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PRESENTATION

Operator

Good day, and welcome to the Saipem Preliminary 2013 Consolidated Results Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Mr. Umberto Vergine, CEO. Please go ahead, sir.

Umberto Vergine - Saipem S.p.A. - CEO

Good afternoon, and welcome to our conference call to discuss our full year 2013 results. I'm here with Alberto Chiarini, Saipem's Chief Financial and Compliance Officer, and Gigi Caselli, Chief Operating Officer. Today we are going to go over the main points relating to our 2013 full year performance, to give you an update on the operations of drilling and engineering and construction, and to finish with our comments on 2014 guidance.

I was appointed Chief Executive at the end of 2012. My review show that Saipem business was affected by a lot of issues, some of which were systematic and longstanding. My first priority was to understand the extent of this and to start managing and correcting all these issues. As you are aware, this includes an investigation into allegation of corruption in Algeria and the lack of [profitability] in our E&C backlog, and some poor operational performance stemming from an organization which had grown fast but without the vigorous controls necessary for a global business of this scale.



My immediate strategy has been to take actions which will stabilize Saipem, and in particular to tackle the major issues and the performance of the E&C onshore business. [Returning business by confidence] (inaudible) has been stronger and has continued to provide consistently good financial returns throughout.

The three main actions that have been taken were, first, installation of a new management team that I could trust, a team motivated, capable to [support me] in managing these programs and significant [to disruptions]. Secondly, to roll out a new worldwide operating structure focused on delivering the highest possible execution with clearly allocated responsibilities and a direct contract with our clients. And thirdly, introduce a number of actions to improve our competitiveness so we can rebuild the profitability of our backlog. Among these actions, very important, we institute a new commercial strategy which ensures we are submitting sustainable offers while bidding new project. No doubt 2013 has been very complex and [disruptive], and many action have been taken.

Back in October, we set out how the [pace] of recovery is contingent on both the pace of higher margin new business award and on the (inaudible) and delivery of low margin legacy [comp]. Both these factors have influenced the final outcome of 2013. By the end of 2014, our legacy issues will be largely resolved, and by continuing to execute our backlog, we will work our way through the old contract have break-even margins, putting in place the foundation for a sustainable recovery in profitability.

Turning to the details of our financial results on slide six, compared to 2012, full year revenues went from EUR13.3 billion to EUR12 billion. The single biggest component of this drop is the more than 20% decrease in onshore E&C activity. Full year revenues of EUR12 billion came below our EUR12.5 billion guidance due to a combination of a lower pace of contract awards in the second half of the year and also the [fall-offs] of activities from existing contracts in 2014. This slowdown in the work reflect a general trend in both our onshore and offshore activities, which has increasingly affected our sector throughout 2013.

EBIT [start at] minus EUR98 million and the net result of minus EUR404 million due to a combination of factors which I will go on to analyze. Drilling continued to perform strongly, with a near 20% increase year-on-year at EBIT level thanks to the full contribution of the new units, which are now delivering the quality of performance we expected.

On slide seven, we are reporting an [upturn] on EBIT of EUR98 million, lower than the break-even guidance given in October, due to factors which occur or became apparent in the last two months of the year. This slide sets out clearly how the EUR98 million are made of three components. First, just under 20% [of it] resulted from a net year-end write-down of pending receivables on a small number of projects and a goodwill write-off of EUR7 million on a small acquisition made in 2012. Next, around one-quarter of the total is the impact of the lower level of new contracts awards which we flag as a possibility in October and which has a double negative aspect both in terms of (inaudible) recognition of revenues and margins and in addition of lower asset utilization on a constant fixed cost base.

The final item reflects the [upturn] on certain E&C projects in November and December. Some are providing positive but outweighed by, first, certain project deferrals and, second, in November the [cost] of a EUR30 million additional cost incur on a Congo River crossing project. This was due to technical problems on a pipe-laying vessel which slow the pipe-laying process and necessitated some remedial work. The project is now being completed. In conclusion, around 50% of the EUR98 million shortfall is due to slowdowns as clients defer new projects or to activities within existing projects that, for a variety of reason, have not been carried out and that effectively partially postponed to 2014.

I want now to update you on the conclusion of the long-running dialogue with Consob during 2013, looking at slide number eight. As we stated in our announcement on December 6, 2013, Consob decided to close its proceeding related to Saipem's financial statement as of December 31, 2012. Consob alleged that EUR245 million of cost which were part of the profit warning on June 13, 2013, did not pertain to 2013 and should have been recognized in the 2012 financial year accounts. Although we confirm that the [correct] accounting principles were applied in preparing the 2012 account, taking into consideration Consob's [relevance] for the next -- [and information] on capital market, Saipem has restated its financial statement as of January 1, 2013 as shown in this slide.

The restated net result for the year ended December 31, 2013 will be a loss of EUR159 million instead of EUR404 million. Our 2013 account will reflect these adjustment, which leaves aggregate net profits for 2012 and 2013 unchanged but shift EUR245 million of net profit from 2012 to 2013. You will find full details on the restatement in the appendix of this presentation.



Now, moving to slide nine, I will give you some detail behind our performance on CapEx and on net debt. 2013 is the last year of high CapEx as we completed our major investment plan that started in 2007. In 2013, our main milestone was the successful completion of the publication (inaudible) that reinforces Saipem's presence in the promising Caribbean market.

Meanwhile, the construction work on the [Guarujá Yard] in Brazil are [proceed] according to schedule and to budget. [Keep] investment in new [vectors], rigs, and fabrication yards, we have optimized our asset base, and [we] positioned Saipem strongly in the market which -- with higher growth and margin potential.

Now that we have successfully completed this phase, we are in the position to maintain a strict discipline on capital expansion -- expenditure, as done in 2013, which will be in the next year at significantly lower level. This helps in our ability to focus on reducing Saipem's debt. This has been one of the nine key objectives. Net debt at year-end was EUR4.7 billion, and even excluding the EUR300 million contribution from the sale of an FPSO with Firenze, we have been able to [move] our net debt to the lower end of the guidance range provided in October, this notwithstanding volatility in the level of working capital across the year. This has also been made possible thanks to our increased focus on the solving of standing claims and delivery of results and to the recovery of significant outstanding receivables in [Egypt] and in Venezuela.

Turning to the backlog and new order intake, as you can see slide number 10, the overall amount of backlog of EUR17.5 billion at year-end includes the fact of the cancellation of the backlog associated with the contract of Perro Negro 6 and of the Firenze lead FPSO. Their total value is approximately EUR850 million. The fourth quarter presented the same disappointing trend outlined in Q3 due to continuous postponement in contract awards of projects that had been subject to tenders. As a result, for the full year we have been able to win EUR10.7 billion of new contracts in competition with our larger major competitors and, more importantly, a number of contracts which were Saipem's commercial targets for 2013 are still to be awarded. We will provide an updated overview of our commercial targets for 2014 we had indicated (inaudible).

