

THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

SPM.MI - Q3 2015 Saipem SpA Earnings & Strategy Call

EVENT DATE/TIME: OCTOBER 28, 2015 / 10:00AM GMT



CORPORATE PARTICIPANTS

Paolo Andrea Colombo *Saipem SpA - Chairman*

Stefano Cao *Saipem SpA - CEO*

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

Gigi Caselli *Saipem SpA - COO*

CONFERENCE CALL PARTICIPANTS

Mukhtar Garadaghi *Citi - Analyst*

Robert Pulleyn *Morgan Stanley - Analyst*

Amy Wong *UBS - Analyst*

Hamish Clegg *BofA-Merrill Lynch - Analyst*

Bertrand Hodee *Raymond James - Analyst*

David Farrell *Macquarie Securities - Analyst*

Christyan Malek *Nomura International - Analyst*

Phil Lindsay *HSBC - Analyst*

Fiona Maclean *BofA Merrill Lynch - Analyst*

Haley Mayers *Barclays - Analyst*

Neill Morton *Investec - Analyst*

Andrew Dobbing *SEB Markets - Analyst*

Nick Green *Bernstein - Analyst*

Luigi de Bellis *Equita SIM - Analyst*

Daniel Butcher *JPMorgan - Analyst*

PRESENTATION

Paolo Andrea Colombo - *Saipem SpA - Chairman*

Ladies and gentlemen, good morning and thank you for attending our meeting. I'm extremely proud to be here today with you at the first Saipem strategic presentation since the appointment of our new Board of Directors last April.

Let me introduce you to the people who will guide you through today's strategic session. Mr. Stefano Cao, our Chief Executive Officer. Mr. Giuseppe Caselli, our Chief Operating Officer. And Mr. Alberto Chiarini, our Chief Financial and Compliance Officer.

Before handing over to Stefano, I would like to draw your attention to some key aspects that will have a strategic impact on Saipem's future. I would like to begin by highlighting the most important resolutions that our Board of Directors passed yesterday evening.

First of all, the approval of a new strategic plan centered around a leaner business, focused on our core strengths. A fundamentally de-risked business through the reinforcement of management processes. Cost optimization and efficiency improvements. Technological leadership and innovative applications. And last, but not least, a disciplined financial policy combined with a robust capital structure.



Secondly, the Board of Directors have convened an extraordinary shareholders' meeting for December 2, 2015 to approve a EUR3.5b share capital increase and has approved the refinancing of the remaining gross debt.

In parallel, Eni has also announced the sale to FSI of 12.5% of its stake in Saipem with a shareholder's agreement to discipline governance and proprietary structure. Eni and FSI have provided irrevocable commitments to subscribe their respective quotas for a combined 43% of the capital increase.

In addition, a syndicate of banks has entered into a pre-underwriting agreement for the remainder of the rights issue. Saipem has also entered into a mandate agreement with a pool of financial institutions for the refinancing of the remaining gross debt.

The key objectives of the announced recapitalization and refinancing transaction are: deleverage the current capital structure to improve Saipem's strategic and competitive positioning; accelerate the delivery of Saipem's financial independence, thus enabling the Company to diversify its funding; secure investment-grade status, thus granting Saipem a more flexible capital structure while allowing access to debt markets at improved terms and conditions.

The change in shareholding structure will enhance our independence. For this reason, it is an opportunity for our company from an organizational and financial standpoint as well as from an industrial and commercial perspective.

In light of the new controlling structure and the different role of Eni as a shareholder, Saipem's corporate governance is my overriding priority as Chairman. On this topic, I will focus the remainder of my speech.

Saipem's Board of Directors is already composed of members who are independent from the controlling shareholder. For the first time in Saipem history, no Eni executive has a Board seat.

Since our appointment, the Board has been working to improve the Company's corporate governance, setting a well-balanced system with our aim to be best-in-class among peers and based on the following principles.

The pivotal role of the Board should be to define Company strategy and assess internal control and risk management systems. The Board shall have a sound system of check and balances where the internal audit function reports directly to the Chairman. The Chairman and CEO jointly submit proposals to the Board for any extraordinary transaction involving the Company's capital structure and for the appointment of Group key officers, specifically the CFO and the internal audit manager.

The Chairman and CEO are jointly in charge of managing Company institutional relations as well as shareholder relations. The control and risk committee is engaged in assessing the adequacy of the control and risk management system which in our company and in our industry are a crucial driver of value. The remuneration committee is engaged in reviewing of the remuneration policy with the aim of reaching the maximum alignment between management, Company and shareholder interest.

Finally, we have adopted a continuous improvement approach, a newly-established corporate governance committee which I personally chair, provides for the submission of proposals to the Board to ensure constant enhancement of our governance and its alignment with the best international practices.

I truly believe that with these actions, with the Board resolutions I have mentioned and with the day-by-day effort and commitment of our 46,000 people, the Company will address the current challenging environment and will write a new chapter in its history.

I will now hand over to Stefano, our CEO, who will guide you through our strategic vision for a new and stronger Saipem. Thank you.

Stefano Cao - *Saipem SpA - CEO*

Thank you, Paolo. Thank you again to all of you for being here today for such an important milestone in Saipem history. As promised three months ago, I am here together with Paolo and our top management to illustrate our strategy, our projects and our objectives for Saipem.

I would like to start by saying that the positive impressions I highlighted to you back in July have been confirmed by a further 90 days in the Company. Without this, meeting the challenges and the difficulties and the current environment present to us, I'm even more convinced that Saipem is ideally positioned to succeed in the long term.

Saipem represents an excellent example of an Italian champion that acts as a leading player in a variety of countries and cultures. A company recognized in the world for its competences and ability to deliver.

Today marks the start of a new Saipem. The new suit, this new identity and logo is a symbol of the profound transformation the Group is undertaking with this new strategic plan, leveraging its solid foundation to evolve into a stronger company.

I am determined to guide Saipem through this process, rebuilding the sense of pride of Saipem management and employees by putting behind us the recent problems that have obscured our historic strength.

The Saipem we are building is focused on its core businesses. Exploiting its top quality asset base with cost-efficient orientation and relying on solid capital structure.

Our presentation today will focus on three main topics. First, the Company's position in current and future market environments. Second, the key pillars of our strategic plan. And third, our guidance on business plan targets.

Before entering to all of these aspects, let me take you through a highlight of our third-quarter results. In the context of a challenging market, the Company's performances during the third quarter have been in line with management expectation and with the guidance provided.

Quarterly EBIT stood at EUR150m, in line with third quarter 2014, as a result of E&C offshore -- onshore, returning to breakeven thanks to the progressive reduction of the weight of legacy contracts; the lower contribution of E&C offshore, mainly due to the South Stream termination; the slowdown in drilling activities due to planned maintenance of some offshore rigs and the suspension of Scarabeo 5.

Results of the first nine months of the year reported EBIT of minus EUR640m and underlying EBIT before write-downs of EUR282m were mainly impacted by the project issues experienced in Canada, Nigeria and on South Stream during the first half of the year.

At the end of the third quarter, net debt increased by EUR200m to EUR5.7b due to a quarterly increase of working capital exposure and CapEx planned spending only partially offset by the cash flow from operations.

During the quarter, the Company was awarded a number of projects, mainly in the E&C onshore and offshore, for an overall amount of EUR1.9b. The contribution from the individual businesses was based on the following: 36% in E&C offshore business, 50% in E&C onshore business and 14% onshore drilling. It is worth mentioning the awards in Kuwait were in addition to the E&C projects signed with KPNC. We are now present also in the onshore drilling thanks to two long-term contracts with KOC.

We also signed an infrastructure contract with Codelco in Chile for a water line. Our backlog only includes the first engineering phase as the EPC second phase is subject to the finalization of initial engineering and of certain environmental permits. Backlog total approximately EUR18b, providing good visibility throughout the downturn.

I would also remind you that following the end of quarter 3, we announced contract wins in E&C offshore for a total value in excess of EUR600m. This included activities under the LTA frame agreement with Saudi Aramco and for the east hub in Angola with Eni.

In annex A of the presentation, you will find all the usual analysis regarding third-quarter results.

And now, let's move on with the strategic presentation. First, I will take you through our view of the market context, how it is set to evolve and Saipem's positioning.

The current market environment has rapidly deteriorated and is challenging to say the least across our operations. In the offshore space, projects are being delayed or cancelled, especially in deepwater. This leads to an overcapacity of assets requiring actions to minimize the impact of idleness. Within this segment, independents have cut their CapEx most while the investment strategy of NOCs is proving less affected.

In E&C onshore, we are seeing increased competition and price pressure, especially on less complex projects. Meanwhile, spending on downstream projects and in general in the Middle East is relatively more resilient.

In drilling, overcapacity is leading to pressure on rig rates with the steepest decline in onshore North America and again, resilient investment in the Middle East.

Lastly, the new scenario is affecting relationships between clients and contractors. The top-down cost discipline of energy companies impacts ongoing initiatives and the management of variation orders and claims.

