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CORPORATE PARTICIPANTS

Stefano Cao *Saipem S.p.A. - CEO & Non Independent Director*

Stefano Cavacini *Saipem S.p.A. - CFO*

CONFERENCE CALL PARTICIPANTS

Alessandro Pozzi *Mediobanca - Banca di credito finanziario S.p.A., Research Division - Research Analyst*

Guillaume Delaby *Societe Generale Cross Asset Research - Equity Analyst*

Henry Michael Tarr *Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst*

Hin Kin Wong *UBS Investment Bank, Research Division - Executive Director and Analyst*

James Thompson *JP Morgan Chase & Co, Research Division - Analyst*

Michael J Alsford *Citigroup Inc, Research Division - Director*

Nicholas James Green *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

Robert John Pulleyn *Morgan Stanley, Research Division - Analyst*

PRESENTATION

Operator

Good morning, ladies and gentlemen, thank you for standing by, and welcome to the Saipem First Quarter 2019 Results Call. (Operator Instructions) I must advise you the conference is being recorded today, on Thursday, the 18th of April 2019.

And I would now like to hand the conference over to your speaker today, Stefano Cao. Please go ahead.

Stefano Cao - Saipem S.p.A. - CEO & Non Independent Director

Good morning, ladies and gentlemen. Welcome to our first quarter 2019 results presentation. I'm joined today by our CFO, Stefano Cavacini. Only a few weeks at the last since we met for the 2018 full year presentation, but let me start by saying that the mood in the oil and gas market is showing signs of improvement since the end of 2018. At the turn of the year, a sharp drop in oil prices had depressed the outlook for 2019, causing a major stock sell-off across the oil industry.

Since the beginning of 2019, a slight pickup in the amounts in the oil and gas investment. The good visibility of initiatives awaiting final investment decision and in improving market intonation all being supportive of share price performances across our industry.

We should be clear though these signs of recovery have yet to translate into a tangible improvement of industry, and this has yet to translate into a tangible improvement, as said, in the industry. We remain focused in securing new projects, delivering effective execution to our clients, enhancing efficiency, strengthening our divisional organization.

During the first quarter of 2019, we have performed well with total revenues increasing to above EUR 2 billion compared to last year. Our adjusted EBITDA margin was at 11%, in line year-on-year and underpinned by improvements in both E&C Onshore and Offshore. And this enable us to offset the anticipated margin step down in the drilling businesses, in particular Offshore. I will remind you that this result are before the impact of the recently adopted IFRS 16 accounting principles on adjusted EBITDA.

Our CFO will expand on this later. E&C Offshore closed the quarter with an adjusted EBITDA margin of nearly 13% as we continue the trend of strong performances in ongoing projects. These are now more weighted towards conventional shallow-water activities as we await the reemergence



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of the subsea sector. E&C Onshore delivered a 3.5% adjusted EBITDA margin, which is consistent with both our turnaround efforts and long-term target and on track for our expectation in 2019.

Regarding drilling, despite an increase of revenues and stable adjusted EBITDA in absolute terms both Onshore and Offshore suffered margin reduction. Onshore is still feeling the pressure of a difficult environment in Latin America despite tangible signs of improvement. Offshore, the start up of new contracts and extension at current market rates resulted in an adjusted EBITDA margin at nearly 39%. We closed the quarter with healthy net debt below EUR 1.2 billion broadly flat compared with end of 2018, thanks to solid cash flow, almost entirely offsetting CapEx and working capital.

During the final quarter of 2018, we announced works worth more than EUR 4.5 billion. This momentum is continuing in the first quarter of 2019 with additional contract for around EUR 2.5 billion, delivering a book-to-bill ratio of circa 1.2. Thanks to these recent awards coverage on the revenues we guided for in 2019 has increased to around 82%. And including our nonconsolidated projects, our backlog stood at EUR 14.8 billion at the period end.

Visibility on near term opportunity remained strong. I will come back to this later on since we have prepared a dedicated slide.

But I will mention now that this includes potential business opportunities and the discussion with the Gazprom group, which could be pursued as a consequence of the amicable settlement agreement with South Stream Transport BV aimed at amicably settling the pending South Stream arbitration. You will recall we were targeted to complete the negotiation by the end of March 2019. The negotiation on a without prejudice basis has progressed and we are now at an advanced stage. We are targeting the closing and the signing of the settlement agreement very soon.