Looking now on slide 11 at backlog by year of execution, we are going to book 53% of the existing backlog in 2014. The value of E&C's lower margin contract in our backlog due for execution in 2014 today account for EUR4.9 billion. This further increase compared to the EUR4.8 billion indicated at the end of Q3 is due to the deferral of some activities regional affected in 2013 as previously indicated. Revenues coming from contract awarded in 2013 with a better and better margin will be in the range of EUR2.8 billion. Drilling will represent EUR1.5 billion. 27% of the current backlog will be booked in 2015, and the balance in the following years.

As a start with slide 13 of our operational update, I would like to say a few words about drilling. It provides us another year of very good financial performance. All new contracts, or contract extensions, have been at a generally better rate than those from existing contract.

In the offshore business, we are currently maintaining full capacity utilization of our fleet, in particular with deepwater units which are employed on long-term contracts, with contract expiring not before the 2017. In our onshore activities, as we withdrew our operation from Algeria, we managed to successfully recover our rigs and to redeploy them in other countries. We have also significantly increased our presence in Saudi Arabia. As I mentioned before, I'm also pleased to report that outstanding payments from Venezuela have been (inaudible).

If you go to slide 14 and [look at the] E&C business, restoring it to health is Saipem's primary objective. The first task has been to de-risk existing contracts by a relentless focus on high-quality execution and to seek improvement in the commercial outcomes for Saipem. Management has persistently addressed improvement in our portfolios, and I'm pleased to see increasing levels of client satisfaction and restore confidence in our capacity to deliver. This is particularly true with the earlier issues we had in Mexico and Canada.

At the same time, we are selectively targeting new contracts, taking a highly disciplined approach and only [bidding] on contract where we see possible attractive margins. Our current effort in our onshore business are focusing on securing profitable contract line, deepwater development, and FPSO construction. While maintaining capital discipline, we have continued to invest where we can see creation of competitive advantage. The completion and opening of our yard in Edmonton, Alberta contributed to further contractual success in the attractive Canadian market. As we have announced today, we have recently won new contract with CNRL.

As an update on our activities in Brazil and in Asia-Pacific region, we had a number of contracts under execution, and their activity is progressing. And we have [almost completed] the negotiation and [investor] schedule [optimization] that we mentioned in October.



Turning to Algeria on slide 15, the commercial situation with Sonatrach, on this we have seen the most substantial improvement in the relationship. We therefore decided it is the best interest of Saipem shareholders to enter into an arbitration process for the MLE project, and we are considering possible further [taps] on three other projects, but no decision has been taken yet. With regard to the (inaudible) investigation, we have seen no further development beyond the five (inaudible) prosecutor sold and obtained a further six-month extension to the investigation, now up to June 2014. Meanwhile, Saipem and the US Department of Justice agreed to extend the tolling agreement until the end of May 2014. As already indicated, that the tolling agreement does not imply any recognition on the US jurisdiction in relation to this investigation.

We can now look at our guidance for 2014 on slide 17. As already pointed out in October, the increased complexity and cost of new project causes our companies to delay contract awards and startup even after [SIB]. For Saipem that is targeting large value contracts, these postponement resulted in [missing] the acquisition target and to decreasing revenues and profitability in 2014.

In 2014, this uncertainty in timing of contract award during the year is expected to affect the amount of revenues and margins related to projects. To reflect this uncertainty in the market, we adopted the prudent approach for the 2014 outlook. The baseline scenario takes into account the limited [public impact] and volatile (inaudible) conclusion as a sense of commercial [bidding] currently ongoing, and it [occurs] late on the year.

However, a more favorable conclusion and timing of bidding process may have an incremental impact, deterring the (inaudible) recognition of their revenues and margin already during 2014. The exact scenario, which includes this incremental impact currently not attributable to any specific contract, is current with an estimated (inaudible) during the year in line with average acquisition inflows recorded in the previous years. Therefore, we expect 2014 revenues to be in a range between EUR12.5 billion and EUR13.6 billion as a result of the two scenarios just illustrated.

As indicated in (inaudible) the introduction of today's presentation, during 2014 we will continue resolving our legacy issues by completing our most challenging of [project], and that progressing in the negotiation of contract valuations with our client. These ongoing tasks, plus the market uncertainties, make 2014 a year of transition for which we are indicating the broad EBIT guidance that is represented by a range between EUR600 million and EUR700 million, which lower end, the base case, is [most definitely] we can rely upon. Seeing (inaudible) impact 2014 results are so relevant for our guidance, I wanted to review them now by slide 11 -- 18, [sorry].

We have just divided them by our geographical regions and by onshore and offshore. As you can see, we are mostly looking at opportunities that, from both geographical and technological perspectives, fit well with Saipem core strength, where we could be very competitive. Some examples are trunklines, subsea developments in deep waters, FPSO construction, and large and complex special projects. We are getting good signals from the markets, and some of these targets -- for some of these target projects. The announcement from South Stream that they have placed an order to buy the pipes for the offshore stretch for which we presented a bid for the [link] activities and have already been awarded (inaudible) is the good indication we were waiting for, showing the client's intention to progress with the project.

There are important progress also for Shah Deniz in Azerbaijan, where the first package of the project, package not of our interest, had been awarded and where we are competing on a number of other large pipe [projects]. [Saipem] is getting some positive signal on the results of biddings for new FPSOs and FPU's, like those in Indonesia and Angola, and for the construction of new downstream plants (inaudible).

On the other hand, we are getting less positive signal from the timing of awards of other projects, such as the Jizan refinery in Saudi Arabia that is now under (inaudible). On top of that, we can rely on the renewal of some rigs for which we are already undertaking negotiations, both in onshore and offshore. Looking now at slide 19, we present the full set of guidance for 2014. Revenues are ranging between EUR12.5 billion and EUR13.6 billion, EBIT between EUR600 million and EUR750 million, net profit between EUR280 million and EUR380 million. CapEx is foreseen at around EUR750 million, and the net debt at approximately EUR4.2 billion. Both these are lower than in 2013. As previously indicated, we have decided to have a prudent approach due to significant uncertainties outside our control and to define as baseline for our guidance the lower value of the range indicated.

In summary, on slide 21, 2013 has been a year of fundamental challenges. We wrote our (inaudible) as being the (inaudible) to (inaudible) of stabilizing the business which suffered from a series of significant problems. As we have pointed out, the stable income stream from drilling has been a core strength while the E&C business has had to face up to its legacy issues. Our new management team has put in place an operative strategy and the commercial strategy that are delivering results and that are the conditions for a return to profitable growth. [2013] will be a



transition year in which a significant portion of E&C activities will continue to stand on legacy contracts. We are focused on executing these to the highest possible standard while successfully completing the negotiation with Sonatrach and on replacing them with new, more profitable projects.

