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PRESENTATION

Operator

Good day and welcome to the Saipem Preliminary 2012 Consolidated Results Conference Call. Today's conference is being recorded.

At this time I would like to turn the conference over to Mr. Umberto Vergine. Please go ahead, sir.

Umberto Vergine - Saipem SpA - CEO

Good afternoon, everyone, and thank you for joining us on today's conference call to discuss Saipem's 2012 full year results. With me here today are Stefano Goberti, our CFO; Hugh O'Donnell, Deputy CEO and (inaudible), Head of Investor Relations.

In today's presentation, as indicated in slide number three, we will discuss the Company's financial performance for 2012. We will also report on content acquisitions made during the year providing a brief analysis of our current backlog and once again outlining guidance for 2013.

Moving to slide number five, before we go into the results for the full year 2012 it is helpful to look at Q4 briefly as the performance during the quarter has significantly impacted the results for the full-year. The reduction from Q3 to Q4, particularly in engineering and construction (inaudible) is the first sign of the dilution of our portfolio mix in the years of business, which as we have discussed in great detail in recent weeks, is going to impact (inaudible) profitability in 2013.



The most notable contribution factor in this performance is the conclusion during 2012 of several large high margin contracts. In addition, we have seen delay to contract awards that we had expected to come in during the year, lower activity during Q4 across the units of business and a lower than expected recovery of claims from clients in E&C, all of which we have discussed in details in the last few weeks.

Looking at the full-year of slide six, while revenues have increased net profit is below expectations at EUR902 million, down from EUR921 million Europe year-on-year. Nevertheless we have confidence in the resilience of our business and therefore the Board will not bend the current dividend policy and this proposal of full-year dividend for 2012 of EUR0.68 per [diluted] share.

For slide number seven CapEx was down year-on-year largely due to the completion of our new vessel program, mainly Scarabeo eight and Scarabeo nine, which has been completed during first half.

Other CapEx items in the offshore business included completion of the construction of the [Castorone one] and ongoing work at the yard in Brazil, as well as the usual maintenance CapEx.

Net debt at the year-end is EUR4.278 billion. As we explained last week, the working capital is the main reason for the sharp degradation in net debt in 2012. But this trend will start to reverse in 2013 as working capital will benefit from the receipt from certain claims, even if partially offset by continuing negative aspect of terms and conditions on some contracts.

Let's look at our contract acquisition and backlog on slide number nine. In 2012 we saw signs of a recovery in the market with contract acquisitions growing to EUR13.4 billion, predominantly driven by the offshore E&C. This trend has proved to continue in 2013. As we announced last week, so far this year we have already been awarded contracts worth EUR1.8 billion. The terms of new contracts acquired, which reflect more advantageous market conditions, underpin our more positive market outlook for the next 12 to 24 months.

Based on improvements of the quality of our backlog and supporting that (inaudible) for 2014 and beyond. We are pleased that the drilling business, both offshore and onshore, is delivering excellent results operationally and that it is well contributing to the growth of the financial results year-on-year.

The backlog compared to the previous year remains broadly flat with a sharp reduction in onshore, reflecting the progressive execution of many contracts awarded in 2009, 2011. The balance of this project will be completed during 2013 and most of the remainder in [2014].

Slide number 10 shows that Saipem has a balanced portfolio, both in terms of exposure to clients, predominantly good Major and Supermajor IOCs and the most important IFCs and in terms of timing of execution with 55 of our backlog due to be executed during 2013 but already significant activities are already [verified] for next year.

Overall Saipem is executing projects in all the key oil and gas business areas, [broadline] focusing on geographies where we have a strong local contract commitment and actually almost 50% of the current backlog is actually in discount. As you know, this is increasingly becoming a major factor in new contract awards and our strategy of focusing on strong local content in key oil and gas (inaudible) positions Saipem very well to continue to develop an attractive backlog of projects in these countries.

On slide number 12 in 2012, notwithstanding the unsatisfactory financial performance in Q4 particularly, Saipem has seen a number of operational and conventional achievement. We have seen a strong performance in dealings, both onshore and offshore, delivering meaningful top line growth while maintaining margins. Across the whole business we have successfully executed 13 billion US awards, much of which included building that's in complex projects. Post (inaudible) of execution has been for Saipem really a great achievement, such as Nord Stream, Kashagan, Usan, Kizomba and Manifa.

We have reached important milestone in the execution of our CapEx program in (inaudible). We have completed construction and started activity on two of our industry state of the art rigs, Scarabeo 8 and Scarabeo 9. We have completed the construction of Castorone one, (inaudible) and the [operation] of testing is now underway.



Finally, we have ramped up activity in the [fabrication] yard at Karimun in Indonesia and we made good progress in developing the yard in Brazil and in Canada.