In summary, our good quarter results, new awards and improved revenue coverage sustain our confidence to deliver the target already set for this year.

Now let me hand you over to Stefano.

Stefano Cavacini - *Saipem S.p.A. - CFO*

Okay. Thank you very much, Stefano, and good morning, everyone. With regard to our first quarter 2019 financials, I'm going to begin by providing you with additional background and some clarifications regarding the impact of the first application of IFRS 16. From there, I'll move onto the key financial figures related to our sales and the pricing profitability, also at divisional level. And finally, I will take a closer look at our net debt evolution.

Starting January 1, we report our results under the frame of the recently adopted international standard, IFRS 16, which has introduced a new leasing accounting model, significantly reshaping the presentation of our accounts.

I shall remind you that we have applied the modified retrospective methodology, which allows one to limit the retroactive restatement of the values of shareholders equity as at January 1, 2019. So I would say without the need to restate previous year's figures for comparison purposes. So as a consequence, looking forward, it's our intention to present the company's result providing clear evidence of the impacts deriving from the adoption of the new accounting principle and ensuring continuity with our previous disclosure methodology.

On my first slide, as you can see, you will find the key metrics in our accounts impacted by the new standard. EBITDA would benefit from the removal of payment of lease rates and simultaneous accounting of depreciation of assets right-of-use. We estimate for the whole year this will improve EBITDA broadly EUR 150 million.

Financial charges are expected to increase following the accounting of interest accrued on leasing -- on lease liability and net income will be only marginally affected under the new regulation.

Finally, net debt will increase by approximately EUR 0.5 billion in recognition of the principle of lease liability. As a result, we estimated our net debt EBITDA ratio could increase from, I would say, broadly 1.1x to 1.5x at the end of this year, but simply as a result of this new accounting principle.

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And as a reminder, just for your benefit, our leases currently relate to firstly, the 2 E&C Offshore vessels and the long-term charter; secondly, our office buildings around the world; and finally, the lease agreement signed during the first quarter for the jack-up Pioneer, which will be employed for drilling operation with Eni in Mexico.

But -- okay moving to Slide 7, you can see the figures for Q1 2019 and reconciliation of year-on-year performance.

We also clarify the changes we are introducing in our accounting views starting from this quarter. In addition to IFRS 16 adjusted view, we shall continue to disclose the pre-IFRS 16 adjusted results through 2019 at group and divisional level in order to allow for comparison with previous quarterly results. And our statutory view will include any special items eventually recorded during the year.

So as you can see in the first quarter, IFRS 16 adjusted EBITDA improved by EUR 36 million as a result of the assets removal of lease payments, but the flip-side of the coin is that contextually our depreciation cost increased by EUR 33 million, while financial charges were approximately EUR 7 million.

As a consequence, adjusted net income slightly deteriorated in absolute terms by approximately EUR 4 million. Net debt after the adoption of the IFRS 16 is EUR 1.75 billion. We will have a closer look in specific slide during the presentation. So we will speak about it in a while.

But let's move on to the next chart. Our customary Slide 8 summarizes group performance. Revenues amounted to approximately EUR 2.2 billion, up around 13% when compared to the same period in 2018, reflecting improvement in all divisions.

We closed the quarter with a pre-IFRS adjusted EBITDA in the region of EUR 238 million, approximately 11% higher than 2018 with improvement across all divisions as I already mentioned. This comes with an adjusted EBITDA margin at 11% flat year-on-year, where a lower drilling performance was offset by Engineering & Construction divisions. As you can see, just for your information, our adjusted EBITDA after the adoption of IFRS 16 was EUR 274 million. The pre-IFRS 16 adjusted net income in the first quarter improved significantly year-on-year, thanks to higher volume of activity, good operating performances and our lower tax rate.