By the end of 2014, I expect that our legacy issues will be largely resolved, and in some of the bigger contracts we are targeting, we are -- [will be] in our portfolio. We will be delivering good results to our shareholders.

On that note, I will change the start of the presentation and open the floor to questions.

QUESTIONS AND ANSWERS

Operator

(Operator instructions.) Fiona Maclean of Merrill Lynch.

Fiona Maclean - BofA Merrill Lynch - Analyst

Thank you. I have a question in relation to your guidance on revenues in 2014. When we look at the engineer and construction portion of this baseline number of 12.5, you were saying that that relates to the E&C projects currently in the backlog as well as associated change orders that you're expecting. Could you give us a breakdown of those change orders that you're expecting and how sure you are that you'll actually receive them? And probably more importantly, given the history, how sure you are of actually getting paid for those change orders?

And then, the second question is in relation to the amount of projects you expect to win in 2014 and the impact that that could have on 2015 revenues, because there seems to be quite a big implied expectation on order intake given the consensus numbers are [out for] 2015. Thank you.

Umberto Vergine - Saipem S.p.A. - CEO

Thank you. Thank you for these questions. The amount indicated is slide -- in the slide present, the portion of revenues deriving from contract already in the backlog are the (inaudible) alongside a portion of revenues expected from amended orders related to same contract. They are not formalized. They are not yet included in our backlog. They are an ordinary component among our revenues in the range of approximately 15%.

But, what relates in 2015 view, as I indicated, of the existing backlog, about 27% of that is going to be executed in 2015. I would like to add another piece of information. What we look at the legacy contracts that still are a significant component in 2014, the component that we expect to see in 2015, because behind the developments, we don't have other visibility on 2015. Recognize that the revenue from this contract in 2015 should not be higher than approximately 10% of the annual revenue expected.

Fiona Maclean - BofA Merrill Lynch - Analyst

Okay. You mentioned a number of projects that you're looking to see awarded this year. Can you give us a bit of flavor on seasonality of these awards through 2014? Do you think they're going to be more in the first half of the year or more in the second half of the year?

Umberto Vergine - Saipem S.p.A. - CEO

Well, this is exactly one of the key variables of our guidance, not only the amount of new order intake, but their time of occurrence in order to define a 12-month (inaudible).

And I have to say that, in our analysis, we have done a kind of neutral assumption by which, in both cases, the baseline scenario and the upside, we imagine that in general each contract will have not more and not less of six months of impact in the year. And this is because, even though some of the pending awards, as I indicated, we're talking about contracts for which offer have been already submitted since sometime I don't want to make a mistake like those made in the past of assuming what was probably rational we [bid in] today, like a rapid conclusion of the tendering process whilst we have seen cases where this could have taken more than six months. So, even though on some of this I will be realistically expecting to see a certain number of them within the first quarter, I know that I cannot count on that.

Fiona Maclean - *BofA Merrill Lynch - Analyst*

Okay, thanks. I'll turn it over now.

Umberto Vergine - *Saipem S.p.A. - CEO*

Thank you.

Operator

Geoffrey Stern of Kepler.

Geoffrey Stern - *Kepler Cheuvreux - Analyst*

Yes, good evening. I have two question, actually. The first one relates to the 2014 EBIT guidance. If you assume that the contribution from the drilling business in 2014 will be basically in line with 2013, then to reach your 2014 EBIT guidance, the E&C business need to generate EBIT of anything between EUR130 million to EUR280 million. And taking into account the fact that EUR4.9 billion of sales will not generate -- almost no EBIT, it means that the (inaudible) or -- will basically generate an EBIT margin of anything between 2% to 4%, which seems particularly low. So, I would like to have some color on this.

Umberto Vergine - *Saipem S.p.A. - CEO*

Okay. Let's talk about the E&C in details. When we talk about the onshore, 2013, as we all know now, has been a tough year. In the onshore, this has been particularly true. We saw a negative EBIT of more than minus 13%, actually around minus 13.5%. This is now projecting for 2014 a significant recovery compared to the 2013 losses, but is still expected to be marginally loss-making with a negative EBIT margin of a couple of percentage point. Basically we're talking about minus EUR40 million, EUR45 million in terms of result.

When we look at the onshore instead, this performance in 2013 has been in the range of an EBIT percentage of 1.5. Now, in 2014, the margin evolution will be improved significantly, but still not reaching the level that new contracts will guarantee, but remaining in the range of about 4%. This is because the share of low margin contract which will be executed in 2014 coming from offshore will be higher than the part of offshore work carried out in 2013. And that is true also because particularly we have a higher share that is coming from the initial project in Brazil, that as we always indicated, were at low margin, being entry ticket, and we had a higher share of an offshore project in Saudi Arabia that is considered an offshore project but has a very large onshore component attached. So, it is a technicality but creates a very depressed margin, average margin on the business.

I'm sure that I lost your second question, because I don't remember now.



Geoffrey Stern - *Kepler Cheuvreux - Analyst*

Yes. No, no, it's just following up on this before, looking at the slide 17, it's basically suggesting that EUR1.1 billion of sales could generate up to EUR100 million, EUR150 million of additional EBIT, which tends to suggest an underlying EBIT margin of 14% from (inaudible) in 2014. Is it a correct reading of the slide?

Umberto Vergine - *Saipem S.p.A. - CEO*

I'll ask Alberto maybe to cover this.

Alberto Chiarini - *Saipem S.p.A. - CFO*

Alberto speaking, hi. There is one component you have to take into account. It's true that it seems that the new acquisitions, the new order intake additional in that slide is much more profitable than what is before. But, the reason is that the marginal impact is much higher because there is a sort of multiplier of fixed cost and other [adds] that are absorbed and allocated to these new acquisitions. So, in other words, if you have a better order intake, you are even improving the margin of the other projects because you absorb more of the fixed cost. That is the reason.

Geoffrey Stern - *Kepler Cheuvreux - Analyst*

Okay, all right. Thanks for this. And just a final one, if I may, regarding South Stream. So, as you said, the manufacturing of the pipe for the first line has been awarded. When should we expect the pipe laying contract to be awarded, and do you have any idea at this stage about the timing of the execution? Because I read recently that the first pipe could start to be laying down this autumn, so towards Q4, actually. Thanks.

Umberto Vergine - *Saipem S.p.A. - CEO*

Well, we -- the scope of work that is under discussion relates to the first two pipelines, and it is supposed to see starting of the pipe laying operation before the end of the year, as you indicate. We are still waiting to get the confirmation of the schedule by the client and, more important, we are waiting to get indication of the awarding of this work. As you know, this has been a long process that has also consider a lot of options that were possible in the way of organizing the work, in the allocation of the vessel, and in the timing itself. So, I think there are still a certain element of uncertainty there that all uncertainties have been already covered with a possible solution.