Our view is that this negative market environment will start to rebalance from 2017 onwards with improving oil prices and the resumption in E&P CapEx to recover production and reserves.

In offshore E&C, we expect a rebound in investment in floating LNG and deepwater and a progressive recovery of spending in West Africa, Caspian and the Gulf of Mexico. We also anticipate near-term opportunities in Egypt. In general, upstream investment in offshore projects should be supported by reduction in breakeven costs resulting from the current round of contractor efficiencies and project [rework].

The onshore E&C market will continue to be well supported by downstream initiatives, especially in the Middle East with further potential in Iran subject to the lifting of sanctions. It is worth mentioning that Saipem has a long history of operating in Iran.

We believe offshore drilling will be supported by resumption in exploration spend, traditionally, the first mover in an oil price upswing. Meanwhile, owing to the retirement of assets occurring during the downturn, we believe capacity will rebalance and day rates will start to rise again.

In onshore drilling, we see continuous activity in the Middle East with the resumption of investment in the US and in South America.

Saipem's differentiated business model exposed to all phases of the carbon cycle is resilient in the current market environment and well positioned to rapidly recapture the benefits of a recovery.

In E&C offshore, Saipem's core advantages are its diversified asset base and first-class fleet, opening up a variety of business opportunities and offering a privileged competitive position particularly in harsh environments.

We enjoy a balanced geographic exposure, consolidated relationship with top clients including predominantly NOCs and visible near-term opportunities. Both in E&C offshore and in onshore, Saipem can also count on its strong track record on large and complex breakthrough projects.

Onshore E&C is further supported by its presence in the Middle East and proven capabilities in downstream and in particularly complex projects which see lower price competition among key market players.

On offshore drilling, our focused, high-quality fleet offers reliability and strong safety performance as a competitive advantage to build client relationships and secure long-term contracts.

In onshore drilling, we have a favorable geographic mix with no exposure to the highly volatile US market and strong presence in the Middle East to where we are relocating assets.

Saipem overall is protected by this robust backlog, both from a qualitative and quantitative standpoint, as legacy projects are tailing off. It is well positioned for a recovery thanks to its track record of technical and organizational adaptability in harsh environments and frontier projects.

Our strong position in the market is highlighted by the major projects we are currently engaged in. In the next few slides, I will provide you with some examples and allow you to understand Saipem competitive advantages and strengths.

In the Caspian region, one of the richest frontier resource areas, characterized by harsh environment, we have a dedicated fleet which is currently working on the Kashagan pipeline replacement, an ultra-shallow water project.

Another offshore initiative in the area is the stage 2 development of the Shah Deniz field, for our long-term client BP. These are worth a combined \$3.6b and progressing well.

In West Africa, we are performing two major projects; Kaombo, a fast-track project for the EPCI of two large FPSOs to be delivered by mid-2017; Egina, a deepwater URF which is driven by strong local content requirements that Saipem is able to provide thanks to its large and consolidated yard in Nigeria. These two projects have a combined value of over \$7b.

We have begun to see the Mexican market opening up to the IOCs. And Saipem was the first to be awarded a deepwater field development for our client Pemex. As the country opens up, there is a greater potential in the Mexican side of the Gulf of Mexico.

In Saudi Arabia, I wanted to highlight the Jazan project, a great example of our ability to handle very large scale and complex projects; in this case, an integrated gasification combined cycle plant. It is also an excellent example of our long-term client relationship with clients like Saudi Aramco for whom we are also performing the expansion of the onshore production center at Khurais. These projects are approximately worth a combined \$3b.

And finally, in the drilling business, Saipem 10000 has been under contract continuously since its naming ceremony and is contracted to Eni until 2019. It has also had some remarkable successes for Eni with recent major discoveries in Mozambique and Egypt.

In the Middle East, we are reinforcing our presence in drilling both onshore and offshore. This is a region which remains very important for us and continues to deliver new contracts, such as our recent entrance in the Kuwaiti onshore drilling market. Our contracts in the Middle East have longer average terms, for instance, the 10-year contract for the Perro Negro 5 jack-up with Saudi Aramco.

Our strong position is borne out by the breadth of opportunities which we are pursuing. The projects shown in this slide are worth a total of EUR36b and highlight our strong focus on tendering activities in our core geographies. Among the opportunities shown in the slide, there are some which are in advanced negotiation phase with clients or still are subject to final investment decisions.

And now, let me set out our strategy to exploit this strong market position. This is based on five key pillars. First, our business portfolio needs to reflect our renewed focus on the core business, E&C offshore, E&C onshore and drilling. This has involved exiting a number of non-core activities and scrapping assets.

Second, we are reducing our risk profile by reviewing processes, commercial decision making and the balance of our business mix. Third, we have taken a hard look at our costs building on the program announced in July. Fourth, we have identified key areas in which to leverage and consolidate some technological advantages. And last, but not least, we have addressed the Company's balance sheet with a capital increase to rebalance leverage accompanied by a disciplined capital policy to support cash generation.

Let's look at each in turn. First, the refocusing of efforts onto Saipem's core businesses. To this end, we will prioritize our investment into the offshore business in order to maintain our state-of-the-art fleet. Our commercial efforts will now focus on those opportunities that offer higher value or greater potential. This means focusing on breakthrough projects which are characterized by technical complexity, large-scale dimension and harsh environment, and are particularly associated with NOC clients, traditionally a strength for Saipem.

We are also reforming our business model to engage earlier with clients to secure the higher rewards of an early-stage involvement. As an example in the E&C offshore, we will concentrate on highly technological segments like floating LNG.

In the E&C onshore division, we will be more selective, focusing on large and complex initiatives, leveraging our distinctive engineering and organizational capability. We will strengthen our service mix, increasing the share of less risky and more value-added services, such as front-end engineering and design or engineering services.

At the same time as investing in the areas that offer value upside, we will also reduce our exposure to non-core lower profitability operations. This will include a disposal program targeting, for instance, the onshore infrastructure segment and leased FPSOs, a reduction in our yard capacity and the rationalization of our engineering presence through the closure of or disposal of offices.

In drilling, we will focus on those areas where we have a competitive edge, for instance, in harsh environment and deepwater and privileged longstanding relationships with key clients. This action will ensure Saipem's portfolio is better balanced, combining the growth potential of E&C with the resilience and stability of drilling.

Our second pillar is to reduce the risk across the Group. As part of this, we have identified four key areas of action which taken together add up to great top-down control of our risk exposure.

First, commercial discipline. This means introducing much greater accountability in the way we tender for contracts to ensure we get the best deal for the Group. For instance, all contracts exceeding strict parameters including value and complexity indicators now need to be approved directly at top management level. In this regard, we have full overhauled our risk analysis, introducing new procedures and stricter integration with commercial process.

Second, getting the right mix of services. We are working to reduce exposure to more commoditized and risky construction activities especially in the onshore business. At the same time, we are also moving towards contractual schemes such as EPCM which allow us to share the construction risk in projects with clients.

Third, partnerships. Saipem has a track record of partnership, for example in Kazakhstan and more recently in Mozambique and elsewhere. We have worked with partners to manage local complexity and exploit attractive opportunities which we could not otherwise have pursued.

Fourth, client relationships. We are rightly proud of our long-term relationships with our clients but we want to further strengthen these by recommitting to deliver excellence in project execution and at the same time, work closely with them.

The third pillar is our cost-reduction program. Under the first review of our fit for the future program in July 2015, we announced targeted cumulative cost saving of EUR1.3b by 2017. On the right hand of the side of the chart, you can see the expected impact of this cost reduction on our EBIT profile. We expect to add EUR480m to the bottom line by 2017.

Today, we are announcing a further EUR200m cumulative additional savings over the period taking the total to EUR1.5b by 2017. These savings are not included in our planned target and will represent an upside. These savings will come from further optimization of our engineering footprint and external workforce services.

The cost-cutting program is progressing to plan. For instance, looking at our target of reducing 8,800 full-time equivalents by 2017, in the course of the third quarter we reduced total count by 2,300, bringing Saipem's workforce to 45,600 at the end of September.

These cost reductions are substantial and come from an articulated program including more than 150 specific actions which will provide an additional EUR1b of EBIT between 2015 and 2017. You will find a more detailed list in the appendix. In general terms, the program aims to resize the construction of the Company, which grew significantly through the previous period, in line with Saipem's strategic refocus.



Let me take you through a few of the key initiatives. In E&C offshore, we are reducing our engineering at operation centers in Brazil, UK, Australia and Angola and rationalizing fabrication activities in our Soyo, Guaruja and Karimun yards. In E&C onshore, we have rationalized our engineering centers in Romania, India and the UAE.

Reducing complexity in our operations and processes is another element of the plan which means, for example, simplifying procurement and tendering processes in E&C onshore. We have already addressed the reduction of our obsolete fleet and assets with the decision to scrap Semac 1, Castoro 7, SB 320 and S 355. And in drilling, we have already retired Scarabeo 4.

In both offshore E&C and drilling, we improved our fleet management, maintenance and manning processes. And across the board, we are reducing our overheads, for instance optimizing our office space and renegotiating building leases, revising travel policies and offshoring elements of our IT services.