If we go ahead, next 2 slides provide comments on the divisional performance in the first quarter under pre-IFRS 16 view, also for comparison purposes with the 2018 results. The IFRS results are also clearly reported, but they are not comparable with previous year as I commented on before. But let's start from E&C. E&C Offshore revenues increased by nearly 14% versus the same period in 2018, mainly due to higher volumes in the Middle East. We closed the quarter with an EBITDA margin of around 13%, slightly improving year-on-year as the division continues to deliver good results, thanks to, I would say, efficient execution on ongoing projects. And once again, for your information, adjusted EBITDA after the adoption of IFRS 16 was EUR 143 million.

Moving on to E&C Onshore. Revenues were higher by approximately 10% compared to 2018, mainly due to higher volumes in the Caspian region and Middle East, which more than offset lower activity in West Africa. I would like to say that the divisions improved EBITDA margin of 3.5% is finally a measure of progress under our turnaround strategy and the focus remains strong on execution.

Adjusted EBITDA after the adoption of the new accounting principle was EUR 42 million at the end of the first quarter.

Slide 10. In this slide, you will have our review of drilling performances. Our revenues in Drilling Offshore improved by approximately 21% versus 2018, mainly due to the higher activity of Scarabeo 8, which you might remember was idle in Q1 '18 and the start of activities for the Pioneer jack-up, which more than offset the idle state of TAD. Adjusted EBITDA for the division was stable in absolute terms. Margins were lower, though still resilient at 39%, mainly reflecting the start of new contracts and the extension negotiated at current market rate.

Adjusted EBITDA after the adoption of IFRS 16 was EUR 56 million. Drilling Onshore revenues also increased by nearly 14%, reflecting increased activity in the Middle East, Argentina and Peru. Adjusted EBITDA at the end of the first quarter was around 24%, I would say lower year-on-year, but mainly as a result of higher operating cost on start-up initiatives, which were only partly offset by cost savings.

Adjusted EBITDA after the adoption of IFRS 16 was EUR 33 million.



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So now we are reaching the end of my presentation. We reached the final slide on the financial presentation, Slide #11, which provides a closer look at our net debt evolution. We provide here a reconciliation of the impacts deriving from the application of the new accounting principle on our net debt position, both at the start and at the end of the quarter. But we will continue to disclose our net debt evolution pre-IFRS 16 in order to provide comparison with previous years. Before the IFRS 16 adjustments, as shown in the blue shaded area in this slide, net debt at the end of March was EUR 1.19 billion, I would say broadly flat compared to year-end 2018. Our IFRS 16 net financial position at the end of the first quarter was EUR 1.75 billion.

So if I have to summarize at the end, good operational cash flow entirely offset our CapEx and working capital requirement as already commented on by our CEO during the first part of our presentation. And with respect to the IFRS 16, the impact recorded during the quarter -- the first quarter, at the end is the result of on one hand the new lease agreement signed for the Pioneer jack-up and on the other the quarterly lease rate depletion.

So, now I reached the end. Thank you very much for your attention, and our CEO will now take you through the business update section.

Stefano Cao - Saipem S.p.A. - CEO & Non Independent Director

So thank you, Stefano. Moving on to the business update. I will start commenting that the good momentum on the E&C Offshore experienced in the second half of last year continued in the first quarter of 2019. We were awarded by Saudi Aramco two fixed facilities and pipelines EPCI packages, under the long-term LTA program for the Offshore Berri and Marjan field expansions for a total of USD 1.3 billion. We were also awarded EPCI contract for the marine structures and piles of the LNG terminal for operator Tortue in consortium with Eiffage. This award follows the front-end engineering and design work which has progressed into the execution phase following BP's final investment decision.

Both these E&C Offshore awards were mentioned within our full year '18 results presentation. Today, I'm also pleased to announce the award of a second EPCI contract on the same Tortue project which falls in the second quarter. Our scope now entails the fabrication of such -- the FEED gas and riser platforms and other topsides for the hub terminal. Saipem's overall interest in the Tortue project is worth approximately USD 500 million.

In Onshore Drilling, following the award of new contract in Argentina in the final quarter of 2018, we have secured new contract and expansion in Saudi Arabia. These recent successes confirm our strong cooperation with our clients, Saudi Aramco, and the strength of our presence in the Kingdom. We will continue to focus our commercial efforts in the negotiation of further extension and new contract in the near term.