Geoffrey Stern - *Kepler Cheuvreux - Analyst*

All right, thanks for this.

Operator

[Mike] Pickup of Barclays.

Mick Pickup - *Barclays Capital - Analyst*

Good evening, gents, a couple of questions here from me. Can I just focus on the cash flow and where we are on the balance sheet? So, firstly, you're saying CapEx down to EUR750 million. As far as I'm aware, your maintenance level's EUR500 million. Can you just tell me what the growth projects are on top of that?

Secondly, I didn't see in the results a profit on the sale of Firenze. Was there one, and what was it, if so? And then, thirdly, just looking your results, there's no mention of a dividend. Can I take it that means you have canceled the dividend this year?



Umberto Vergine - *Saipem S.p.A. - CEO*

Okay, let's start from the CapEx. The CapEx -- the reduction of CapEx from EUR900 million, EUR950 million to EUR750 million is what absorb the completion of the investment phase that I mentioned before. What we have left this year is certainly the completion of Guaruja, and in Guaruja where we are already operational. And for what is already beyond capable of doing is already fully book of activities on fabrication on the existing Brazilian contract that we have. We have still to complete the dredging and extension of the key, and also completing the construction of offices, where will be offices for about 1,200 or so. It's not a small office. And this is part of the CapEx -- extra CapEx of still this year.

On top of that, the EUR500 million maintenance every year has to take into account some CapEx that are project dedicated, like the one that are associated to some of the preparatory work on our equipment and (inaudible) for South Stream. So, what we have there that is on top of the maintenance is this component. So, if wasn't for that, the EUR500 million will be like the baseline to refer to.

The Firenze, the Firenze has been sold for the amount -- the exact amount that was foreseen in the contract was a provision of the contract that we have with the client. And the value was at slightly more than EUR300 million. This has had a very important impact on our debt that we reported to be EUR4.7 billion. If you remember, in October we indicated that the year-end debt value was between EUR5.0 billion and EUR5.2 billion, and basically we have been able to match the lower end of the range indicated -- that was EUR5 billion -- minus the 300 million of the sale. So, basically, you see the impact of the Firenze sale in the debt level.

For what related to the dividend, we have not yet submitted the proposal to the Board. It is reasonable, if you refer to our historical policy, to assume that dividend goes with profit, but this is a decision that has not yet been officialized.

Mick Pickup - *Barclays Capital - Analyst*

Okay, [magic]. Thank you.

Operator

Christyan Malek of Nomura.

Christyan Malek - *Nomura International - Analyst*

Hi, good evening, gentlemen, just three questions, please. First, what are the largest three contracts you've got on your radar in the next six months that you've got a very high probability of winning? And then, specifically on South Stream, is that being delayed, then, from another quarter? When do you think that will be awarded, broadly speaking?

The second question is regarding your drilling business. What are the rigs that are renewing this year and the day rates that you've signed on them? And the backdrop here is there has been weakness in the midwater market. Your peers in US have been talking about lower day rates. So, how does that impact your drilling business this year and in '15?

And the third question regards the -- is in regards to tolling agreement that's been extended in the US. How big could the charge be from the SEC when you've provisioned internally? What is the size of a potential charge that could come from that? Thank you.

Umberto Vergine - *Saipem S.p.A. - CEO*

Thank you. About the South Stream, as I said, we have no indication of delay, actually. We have been always subject to lot of pressure from the client to guarantee the schedule, and the schedule that was very pressing in terms of preparatory work, massive preparation, and now we have seen also the pipe order. So, I don't expect -- I have no indication of any possible delay.



We have -- you also asked which are the biggest other contract that we have in our list of expected awarding. Certainly South Stream is one of them. A very important one is Shah Deniz, where we have a component of upstream work related to platform and pipelines. And there are some of the FPSOs contract that are extremely important for us. There is the minorities. Still, we're bidding on larger onshore plant in a number of country, and certainly this is an important target for us for our onshore part of the business.

In respect of the main --the drilling (inaudible), as I said, our fleet vessel is fully book, and particularly our deepwater assets are already contracted out to at least 2017. There is only one that expire in 2015, and we are already in negotiation for the renewal with the client.

About the midwater fleet, that is what you are more interested about, we are working for the renewal of the contract for the Scarborough 3 and the Scarborough 4. And from what we can see today, we are discussing day rate level that are similar to the one that we are having today.

We have also a number of jackup that would be under renewal. Two of them have been recently renew with a good price that is not indicating any drop in the price. And we expect that this will happen also for the other one, two, three, four that we have under discussion.

On your last question about the tolling--.

Alberto Chiarini - *Saipem S.p.A. - CFO*

--Yes, I think I'll start off US charges. As we stated in the presentation, we have renewed the tolling agreement, which has been extended up to May. And we still do not think that you have -- may have jurisdiction for the Algeria. However, we do not have any estimate of possible charges if these would have been the -- by the DOJ.

Christyan Malek - *Nomura International - Analyst*

Right, and just -- thank you for that. And just to follow up, two questions on -- first of all, back to South Stream. So, when is it being awarded, just to be clear? Is it Q2, or end of this quarter? And then, your guidance of EUR600 million to EUR750 million, is it fair to assume that your EUR600 million assumes South Stream's awarded? Just want to know what's in the critical path to getting to the base case of an EBIT of EUR600 million.

Umberto Vergine - *Saipem S.p.A. - CEO*

Well, I try -- and maybe I repeat myself -- we have no indication of the timing of award of South Stream. We know when our client is having his Board meeting. We hope that, in one of the next one, maybe even the very next one, I hope the decision will be taken, but this is something that really I [can] bet about. I know that they offer -- they submitted qualification meeting being carried out. They have been looking up any possible option to control the schedule and cost, as they are supposed to do. And the result of all this work I know we would [really like] as soon as possible. In our EUR600 million baseline guidance, South Stream is not included.

Christyan Malek - *Nomura International - Analyst*

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

Umberto Vergine - *Saipem S.p.A. - CEO*

Thank you. I want to add the comment to what I just say before about the dividend, because I was referring to the fact that we have not yet, of course, submitted the decision about the dividend to our General Assembly, even though in today the Board of Director, the decision about not giving dividend in absence of profit has been taken. So, I mix up between the Board and the Assembly. I prefer to clarify this.



Christyan Malek - *Nomura International - Analyst*

And just on that point, sorry, should we assume no dividend in 2014 as a base case?

Alberto Chiarini - *Saipem S.p.A. - CFO*

Yes, correct.

Christyan Malek - *Nomura International - Analyst*

Thank you.

Operator

Ryan Kauppila of Citi.

Ryan Kauppila - *Citigroup - Analyst*

Yes, a couple questions. You highlighted the recovery of some of the receivables in Egypt and Venezuela. How did the overall outstanding claims move from 3Q into Q4? And if you could give an indication of what countries those are associated with?