Overall, 45% of savings will come from E&C offshore, the same from E&C offshore (sic) and 10% from drilling.

The fourth pillar is our technology and process innovation capability. Our plan envisages devoting an increasing proportion of resources to these distinctive features. These are essential delivering breakthrough projects and capturing new business opportunities.

For example, in SURF, we are developing our heat traced pipe-in-pipe for rigid J-lay which extends our active heating technology to larger diameter risers and flowlines, which will allow our clients to achieve longer tiebacks.

Our best-in-class materials technology enhances productivity and keeps costs down. For instance, our internal plasma welding system for carbon steel and (inaudible) lines has been used in Asia, Middle East and Caspian.

On subsea pipelines, our SWS automatic welding technology, means we were able to deliver the North Stream natural gas pipeline three months ahead of schedule.

In floating LNG, Saipem is testing a new tandem offshore system that uses cryogenic floating hoses, developed with a partner to increase LNG offloading operational uptime and safety.

And in onshore, we continue to improve our flagship urea technology where we recently developed the new super [cap] tray that has increased production performance.

The strengthening of our capital structure represents the fifth and fundamental pillar of our strategy. As Paolo mentioned earlier, yesterday's Board meeting approved the recapitalization and refinancing of the Company. The transaction consists of two elements, an equity capital increase of up to EUR3.5b and a EUR3.2b debt refinancing through a term loan and a bridge to bond. Both elements are fully underwritten and expected to complete in the first quarter of 2016.

The announced transaction has a strong strategic value for us. It will reduce our leverage, improving the financial flexibility of the Group and strengthening our position in the market. This will allow us to better navigate the current market environment and position us ideally for the turn in the cycle. It will make us financially independent from Eni and will diversify our sources of funding through the banking system and capital markets.

The new capital structure has been given investment grade provisional credit ratings by Standard & Poor's and Moody's. This is a great achievement which will allow us to reduce our cost of funding and provide flexibility in the terms of our loan agreement.

With that, I would like to hand over to Alberto who will provide you with more details on the refinancing. Alberto.



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

Thank you, Stefano. Good morning, everybody. I will try to give you a bit more details and some color on the capital increase, the refinancing as well as the numbers of the business plan.

As far as the capital increase, we have already stated that it's a EUR3.5b rights issue. This will allow the Company to reduce the net debt to EBITDA, the leverage from 4.6 that is the current ratio to 1.7. We are talking about 1.7 pro forma because we are referring to the underlying EBITDA, before the write-offs.

The support from the shareholders and the new -- the old and the new shareholders is total. So they are -- they have an irrevocable commitment to underwrite the full 43% stake of the rights issue, around EUR1.5b.

The remaining EUR2b is fully underwritten by a syndicate of seven joint book runners; two global coordinators and five joint book runners. The timing for the shareholder meeting is foreseen to be December 2, 2015. And the capital increase will be executed in the first quarter of 2016.

As far as the refinancing, you will find here some details on the main terms of the new credit facilities. The size of the bridge to bond is EUR1.6b, equal to the term loan. We've also foreseen a revolving credit facility of EUR1.5b to cover for swings in the working capital and to give us some flexibility.

The bridge to bond is 18 months with a six-month extension available, with an initial margin of 80 basis points, growing progressively up to 275 basis points at the end of the two years. Of course, we have an incentive to issue bonds at the early stage.

The term loan is five years amortizing. And the margin of the term loan is 110 basis points, based on the credit rating investment grade. This is a very important point of course.

All of those facilities are senior unsecured. And there are no financial covenants as long as we maintain the credit rating investment grade. This is very important for a company like Saipem that is working in the engineering construction industry and we believe that this is a very good achievement for the Company.

The whole amount bridge to bond, term loan, revolving credit facility, whose margin is 80 basis points, is fully underwritten by a syndicate of five MLAs and two joint lead arrangers.

The overall structure will bring the cost of our debt in 2016 around 2%, slightly lower than 2% which is a cost that is lower than the current cost that we are facing with Eni's refinancing and will bring down financial charges quite dramatically from the current EUR180m, EUR200m to in the region of EUR80m per year. Of course, part is because of the lower interest rate and a big part is also because of the EUR3.5b capital increase that we have.

Okay. Let's now move to the next slide. Yes, you have heard me saying quite many times that Saipem was, from a financial point of view, a bit spoiled and enjoying the support of Eni sometimes has been a kind of competitive advantage in our tendering activity.

But this has also some downsides like accepting excessive bonding, accepting payment milestones not in line with the cash-neutral rule. We are -- since the time I joined the Company, but especially now that we will be financially independent, we are working a lot to improve working capital management in our effort to monetize all the unbilled revenues linked to the legacy contracts.

The project cash flow management must be tightened up and we are doing that. We are focusing on advances, invoices and payment terms. And we are trying to optimize and rationalize inventories.

We believe that the -- during the plan, we are going to target a 5% working capital. Currently it's 10% of the revenues. So we want to halve the burden of the working capital for the Company.



In terms of CapEx, Stefano already mentioned the strict discipline on the CapEx expenditure. We are coming from a period of huge CapEx expenditure in the past in the period 2007 to 2011. We have a very recent asset base in the form of the top-end vessels like Castorone, like Saipem 12000, Scarabeo 8 and Scarabeo 9. So what we are planning is in a debt-driven and disciplined plan is to spend less than EUR600m in CapEx in 2016 and 2017 and to maintain a very strict control on this cost.

The other point is we are also planning, and I think Stefano mentioned earlier, that we would like to dispose of some of the marginal activities that are not core for Saipem and is to accelerate monetization of those activities and to have further cash inflows.

Okay. Let's now look at the business plan targets, translate what has been explained and what was start of the presentation of Stefano into numbers. In 2016 and 2017, we believe that our revenues will be in the region of EUR11b.

It's important to underline the coverage, what is covered by backlog, 65% 2016 and 40% 2017. This is just backlog numbers. So if, generally speaking, the coverage is higher in terms of revenues visibility because of further variation orders that are generally in the region of 10% on the revenues.

The CapEx we have just talked about. And net financial position in 2016 and 2017 is gradually improving up to an amount of EUR1b in 2017.

If we look at the midterm targets, we believe that since -- from 2017 the markets should pick up again. That's gradually, not immediately but gradual ramp up. So the revenues should be above EUR12b which we are targeting EUR900m EBIT by 2019 and an improvement in the margin from 5.5% up to 7.5% EBIT margin.

In terms of midterm targets for CapEx and net financial position, of course we will be, according to these numbers, at the end of 2017 in a much more -- in a much better situation financially. So we will have -- we will certainly pursue growth opportunity in a disciplined way.

Our main commitment will be certainly the investment grade, to maintain the investment grade. Being cash neutral in 2009, I think we also will have to prioritize remuneration of shareholders, maintain the commitment to investment grade.

Okay, let's go now into some numbers through the divisions that are the base of the consolidated numbers that we have just seen. Offshore, we have a backlog coverage in 2016 up to 70% and 30% in 2017. We believe that offshore will be certainly under pressure because of deep, ultra-deep offshore reduction of investment from the major oil companies. So there will be a modest reduction of contribution in revenues. And the profitability trend will exceed the mid-single digits.

This is certainly less than what we were discussing during the \$110 per barrel period in double-digit or mid-teens, like we said, for the offshore. But this is taking into consideration from one side the pressure on the margins for the downturn and from the other side the fact that the engineering construction offshore will suffer from idleness in the next period.

And of course, even though the single projects will have a margin slightly below the usual margin of engineering construction, unfortunately our EBIT level we took into consideration that we have to, let's say, absorb the idleness of some vessels in the next year.

In the drilling offshore, the backlog coverage is 80% in 2016 and 60% in 2017. We believe that the contribution after 2017 will be stable thanks to our long-term contracts and the profitability trend is about 25%.

On the onshore, the backlog coverage is lower due to the nature of the onshore drilling contracts that are shorter than the offshore ones. And revenue contribution is considered stable with a profitability trend in the high single digits. The area we are looking in this drilling onshore with some concern, of course, is South America because of the clients that are mainly small independents and because of the (inaudible) well-known issue.

Okay, now I will hand over back to Stefano for the final remarks and the takeaways. Thank you.



Stefano Cao - *Saipem SpA - CEO*

Thank you, Alberto. Let me conclude with what I would like you to take away today. We are confident of building a stronger Saipem and delivering our business targets. I have the benefit of having seen the bottom of two oil price cycles at the end of the 1980s and at the end of the 1990s, on both occasions the crisis proved to be an opportunity for Saipem which emerged stronger than before.

There is every reason to believe we can make it happen again this time around. Saipem is the world's best contractor at delivering breakthrough projects, technically complex, large-scale projects in harsh environments. We have unique skills, capabilities and relationships with clients.

We will reinforce our balance sheet to strengthen our competitive advantage through the cycles and support our leading position in the oil services sector. We have a clear strategy, refocusing on core activities, creating a leaner organization and de-risking the business model. We have an excellent team to deliver this new, stronger Saipem.