Some other significant contracts have been awarded to the Onshore Drilling division in Latin America, specifically in Bolivia with a long-term contract for Repsol. However, overall, the Onshore Drilling awards announced amount to around USD 220 million. Additionally, I'm pleased to announce that since the beginning of the second quarter, we have also been awarded 2 new contracts in Colombia for Ecopetrol.

During the first quarter, we also continued to improving the level of commitments under our Offshore rig fleet with additional activity secured for our Scarabeo 8 in Norway. Our new client Wintershall awarded us 2 wells plus options, which ensure the utilization of our vessel till the second quarter of 2020. These new achievements confirm that North Sea is nowadays one of the busiest areas in Offshore Drilling where demand is increasing, driving also some positive impacts on rates.

The other area where demand remains strong is Middle East where in addition to an extension for the Perro Negro 8, awarded by ADNOC in the Emirates, which was already flagged in 2018 result presentation, we also recently announced new significant contracts for the Perro Negro 7, which extend to additional 4 years our drilling activities for our top clients at Saudi Aramco.

Backlog. Coming now to our backlog, thanks to EUR 2.5 billion contract award, which include minor acquisition and variation order on contracts under execution as usual, we increased our commitments to around EUR 13 billion, reaching a quarterly book-to-bill ratio of circa 1.2. However, this amount does not include around EUR 1.8 billion of contracts awarded in partnership with [others] (corrected by company after the call) player, which will be managed through dedicated project equity affiliates, and therefore reported in the nonconsolidated backlog.

For the first time in many quarters, Onshore and Offshore Drilling backlogs recorded a slight increase, thanks to our commercial efforts, which we are confident will convert into further progress.



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E&C Onshore division backlog reduced since the end of 2018 as the revenues recorded in the periods were not compensated by additional work during the first quarter, but this is only a temporary phenomenon.

Let's look ahead at the backlog split by year of expected execution. As you can derive, our 2019 revenue guidance is now covered at circa 82%, in line with the expected ratio for this point of the year having added around EUR 0.9 billion to the value disclosed at the end of 2018.

Moving to Slide 17. As I anticipated earlier on, signs of recovery are yet to translate into tangible improvement in industry business level. Consequently, following our recent indication of an overall EUR 60 billion of the E&C opportunity tendered for, this slide provides now greater visibility on selected near-term E&C opportunities by segment and geographical area on which we are currently highly focused. We believe that these projects with an aggregate value in excess of EUR 28 billion could all be sanctioned within year end. As you can see, we are currently tendering on a number of project opportunities, diversified in terms of geographies, business segments and clients.

Among these initiatives, it is worth mentioning Onshore and Offshore project is still awaiting for final investment decisions, such as Liza Phase 3 in Guyana, the Marjan development in Saudi Arabia, the LNG initiatives in Nigeria, Russia and Mozambique. The Scarborough in Australia and various renewables projects. Naturally, we do not expect to be awarded all of them, but we believe that should these projects reach final investment decision, we are well positioned to win a good share, leading to a yearly book-to-bill ratio at least above 1.

In terms of prospects, early engagement with clients and collaboration with other players will be key to unlocking opportunities and developing alternative cooperation scheme. In this respect, the progress made by each site so far has been recognized by various players. Some very important like Qatar Gas and Exxon with sizable front-end engineering and design awards.

Drilling fleet utilization. The contractual engagement of our Offshore drilling fleet is provided in the usual slide, highlighting recent progress in particularly Saipem 12000, our flagship unit is currently engaged in performing a 1-well project offshore Pakistan for Eni. The rig will then move to South Africa for upgrading works before the start of this Mozambique campaign.

Scarabeo 9, this rig is completing a 1-well project in Egypt, and we are currently marketing the rig in the Mediterranean and Black Sea.

Scarabeo 8, the rig is currently working for AkerBP and will then be employed by Eni for circa 3 months before going under contract for Wintershall. We are marketing the rig for short-term commitment to fill the available slot in 2019.

Scarabeo 7 is working in Indonesia until May 2019. We are currently marketing the rig. Perro Negro 8 and Perro Negro 7, in 2019, we have been awarded a short-term contract extension by ADNOC for the Perro Negro 8 and the long-term contract by Saudi Aramco for the Perro Negro 7. We have been marketing the Perro Negro 8 to secure longer-term commitment.

