David Thomas** - *Credit Suisse - Analyst*

Okay, thank you for your time.

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

We have the shareholders' meeting, as I am sure you know, the day after tomorrow, and obviously there was no physical time. So, the matter might be considered, but it is not mature at this stage yet.

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**Operator**

Andrew Dobbie, SEB.

**Andrew Dobbing** - *SEB Enskilda Inc. - Analyst*

Andrew Dobbing here from SEB. Vessel utilization appears to have been very low in Q1, at least the work I do shows it some. Almost all your large vessels were idle in the quarter. Can you tell us if there is still full OpEx on those vessels that are idle? Are they fully staffed while they're sitting there doing nothing, because I'm at least a bit surprised this hasn't had a bigger impact on profitability in the quarter? Thank you.

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

Normally, of course, the process calls for a vessel being idle to undergo a major rationalization in terms of manning, in terms of number of people aboard, and in terms of supporting staff. So, I would say that in normal circumstances in the good old days was already sort of natural habit. In these days, it is becoming something close to being maniac in terms of reducing the people. So we count the heads one by one, and if we only can, we use the same guys to look at two vessel which are standing by, so we're really rationalized to the best of our capabilities.

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**Andrew Dobbing** - *SEB Enskilda Inc. - Analyst*

If I can maybe turn the question around a little bit, there are -- you highlight some interesting projects that could, I guess, have a positive impact on that utilization going forward. Could this or should we expect that to have a big impact on your margins as utilization improves perhaps towards the end of this year and into 2017? That's strictly on offshore E&C.

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

That is absolutely correct. The moment in our guidance we have included the utilization, which we expect of the basis of the projects which we have in hand. Should we be awarded additional project, of course you will see a double effect, the idle cost going down and, of course, the marginality going up because we are utilizing the asset for executing the project.

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**Andrew Dobbing** - *SEB Enskilda Inc. - Analyst*

Thank you very much.

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**Operator**

[Michael Ray], Redburn.

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

Thanks for taking my two questions. The first one is, have there been any project cancellations that have affected the backlog this past quarter? Just on Lakach in Mexico, if you can talk about that contract, that would be great.

And then, the second question is just on the onshore drilling business. I know it is quite a small part of your business, but just looking at the backlog remaining for execution this year, it implies quite a big step down in the quarterly run rate of revenue. So, are there short-term contracts that you expect to sign that would boost that figure or do you think that is a sensible figure to use for the rest of the year on a quarterly basis? Thanks.

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

Do you want, Gigi, to comment on Lakach (multiple speakers)? You have been in Mexico very recently.

**Gigi Caselli** - *Saipem S.p.A. - COO*

(multiple speakers) in Lakach, first of all, has not been canceled. Has been suspended and not even completely for a short period of time, for a very short period of time. We are talking about for the time being four months.

The production of some material is going on and soon will be delivered. So we are hoping and expecting that it will resume -- at will resume as it should.

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

Okay, as far as the onshore drilling backlog, by definition the duration of contracts of the onshore drilling tend to be shorter.

So, indeed, we have availability, and as a matter of example, what we are doing for the rigs becoming idle in Venezuela, we are checking the possibility of utilizing elsewhere. At the moment, we are looking of rigs utilization in Latin America, as well as addition of rig utilization in the Middle East.

And should we be awarded, of course, we will -- we would utilize some of the rigs, which for the time being have been idle and for which we expect in the near future a likelihood of being utilized as very slim. And the reference to Venezuela is probably a good example.

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

Okay, that's great. And then, if I could just ask a quick housekeeping question on the CapEx. CapEx in the quarter was very low compared to your full-year guidance, if I just annualize. So is there scope to come in lower than the EUR500 million guidance or is there just some sort of timing issue there?

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

No, look, it is normal. The first quarter, it normally sees fewer CapEx expenditure.

Having said, I don't deny that on the target of the EUR500 million full year we are carefully looking at expenditure by expenditure to see whether there are things which we can save for the time being. But at the moment in terms of guidance, we maintain the EUR500 million -- around EUR500 million full year.

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

Okay, thank you very much.

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**Operator**

Kevin Roger, Kepler Cheuvreux.

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**Kevin Roger** - *Kepler Cheuvreux - Analyst*

Short ones in terms of financing, please. Can we have an update on the pending revenues level and also the forex impact on the net debt position with the downpayment level at the Q1 2016? And an additional one, maybe on Zohr, please, because Zohr is probably one of the likely contracts

that you will win in the coming months. You mentioned that the midterm E&C opportunities were just under [\$]5 billion. How much Zohr represents, please, on those [\$]5 billion? Thanks.

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

Alberto.

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

Yes, in terms of pending revenues, the total amount of what we have defined [pending] revenues is around EUR900 million. Out of this EUR900 million, we have almost half or more than half, almost EUR500 million that are in an arbitration process.

So, if you look at these in terms of financial opportunities, we believe there are a lot of opportunities there, but they are more midterm because the arbitration process is quite a long process, so we do not expect in 2016 to finalize none of these arbitration processes.

Of course, there is always the possibility of reaching a settlement before the arbitration, but we suspect that this could be achieved only if there is a change in -- if there is an upturn in the market because, unfortunately, as we explained many times, some of these arbitration are kind of a way for the client to postpone outsource.

The remaining EUR400 million are more relating projects that are -- either are ongoing or they are in close negotiation to see if there is a possibility to sort out these variations and these change orders and claims to be settled.

In these respect, there is -- I believe that there is more possibility that we could sort some of this out in the year. However, in our target to reach EUR500 million net cash flow in 2016, we didn't count on resolution of these pending revenues.