Thank you for your attention. I will now be pleased to undertake, together with my colleagues, any question which you may have from the floor. Thank you.

q-and-a

Operator

(Operator Instructions).

Stefano Cao - *Saipem SpA - CEO*

We start with the audience, and after a couple of questions, we will switch to the webcast. Thank you.

Mukhtar Garadaghi - *Citi - Analyst*

Mukhtar Garadaghi from Citi. Thanks for the presentation. Two quick questions from me. One, when talking about revenue targets and guidance for 2017, given the backlog coverage and the commentary from your key clients we see on the project section, can you give us a bit of breakdown of how you get there and where in particular you see that that award momentum, specifically in E&C.

And my second question is around the existing backlog in some of the bigger projects you've talked about, such as Kaombo, and has there been a full review completed on existing backlog in terms of profitability? And there's been some commentary about re-phasing risks on some of the major projects, including the one in Angola, so any color on that would be very helpful. Thank you.

Stefano Cao - *Saipem SpA - CEO*

Okay. I think as far as the specific targets on projects for 2017, Gigi, if you wish to address the question, and then we'll tackle the risk of re-phasing Kaombo.

Gigi Caselli - *Saipem SpA - COO*

(inaudible) As you have seen during the presentation, there is a slide where there are a number of opportunities that we are pursuing quite hardily. Of course, not all of them will be on our possibility, or whether we have different projects, you can maybe appreciate why I'm not mentioning one instead of another, where we are positioned -- we believe that we are positioned in an excellent stand.



And as you can see, on the various projects that have been presented, in all continents, like America, West African, North Africa, East Africa, Central Asia, Middle East, Asian Pacific, there is a number of variety of projects that we definitely have a very, very, very good and high chance.

Stefano Cao - *Saipem SpA - CEO*

Can we make an example?

Gigi Caselli - *Saipem SpA - COO*

Well, for instance, Mozambique.

Stefano Cao - *Saipem SpA - CEO*

And the LNG, which is waiting for --

Gigi Caselli - *Saipem SpA - COO*

Of course. Well, Mozambique I don't consider an opportunity, because as everybody knows, we have been selected by the client for Mozambique Anadarko regarding the onshore development. Whether we are still tendering for the Mozambique offshore for Anadarko for subsea development, as well as we have been for the floating LNG of the block for Eni. Nevertheless, we have bid for the onshore and LNG on Mozambique.

But this is just one to mention. We can jump on the Far East, where Kasawari, there is a longstanding tender that is going on, and even recently on the price, it seems to be that in a reasonable amount of time, there will be a selection of the successful bidder and the relevant award.

And Mr. Cao was mentioning, Egypt is for us -- is a breakthrough opportunities, where we are already working in the front-end engineering and the basic design elements for the onshore and the offshore portion.

So TransCanada, for instance, one, I believe that we have read just yesterday that has been granted on the Prince Rupert development, the environmental permit from British Columbia. Now, we are just two steps closer -- one step closer to the FID that we hope will happen in the next few months. And, of course, this will see our involvement both in the onshore and offshore part.

So Scarborough is at this point in time -- is a project that for the time being has been quite on a slow mode move. However, there is a potential possibility that this project will immediately resume, and with Scarborough, we developed the old FEED. And not only was an extended FEED whereby in case this project will be -- will fly, we will do that project.

Nevertheless, the former Masela, now Abadi, in Indonesia is another floating LNG wherein we are going to participate, and our edge advantage is the fact that we have a tremendous local yard in Indonesia, Karimun, that will play a key role in the award of these projects.

And then talking about drilling, we are discussing with clients potential contracts with our extension on the Saipem 10000, as well as the Saipem 12000, as well as the Scarabeo 9. Just we have been also tendering also in the MMO, when Mr. Cao was mentioning a more balanced portfolio in order, of course, to have a mix, the proper mix between EPC, EPCM and of course other contract, like service contract or MMO, where basically there is a rate. Most probably, we are in a good --

Stefano Cao - *Saipem SpA - CEO*

A short question, which might imply a very long answer, so let's cite as an example. Then Kaombo, there was a (multiple speakers) on Kaombo --



Gigi Caselli - *Saipem SpA - COO*

Yes, and just to talk to a little bit on these MMO, it is we have bid an important MMO in Angola, and we are expecting the result very, very shortly. We are extremely positive on that.

Regarding Kaombo, well, Kaombo, as it was mentioned during the presentation, is a very fast-track project, because it's quite a complex project, where two tankers to be readapted to -- within the spec to become FPSOs. The project is up and running. There are challenges, as in any projects that we handle. There is not a single project where there are no challenges. I don't call it problems.

We are moving forward. We are well ahead in terms of construction. The first FPSO is under modification in Sembawang. We are installing the inner turret. Regarding the modules, our yard in Karimun is up and running. The second FPSO is just a twin copy of the first one, so we will expect to have a smoother progression of the works rather than the first one.

Stefano Cao - *Saipem SpA - CEO*

Okay, so maybe, Alberto, you wish to --

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

Just one comment on the number, let's say. As I said, in the numbers of the backlog coverage, you just have backlog numbers, revenues coming from the current backlog, which means there is no concept of revenue visibility, which is higher, partly for variation orders and partly because there are no inclusion of, for example, the EUR600m of contracts that we have recently announced within engineering, construction, offshore, because the backlog that was taken was up to the end of September.

Plus, there are no contracts like LNG for Anadarko or the Chile pipeline that are still pending FID or the green light for environmental reasons. So in the backlog there, we don't have in the -- neither in the backlog nor in the revenue those projects, so to give you some more comfort on the numbers.

Stefano Cao - *Saipem SpA - CEO*

However, we have a reasonable visibility on those.

Robert Pulleyn - *Morgan Stanley - Analyst*

Hi. Robert Pulleyn here from Morgan Stanley. Three questions, and I'll limit it to that. And the first one, in terms of your net debt guidance, you talk about a working capital inflow next year. I was just wondering if you could give us some color as to the quantum of that.

The second question is around drilling. It seems you have a much more optimistic view on drilling than many of the pure-play drillers out there in the market. Thanks.

(technical difficulty). You seem to have a much more optimistic view on the drilling than many of the pure-play guys?

Stefano Cao - *Saipem SpA - CEO*

Both onshore and offshore?

Robert Pulleyn - Morgan Stanley - Analyst

Just offshore, actually, specifically. And if maybe as part of the answer to that question, you can talk about what happened to the Saipem 10000 -- sorry, Saipem 12000 with Total in Scarborough [5].

And the last question, and I suppose apologies to ask, but there is no reference to the Algeria investigation in any of the releases. I was just wondering if you could give a bit of an update as to what's happening there. Quite a few questions, but thanks very much.

Stefano Cao - Saipem SpA - CEO

Okay, net debt, Alberto?

Alberto Chiarini - Saipem SpA - CFO, Chief Compliance Officer

Yes, on net debt, yes, we've stated that we are going to make a lot of effort in order to improve the working capital. What we had planned in the business plan is an improvement of around EUR150m every year during the plan.

This is something that we believe can be achieved partly sorting out some of the legacy issues and closing down some of the so-called pending revenues issue and partly from those improvements that I have stated during the slide. So I think it's a prudent estimate, but nevertheless, it's okay.

Stefano Cao - Saipem SpA - CEO

Drilling offshore, you are absolutely right. We have a different stance, which is inherently related to the composition of our portfolio. If you go back to the history of Saipem, you'll recall that we have never been investing on speculative units. We have always been investing on the back of long-term contracts.

In the times of the high oil price, that was heavily criticized, because we were missing the advantages of speculative day rates to the advantage of longer-term commitments. I would say that in downturn of the market, this is already a reasonable estimation why we are let me say less pessimistic in terms of the outcome.

Then there is an issue, which is related to 2017, as you have seen from the presentation, we reckon that there will be an improvement on the vessel utilization, on the unit utilization, starting from 2017. You are absolutely right. There is a number of new capacity which will come out in 2017, which will become available. But we should also take into account the attrition.

Personally, we have gone through, as already said, twice the same cycle, and my personal experience, that there happens to be a sort of balance between the new capacity and the attrition, which is caused by -- but the jury is out. Our view is that we don't feel particularly in danger in terms of the offshore drilling. Please, then we go back.

Unidentified Company Representative

I would like to add something more regarding the offshore drilling, as Mr. Cao just explained, briefly explained. Yes, you are perfectly right, where we are in a very difficult market situation. However, we haven't -- it's difficult to compare other peers like Transocean, Seadrill, Enasco with Saipem.

In the offshore, we are a niche contractor. We have a few rigs, a few semis, a few ships, and if you see in our -- you have an in-depth look in our portfolio, the majority of our vessels, has long, long, long-term contracts. You just mentioned the Saipem 12000.

Yes, indeed, the Saipem 12000 now will be for a short period of time on idle although we received a remuneration that equated to the termination clause that is in the contract. So it's quite difficult to compare what is our view with other pure offshore drillers have. They have now a situation whereby 20%, 30% of their fleet idle, which as of today, we just have one that has been remunerated, simply because our number of (background noise) is our philosophy is completely different.