[Go to slide number 14], 2013 guidance. We have already spent some time this year discussing 2013 guidance so I want to use the slide mainly as a reminder. For the full-year 2013 we expect revenues to be in the region of EUR13.5 billion with added common [yields] at around EUR750 million. Net profit will therefore be in the region of EUR450 million. Our planned CapEx for next year will amount to approximately EUR900 million to EUR1 billion.

The reason for the reduction in profitability relative to 2012 included the impact on our E&C business of four main factors. The completion of a number of high margin (inaudible) in 2012, the execution in 2013 of a number of lower margin projects, some delays in acquiring new large contract awards and finally, a more conservative approach to forecasts taken by the new management team.

Beyond 2013 we see a clear improvement of results for Saipem based on the Company's leading execution capability on the state of the art assets and our strong competitive position we expect a number of attractive building opportunities for complex projects in high value regions and improvement of all the (inaudible) underpinned by a promising start to 2013 in terms of new contracts wins.

I thank you again for your time and we will now proceed to take your questions.

QUESTIONS AND ANSWERS

Operator

Thank you. Ladies and gentlemen, the question and answer session will be conducted electronically. (Operator instructions). We will pause for just a moment to allow everyone to signal.

We will now take our first question from Mick Pickup of Barclays.

Mick Pickup - Barclays - Analyst

Good evening, gentlemen, Mick here. It's good to finally speak to you when I'm not really angry to look at me sensibly. A couple of questions if I may.

Firstly on the fourth quarter numbers, you disaggregated into claims slower execution on non-awards. Obviously the bulk of that in the intro. I wonder if you could just break down the hundred million shortfall between those three different factors.

Secondly looking into 2013, can you just go through how you see the margin progression as we go through the quarters? You've just done 10.7% operating margin in 4Q. From my math it's got to be a seven. Are we expecting a seven flat during the year or do we go 10, 6, 8, 4 or 4, 6, 8, 10, so what the profile is in margin?

And thirdly, apologies, I was away in holiday last week I think a few things weren't quite asked but you're talking about projects, one in 2009 to '11, and I go back in history and good news we have transcripts these days and I look at the period of time when you're winning these contracts and the quotes from your predecessor was, Mick, I will repeat this I feel confident that the projects we have been awarded will prove to be the half of profitability, which is in line with the contracts we are now executing.

Now clearly today that is not the case. These were won in extremely competitive market and these is Brazil. So something has changed here. Now it's either execution didn't go as well as expected with [Sergio]. Engineering wasn't up to scratch or it's they were commercially bad and management at the time didn't know about it. So I'm just wondering in your look through where do you think in the organization it went wrong and how easy do you think this is going to be to correct? Thank you.



Umberto Vergine - *Saipem SpA - CEO*

Okay, on your first question, Mick, I will say that the EUR100 million difference that we had in 2012 compared to our forecast are mainly split to one-third, one-third, one-third on the three main reason that we have alighted there. In a sense that if we look at the relatively lower recovery from claim the less amount of work executed through the year and the benefit from newly taken contracts already generating revenues and profit within the year -- I mean plus minus five million we are more or less in the proportional size of these three factors.

Mick Pickup - *Barclays - Analyst*

Okay.

Umberto Vergine - *Saipem SpA - CEO*

On your last question about how -- which are the reason for this contract of taking the competitive mark in time having a negative impact that was not anticipated two years ago. I can comment by saying that we haven't found a really some fundamental crisis factor that had emerged during the execution of some of these projects, either than some general worsening of the commercial term but that was already in place (inaudible).

In this respect I mean we took about contract of the (inaudible) and (inaudible), very large contract. I mean some of the biggest contract that we had in the execution that we have in execution are part of this project. So, if I have to comment retrospectively and of course I mean I have to comment decision of others so is not the most favorable position, I will say that the trust that was given to the ability of our teams to extract the value, even on top of the commercial value at that time, proved to be wrong due the criticalities that these projects have in their design.

And there are elements that I have not, of course, been able to fully assess in how the initial estimates were then properly done at the time of the bidding. And this is part of a general operational review that we are carrying out that, as I have explained in the previous call, is no time to play with the organization in terms of its philosophy. Is aimed to ensure that you have the right level of empowerment and of accountability within in all our layers, particularly when we get to the project execution phase, in order to make sure that the right input is coming in from day one or they right team (inaudible) are able to pass to them from day two, depending which is the critical step to be taken.

Mick Pickup - *Barclays - Analyst*

Okay thank you, very clear.

Umberto Vergine - *Saipem SpA - CEO*

With respect to the profile of our margin by quarter, as you know the nature of our job doesn't allow to make any linear or semi linear projection of that because there are a variety of factors that depends on when projects are starting, when projects get really in construction. There are seasonalities that are also different country by country. So this is not a figure that I can provide to you.

Mick Pickup - *Barclays - Analyst*

Okay I just don't want to be walking into Q1 and you missing consensus again.