Secondly, idle costs and personnel cost, [it's the] upticks again in 2013, some of the fixed cost absorption problems you've indicated. How do you see those moving in '14, and maybe into '15?

And then, finally, there was some industry press that you had had a -- you had submitted a technical bid for a project in Algeria. Is there any truth to that? Have you had any bidding activity on new projects in Algeria?

Umberto Vergine - *Saipem S.p.A. - CEO*

On the general comment about claim recovery, well, we have a number of change order under discussions, and as I've always indicated, particularly on the large contracts that suffer towards the beginning of last year particular difficulties in terms of execution and that there were accumulating a number of problems that were also coming from the year before. We have introduced all of our requests to our clients progressively as we were able to convince our client of our ability to properly complete the projects and to complete them within a defined period of time.

On this one, there is a dynamic in the sense that we had a certain number of these change order being recognized. We have been able to negotiate also some acceleration packages. And at the same time that we are resolving some of them, of course we continue to protect our business by presenting to our client any new situation that develops and that we believe should not be our responsibility, but should be discussed with the client. So, we have seen certainly a grow compared to 2012 in the number of revenue expected from [outstanding] claims, but this would be surprising if it wasn't the case, considering the nature and the criticality associated to our contracts as we presented during the year.

On the other side, as I said, this proves that we are managing our contract with lot of attention, and very precisely considering any option that we have to protect our business. So, we are not leaving behind any option to bring constructively issues to our client and to be able to have a discussion with them. This, as we said before, remain an important component of the revenue expected also in 2014.

On the cost, maybe I'll [hand back] to--.

Alberto Chiarini - *Saipem S.p.A. - CFO*

-- Yes, yes. Maybe it's worth also saying that, on Venezuela and Egypt, if I understand well your question, we have reduced the overview from EUR190 million, which was the situation at the end of September that we flagged as a [warning] situation when -- in October. Now, the overview is EUR100 million, and we had good payments from Egypt and from Venezuela, as well. So, now the situation is more physiological.

As far as the cost -- the fixed cost, of course we have increased in the last period of investment, we have increased our asset base, which is -- [yes, so which is, for example] (inaudible) -- sorry? Okay. And we increased our asset base, and that is the reason why now the fixed cost is higher than in the past. But, of course, if we will have -- and we go back to slide 17 -- if we will have a good order intake, this will be fully absorbed and will become an opportunity for the Company.

Umberto Vergine - *Saipem S.p.A. - CEO*

No, we have not submitted any bid, any new bid in Algeria. As I said, the situation there hasn't changed. I still believe that reopening dialogue will be, both for Saipem and for Sonatrach, the best option to sort out a number of issues that are still pending. In the meantime, we are continuing with the last projects that we have under execution, and it is the very big [Azul] LNG for which the commissioning has started already since a few months, and that we expect to complete within the first half of 2014.

Ryan Kauppila - *Citigroup - Analyst*

Okay, thank you very much.

Operator

Henry Tarr of Goldman Sachs.

Henry Tarr - *Goldman Sachs - Analyst*

Hi there, just a couple of questions from me. One is on the accounting for the onshore projects. If I think about this sort of onshore E&C business through 2014, why are we still sort of getting losses coming through 2014 when I guess I would have expected sort of upfront provision for the loss-making contracts and for them then to be sort of neutral, going forwards?

And then, secondly, it seems as though there's a lot more attention on FPSOs and sort of FPU's, going forward, which historically have sort of been lower margin offshore work and something that Saipem has said they'd only be interested in at the right price and if there was a sort of extraordinary opportunity in the market. Are they -- why are they sort of more attractive today, or why are you focusing more on those contracts? Thanks.

Umberto Vergine - *Saipem S.p.A. - CEO*

Well, I mean, few comments on the onshore [2013]. I mean, as you said, that the existing backlog, first of all, is basically presenting a break-even margin on project (inaudible). This is the result on a number of these large projects, on the profit warning of last year. Therefore, they are not expecting to fully recover fixed cost and overrides that are associated. In 2014, for example, we will have about EUR400 million of revenues that are coming from the projects in Canada, Mexico and Algeria that were subject of the posted warning. I don't know if, Alberto, you--.



Alberto Chiarini - *Saipem S.p.A. - CFO*

--Yes, yes. Just the comment of Umberto is correct. We had -- the projects do not show at project level any loss because all the losses full life have been properly written off according to the IAS 11 accounting principle. However, there is a component of fixed cost that is still allocated to the onshore E&C business. And this is the reason, because in 2014, we are still foreseeing a loss overall for that business segment.

Henry Tarr - *Goldman Sachs - Analyst*

And that loss -- so, effectively, the profitable contracts in the onshore business still don't overcome the fixed costs and overheads on the loss-making contracts in the businesses for '14?

Alberto Chiarini - *Saipem S.p.A. - CFO*

Yes, correct. So, of course, this will change if we will have some profitable acquisition during 2014, specifically at the beginning of 2014 because, in that case, the impact will be much higher.

Henry Tarr - *Goldman Sachs - Analyst*

Okay.

Umberto Vergine - *Saipem S.p.A. - CEO*

[But, I mean], we are expecting to execute about EUR1.7 billion of contract, a low margin, out of EUR2.7 billion of backlog that we have at the end of the year.

About your question on the FPSO, maybe I ask Gigi to comment on our strategy of floaters.

Gigi Caselli - *Saipem S.p.A. - COO, E&C Business Unit*

Well, regarding your question, I can say that, in terms of FPSO, [FSUs, FSLUs] and the like, definitely we are going to -- [track] of the market where our local content [as an] advantage age. And this is the case in terms of our Karimun yard in Indonesia, as well as our yard in West Africa. So, this is the two elements that drive our decision, and these type of elements are providing a more comfortable level in terms of profitability.

Henry Tarr - *Goldman Sachs - Analyst*

Okay, thank you.

Operator

James Evans of BNP Paribas.

James Evans - *Exane BNP Paribas - Analyst*

Hi, thanks for taking my question. I've got a couple, if I can. Firstly, turning to slide 11, just a point of clarity. That slide seems to suggest that every contract you won before 2013 is low margin, even some of the more technical things like the (inaudible) pipeline. Can I just double-check, that's actually what you're saying with that slide?

Secondly, I just wondered if you could give us a breakdown of the backlog for the two E&C divisions for '15, and maybe even '16 if we could get it.

And thirdly, just more on the business, I mean, you talked a lot about the deepwater, the FPSO contracts, and obviously the onshore business seems to be a bit smaller than it used to be. I just wondered, is there any opportunities to reduce the size of some of these divisions, maybe headcount or some of the older shallow water vessels and maybe reduce some of that [hydro] cost, some of that structural cost which I guess is sort of subduing your profitability a little bit at the moment? Thanks very much.