Stefano Cao - *Saipem SpA - CEO*

Okay. In terms of Algeria, you are quite right. We make no reference. There is a negative legacy related to Algeria. We are obviously dealing with it, but today is the day for the launch of the new Saipem, and we wouldn't associate the new Saipem with things which we need to deal with but which are part of the past.

Robert Pulleyn - *Morgan Stanley - Analyst*

Okay, good. Grazie. I'll (technical difficulty)

Amy Wong - *UBS - Analyst*

Good morning. It's Amy Wong from UBS. I have two questions, please. The first one relates to with Saipem becoming more independent from Eni, can you talk about the positives and potentially any negatives and how you may tender for projects and the impact on the relationships with your customers going forward?

And my second question relates to your overall recapitalization and refinancing plans. Could you give us some maybe -- give us some color into how you arrive at those numbers and give us a range of maybe some stress test cases that you ran in terms of the outturn for the oil price and for the number of projects available to the market? Thank you.

Stefano Cao - *Saipem SpA - CEO*

Okay. As far as the consequences of our independency, I would definitely refer -- bear in mind that I have been eight years on the other side. So I've been also for eight years beating on the [head] of Saipem when there is not behaving -- they were not performing correctly.

I have to say that probably am one of the few who would say, stress very strongly, is the relationship has always been an arm's length relationship. There have been some instances where partners to Eni, they were complaining because Saipem was participating to a bid for a certain development project, where Eni was the leader of the consortium.

But this has always been dealt with through procedures, very strict procedures, in a very transparent manner. So I cannot say there was a disadvantage of being controlled by Eni, but I don't see any disadvantage now being independent. From now on, we have to start walking on our own legs.

Paolo Andrea Colombo - *Saipem SpA - Chairman*

I can add something to this point. I think that one more important positive effect will be that Saipem will be much more accountable, being independent from Eni, and accountability is a positive issue of the governance of a complex structure like Saipem is.

Stefano Cao - *Saipem SpA - CEO*

Okay, the recapitalization?

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

In terms of the new structure, as you know, we started doing our homework already June, July last year, when there was the first statement of Eni on the potential deconsolidation. And we passed through a completely different context.

The main driver for figuring out the structure was that we felt that in the current context, for a company like Saipem, not being investment grade would have been really a risk for the Company as a whole. We are currently -- we know that we are under pressure in terms of working capital, in terms of pressure on margins. And the context is the one that we have clearly stated.

And we felt that it was essential to be investment grade. So we have based our structure on the driver, but also, trying to catch the opportunities that we believe that the market was offering in terms of liquidity and appetite for financing, and that was the reason why, in the balance of a bridge to bond and midterm loan, you can see that the balance is 50-50, whereas normally, the balance is more on the bridge to bond area.

And that was one of the considerations that we took into account. We have done a lot of homework, as you know, and together with our adviser, I think I am quite satisfied that we reached this structure that I believe that can guarantee us some good security. Okay.

Unidentified Company Representative

We will take some questions from the webcast now. Thank you. There are more questions. Back and forth. Go ahead.

Operator

Hamish Clegg, Bank of America Merrill Lynch.

Hamish Clegg - *BofA-Merrill Lynch - Analyst*

Good afternoon, guys. Congratulations on the restructuring plans. I had a quick question just regarding your partners, Eni. I wondered if there were going to be any changes to your Board announced. Obviously, six of the nine Board members are Eni representatives. Can we expect that changing in the first quarter of next year? And with that, do we expect Saipem to no longer be consolidated within Eni?

Paolo Andrea Colombo - *Saipem SpA - Chairman*

The current Board of Directors has been appointed last April for a period of three years. We know, because we have read the press release of Eni and FSI that a new Board member will be designated by FSI and will substitute one board member designated by Eni. That's all we know.

For the rest, I must presume that the Board will complete the term for which it's been appointed.

Hamish Clegg - *BofA-Merrill Lynch - Analyst*

Okay, thanks. And any thought on the consolidation?

Paolo Andrea Colombo - *Saipem SpA - Chairman*

Pardon? The issue of the consolidation is an issue that referred to Eni. This is not a question that we can answer in this place.

Hamish Clegg - *BofA-Merrill Lynch - Analyst*

Thanks.

Paolo Andrea Colombo - *Saipem SpA - Chairman*

Thank you.

Unidentified Company Representative

Okay.

Operator

Bertrand Hodee, Raymond James.

Bertrand Hodee - *Raymond James - Analyst*

Good morning, gentlemen. Two quick questions, if I may. What is your level of down payments at the end of Q3?

And the second question is what is the level inside the backlog of the legacy contracts outstanding? I remember it was around EUR800m at the end of Q2.

Stefano Cao - *Saipem SpA - CEO*

Okay, the amount of down payments at the end of September is in the region of EUR400m to EUR500m. Of course, it's one of the issues that has affected a bit our working capital, because we had a record order intake in 2014, so we reached an amount of advanced payment in 2014 which was in the region of EUR800m, and it's gradually reducing.

We have some new advance payments, but of course, the trend is a reduction of advance payments that goes together with the lower order intake and the reduction of backlog.

The amount of legacy contracts still in our backlog is today something in the region of EUR600m. We believe that we will be out of the legacy contracts at the end of the first quarter of 2016.

Unidentified Company Representative

2016.

Stefano Cao - *Saipem SpA - CEO*

Yes.

Bertrand Hodee - *Raymond James - Analyst*

Thank you very much. And can you just split this EUR600m of legacy contracts between the onshore-offshore? It's still 50-50?

Stefano Cao - *Saipem SpA - CEO*

Well, on the onshore now, because the only main offshore project is Al Wasit, if I remember well, Gigi.

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

It was not a legacy contract, was it, so offshore is --

Unidentified Company Representative

It is offshore.

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

Offshore is over.

Stefano Cao - *Saipem SpA - CEO*

Offshore is over, okay. So it's mainly onshore.

Bertrand Hodee - *Raymond James - Analyst*

Thank you.

Unidentified Company Representative

Now, here in the audience.

David Farrell - *Macquarie Securities - Analyst*

Hi. It's David Farrell from Macquarie Securities. Two questions, please. Firstly, on the residual 30% ownership by Eni, is there any lockup period from that 30%?

And then the second question is on CapEx. You're guiding to EUR600m a year for 2016, 2017, so no reduction from 2015 levels, despite exiting some businesses. Could you just explain how that EUR600m is split and why it isn't coming down?

Paolo Andrea Colombo - *Saipem SpA - Chairman*

For the lockup period, this is an information that we do not have. It's an information that referred to the contract signed by Eni and FSI, so we don't have any official news on this issue.

Stefano Cao - *Saipem SpA - CEO*

For the level of CapEx, you are right. We have identified a level of EUR600m a year throughout the course of the plan period. If you recall, the level was -- has been substantially much, much higher than this. There is a level of maintaining capability CapEx, which are difficult to further compress.



So the EUR600m are totally dedicated to the class of vessel, to the replacement of capability of units, largely concentrated in obviously in offshore, both drilling and E&C. So I reckon that we shall never stop us from looking at opportunity to have savings, but at the time of preparing a four-year plan, we thought that that was a level consistent with the level of ambition which we have for deeper formats of our fleet.

Unidentified Company Representative

Mr. Malek.

Christyan Malek - Nomura International - Analyst

Hi. Good morning. It's Christyan Malek from Nomura International. Three questions, please. First of all, in differentiating between the old Saipem and the new Saipem, I appreciate the way you've put it, but what guarantees can you give us that, first of all, there are no major charges coming from corruption over the next few years. Second of all, that there are no more new legacy projects emerging under the tenure of Vergine, as well as Tali, and thirdly, that in terms of executing projects that you've got going forward, that there aren't going to be issues in terms of receivables and delayed payments? What guarantee can you give us in terms of that line that you've drawn today?

The second question is on the relationship with Eni. Do you -- to what extent have you de-risked your targets on the basis that you can secure work through Eni in terms of some of the projects that you've got? How have you determined your outlook and the relationship with Eni and the pipeline that they have to give, so any sort of quantitative relationship you can provide?

And the third question is on the issuance, just to be clear, is it fully underwritten by the consortium of banks? And if so, what price range are we referring to or sort of qualitative? Can you discuss that, please?

Stefano Cao - Saipem SpA - CEO

I think if you reduce the plan which we have presented today to providing guarantees of mistakes of the past reoccurring, you are minimizing a little bit the importance and the size of what we've been talking about. Obviously, there is no guarantee whatsoever which can be given. I think there is the guarantee -- intrinsic guarantee, which is related to the people which you see sitting at these desks today to the number of changes in the corporate governance which the Chairman has been introducing in front of our presentation. The rest will have to be seen.

In terms of de-risking Eni, there was no matter of risk in Eni, because we had never gotten any favor or any advantage from Eni. There are certain instances where, to the common advantage of the two companies, we have been building drilling units on the back of long-term contracts with Eni, but that was basically totally on a -- as I said earlier on, on an arm's length basis.