The Pioneer, which recently joined our offshore drilling fleet on a charter hire basis has just started its activities on the Mitzon project in Mexico. Perro Negro 4, we have received an extension until end of May and meanwhile, we are negotiating a 2 year extension.

Onshore Drilling. Turning to the Onshore Drilling. During the last 2 quarters, our commercial and operational efforts have been positively rewarded. Following the contracts awarded by YPF and Exxon in Argentina at the end of 2018, during the first quarter of this year we have also been awarded a new contract and extension in Middle East with Saudi Aramco and in Bolivia with Repsol. In addition, recently in the second quarter, we have secured new contracts in Colombia with Ecopetrol. We continue to concentrate on consolidating our presence in the Middle East where demand remains strong and to increase our engagement in Latin America where our recent successes are tangible sign of an improving environment.

The weighted average utilization rate of the -- for the first quarter was around 68%, broadly flat compared to the same period last year, but an improvement on 2018, average rate of 65%.

We believe that new long-term contracts will contribute to a more structural increase in the future.



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Now allow me to conclude today's presentation stressing a few points which we consider quite important. In the context of an improving market since year-end, though awaiting clear signs of the recovery translating into tangible project, we continue to deliver robust results, thanks to constant attention to operational execution. Following the strong order intake in second half of 2018, momentum has continued in the first quarter of 2019, with additional awards in key areas leading to a book-to-bill of 1.2x. Our guided revenues for the year are now covered by circa 82% of contract in the backlog. As we highlighted earlier, our visibility on near-term selected opportunity remains good, and we expect this to translate into new contracts within and not so distant future.

Finally, 2019 still will be a year of transition, awaiting for a better 2020, but we are confident of delivering the target we have already set for ourselves for these 12 months. This concludes my presentation, and now I'll be happy to take together with Stefano, CFO, any questions which you may wish to ask. Thank you very much.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Alessandro Pozzi of Mediobanca.

Alessandro Pozzi - Mediobanca - Banca di credito finanziario S.p.A., Research Division - Research Analyst

The first one is on the commercial pipeline. I believe you mentioned opportunities of around EUR 30 billion, which are below the number that you quoted last time of EUR 60 billion, probably this is not like-for-like. So I was wondering whether you included only the shorter-term opportunities or the opportunities whether that you think you are going to win? The second question is on Offshore Drilling. You mentioned a step down in margins. I was wondering if you can perhaps give us a bit more color because I think we've seen an increase in the revenues during the quarter, but we've seen also lower margin. Also at the same time, you have a new jack-up during the quarter, so I was wondering what is the impact in the numbers of that as well?

Stefano Cao - Saipem S.p.A. - CEO & Non Independent Director

Okay. In terms of the figures, you are absolutely right, those figures are referring to a different group of opportunities. What we have indicated now are the numbers, the overall value of the project, which in our view should take in normal circumstances, final investment decision, which means contract award by the end of this year. So it is a different lot of -- it represents a different lot of projects. The figures we were providing 40-plus, 20 was the overall amount of the projects we were dealing with. Now we have focused and concentrated on the projects which within 2019 will get a final investment decision and award. And what we have defined, selected initiatives, but you are right they are not consistent, but they provide a sort of more evolved assessment on what we expect to be the pipeline of contract assignment by the end of the year. The step down in margin for the drilling business was highly expected. I think in the terms of the message we are very consistent with what we have been saying for nearly last 18 months. Obviously, we have been more resilient than the rest of our peers, thanks to the long-term contracts. Those long-term contracts they were coming to a natural end. We said all along that we were going to pursue initiative at the present market -- depressed present market rates on a sort of short-term assignment. This is what we continue doing. However, all in all, I think that still the level of margin it's fairly significant even taking into account the evolution of the market.

Going forward, as I said, we perceive signs of improvement, but they are still, I would say, weak. So we continue applying the same philosophy and we wait for the better upturn to come.

Alessandro Pozzi - Mediobanca - Banca di credito finanziario S.p.A., Research Division - Research Analyst

The percentages, can we see as a bottom or should we expect a further kind of deterioration throughout the year?

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Stefano Cao - *Saipem S.p.A. - CEO & Non Independent Director*

Look, the utilization is -- gets slightly better. We receive more inquiries. Our commercial guys are busier than before, but still the rates are the bottom of the market rates with few signs of improvement in certain specific markets.