Umberto Vergine - *Saipem SpA - CEO*

No, that is not what we have anticipate at all.



Mick Pickup - *Barclays - Analyst*

Okay. Thank you. Cheers.

Operator

We will now take our next question from Fiona Maclean of Merrill Lynch, please go ahead.

Fiona Maclean - *BofA Merrill Lynch - Analyst*

Oh, hi yes it is Fiona from Merrill Lynch. I had similar questions to Mick so I'll just move on to my other two. Slightly more tedious, firstly on your CapEx guidance for this year, can you break down that number to the new CapEx versus maintenance CapEx? And then my second question was about the North Sea. Now granted you don't have a huge amount of operations in the North Sea, but could you just highlight how the weather treated your results in the fourth quarter in your offshore business and also your drilling business and also what conditions have been so far in Q1? Thank you.

Umberto Vergine - *Saipem SpA - CEO*

Okay, on the CapEx for 2013 the breakdown of this between EUR0.9 billion and EUR1 billion is almost half, around EUR420 million on the [year] field shore, mainly related to two (inaudible) one and to the yard in Brazil. About [EUR180 million] is related to the offshore drilling and EUR250 million for the onshore drilling for the construction of the new rigs for Saudi Arabia.

Remaining EUR70 million is part of CapEx related to onshore related to equity maintain investment on (inaudible).

In general about half of our CapEx profile is referring to our continuous maintenance and upgrading and the recertification of the [crude] and our major equipment like cranes, like major (inaudible).

On North Sea, thank you for the questions because I am -- I have a positive answer and (inaudible) we have not been impact by weather condition on our operations in the North Sea and also in the last quarter and also in the activity carried out since January this year.

Fiona Maclean - *BofA Merrill Lynch - Analyst*

Okay thank you very much. That's it for me.

Operator

Rob Pulleyn, Morgan Stanley.

Rob Pulleyn - *Morgan Stanley - Analyst*

Hello again, gentlemen, a few questions from me if I may. First of all, I know a lots been made about questions over the recognition of revenue and profit on accounting policies relating to those. But could I ask a slightly different accounting question and that is has your policy regarding the expensing versus capitalization of start-up costs on some of those new assets -- I'm thinking the Brazilian yard, the Canadian yard and also the big new pipe layer. Has the policy relating to that changed?



The second question I have is if the depreciation policy remains the same as in 2012 and, as I suppose the leading indicator for that, could we have an EBITDA guidance to fit with the EBIT number you've already given?

And finally, a little bit of housekeeping if we may, and that is the customer advances number you normally give us, could you give us an indication of what that stands at at the end of 2012? Thank you very much.

Umberto Vergine - *Saipem SpA - CEO*

Sorry, can you repeat your third question?

Rob Pulleyn - *Morgan Stanley - Analyst*

The third question is really just a bit of housekeeping and for that I apologize but you normally give us the value of customer advances at the end of the quarter. Could you give us some indication as to whether that's around the half a billion level it was in 3Q or whether it's higher or lower? Thank you.

Umberto Vergine - *Saipem SpA - CEO*

Okay, thank you Rob. Okay, no we are not changing our accounting policy at all. There are no CapEx going to OpEx and there are no variation in how we capitalize or how it was expensed. So we continue with exactly the same rules and criteria that we had before.

About the depreciation, I can give you in order to make better the numbers indication on the position for 2012 and 2013. The 2012 figure is EUR726 million and in 2013 it is around [EUR750 million] and this small difference is mainly related to the new (inaudible) and the new rigs.

On your third question I will ask maybe Stefano to give me some help.

Stefano Goberti - *Saipem SpA - CFO*

Okay, thank you, Umberto. Good afternoon. Value of capital advance, I'll give you the net figure within the amount we see from client and then the amount we pay to all our supplier and at the end of 2012 the amount is still around the EUR500 million.

Rob Pulleyn - *Morgan Stanley - Analyst*

Okay, that's very clear, gentlemen. Thank you very much. If I can just have one follow-up question and that's regarding a contract you're currently bidding on and in light, of obviously, some of the contracts you signed in past periods being low margin, I thought it was interesting that industry trade press is highlighting on the [Alualu] contract in the Emirates.

You seem to be significantly lower than some of your competitors so could you give any color as to why you are, shall we say, extremely competitive on that bid and whether this reflects the increase in profitability we should see coming through into 2014 or whether this contract is still going to be relatively low margin if of course you win it?

Umberto Vergine - *Saipem SpA - CEO*

Well, I'm not going to comment on some of the commercial terms because of their sensitivities and that. I'm not sure we have expected to see that also from others and not getting this level of disclosure on the media. But what I can assure you that also in this contract we are looking very carefully at maintaining the strict policy of going only for contracts where we see relatively clear margins and minimize risk of it during execution.



So this offer is anyway still on discussion. It is far from awarding and I can confirm that this will not be in any exception of the approach that we are taking.