I've been the one who was signing the building of the 10000 on behalf of Saipem, and then I have moved to Eni. I was the one utilizing the 10000. So I've got an exposure to these schemes, so totally arm's length.

In terms of fully underwritten, I think --

Alberto Chiarini - Saipem SpA - CFO, Chief Compliance Officer

The right issue is fully underwritten by the two shareholders, Eni and FSI, and a consortium of two global coordinators and five joint book-runners. So it's fully underwritten through a pre-underwriting agreement that will transform into an underwriting agreement in the next month. And at that stage, we will also talk in more detail about the price, but so far, it's not an element that we have discussed according to the terms of the pre-underwriting agreement.

Paolo Andrea Colombo - *Saipem SpA - Chairman*

So just -- if I can just on the last one, I think what Stefano said before, there is not a guarantee from us, but there is a strong commitment that Saipem will be governed in respect, of course, of the law and the market rules.

The independence from Eni, as I mentioned before, is important also from this point of view, because the Board of Directors and the Company will be fully accountable for the management of the Company, and I can assure you that the objective of this Board of Directors is that the governance of the Company is perfectly in line with market rules and with the laws.

Christyan Malek - *Nomura International - Analyst*

Just to follow up on that -- thank you for that, Professor Colombo. Just to follow up on drawing under old charges, so just to be clear, whilst there are no guarantees, we can be reassured that there are no more legacy charges that are going to emerge, and that's why you've been able to underwrite the entire writes issue.

Unidentified Company Representative

No, there is no connection between the --

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

No, of course, there has been a due diligence by the banks, a due diligence by all our stakeholders, and of course, also, a due diligence by the new shareholder. And I think that, yes, in a way the fact that there has been a full commitment by all our stakeholders in this huge transaction is clearly a signal that there is confidence by the market, by the banks, by the shareholders, that those issues are over. Okay.

Phil Lindsay - *HSBC - Analyst*

It's Phil Lindsay from HSBC. Two questions, really. The first one's just on the management incentivization plan. So perhaps you can just tell us what specific metrics you'll be measured on moving forward and maybe the key differences to the previous plan.

And then secondly, I suppose more of a strategic question, you've obviously flagged some disposals of FPSOs in the infrastructure business, but nothing too radical there. Were you tempted to go any further? And you've also talked about some diversification into high-value-add services, etc. Do you think you need M&A to get there? Thank you.

Stefano Cao - *Saipem SpA - CEO*

I'm not sure I understand the first question. Is the management going forward changing?

Phil Lindsay - *HSBC - Analyst*

What specific metrics will you guys be incentivized on going forward?

Unidentified Company Representative

It's a financial --



Unidentified Company Representative

If I have understood the question, you're meaning in the MBOs of the Company, if we have changed a bit also the targets for the management in terms of compared with the previous period. Certainly, one of the issues that we have emphasized in targets for the Company is the cash flow. That's one very important measure.

As I said, in the past, the two main measures for the management were the order intake and the EBIT. Now, we still have, of course, the EBIT. We still have the order intake, which is linked to profitability that has to be assessed by the overall system and the risk management.

Then, we also introduced the cash flow in the metrics, because we felt that it is very important for a company to stand alone based on -- financially stand alone to have the whole management, starting from the project managers and project directors, fully aware that it's not enough to execute a project properly. But the final target is to get the milestone signed off and the payment from the client. And this is a joint effort.

Of course, all the project control guys, the financial guys, are supporting the line, but there must be a clear understanding from the line managers that, eventually, the success of the project is in terms of the cash flow that is the final stage of the chain of relationship with the client, if that is what you were asking.

Stefano Cao - Saipem SpA - CEO

In terms of disposal and diversification, as you mentioned earlier on, I think you have to go through the process. The new Board started in May this year. At the time, there was a plan, which has already drawn and approved by the previous Board, so we had to start from a solid basis, which was the previous plan, and reestablish new lines.

And what has been agreed and presented to you today is a plan which forces a number of disposals. Is it little? Is it too much? I think it's quite a substantial change -- quite a substantial divestment program.

Does that mean that the course of the program, we could not identify other situations which would justify divestments? Yes, maybe, but what we are presenting is a plan which is based on the number of disposals which we have mentioned today.

In terms of diversification, diversification of business, that, it was in the frame of de-risking of business. Diversification, referring to a higher focus on a different approach to clients in terms of pursuing EPCM type of contracts rather all the old set of straight EPC contracts.

So they were addressed within the same plan, but they had different -- in different directions. And the combination was this action, which I think is a strong base for the plan which you have presented.

Phil Lindsay - HSBC - Analyst

Thanks. And then just one follow up, if I could. It goes back to Rob's question on Algeria and the corruption probe there. Now, I understand that it is a legacy issue, but it's still a very real issue in terms of the investment case of Saipem, so perhaps you can just give us some details in terms of the next steps of the legal case. And in that context, perhaps you can comment on the Brazil corruption, as well.

Paolo Andrea Colombo - Saipem SpA - Chairman

Sure. Okay. As far as Algeria is concerned, the only update since the last couple of months is that following the investigation, the magistrate has decided to follow the request of the prosecutor to bring charges to Saipem. And the trial will start, and you know very well the time of -- and the pace of the Italian judicial system.

We still believe that we have quite a strong case, and based on some of our consultants, we decided at the level of the Board of Directors not to make any provision in the balance sheet for this issue of Algeria.

From the DOJ side, there are no news. We are not under investigation from -- by the DOJ. We just have a tolling agreement, which means that we provide some information, and we grant them the right to start investigation at any time they want, but we don't have any formal investigation from the DOJ.

And the Algeria case is silent. The case in Algeria, meaning from the Algerian tribunal, this is so far silent, and it's a slightly different case.

The Brazil, in terms of Brazil, as you know, we don't have any charge or notice of investigation received from the Brazilian authorities. We just have the Italian prosecutor, the same one of Algeria that decided to start proactively an investigation on Brazil, without any notice of investigation from the Brazilian authorities.

The case is linked to a former employee, former consultant of Saipem. Joao Bernardi is the name, if it tells you something, and this consultant, the update on that is that this consultant decided to cooperate with the justice, and he decided to tell the judge all he knew about the bribery case.

From the news, from the very recent news that we have today, basically, because this started yesterday or the day before yesterday -- from the news we have, there is no mention in these files of cooperation of Mr. Bernardi, there is no mention of Saipem among the companies that he decided to disclose as companies that have committed bribery in Brazil.

But this is what we are reading on the newspapers and what our lawyers in Brazil are following up and are informing us. But so far, we do not have any notice of investigation or any charge brought to the Company in Brazil. We just have this investigation of the Italian prosecutors.

Unidentified Company Representative

The microphone to the lady behind. The lady in the second.

Fiona Maclean - BofA Merrill Lynch - Analyst

Thank you. It's Fiona Maclean from Merrill Lynch. I just have one quick question. You've talked a lot about cash and the balance sheet restructuring, but you haven't mentioned the dividend, so could you give us some guidance or clarity on where you think we're going to be seeing that move forward over the next few years? Thank you.

Stefano Cao - Saipem SpA - CEO

Of course, we didn't talk about dividends, because while dividend is a matter for the Board of Directors and the General Assembly, and in -- the thing I can tell you is that in the numbers that we have included in the business plan, we have simplified the general dividend, the historical, traditional dividend policy of Saipem, which is 33% of the net profit.

But this was just to have a reference and make sure that the plan was sustainable, applying the traditional dividend policy. When I was showing you the numbers of the business plan, there was a hint in the midterm, long term, because the first dividend will be paid according to this policy in 2016 -- 2017, based on the profit of 2016.

It is clear that if we will maintain our targets, we will be cash neutral, cash positive, in 2019. And we have prioritized the commitment to investment grade, and then we have mentioned that the other two strategic targets, to target for a cash-positive company, for us will be being able to capture opportunities of growth, as well as remuneration of shareholders. But we are not in the position now to state upon the dividend policy.



Unidentified Company Representative

The lady (multiple speakers).

Haley Mayers - Barclays - Analyst

Thank you. This is Haley Mayers from Barclays. Just a few quick questions from me. Firstly, what is your historical win rate in E&C? How many out of projects do you typically win that you're bidding on?

Paolo Andrea Colombo - Saipem SpA - Chairman

Well, this is a very, very difficult question. It's not an easy one. I don't want -- it's not my style to be political unfortunately or fortunately, I don't know. It depends.

On the offshore, you can consider one to three. Again, it depends which type of segment. If you're talking about trying trunk line, PCI, a subsea, but to just say a number, one to three. The hit rate is 30%, 33%.

On the onshore -- on the onshore, it's a little bit lower, definitely, and again, this will depend on the type of project that you are [touching]. For instance, when you talk about upstream and the competition is much, much tougher, when you talk about downstream, the competition is a little bit less. And in this case, you can consider 20%, 25%.

Haley Mayers - Barclays - Analyst

Thank you. And I guess that leads me to my next question, which refers to slide 18, where you mentioned the total value of the opportunity pipeline is EUR36b.