Operator

Your next question comes from the line of Michael Alford of Citigroup.

Michael J Alford - *Citigroup Inc, Research Division - Director*

So just firstly, really just to understand a little bit more the good margin performance in Offshore E&C, it was clearly resilient year-on-year and obviously up quarter-on-quarter. I just wanted to get a sense as to whether that was just the close out of legacy contracts, whether that was more around to the sustainable some underlying cost improvement in the business? If you could perhaps talk to that, that would be great. And then just secondly, just wanted to get an understanding on tax. You have clearly better tax rate in the quarter. I just wonder if that's a sustainable level to going forward or whether that was just sort of more a one-off quarterly affect?

Stefano Cao - *Saipem S.p.A. - CEO & Non Independent Director*

In terms of margin performance for the Offshore E&C I would say that it's almost a combination of all you said. On one side, there are still details of the nice contract which we had awarded in the good old days which are releasing contingencies. At the same time, you know that we have been going through a period of cost-cutting and the reactive work in terms of improving efficiency. And at the same time, we -- I mean, I would say that the margin, they reflect the good operational performance. So I think, in a nutshell, I would say that it is a combination of these elements. In terms of tax rates?

Stefano Cavacini - *Saipem S.p.A. - CFO*

Yes, in terms of tax rate, so our -- yes, surely this quarter has been a good quarter because we closed in the region of 40%. If you remember, last year we closed the year in the region of 70% of tax rate. For sure, looking forward to next quarter, it could be some volatility on different quarters, but I would say that this is, for the time being, a reasonable level that we achieved and the level that we want to keep for the coming future. So it could be a good proxy for the coming months/year. But our objective, as I mentioned during the previous conference call, is to reach a normalized tax rate in the mid- and long-term in the region of 35%, 37%.

Operator

Your next question comes from the line of Amy Wong from UBS.

Hin Kin Wong - *UBS Investment Bank, Research Division - Executive Director and Analyst*

I have a couple, please. The first one is, congratulations on fairly good order intake so far and obviously a lot more to come. Can you just give us a sense of taking into account some of your cost-cutting measures and the kind of inherent pricing that you're getting right now on these project, whether your project level margins in your E&C divisions. Whether we are hitting a bottom or they starting to trend up a little bit. So that would be my first question. My second one relates to your CapEx program. So you've guided for EUR 500 million for the full year, Q1 is a looking a bit light. We know that you're doing some classing on one of your drilling rigs, other than that can you elaborate a bit more kind of for the rest of the year where we expect to see your CapEx being spent?



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Stefano Cao - *Saipem S.p.A. - CEO & Non Independent Director*

I'm not sure I caught the first question. I'll answer the second one. You come quite garbled Amy, I am afraid. In terms of CapEx, as you remember, when we have provided our guidance, the level of EUR 500 million was related to a number of specific phenomenon -- phenomena. And in particular, as you said yourself, there is the advancement of the class work which is related to specific opportunity, commercial opportunity for one of our drill ship. It is also related to the fact that we have in the pipeline, and we have included in the amount that we mentioned of the so-called near-term opportunity some projects in the wind farm. And these projects, they require some purchase of material, some building of dedicated tools, which we would expect, should the project materialize, to be carried out in 2019 in preparation for the project, the execution of the project in 2020. And thirdly, but certainly not lastly, we are considering now that we have a couple of assets, which are traditional assets, which are coming to the end of their useful life and which need to be in a way substituted. We continue to pursue the model of the lighter assets approach, but at the same time we still need some of our conventional capabilities to be strengthened -- maintained and strengthened and that too in a way to scrap some of the units which are getting quite old.

As far as the first question, I'm afraid you should repeat it, Amy.

Hin Kin Wong - *UBS Investment Bank, Research Division - Executive Director and Analyst*

Sure. Let me just rephrase a little bit. I just really want to get a sense that the projects that you're winning right now and the projects that you're tendering right now, whether the project level margins are looking the kind of similar to what you're executing right now or they getting -- starting to improve now?