Rob Pulleyn - *Morgan Stanley - Analyst*

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

Operator

Ryan Kappila, Citigroup.

Ryan Kappila - *Citigroup - Analyst*

Yes, good evening. I was just looking at the backlog at the end of 2010. You highlighted that about 36% was from countries with a strong local presence. Today, end of 2012, it's up to 46% but obviously we know the quality of the backlog is significantly worse. Could you just discuss your thoughts around local content and if investing in that capacity structurally lowers margins going forward or how you expect to extract suitable margin for that investment?

Umberto Vergine - *Saipem SpA - CEO*

The value, as I also indicated during the presentation, the value that you give to the local content that of course has been for Saipem a major element also of investment and so now a different way also of doing business through the years is the fact that in a growing number of countries the possibility to where the successful bid is linked to the fact that we present a large size of the work executed in the contract or and involving local companies.

This of course in the past was a very high risk at the beginning because meant to involve in the execution of the project sometimes entity not yet up to the proper level of expertise in terms of companies, in terms of personnel for being part of this project.

Saipem has then decided to solve and to actually take advantage of this growing request from the countries, from the western countries, by investing locally and creating the basis for the (inaudible) participation of local entities to the project, either through our affiliate company or through partners that are then also suited to our activities.

So the value of the local content is something that is an advantage for Saipem in terms of being in the front line for getting contracts where the local content is of course an elemental discriminatory element.

Overall the cost of the local content is something that could impact on the project. It's the cost that whether once execute contract in certain countries has to be ready to be taken. But not everybody can provide the local content component. We are and this is why we have decided to invest in this respect. The growth that we see in our projected backlog is because our way of thinking or we are planning to take more contracts in these countries where the local content will have a role.

As you know, in the Middle East the local content is a marginal factor instead.

Ryan Kappila - *Citigroup - Analyst*

Yes and as you see the pipeline today, those countries where you have a strong local presence compared to those with which you don't, are the margins roughly similar?



Umberto Vergine - *Saipem SpA - CEO*

No the margins -- actually the countries where we have invested are countries that have had and continue to have the potential of generating big projects, complex projects and that's why the decision of Saipem was to invest there and also where else. And these are the contracts that now the market is projecting to come to (inaudible).

Ryan Kappila - *Citigroup - Analyst*

And just so I understand you clear, you would expect those margins to be above the median of the Company?

Umberto Vergine - *Saipem SpA - CEO*

Yes, yes we do.

Ryan Kappila - *Citigroup - Analyst*

Okay thank you very much.

Operator

[Jeffrey Stern], Chevreux.

Jeffrey Stern - *Chevreux - Analyst*

I have a couple of questions. The first one relates to the 2013 sales guidance. It sounds a bit strange to me, given when your -- when you look at the backlog for execution in 2013 it amounts to EUR10.9 billion, which is EUR1.5 billion more than what you had for 2012 one year ago so -- and despite this you are only guiding for a top line increase of EUR0.2 billion so I don't quite get it so maybe you can give some more color on that to start with?

Umberto Vergine - *Saipem SpA - CEO*

Hugh?

Hugh O'Donnell - *Saipem SpA - Deputy CEO*

Yes this is Hugh O'Donnell. I think what we've looked at is the potential progress on the various contracts and looked at the numbers that way but I would agree with you that the amount of work that we have in the backlog at the start of the year is a bit higher than it was proportion, in proportion, to the expected revenues for 2000-- year-on-year, so I would say this also reflects to some extent the prudent approach. But the way in which it's been done so far has been to look at each individual project and take a prudent approach as to the progress that we can expect to achieve during the year and it's been done that way and cross checked rather than doing it the way we've done it in the past, which was to look mainly at the percentage of the year's revenues that we expected and basing it on some number like 72%.

A part I think of the number that you're including, in any case, relates to drilling and there isn't any growth there because of the fact that we're talking about essentially straight day rate mark.



Ryan Kappila - Citigroup - Analyst

So okay so it sound like your guidance was (inaudible) is a bit conservative, at least at the top line, so we could be maybe be surprised I think but we'll see. Then could you maybe clarify the recent statement from NICO saying that in the future the Company will think about selling its stake in Saipem? Could you clarify this please?

Umberto Vergine - Saipem SpA - CEO

Well, I mean I can't comment on the -- our opinion or statement from one shareholder, of course. I think that everybody can read it in a varietous way. We would look at that in terms of potential impact on us, advantageous or negatively. There are different elements but I can't comment on [Mr. Scarone's] word.

Ryan Kappila - Citigroup - Analyst

Okay thank you.

Operator

Amy Wong, UBS.

Amy Wong - UBS - Analyst

I just want to know a quick question. I didn't hear the depreciation number so if you can repeat that? And then secondly, I just wanted to get your view on the offshore drilling business actually and whether or not your rigs have experienced any kind of exceptional down time for BOP issues and whether the days that you're guiding through the down time already includes some kind of provisional downtime for that? Thanks.