Paolo Andrea Colombo - Saipem SpA - Chairman

Yes, this is the total number of opportunity that we have on the radar screen and we are pursuing with a certain degree of confidence, of course.

Stefano Cao - Saipem SpA - CEO

Following the one we've shown in July, which was EUR31b.

Haley Mayers - Barclays - Analyst

Right, thank you. But my question is, around this number, is that assuming a win rate of one in three to one in four, or is it a higher win rate, because these are ones that you're more confident on? How should we think about this number?

Paolo Andrea Colombo - Saipem SpA - Chairman

Well, definitely, the one that we put on the table is the one that we are pursuing with a high degree of attention. You haven't to forget that we base on what we consider a normal acquisition amount that we foresee year by year. That is around EUR3.5b, EUR3.6b onshore, around EUR4b offshore.



And, of course, this project is also phased throughout a certain period of time, because the cycle of this project in terms of award will not be identical, so -- but you can work out the percentage that I mentioned before. Then how they will integrate in the timescale, well, it's a completely different market.

Haley Mayers - *Barclays - Analyst*

Thank you, and I suppose -- I guess, really what I'm trying to get at is in line with the earlier Citigroup question around 2017 top-line expectations of EUR11b. With 40% backlog coverage, that assumes, I don't know, say EUR6b to EUR7b order intake for execution in 2017. So I'm just trying to understand how this EUR36b turns into execution of EUR7b in 2017. If you could just help me bridge that gap, that would be great.

Stefano Cao - *Saipem SpA - CEO*

I understand where you come from. There is no direct correlation. I think this is an historical slide which I found, and I thought it was a good indication what is the amount of food in the kitchen. Let's put it this way. Then we need to be a good cooker and serve our clients.

I think the message behind the slide and beyond the slide is really the fact we had EUR31b, out of which EUR5b, they were close to being awarded, and actually, I think we have been consistent in achieving those targets.

I think now EUR36b means that we have enough to give a confidence that we have in the kitchen to cover the lacking part of the backlog to fill the top line in 2017. Being more specific, it's a bit complicated. We do educated exercise at the time of preparing our plans, but basically, one would substitute the other. It's mobile model.

Gigi Caselli - *Saipem SpA - COO*

(multiple speakers) more, yes, we do have -- I do have in my corner table which project is supposed to fit in which year in which period, because this is linked especially for the offshore to the utilization of the fleet. So you have forecast utilization of the fleet.

Definitely, as Mr. Cao is mentioning, you have one target, and then one substitute, in case you fail the target, and then this will adjust accordingly.

Haley Mayers - *Barclays - Analyst*

Thank you, and just a second for Alberto. On your cash-neutral target for the medium term, is that adjusted for prepayments? Is that Saipem's own net cash, or is that Group net cash?

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

Group net cash. The cash neutrality is Group net cash. It is Group net cash.

Unidentified Company Representative

Yes, we are talking about Group net cash now. We are not talking about the single affiliates.

Haley Mayers - *Barclays - Analyst*

Okay, thank you.



Neill Morton - *Investec - Analyst*

Thank you. It's Neill Morton at Investec. A couple of questions, please. You talked about the importance of investment grade, but you've been assigned a provisional BBB-, which is the lowest grade. Where would you like that to be by the end of the business plan?

And then secondly, you've also talked the independence from Eni. They've announced a shareholder agreement this morning with FSI, and in that agreement, they talk about the two parties basically having the right to appoint the Saipem CEO. Could you clarify that, please?

Stefano Cao - *Saipem SpA - CEO*

Okay, I will talk about the investment grade. Yes, you are right, it's the lowest part of the investment grade, but of course, we had to take balance. As I said, we took our view that that was enough based on the fact that we are showing positive cash flow in 2016, 2017 onwards.

In order to reach better investment grade, a better rating, of course, we would have needed to ask the market and the shareholders even higher capital increase, which I believe it was probably not the right choice. So I'm still -- I still strongly believe that we made a very balanced restructuring that is taking a good balance between having strengthened the balance sheet, reaching investment grade, lowering the cost of debt, as well as projecting some improvement in the future that could lift up our rating and could allow us to be flexible in pursuing some growth opportunities, as well as remunerating back the shareholders.

Neill Morton - *Investec - Analyst*

It's more where do you see the optimum investment grade for Saipem, and --

Stefano Cao - *Saipem SpA - CEO*

(multiple speakers). I think that it depends on the period. In the past, as you know, we have a quite sizable drilling activity, and the drilling activity can sustain some debt being investment grade.

In the past, I'm talking when we started our homework, it was a completely different period. The oil price was \$110, but it was pretty clear that our drilling business could afford a debt of EUR2b, which means that we would be now in a very good situation.

Now that the period is a completely different one, so we need to be more prudent, but certainly, in the future, whenever the day rates on the drilling will go back to the day rates we were used one year ago, certainly, this is a part of the business that can sustain quite a sizable debt, around, as I said -- in our estimate, it was around EUR2b.

Paolo Andrea Colombo - *Saipem SpA - Chairman*

Regarding the second question, on -- about independence from Eni. As I mentioned at the beginning of this presentation, Eni has announced the sale to FSI of 12.5% of its stake, with a shareholder agreement to disciplined governance and proprietary structure. On the press release, they announced that in three years, they will jointly indicate the Chairman and the CEO, in three years.

Neill Morton - *Investec - Analyst*

Thank you.



Paolo Andrea Colombo - *Saipem SpA - Chairman*

Thank you.

Unidentified Company Representative

The gentleman (inaudible).

Andrew Dobbing - *SEB Markets - Analyst*

Good afternoon. Andrew Dobbing from SEB. Can you tell us, how comfortable are you that Saipem's interests are aligned with the long-term interests in the oil and gas market? You've got a relatively old offshore drilling fleet that's losing contracts. You've invested in a yard in Brazil that identified a need for rigid risers that no longer exists. As we speak, almost every single one of your big offshore construction vehicles is idle.

In the surf market, your two tier-one competitors have recently signed relationships with strong partners, and even your margin guidance is I guess pointing at a pretty bad vessel utilization outlook in the medium term. So can you just give us some -- a little bit of a kind of reflection on how you think your asset types are aligned with what we need in the market going forward? Thank you.

Stefano Cao - *Saipem SpA - CEO*

I would say that, obviously, it is not me saying that. It is recognized that we have some of the top assets in the whole industry. Then, how comfortable we are? We built up a plan showing -- which takes into account the utilization which we foresee. And as a matter of fact, we recognize that there is a reduction in margin in terms of expectation for at least the next couple of years.

I think the message which we were trying to convey with the part of my presentation related to innovation is that, indeed, that is an area in which we have to invest more, not necessarily monetary investment, but certainly a lot of investment in terms of people thinking, devising things to do for the future.

There is no doubt that if you prepare a matrix of all the capabilities of Saipem, there are certain segments which are not yet covered, but indeed, we consider an important part of our plan to devise ways to cover those segments. I think technology, we recognize it is very important going forward, and the message is that we'll do that. We'll move in that direction. (Inaudible) on technology (inaudible).

Unidentified Company Representative

Well, just simply to add, from your question, I perfectly understand that you know when our fleet is, or whether I would allow you to recommend to compare with what the other vessels of our peers are doing at this point in time, and to check in terms of idleness who has a higher idleness. It's worthwhile to mention that, for instance, one of our vessels that I consider one of the elements of our vessels, the [previous] Saipem 7000 currently is idle simply because there is the legacy of the issue of the South Stream. Otherwise, the Saipem 7000 could [term] its own deployment.

In terms of drilling, well, again, just to check a percentage of idleness of the competitors. Compare to the others.

Regarding Brazil, yes, you are right. While we developed the yard, because we believe, and we have all our fleet that is based on the concept of rigid, and nevertheless, it's been proven that rigid is providing 30% more flow capacity rather to a flexible solution. However, at this point in time, since the time to market of a flexible solution is faster to a rigid solution. Petrobras, it seems to be that for the next few years, has chosen five projects with flexible solutions. But I hope that in one or two of these projects, there will be a change in strategy, and they will revert back to rigid solutions.



Paolo Andrea Colombo - *Saipem SpA - Chairman*

But this is not in the plan.

Unidentified Company Representative

This is not in the plan. Yes, yes, of course.

Paolo Andrea Colombo - *Saipem SpA - Chairman*

This is outside the plan, over and above.

Andrew Dobbing - *SEB Markets - Analyst*

Thank you, good luck.

Nick Green - *Bernstein - Analyst*

Good morning. Nick Green here from Bernstein. Could you confirm categorically, please, whether you've done an operational review of the business since the Q2 results. You mentioned there are EUR600m of legacy projects. Does that include anything that came out of this review that you may have done, and if it doesn't include things from that, can you also confirm there weren't any projects I guess since summer 2013 that you found that you were worried about and you wanted to tell investors about? That's my first question. Thanks.