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

In terms of Zohr, I have to say much to my regret I cannot disclose any figure. I can only tell you that what we are negotiating for the time being is the execution of the Phase 1, which is essential for the startup of the offshore production. As I said, that implies the tie-in with the eight wells, Gigi.

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**Gigi Caselli** - Saipem S.p.A. - COO

In the beginning are two wells--

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

So initially, two wells.

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**Gigi Caselli** - Saipem S.p.A. - COO

Two full wells, and then the remaining --

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

-- flowline, so the other, the trunkline to shore and all the related umbilicals to control production. So, this is the initial stage. Then there will be the second stages to come, but at the moment on the table is the Phase 1 execution.

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

You also asked about down payment. The amount of down payment is above EUR600 million at the moment in our balance sheet, and of course is going down with the same trend of the backlog, let's say.

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**Kevin Roger** - Kepler Cheuvreux - Analyst

Okay, thanks. And maybe just on the ForEx impact on the net debt, if I will remember, it is EUR500 million. Can we have an update on it, please?

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

The target of EUR500 million.

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

Net debt?

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**Kevin Roger** - Kepler Cheuvreux - Analyst

The ForEx impact on your net debt position that you mentioned previously.

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

(multiple speakers) ForEx, yes. I think I stated earlier we believe that we should have a positive inflow from unwinding of derivatives in the year of between EUR100 million, EUR150 million.

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**Kevin Roger** - Kepler Cheuvreux - Analyst

Okay, thanks for that.

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**Operator**

David Farrell, Macquarie.

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**David Farrell** - Macquarie Research - Analyst

Thanks for taking my question. I guess one of the reasons for delaying an update in terms of the medium-term outlook until October is negotiating new contracts in the offshore drilling business, given the amount of contracts that come off in 2016 or 2017. Could you just run through the rigs that you have in terms of which rigs you think you might potentially be willing to scrap if the market doesn't improve versus which rigs do you think are absolutely sacrosanct to Saipem's offshore drilling offerings?



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

Okay, just for the sake of clarity, we will scrap -- we have scrapped one and we will scrap the second one. There were two sister vessel built in the early -- in the 70s. So, these are the two units which have been scrapped.

If you know the composition of our fleet, you know that we are -- we haven't got a large number of units and we are positioned on the high range of the market. So, the units which we are currently marketing are the (technical difficulty), the Scarabeo 6, and the Perro Negro 3. So these are the three units which are being marketed.

You know that as far as the others, they are all utilized at least up to the end of 2016, so as you rightfully mention, we shall have to work on extension of the contracts and we have indeed a number of negotiation ongoing on those.

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**David Farrell** - *Macquarie Research - Analyst*

Yes, but is it fair to say that you would consider, if the market doesn't improve, scrapping further vessels within the drilling fleet, say some of these standard jackup rigs?

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

No. The straight answer to the question is no. We do not -- we are not considering simply because we consider that we haven't got obsolete units. We can stick to the units we have and we wait for the market to recover to get the utilization and indeed also better rates.

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**David Farrell** - *Macquarie Research - Analyst*

Okay, that's very clear. Thank you.

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**Operator**

Mark Wilson, Jefferies.

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**Mark Wilson** - *Jefferies LLC - Analyst*

I think about the only thing that hasn't been asked yet is about your medium-term notes program to repay the bridge to bond. Is that a progressive thing we will see, you accessing the debt markets, or is there a timeline we should think about for that additional up to EUR2 billion?

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

I think the reason why we have approved today in our Board the EMTN program is exactly to have flexibility. So, again, the EUR2 billion amount, which is higher than the EUR1.6 billion bridge to bond, is to make sure that we have flexibility. That is what it is all about the EMTN program.

So, by the end of May, we will be -- we should have the program available, and at that time we will certainly monitor the market. We would like maybe to issue earlier, rather than later, because the bridge to bond has a set-up cost, but of course we will monitor the market that is very, very volatile. In terms of the whole market, there is a lot of liquidity and very good rates at the moment, but in terms of oil-related industry, we have to monitor it to see if there is a potential recovery and some better sentiment.

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**Mark Wilson** - *Jefferies LLC - Analyst*

Okay, so when the timing is right, that would be in excess for up to that full amount, when the timing is right.

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

Absolutely, correct. We will decide about the time and the amount depending on the market.

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**Mark Wilson** - *Jefferies LLC - Analyst*

Excellent, thank you.

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**Operator**

Neill Morton, Investec.

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**Neill Morton** - *Investec - Analyst*

Just one question left. Just was that minority charge in Q1, just some more information on that, whether it is a one-off or sustainable? Thank you.

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

It is not a one-off. As you know, we've -- according to the accounting principal, whenever we have a joint company that we control, but has a minority interest or a partner, and I would mention specifically ERSAL company in Kazakhstan, we account 100% revenues and EBIT, and then we have charges in terms of minority interest to give dividends to the partner.

In the case specifically of ERSAL in Kazakhstan, of course this will continue until the project of Kashagan will perform. So the full year, basically, at least October.

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**Neill Morton** - *Investec - Analyst*

So is it reasonable to assume that EUR39 million or so will continue through end this year when the project completes?

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

They will increase during the course of the year because this is the portion of -- but, of course, you will also have an increase in the EBIT that will be proportional.

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**Neill Morton** - *Investec - Analyst*

For sure. Thank you.

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

Okay, so I think we're at the end of the conference call. Thank you very much for your participation and look forward to be with you again in three months' time.

**Operator**

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

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