Umberto Vergine - Saipem SpA - CEO

Okay on the depreciation that was the number that I gave where 726 in 2012 and approximately 750 for 2013.

On the issue of the activity on the drilling offshore, (inaudible) you to explain your little bit the issue of operational [CapEx] guidance (inaudible).

Stefano Goberti - Saipem SpA - CFO

Yes nothing really out of the ordinary, Amy, except that perhaps to a very slight extent associated with the [Thor Marine Riser] package, the (inaudible) that have been kind of an industry advice I think by the supplier of (inaudible) and what I think we've agreed with most of the clients is that when we recover the BOPs we're going to look at (inaudible) and I think practically all of the drillers are doing that so there's a little bit of an impact associated with that but apart from that nothing else.

Amy Wong - UBS - Analyst

Thank you very much for that.



Operator

Fiona Maclean, Merrill Lynch.

Fiona Maclean - BofA Merrill Lynch - Analyst

Yes it's Fiona again. I just have a quick follow-up. Clearly the last couple of weeks has been pretty volatile for the Company and the market in general so that -- but they're trying to get it's head around it. Can you maybe just give a little bit more color on what your clients are saying to you today so both your existing client base and also clients that you're working through on bidding and tendering activity?

Umberto Vergine - Saipem SpA - CEO

Sure thank you. We are not -- fortunately we are not getting any sign of any change in the relationship with our clients. I mean I take a great attention to that because, as I say, those are in other conference calls we -- that is the most critical aspect of our business. I mean to continue to be one of the top service companies for them and one of the key elements of their development plans and we have -- we continue to have -- actually we are having a very busy relationship with a number of them from Canada to Middle East to Japan. And also with a biggest information (inaudible) company our -- we have not always at my level of course but we have a variety of meetings on a number of subjects on a weekly basis and I would say actually that we are as busy as usual and if not even busier because, as I said, the market is really giving sign of picking up from drilling to construction to offshore.

And I am very pleased that so far at least we have been able to cover any possible information gap or information extra need that they could have by what they read on the media that of course must have made some of them scratching and scratching their head but this has not had any impact in our operational and commercial relationship.

Fiona Maclean - BofA Merrill Lynch - Analyst

Okay so it sounds like it shouldn't have too much of an impact on your capability to win (inaudible) going forward.

Umberto Vergine - Saipem SpA - CEO

No I don't expect so because, as I said, I don't see that the very positive (inaudible) that all of them consider Saipem a very fundamental to the execution of their programs. They would have to revise there some of their important plan of investment or development without counting on Saipem, not that Saipem is always the only one that can do the job but of course there is an amount of work that if not carried out by us, others can carry out so this is important for our client.

Fiona Maclean - BofA Merrill Lynch - Analyst

Okay that's very clear. Thank you.

Operator

Christian Malek, [Numera International].

Christian Malek - Numera International - Analyst

Just two questions from me; first of all, in a world where or a scenario where products when delayed in offshore, particularly in the regions that you're hoping to win, let's say for us it's [nine] to 12 months, what's the strategy or what's the discipline in terms of bidding on projects in those

regions on the marginal side? Will you bid lower to secure utilizations or will you simply wait despite the vessels and the assets that you have until those projects come? I am just trying to get an idea of the pricing discipline that you have with the low content, with the assets that you have in a scenario where projects actually get more delayed over the next -- or over the next (inaudible) months?

Umberto Vergine - *Saipem SpA - CEO*

Okay, Huge, could you please take this one?

Hugh O'Donnell - *Saipem SpA - Deputy CEO*

Yes, Christian, I think we're, as you see, our idleness for 2013 is similar to 2012 and the market is improving so if certain projects are delayed we're generally able to find fill in work and so that's been our experience. That is on the offshore side. On the onshore side I think what we've said is that we are expecting that the market will improve and we are maintaining our engineering and project management capacity because we think that one or two major projects will actually give us more work than we can handle.

Christian Malek - *Numera International - Analyst*

So and I mean also I guess the follow on is going to be and I view some of these high investments that you've built clearly demand a high return on the complex projects. Now if you're selling the more sort of, you know, with utilizations but they're being bid at in -- it's against less complex, more commoditized work, does that imply therefore that you're not going to achieve some returns you'd hoped for in those vessels as in so the margin levels that you'd want to achieve on good vessels is just going to be sort of in line with more mid tier vessels that you have, rather than just what you'd expect at the high end?

Hugh O'Donnell - *Saipem SpA - Deputy CEO*

Yes well I think what -- it's true what you're saying. I mean if the blockbuster project, for instance, doesn't arrive and we use fill in work, the way we would look at that is that we've then more or less achieved what has been historical margins for us on our offshore, the offshore sector in particular. And then when these bigger projects do arrive and they -- we're already seeing I think some improved signs during 2013 that they will arrive. Then the profitability should improve but in no case, I mean I think we very intend to live by the mantra that no job is better than a bad job, even on the offshore side but I mean it's what you'd call a slam dunk I think on the onshore side.