Umberto Vergine - *Saipem S.p.A. - CEO*

Okay. On your [first] question, no. As we have stated, the component of our lower margin contract on 2014 will be higher than 50%, certainly higher than we expected at the beginning of last year, not only because during the year the number of local low-margin contracts have increased, but also because the speed of execution, as we say, considering complexity and difficulties associated with this contract has not been the one that we had expected. Of this 4.9, of course not all of that has been subject to profit warning, and even in terms of margin, negative (inaudible), but a large part of that (inaudible).

And [though not related], the backlog for the following year, as I said, we have now a limited visibility. And as of today decide that 53% that we believe will be executed in the current year, 2015 we'll capture 27% of that, and the remaining, it is in the range of EUR4.8 billion as in total, while on the E&C will be about EUR3.6 billion, and the remaining of course is the drilling. The remaining 20% that will be a total of 3.5, for which the drilling would be the highest part. It will be about EUR2 billion, because, as you remember, we have longstanding contracts already signed for -- particularly for the offshore fleet will be post-2015.

On your question about size of our business, size of our fleet, certainly this is an element that we are considering with a lot of attention. I want to say that 2014, if -- I mean, I believe it is a transition year, and I believe that we will be able to go back to level of order intake and revenues much closer to our historical level, [here] because of a complete market downturn proving to be persistent and not just occasional. We will see that this scenario doesn't apply. No doubt that, like probably also some of our clients, but certainly some of our competitors, Saipem will have to consider the reshaping of its business. as I say, and I continue to say, despite the delay that we are seeing in awards, we are not considering that this is something that could impact Saipem in the short- and medium-term. Nevertheless, as I said, we are already working on that, making evaluation and looking at options in order to not be taken by surprise, is we have to consider something like that.

James Evans - *Exane BNP Paribas - Analyst*

Great. Thanks.

Operator

Rob Pulleyn of Morgan Stanley.

Rob Pulleyn - *Morgan Stanley - Analyst*

Thank you, a few questions, if I may. First of all, I know you've given guidance regarding net debt for 2014, but you previously talked about the unwinding of the working capital position through 2015 as you recovered the payments. Is that still expected, and what sort of level by the end of 2015 could we expect for working capital once all of these legacy projects are completed?

Secondly, regarding variation orders from one of the previous questions, are you seeing any pushback from oil companies, given their cash constraints about these lucrative variation orders, or is that something which could continue the way it's always done?



And finally, just a moment of clarification, in the press release you highlight there won't be a dividend paid for 2013 earnings, but you also said -- I apologize if I have this incorrect -- that you wouldn't pay a dividend out of 2014 earnings despite your [high] guiding for net income, which will be positive. I just wanted to clarify that. Thank you very much.

Umberto Vergine - *Saipem S.p.A. - CEO*

Okay. I clarify immediately the last one. There were two misunderstanding, okay? So, today, let's clarify this. The decision for a dividend to be paid in 2014 based on 2013 performance, today Board of Director has decided to pay zero dividend according to our policy of dividend linked to profit. But, what relates the dividend that will be paid [in respect] of the achievement of our guidance, this will depend from the Board of Director that at the time will consider our results, and of course if decision would be in line with our standard policy till now, would be linked to the level of profits that will be achieved at that time. So, the only thing that I can confirm today is that no dividend will be paid for 2013.

Rob Pulleyn - *Morgan Stanley - Analyst*

Okay, thank you.

Umberto Vergine - *Saipem S.p.A. - CEO*

Okay. I'll let Alberto to answer to your first question, then I take the second one.

Alberto Chiarini - *Saipem S.p.A. - CFO*

Yes. As far as the debt, as you know, we have at the end of 2013 EUR4.7 billion debt, and we expect to reach the level of around EUR4.2 billion at the end of 2014. This is coming also from a partial recovery. In terms of working capital from 2014 onwards, we are still figuring out of improving our working capital, as well as profitability, of course, and we still maintain the target of EUR2 billion target to be reached during the 2017 basically. So, we expect to have a quick recovery of our debt and to reach with EUR2 billion that much better leverage than the one we have now.

Umberto Vergine - *Saipem S.p.A. - CEO*

In respect to your question about issuing order, I would like to clarify that the (inaudible) of the project, there are difficulties, and their standing work and their standing criticalities are normally very, very well known by the client. The client supervise our work and knows intimately the progress on the project. Therefore, when we discuss about issue and order is clear, that our request cannot generate from lucrative contract from which we are trying to extract even higher value. So, the case of pushback on this basis is not even possible to be considered because it will never be happening, either from -- either request from our side.

Certainly the clients want to get the guarantee that, whichever extra money is paid, is paid for the success of the project. This is his ultimate goal in terms of timing and quality of execution. And this is where we have been challenged by our client to confirm that this is the case. If that is not the case, we have no ground really to get them to listen to us on our request.

More in general, I think that all the major particular, or the major [now have] want to improve return on the new project. So, their focus, in my opinion, will move more and more on execution, but [all that's] both on budget and on schedule. And then, with the extra time that some of them are taking in defining either their CapEx level or specifically the type of contract that they want to invest on, is in order to guarantee that they will be able to manage this better.

Saipem has no problem to match this requirement from the client. If Saipem is doing the business as its able to do, is exactly matching this expectation from the client, and we can still be very, very competitive.



Rob Pulley - *Morgan Stanley - Analyst*

Okay, thank you.

Umberto Vergine - *Saipem S.p.A. - CEO*

Thank you.

Operator

Phillip Lindsay of HSBC.

Phillip Lindsay - *HSBC Global Research - Analyst*

Hi, good evening, gentlemen, a couple of questions from me, please. First of all, just looking for a general comment on the competitive environment in E&C. So, firstly, onshore, I suppose given the problems that we saw in 2013 across the industry and the magnitude of P&L charges particularly relating to contracts in the Middle East, just what is the industry response? Are you now seeing a more rational approach to contract bidding? And then perhaps you could extend that discussion to offshore, where clearly award momentum has slowed. So, are there any signs there that bidding is perhaps becoming more intense for offshore work?

Umberto Vergine - *Saipem S.p.A. - CEO*

Okay. In general, we are seeing a more disciplined behavior in most of the opportunities that we are pursuing. And many of our competitors are adopting a more prudent approach compared to previous years. And you see that by result on offers that are a result of some of the tenders, but also the fact that, particularly on the large contracts, and particularly on large onshore contract in the Middle East, we are now primary more and more often with some of those that were considered our worst competitors, the -- [with Korea] and the construction companies.