Stefano Cao - *Saipem SpA - CEO*

I've not been repeating today what it was said in the occasion of the presentation of the half a year results. If you remember, the leitmotiv in that conference call was the complete review, which I had done with all my people on the portfolio of the projects. And that is the review which has identified a number of situations where we decide to take into consideration that there are situations where we might be failing in recovering certain amounts.

We said at the same time that -- so that led to the certain number of write-downs. I also said at the time we will not stop ourselves from pursuing those situations where we think we have generally a possibility of recovering what we reckon is due to us.

So I think the review, it has been done. It is a continuous exercise, which we consider. I think the results which have been presented today reflect what is the current view as a result of this continuous exercise. We are confident -- more than confident -- that we have realized the situation where we may have had difficulties in the past, and we are looking after those situations.

Nick Green - *Bernstein - Analyst*

On slide 24, you gave a lot of good detail about the cost-cutting initiatives. Now, broadly eyeballing it, it suggests that something like a 20% to 25% smaller Saipem than you've had in the last year or so. That's to around where Saipem was in, say, 2009. So do you think that as a business, at 2009 levels, that is the right size for Saipem to be in the current slowdown.



Stefano Cao - *Saipem SpA - CEO*

Absolutely not. This is -- the plan we are presenting is a restructuring plan. There is no doubt that it's a very transparent presentation which we have delivered today. I think this is an exercise which we needed to do to go through the downturn of the market. The outcome of the exercise is what we've been presenting today.

If you ask me then what is the ambition of the Company, I think we also presented those ambitions today. We said [extensive] that -- a number of times, that at the end of the period, we are almost cash neutral. That means that, indeed, there will be opportunities. Remuneration to shareholders certainly is a priority, but seizing opportunities is another priority

I think I referred to my personal experience, as well, where I've been already twice through the same downturn of the cycle, the end of the 1980s and the 1990s, and if you look at these three cycles, both situations, when the cycle reverted, Saipem was in position to seize opportunities, incremental opportunities.

At the beginning of the 1990s, the 7000 coming from a bankruptcy was acquired, and around 7000 did a complete new business for Saipem. In the beginning of this century, we have acquired Bouygues Offshore. We have acquired the asset of Brown & Root, the EMC, the extremely successful asset managed by EMC.

So this is our -- this is Saipem's history. This is as well my personal history, and indeed, if we are successful in what we are doing, this is the target.

Nick Green - *Bernstein - Analyst*

Okay, thank you. Just a final short one, then, returning to your last question about your strategic direction. You mentioned in one of the earlier slides that you believe a state-of-the-art fleet is necessary for the business. Can you talk about why you think that is a competitive advantage in this slowdown, having a state-of-the-art fleet? Why do you need that?

Stefano Cao - *Saipem SpA - CEO*

You mean that the -- I think the projects which we have been presented, the Egina and the Kaombo type of projects are projects which require, indeed, state-of-the-art vessels. They are needed just to justify your participation, to be participants to the bid of the projects.

Indeed, I think that state of the art is fundamental. I'm mentioning Egina and I'm mentioning Kaombo, but I could mention the Blue Stream rather than the South Stream. If you don't have the unique capability of a 7000 combined with a J tower, we don't even participate.

Then you might say that you may end up having an incident as a result of that, but certainly, those projects can only tackle if you are called Saipem or if you are called a competitor of ours, in any case, a limited competition. So there is a distinct advantage in having a state-of-the-art piece of equipment available.

Luigi de Bellis - *Equita SIM - Analyst*

Good morning. Luigi de Bellis, Equita SIM. Three questions for me. The first one, how much is the residual receivable with South Stream BV? When do you expect the potential cash in, and this further will be some be some potential connection with the potential Nord Stream-2?

The second question, could you break down your 2017 EBIT guidance between drilling and E&C?

And the last question, a clarification, the 2% cost of debt includes also the potential swap of the debt? And we can assume 2% from 2016 going forward as an average cost of debt for Saipem? Thank you.

Stefano Cao - *Saipem SpA - CEO*

You give the -- and can I just start giving the potential impact of Nord Stream with the South Stream? Let me say that we tackle project by project. We tend not to mix different situations. We were performing the South Stream project. The project has been canceled. Fine. There will be a new bid for Nord Stream. We will be bidding. But we are dealing the two issues in a totally different matter.

The receivables?

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

Yes, the receivables, the South Stream situation can be summarized as follows. We did have some receivables, meaning invoices already issued, and somehow accepted by the client at the time of determination, and this is in the region of EUR120m. And I will not hide that they haven't paid that, because of course, by the time they issue the determination, they almost disappear. Then they were very, very aggressive, unfortunately.

But the other not receivables but the other cost that we have to recover, according to the contract, is a series of items like the termination fee, like the demobilization cost, like the penalties that we had to pay to our subcontractors.

Because, of course, the fact that we started South Stream, we have been suspended, then we restarted, then we have been terminated, created a lot of extra costs. And this is around EUR300m. And we are very much willing to discuss these issues with Gazprom at the highest level. I think, by the way, Stefano is going to Moscow very shortly, and we hope to sort this out.

The other question was the cost of 2% of debt. The cost of 2% of debt we have estimated includes the upfront fees for the refinancing. It's a variable rate, so we have not cut the full let's say hedging cost from that.

The estimate of overall the plan will very much depend on the result of the bonding take out. So far, our estimate is that the bond take out could achieve a 2.5%, but of course, it will depend on the market.

Stefano Cao - *Saipem SpA - CEO*

And then there was a bit of guidance between E&C?

Unidentified Company Representative

The guidance split?

Luigi de Bellis - *Equita SIM - Analyst*

The split between drilling and E&C on 2017, EBIT guidance.

Unidentified Company Representative

On 2017, the -- around EUR700m is around 50% each, because yes, I think -- yes. Yes.

Luigi de Bellis - *Equita SIM - Analyst*

Thank you very much.

Unidentified Company Representative

Okay. Thank you very much. [How about] the gentlemen on the back. Take the last question.

Daniel Butcher - JPMorgan - Analyst

Thanks. Daniel Butcher at JPMorgan. Just three questions quickly. Firstly, you've previously said that the onshore drilling division was not particularly core. Was that looked at for a divestment to help the funding issue, and is that still on the table as a potential sale?

Secondly, Eni currently, or at least at December 2014, provided about EUR5b of your EUR7.5b of guarantees in performance bonds. Can you just explain what happens to those in this situation and how the rating agencies look at that in terms of calculating debt ratios and so forth?

And thirdly, I guess I just wanted to sort of elaborate on slide 31 and 32 and just get a feel for where you think long-term margins for offshore E&C are going and how that feeds into your profitability trend. Is the profitability trend of mid-single digits or slightly above, is that for 2017, 2017 or 2019, thereafter.

Stefano Cao - Saipem SpA - CEO

So on the first one, I'll address the first one. The onshore drilling exit is not on the table any longer. It's as simple as that. The plan is based on the focalization -- on the focus on the three businesses, offshore construction, onshore construction and both onshore and offshore drilling. So this is not an option at the moment on the table.

Guarantees? Guarantees from Eni.

Alberto Chiarini - Saipem SpA - CFO, Chief Compliance Officer

The guarantees from Eni, yes, but in terms of advance guarantees. We have currently EUR7b -- more than EUR7.5b of guarantees, of which around EUR4.5b are still guarantees provided by Eni. But we have been -- we are getting guarantees from the third party's bank since September 2013, which means that we will progressively substitute the guarantees provided by Eni with guarantees provided by Saipem.

We have already some agreements with the banks, and we consider that this will be done at a sustainable cost for Saipem, considering the investment-grade rating.

Stefano Cao - Saipem SpA - CEO

On 31 and 32, specifically, what did you want to know?

Daniel Butcher - JPMorgan - Analyst

Just having you elaborate on what you see, going to your 7.5% plus margin medium term, what sort of onshore -- sorry, offshore, E&C margins you assume and the trend over 2016, 2017, and what's driving that.

Stefano Cao - Saipem SpA - CEO

The right slide, as I said, E&C offshore we believe to be higher than single digit. So something in the region of 6%, 7%, and this is reflecting the downturn of the market, so as I said, it's not our traditional, historical margin in the E&C offshore, but it's taking into account some idleness.

The onshore, the target is still the 5%, the original one, and the historical one. Drilling offshore, 25%, and on drilling onshore in the high single digit. Those are the margins.

Daniel Butcher - *JPMorgan - Analyst*

On the onshore E&C, do you think margins get back to that mid-single digits next year, or are there still some low-margin contracts filtering through.

Stefano Cao - *Saipem SpA - CEO*

In the onshore?

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

Yes, the recovery will be progressing.

Stefano Cao - *Saipem SpA - CEO*

Yes, there is a progressive recovery.

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

So we can see some positive margin next year, but the mid -- the target of mid-single digit is a target which we set for the medium-long term.

Daniel Butcher - *JPMorgan - Analyst*

Okay, thank you.

Stefano Cao - *Saipem SpA - CEO*

Okay.

Unidentified Company Representative

Thank you very much.

Unidentified Company Representative

Thank you very much for your patience, for your questions. See you next time. Okay, thank you.

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2015, Thomson Reuters. All Rights Reserved.