Christian Malek - *Numera International - Analyst*

Brilliant and that's on assumption there are no bad jobs in the offshore portfolio, which is very clear from last week's presentation.

Hugh O'Donnell - *Saipem SpA - Deputy CEO*

Correct.

Christian Malek - *Numera International - Analyst*

Thank you. No more questions thanks.



Operator

Phillip Lindsay, HSBC.

Phillip Lindsay - HSBC - Analyst

Just a couple of questions from me, firstly just on Venezuela can you just remind us what your exposure is there? I know you've got about 30 odd land rigs operating. Is there anything else we need to be aware of and will you have to write down post the currency devaluation or certainly expect a lower revenue, revenue number, in 2013? That's the first question.

Umberto Vergine - Saipem SpA - CEO

Okay I will ask Stefano to comment.

Stefano Goberti - Saipem SpA - CFO

Okay thank you, Umberto. Phillip, we have 28 rigs in Venezuela. Of these 13 are under the Company in Venezuela so they are exposed to the Bolivars asset value if you want to say. But on the revenue side the fact that we have most of our revenue denominated in dollars protects us from these Bolivars devaluation. There is of course a portion of revenue linked to the Bolivars because these are needed to source our expenditure in Bolivars in the country so we don't expect to have a major impact of that apart from the minimal impact on the tax side because the assets in Bolivars are devaluated so the depreciation will count a little bit less on our tax return but this is very minimal I would say.

Phillip Lindsay - HSBC - Analyst

Okay that's fine and then I know it's a hypothetical question regarding ENI and you've already sort of passed on the question once but I think it's important for the market to understand the potential ramifications should ENI decide to dispose of its holding in Saipem so perhaps you can just sort of discuss the impact on your balance sheet, your debt facilities, your abilities to provide project guarantees on large projects and also perhaps your ability to secure E&T work with ENI.

Umberto Vergine - Saipem SpA - CEO

Okay well what can I give you as a comment to this is that ENI is a shareholder as you know, as you can imagine has been very supportive, especially useful during the recent massive CapEx phase that is now largely completed. This -- that's why because we benefit from ENI's credit rating but we have looked at which could be the impact on having to go on the market on our own and also, based on the feedbacks from banks and the considering a triple D rating there for Saipem, it is potentially what is recognized to be the case.

We have looked at two elements. One, the extra cost for investment and the extra cost for guarantees and we are estimating that the sum of these two could have an impact in the range of EUR30 million per year so certainly not something that is impossible to be managed and something that just puts Saipem in the same position of its competitors.

In terms of ENI as a client, as you know, ENI is an important client as any client that we have but it's not -- it's by far not the most important client actually. I would say among the international company occupies quite a lower position in that and I think that between being our shareholder and our client at the end when someone has to play only one role it's even better, it's even clearer. So we will not have any problem to deal with ENI only as a client customer position as we do with all the other international companies.

Phillip Lindsay - HSBC - Analyst

Okay well that's cool. Thanks very much.

Operator

Katherine Tonks, RBC Capital Markets.

Katherine Tonks - RBC Capital Markets - Analyst

I had a question about Brazil firstly and I just wondered if you had any change of your view on the outlook for Brazil, given that there a story that Petrobras might be looking to (inaudible) flexibles for the upcoming projects. And secondly, maybe I could just follow up on sales question again with in terms of the criteria for being independent do you think that you would need to strengthen your balance sheet from where you are today, as many of your competitors have say net cash, or at least a much stronger balance sheet?

Umberto Vergine - Saipem SpA - CEO

Okay I answer to this one so we'll follow up on ENI. Then I will ask Hugh to comment on Brazil. But first of all, these are the moment only hypotheses that would be reported through interviews and there are no activity planned and no studies on this, nothing that really would have justified us to go more than into this option that Hugh commented that I gave you before so I think that is very premature to enter into any other type of consider-- analogies and consideration on the strengthening the balance sheet.

If you, if it is okay for you, this is the comment I have on your question.

Katherine Tonks - RBC Capital Markets - Analyst

Okay thank you.

Hugh O'Donnell - Saipem SpA - Deputy CEO

Okay, Katherine, then on the -- this question of the flexibles in Brazil, I think it's part of what we are seeing over the last number of years and probably will see in the next few years is that Petrobras will do everything they possibly can to increase their reliance on flexibles. That's what they're used to and however there are objectives, technical difficulties which are very big. On the other hand, I think they still have to experience a successful rigid surf solution and there are two ongoing contracts and I think it will be a game that -- well not really a game, but it's business to be played out over the next two years as to whether they can qualify flexibles for these very corrosive products and whether they have success under rigid [surf] contracts.