Now, we are leading many times in construction with them, but not always with one or the other, and with them in a mixed way. Sometimes partners in one offer are our competitors in the others, and vice versa. And the fact that we are able to align our view on our prices with these competitors proves that not only we are very competent and precise in developing our reputation, but that their attitude has moved to something more realistic and more prudent. There are still a small number of exception, of course. We have seen recently some prices that really surprised us and that were not even from Korean company, because -- we were surprised because the level of offers is really difficult to reconcile with the cost base that we know is required to execute that scope of work. But of course, every company can have his own strategy or some specific offer.

But, as I said, in the general -- the general trend is comforting me that we are not being the only one that trying to be prudent.

Phillip Lindsay - *HSBC Global Research - Analyst*

Okay. And so, those comments sound like they're more attributable to onshore. What about the offshore?

Umberto Vergine - *Saipem S.p.A. - CEO*

Well, in the offshore, this is in general. I mean, I was specifically referring to some of the offer in the onshore, but this is also valid in the offshore. We have seen also recently some of our competitor taking some bad result of some specific projects for which they have to make announcement of quite substantial losses, and the criticalities in dealing with these projects is always very clear to us. The offshore has to be remember it a little because is riskier, has to be more and more a repeat of onshore because it's capital intensive. So, the combination of the two impose to what



everybody decided to play in this game a very careful approach because daily we are risking the result of the project if you have a very low margin and very, very limited contingency.

The amount of work is still very high. As we have indicated, we had to re-optimize the schedule of our vessel between Far East and Brazil. We talk about that in the last presentation. Because there are many, many project to be executed, and the number of vessel capable to do these jobs are very limited. So, we can extract good value from this business, and we have to be very, very prudent and precise in making offers. In general, most of our competitors are doing the same.

Phillip Lindsay - *HSBC Global Research - Analyst*

Okay, that's useful. And then -- and what about the push from the customer base? So, I suppose, given what you've been winning lately and what you're currently bidding on, how should we think about also the cash flow profile of E&C projects now versus history? But also, just how much the oil companies are pushing you to take risks that maybe you don't feel comfortable with?

Umberto Vergine - *Saipem S.p.A. - CEO*

Yes. As I said, could be interesting to see how the -- I mean, we have two type of clients, okay? We have the international oil company. We have the national oil company. And we have learn even too much how different could be the environment in dealing with them, particularly if market changes. And in this present market, NOCs are [releasing] large number of tenders. They have a investment plan that are extremely important both onshore and offshore.

International oil company has recently made surprising all kinds of announcement about their performance, their CapEx level, the selectiveness of their new investment, and this is something that I am sure we'll have to translate on a different contractual approach. The fact that they have tried to match in the past the NOCs by awarding a contract to lowest bidder, period, has not proved to be extremely remunerative for them because problems and delays have been impacting their ability to sustain their production levels. I think that we will see, particularly in large projects, a tendency to create a consortium that would base on our partnering with the client from the very beginning of the project. It starts in the engineering and all the possible optimization.

As a matter of fact, this is something that as Saipem is already from the beginning of last year that we are proposing to a number of our client as a new model that will protect us, will not generate incredibly lucrative contract, but will protect us and will guarantee our client, too. This is, I believe, is clearly an opportunity that a company like Saipem should continue to look for.

Phillip Lindsay - *HSBC Global Research - Analyst*

Okay, that's really useful. Thank you.

Umberto Vergine - *Saipem S.p.A. - CEO*

Thank you.

Operator

Caroline Hixson from UBS.



Caroline Hixson - UBS - Analyst

Hi there. I'm just wondering, firstly, can you just repeat the breakdown of the onshore and offshore backlog for 2015 and 2016?

Umberto Vergine - Saipem S.p.A. - CEO

Certainly. I say that the total backlog in our hands today for 2015 is EUR4.7 billion, of which E&C is EUR3.6 billion and the drilling EUR1.1 billion, while the exceeding part shall go in 2016 and beyond is EUR3.5 billion, of which EUR2 billion is drilling and EUR1.5 billion is E&C.

Caroline Hixson - UBS - Analyst

Okay, thanks. And would you give the onshore-offshore split?

Umberto Vergine - Saipem S.p.A. - CEO

Certainly. On 2015, onshore is 26%, EUR1.2 billion of the EUR3.6 billion, and the remaining is offshore. On 2016, the onshore is 15%, about EUR[530 million].

Caroline Hixson - UBS - Analyst

Okay, thanks. And just a point of clarification on the offshore, you mentioned taking EUR30 million of costs in the fourth quarter results relating to an offshore project in Angola. Is this -- if I back that out in the margin, it looks like you're getting to something like an 8% EBIT margin, which I'm then finding it difficult to square with your more cautious guidance for 2014 in the offshore. Could you just give a bit more clarity around that, please?

Umberto Vergine - Saipem S.p.A. - CEO

Well, this is a contract in relation to laying a pipeline offshore Angola that I [bet] was won some two years ago, probably. And it's part of a longstanding project of Chevron. So, I think that we have to look at that. I mean, we don't consider then that contract is relatively shallow water, probably just [so -- doesn't] carrying the criticality and the high margin of the deepwater project, but for the nature of this contract, even though is a contract won two years ago, is still a good contract. It will have been a much better contract if we didn't have the problems that we had.

Caroline Hixson - UBS - Analyst

Okay, thanks. And with South Stream, you mentioned that your EUR600 million of EBIT guidance does not include anything from South Stream. Does the EUR750 million of EBIT guidance -- does that include something from South Stream?

Umberto Vergine - Saipem S.p.A. - CEO

Yes. As I said, we have not allocated any specific contract to the outside of our guidance. We have basically considered the average new order intake of the past -- the average over the past four years, so '13, '12, '11 and '10, and this is what we have included to make the upside value. If, however, we will win this contract, this contract will have work executed in 2014, so certainly will generate revenues and margin already in 2014.

Caroline Hixson - UBS - Analyst

Okay, thanks. That's all from me.

Umberto Vergine - *Saipem S.p.A. - CEO*

Thank you.

Operator

David Farrell of The Macquarie Group.

David Farrell - *The Macquarie Group - Analyst*

Hi there. Many of my questions have been answered, but I just wanted a couple of clarifications. Firstly, with regards to the net debt guidance figure of EUR4.3 billion, which EBIT number is that based upon? Is that the EUR600 million or the EUR750 million guidance?

And then, the second question is, at the third quarter results, you talked about the lack of projects being industry-wide, and therefore you weren't losing market share. Can you just confirm that that's still the case through 4Q, or are you actually losing some market share? Thanks.

Umberto Vergine - *Saipem S.p.A. - CEO*

Thank you.

Alberto Chiarini - *Saipem S.p.A. - CFO*

I will answer to the question for the debt. It's based on that EUR600 million, so in the low part of our window.

Umberto Vergine - *Saipem S.p.A. - CEO*

Okay, thank you. No, I don't change what I said in the third quarter. Basically, as I said before, the contract that are missing from our backlog today are in general a contract that I've not won, not contract that I have lost. The big one that I'm targeting are still there, and the potential of recommitting the backlog on the higher side is still a possibility for which we are waiting then to understand from the market the time and the speed of these happening.