Stefano Cao - *Saipem S.p.A. - CEO & Non Independent Director*

Okay. Sorry. I couldn't catch. I think the best way to address it, I can make some example, obviously it's a long list, but I believe it would help to give you a flavor just giving you some example. Let me start from the Onshore E&C and no doubt that we include to the two Mozambique LNG project, ADNOC with ExxonMobil then you may start wondering what is going to happen for the Anadarko, which we don't know, but still the project, they are certainly considering in the list of the near-term opportunities. Then Train 7, just to continue on the Nigeria. Then we have a continuation of the project in Chile, the CODELCO water supply. We are bidding a couple of projects in Russia, I would say one is the Moscow Refinery. We are dealing with the top-sized design and built for the Arctic 2 LNG and just to conclude on the Onshore, I would say it is certainly worth mentioning the Marjan packages, which we have been -- which have been bid for Saudi Aramco.

Moving to -- quickly moving to Offshore, again, I would refer to Rovuma, Mozambique, which formerly was the Mamba. We are bidding Bonga South West, which is now being revised and seem to be quite active. We are -- Liza 3 is certainly an opportunity we are focusing. We have been doing both Liza 1 and Liza 2. Ichthys Phase 2 Australian Scarborough for which we are doing the front-end engineering and design. We are still pursuing the wind farm in France the Fecamp, which is the forthcoming opportunity. And then, again, I have to make reference to the Marjan and LTA opportunities, which we are dealing for Saudi Aramco. I believe you were also referring to the margin of these projects. Obviously, I think on the back of what I was saying we are not in the market of the good old days and it is definitely is not a sellers market, but, due to the specific feature of most of the projects in terms of future of the project, the LNG by definition and sheer size and complexity of some other opportunities, we have reconsidered these opportunities quite good and attractive also in terms of margins, which we can extract.

Operator

Your next question comes from the line of Henry Tarr of Berenberg.

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Henry Michael Tarr - *Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst*

I guess, the first one, margins in the Onshore E&C slowly creeping higher. Could you give us a roadmap for that margin recovery. What needs to happen over the next couple of years to get us back towards the sort of normalized medium-term margin? And then secondly, you've talked about the drilling businesses and the strategic reviews there. Do you think it's going to be possible to realize the value of those drilling units in the current market environment, given ongoing discussions? Can you comment around that?

Stefano Cao - *Saipem S.p.A. - CEO & Non Independent Director*

Yes. In terms of where we stand, in terms of the margin recovery part, which we have started, I would say that, I mean, according to the progress, which we have highlighted today -- I mean, the margin recovery is progressing. We have, in connection with the approval by the Board of the 4-year plan, we have said that we target mid-single digit for the margin of the Onshore E&C. Obviously, the achievement of the target within the next 4 years would be strongly related to the quality -- and the quality of the project which we will have to -- our backlog. I would say the visibility, I mean, it is only a month and half since we last have spoken, I would say that we feel to be pretty much on course for the achievement of the target which we set.

Strategic decision on drilling business, because it was specifically was related to the value, which we can extract right now in the present market condition, I would say, none. If you think of a straight sale, but definitely this is not what we are considering now in our strategic review.

We are focusing on other options, such as combination, such as adding some willing shareholders and joining; in any case I think in principle is the fact that we intend to maintain an exposure to the business in order to capture the recovery, which is not there yet as I said all along, but which we perceive it is forthcoming in the next month.

Operator

Your next question comes from the line of Nick Green of Bernstein.

Nicholas James Green - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

So 3 quick ones, please. Firstly, on the working capital outflow. Can you just talk a little bit of the drivers in this first quarter and then expectations for the year and particularly given your net debt guidance, how that impacts it? Secondly, on the Kaombo project now that's finished, can you tell us if you expect to see any more P&L impact from that and then connected to it. Total seemed fairly happy with the speed the second vessel has brought to the market and bought on stream. Can you give us your thoughts on -- updated thoughts on any risk of liquidated damages? And then thirdly, just to return to your point there on the drilling businesses, what is your appetite for an IPO of that business outright in the event a sale is impossible and perhaps you slightly indicated? That was where your thoughts were going just a second ago?

Stefano Cao - *Saipem S.p.A. - CEO & Non Independent Director*

Okay. Stefano, CFO, on the working capital.