We have one of the contracts and we certainly want to ensure that our surf contract is a success so that that should be important, important part of the jigsaw in the future.

Katherine Tonks - RBC Capital Markets - Analyst

Thank you and could I just ask a very quick follow-up, a bit of housekeeping? In the past I think you've given your backlog breakdown for 2014 by division and I just wondered if you could give us that?



Stefano Goberti - *Saipem SpA - CFO*

Okay 2014 backlog, I'll give you the percentages, 45%, 46% in E&C offshore, 32% in the E&C onshore and then the remaining part in drilling, yes drilling and show how much it is 20%, 23%, 20% and they seem to be on the rounding, okay?

Katherine Tonks - *RBC Capital Markets - Analyst*

Great thank you very much.

Operator

[Andrew Secari], [Medico Bank].

Andrew Secari - *Medico Bank - Analyst*

I have a question on the working capital evolution that you expect next year that improvement in what you call terms and condition from basically EUR1 billion to EUR300 million is it related to improvement in receivables or do you expect a higher portion of down payment, advance payments from clients? And thank you.

Umberto Vergine - *Saipem SpA - CEO*

No the evolution of the working capital is as a more articulated, I ask Stefani to give you the full explanation of that.

Stefano Goberti - *Saipem SpA - CFO*

Umberto, we -- we have to go through again the full presentation but in any case in 2012 the evolution was driven by two factors. One is the close out claim we have at the end of the year that they award (inaudible) EUR500 million and the remaining fact was the [EUR900 million] of increasing in the working capital linked to the dynamic of the contract that we have in our portfolio at the moment so the terms and condition apply into this contract.

For next year, 2013, we have anticipated that. We will cash in the claims but we will [worsen] it a little bit more the working capital condition linked to those contracts in their backlog simply because their percentage of revenue linked to these contracts is going to increase in 2013 compared to 2012 so we didn't make any special provision allowance advances from on that.

Okay and then we said in 2014 and 2015 these would reverse gradually.

Andrew Secari - *Medico Bank - Analyst*

Okay thank you.

Operator

Paolo Citi, Intermonte.



Paolo Citi - *Intermonte SIM - Analyst*

I have just two questions. The first one is on again the net debt and your financial structure. It seems to me that according to the guidance for this year the situation is quite stretched I would say because you have a net debt on EBIT ratio of around 5.5 and a net debt on EBITDA of around 2.8 assuming a EUR1.5 billion EBITDA for this year, so clearly now you have no problem at all in terms of financing. You said that according to your study, preliminary study, you should have a [triple D] rating plus with what some details regarding the parameters of credit rating for having this triple D rating.

The second question is again on debt and cost of that in particular. Last year should have been around 4% if I am correct at your average cost of debt. What can we expect for this year and in particular is it possible to have some details regarding your -- how you're financing policy with the parent company (inaudible) is currently managed? So, in other words, can we expect an increase in the cost of debt taking into account the new much more stressed financial structure you have for this year? Thanks.

Stefano Goberti - *Saipem SpA - CFO*

Okay as Umberto would say, that was a very preliminary study so just talking at the -- you brought up a couple of costs here and we didn't do any detailed study because it was not required really. Then in terms of the cost of financing, this year the cost of financing was 2.20% for the 2012 and of course now we have to project 2013 but we are not moving fast on that. The main component of that is an underlying LIBOR or on euro rate mainly because we are not projecting any change in our financial structuring so in our projection for 2013 ENI will provide the usual support.

Paolo Citi - *Intermonte SIM - Analyst*

So we won't see any increase this year in terms of cost of debt compared to last year?

Stefano Goberti - *Saipem SpA - CFO*

I will say that if the underlying tax and LIBOR will increase, that we will project again so in our budget is some not (inaudible) we are around the 3% but nothing dramatic compared to the cost of the rest of this year.

Paolo Citi - *Intermonte SIM - Analyst*

Okay.

Operator

Guillaume Delaby, Societe Generale.

Guillaume Delaby - *Societe Generale - Analyst*

Yes thank you for taking my question. Just would like maybe to move a little bit forward 2014, 2015, just would like to have an idea how you view (inaudible) market. Do you see increasing competition from people I don't know like (inaudible), Petrofac and if it were -- if it was the case, I just would like to know what could be your future CapEx policy? Two years ago the name of the game was to reduce more or less CapEx to maintenance CapEx of EUR500 million. We have seen that it hasn't been the case in 2012, neither in 2013 so how do you see competition and given that, what could be the impact on your future CapEx needs and what could be a kind of normal CapEx by 2015 going onwards?



Umberto Vergine - *Saipem SpA - CEO*

Okay thank you for this possibility to talk a little bit about the future. Hugh, please can you cover this?