David Farrell - *The Macquarie Group - Analyst*

Okay, great. Thank you.

Operator

Andrea Scauri of Mediobanca.

Andrea Scauri - *Mediobanca - Analyst*

Yes, good evening, everyone, a couple of questions from me. We discussed a lot about South Stream, but we didn't mention other contracts that -- where you -- it seems you are in a short list. I refer to Kaombo, for example, in Angola, and Jangkrik for the FPU. Could you give us some more color in particular on the FPU in Indonesia, where it seems that E&I, basically the consortium, including E&I, has already assigned to you the work for this FPU? Thank you. And if possible, the size of these FPU.



Umberto Vergine - Saipem S.p.A. - CEO

Okay. Yes, we have seen today a report that refers to the fact that Jangkrik decision should have been formalized. We have not received any official report from our client. We are very happy to have seen this news because, as you say, the Jangkrik is certainly one of our important target contract, and particularly on the floater business line. This is a positive sign, and we hope to see official confirmation of that.

The total value of this contract is \$1.1 billion, and the Saipem portion of that is approximately half of this value.

Andrea Scauri - Mediobanca - Analyst

Okay, thank you.

Umberto Vergine - Saipem S.p.A. - CEO

On Kaombo, again, this is one of those contracts. I mean, the size of Kaombo is one [lane] but means different packages. We are talking about SURF. We are talking about two floating production unit, and there is also some subsea work. So, we have submitted offer on a number of these packages, and I will say that Kaombo has been a recurring subject of our conversation internally while waiting to get an outcome on the decision by the client, by the authorities. I hope that this one also will get soon to a conclusion, because it's many months that we are awaiting that.

Andrea Scauri - Mediobanca - Analyst

Are you more confident on the SURF or on the FPSO package?

Umberto Vergine - Saipem S.p.A. - CEO

We are confident on some success, but we are expecting the result to get really any speculation about, because the client has not made any indication about this.

Andrea Scauri - Mediobanca - Analyst

And the very last question about Shah Deniz, the first package has been awarded to Amic, and you were not in the tender. Do you expect the package that you have award to be -- to be awarded, sorry -- the packages that you have tendered to be awarded soon, or we are still in the wait-and-see phase, if we can say?

Umberto Vergine - Saipem S.p.A. - CEO

Well, I mean, this is the basic reason why we have presented a range as a guidance. I mean, situation like Kaombo, Shah Deniz, South Stream, the uncertainty as we see to with the timing could generate a substantial difference to the year. So, I really have no ability to make any speculation about when the client could take the time of awarding of this contract.

Andrea Scauri - Mediobanca - Analyst

Thank you. Thank you.



Umberto Vergine - *Saipem S.p.A. - CEO*

Thank you.

Operator

Peter Testa of One Investments.

Peter Testa - *One Investments - Analyst*

Hi, thanks very much. Just a couple of questions, firstly on the guidance. It's quite a rapid entry into the margin sweet spot on the projects which would be coming into 2014, the newly awarded projects. And I was wondering if you could help us understand, beyond the operational leverage point, just why it is that they would be entering the margin -- high margin recognition phase so quickly. And I presume that it's also reflecting a mix, so that's very little onshore in that. Is that right?

Alberto Chiarini - *Saipem S.p.A. - CFO*

Okay. If I have understood well the question, I -- yes, you are right that the -- especially in the upside version, in the EUR750 million version, you can see a very high margin now contribution of this project. But, this has to -- again, to do with the fact that we have a fixed asset base cost. So, to give you an example, Jangkrik is clearly Indonesian project. This will allow us to use the base of Karimun, for example. And so, we have some fixed costs that will be easily allocated depending on our success in getting the word on some projects. And this brings a high marginality because the fixed cost allocation will be a sort of multiplier of the profit of the project. Okay.

Peter Testa - *One Investments - Analyst*

No, I understand that, but also, quite often, a large project should go through a phase whereby you start the project, you get into the implementation phase of the project with a bit of time delay, and that's when you start to make the significant margins. And I'm just curious, in terms of the -- within the exercise of wanting to be more conservative, why it is you're entering that high margin phase so rapidly inside a year.

Umberto Vergine - *Saipem S.p.A. - CEO*

Well, as you know, we have a linear accounting of revenues on cost, and some of these large contractor implies quite an accelerated phase of also procurement that certainly can play a role. In associating margin to revenues to this new order, [it looks] so we have basically refer to what has been our average speed of accounting of this. So, I think that, considering that, as I said, we will assume ideally in mid-year impact -- starting those impact in (inaudible) contractor, this is sufficient to generate enough revenue that is -- what to create the EUR150 million variance needed.

Peter Testa - *One Investments - Analyst*

Okay. Have you done anything on accelerating procurement to be able to enter that more profitable installation phase?

Umberto Vergine - *Saipem S.p.A. - CEO*

Well, we have of course always a component of long lead items that normally is handled under accelerated phase in order to keep the schedule. But again, this is not a result of an average evaluation more than a specific (inaudible).

Peter Testa - *One Investments - Analyst*

Okay. And then, you've mentioned variation orders as part of your 2014 outcome, expected range of outcome. Can you give some sense, please, just how much of a role variation orders, or success in variation orders, plays in the different -- high and low end of the guidance, please?

Umberto Vergine - *Saipem S.p.A. - CEO*

No, we have no difference. The difference between the high and low guidance, the component that is coming from the current backlog, including variation order, is practically the same. The difference would be on a new orders.

Peter Testa - *One Investments - Analyst*

And how much are you assuming for variation orders?

Alberto Chiarini - *Saipem S.p.A. - CFO*

Is 15% about of the revenues.

Peter Testa - *One Investments - Analyst*

Okay. And last question, please, just on -- when thinking about 2015, can you give some sort of sense about what sort of order intake you think you need to take across 2014, also taking account of the fact that you have revenue phasing of projects, what sort of order intake you need to take across 2014 to make 2015 a growth year?

Umberto Vergine - *Saipem S.p.A. - CEO*

Well, I mean, we have so many doubts about 2014 that I really don't feel like trying to make any speculation about 2015. What I would like to say is that, on top of the about EUR5 billion that we have already now our backlog, if we will be able to double that, of course we will be back to numbers that are in line with our historical figures and are similar to the number that we are considering for our upside part of the guidance of this year.

Peter Testa - *One Investments - Analyst*

Okay. All right, thanks very much for the answers.

Operator

Thank you. That will conclude today's Q&A session. I'd now like to hand the call back to our speakers today for any additional or closing remarks.

Umberto Vergine - *Saipem S.p.A. - CEO*

Okay, thank you very much. Good evening.

Operator

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

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