Hugh O'Donnell - *Saipem SpA - Deputy CEO*

Yes specifically then with regard to the competitive environment obviously, as Umberto is already saying, we see the offshore market improving. I think it's been improving for about a year now and it seems to be picking up speed. I hope that's the case. Then specifically with regard to other competitors who are investing, I think they're still studying and thinking about investing. The really big stuff has always been between ourselves and a small number of competitors who are -- have got a lot experience in the offshore environment, had to have set themselves up to do the really big tough projects.

Then I don't know whether the companies that you've mentioned are serious about investing in vessels or in particularly big vessels, which are going to be the vessels that -- of the future in terms of huge surfs or very big pipelines or very heavy lift. Somehow I would doubt it but time will tell. Well have to face that situation if we see it arising but quite often in terms of these projects you need also engineering and local content in order to be able to do the complete epic scope of work. And so I think they will have to think very carefully also in terms of their corporate structures from that point of view. It's not just as simple as building a vessel so I think the answer is that for the moment we are monitoring the situation and we see that they're studying quite significant vessels but I think there's quite a long way to go. We have already made the investment and I think we are in good shape for that market, which we see as improving.

Umberto Vergine - *Saipem SpA - CEO*

One other comment also from my side on your point that it was anticipated that the level of CapEx will be mainly linked only to maintenance and keeping of the fleet. A part of our CapEx yearly CapEx is also linked to the acquisition of new contracts. Acquisition of new contracts could require investment like we are having now in 2013 again for new onshore rigs, for an (inaudible) contract that we have won in Saudi Arabia. So of course there is this element that is the underlying cost end.

And then on top of that besides the fact that this year we had complete the yards and some of the local content investment, we had the advantage of having taken contracts that require us to invest but those are investments that are very positive because they are linked to your contracts.

Guillaume Delaby - *Societe Generale - Analyst*

Maybe just a follow-up, 2015, 2016 what could be a normalized CapEx? I don't know, EUR700 million? Is it reasonable or should I put more or--?

Umberto Vergine - *Saipem SpA - CEO*

I mean as really as sensitivity figure, yes that is a reasonable figure. I mean you imply that you will have not only that kind of maintenance CapEx constant but we will have year-on-year a certain amount of new investment to link to new contracts, which is exactly what we want to have because it would capture the market and (inaudible) to (inaudible). It could be EUR100 million more; it could be EUR200 million less. I mean we today we are not planning because we have not had the time to review in any way any strategic investment for long-term, planning any major new vessel, new rig cost structure.

Guillaume Delaby - *Societe Generale - Analyst*

Thank you very much.

Operator

[Jan Lever], [Franklin Templeton].

Jan Lever - *Franklin Templeton - Analyst*

Two questions I guess; last year you highlighted three onshore opportunities, LNG, Iraq and Oil Sands. I guess I just want to sort of focus on two of them, LNG and the Oil Sands. First on LNG, given what you're sort of saying is a much more prudent approach to bidding and looking at contracts, could you give us an update on your corporation agreement with Chiyoda and exactly how does that work when there's two separate parties really are involved here and when we have projects like Yamal and all these really, really large LNG projects? How if you can give us an update on that corporation agreement and how does that actually work in terms of bidding and who has the control? Who has the ability to -- do you guys have the ability to say no if the other one is under bidding? I mean if you can give an update there?

And then on Oil Sands there's been some recent activity in terms of cancelation of projects. You obviously are making a long-term commitment there in terms of your yard. Could you provide an update as to how you see the market there and any comment on the recent contracts cancelation, not contract but project cancelation?

Umberto Vergine - *Saipem SpA - CEO*

Okay yes. Hugh, can you help me?

Hugh O'Donnell - *Saipem SpA - Deputy CEO*

Yes on the agreement with Chiyoda the general agreement is that we cooperate on all LNG projects. That's practically the case. There are some specific areas which are included and then on a case-by-case basis we look at who is best to take the lead, both in terms of current workload and in terms of what the client's prefer. So far it's worked out very well and I think it should continue to do so because they are easily the -- from a technical or technological point of view the leader but as we said a lot of other advantages in terms of capacity and construction and presence in local content presence. So more than -- more specific than that I think I can't be but it allows us to have some flexibility vis-a-vis the clients in the areas in which we are working.

Umberto Vergine - *Saipem SpA - CEO*

On Canada I think that there is of course a number of players there and a number of projects, both ongoing or new projects. Our profile is very positive. We are having possible increase of our (inaudible) there and we are under discussion -- in spite of that we are under discussion of that discussion with a number of clients.

Jan Lever - *Franklin Templeton - Analyst*

Okay thank you.

Operator

That will conclude today's Q and A session. I would now like to turn the call back over to your host for today for any additional or closing remarks.

Umberto Vergine - *Saipem SpA - CEO*

Okay I thank you. I thank you all and I hope that through these very intense section of presentation that we had we have been able to pass to you all the required information with the details that you needed. Thank you very much.

Operator

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

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