Stefano Cavacini - *Saipem S.p.A. - CFO*

Yes. So about your question on net working capital, first of all, thank you for your questions because I can say a few words about the net debt evolution graph that we have reported in our presentation because as you can see it seems that the absorption is for 0.11, in reality half of this impact is relating to the acquisition of third interest in JV entities. So for a sake of simplicity, we have preferred to put in this variance the impact related to the net working capital in this, I would say, financial capital expenditures. Having said that, so at the end, our net working capital is, I would say, flat. And also thinking to our guidance of net debt end of year, for the time being our base assumption is to stay flat. So we do not expect



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a material absorption at the end of this year for net working capital. Having said that, as you know, every quarter could be different of the other quarter because there are a different mix of projects, advance payments, commercial balance. So -- but as proxy, the assumption stated at the beginning of this year is still valid. We are expecting a neutral net working capital impact.

Stefano Cao - *Saipem S.p.A. - CEO & Non Independent Director*

As far as status of Kaombo, you mentioned liquidated damages. I mean, this is like swearing god. Having said that, I would say that, you have heard, you said yourself that Total, they're happy with the the second FPSO, the Sul, going into production. At this stage, for us any impact coming from the past history has been totally absorbed and reflected in our accounts. Now is the time to consider relinquishing some of the contingencies, which we had set aside against liquidated damages, but no doubt that liquidated damages is not there any longer. In terms of drilling, as I said, for the drilling business, we are really looking at all opportunities. You mentioned IPO. IPO with the present shape and configuration of our fleets, it would not appear to be a likely outcome. However, after maybe a combination, it's a matter of operators and private operators, IPO may be something which can be considered.

Nicholas James Green - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

That's very clear. Just to confirm what I heard there, on Kaombo in particular, you're feeling liquidated damages, which may have been of concern in the past probably isn't likely to be a concern anymore, and you maybe able to think about such contingency releases going forward to be determined?

Stefano Cao - *Saipem S.p.A. - CEO & Non Independent Director*

Absolutely. No discussion whatsoever, no argument whatsoever. There is -- liquidated damages are not there any longer. That is a chapter which has been definitely closed. And as you said, we are now obviously in a phase of releasing the contingencies which we anticipate.

Operator

Your next question comes from the line of -- sorry, just 1 second. Your next question comes from the line of Rob Pulley of Morgan Stanley.

Robert John Pulley - *Morgan Stanley, Research Division - Analyst*

Can I just -- I am intrigued on the answer to the last question. Could I ask, in 1Q did you release any provisions or contingencies relating to Kaombo in that EBITDA performance? That's the first question. And the second one, you alluded obviously to what's going on in Mozambique, there's 2 projects there you talked. Obviously, there is a corporate event around one. Could you perhaps give a little bit of a timing update and when you expect to hear something about the other, which is the one on the south Mamba For Exxon and ENI?

Stefano Cao - *Saipem S.p.A. - CEO & Non Independent Director*

Okay, in terms of again Kaombo, in the first quarter, there was no release of contingency. So it may come in the second quarter end onwards. In terms of Mozambique, Mozambique for one project we read newspaper as everybody else. As far as we were in the final stage of negotiation, waiting for a final investment decision by Anadarko, which was proposed to be taken by -- before the end of this month, then there has been the acquisition, the positive message which we heard was the interview of the Chevron CEO, during which he specially said that gas is going to be -- it was one of the important reason for the acquisition. So we just need to sit and wait how things will develop there. In terms of Exxon, we are bidding -- currently bidding the Exxon/Eni. What we hear, but again our information is as good as everybody else is that a final investment decision might be taken during the course of the second half of this year.

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Operator

And your next question comes from the line of Guillaume Delaby of Societe Generale.

Guillaume Delaby - *Societe Generale Cross Asset Research - Equity Analyst*

Probably a quite different one from the previous one. Stefano, if I remember correctly, 18 months ago, in Milan at the teatro Vetra you did a presentation about Saipem 60 years birthday. And during this presentation, I don't remember if it was yours or maybe other speaker's, but there has been a lot of time dedicated to the long-term opportunities provided by China New Silk Road. So my question is there has been a lot of press article following the visit of Mr. Xi Jinping in Italy 3 weeks ago, and I would like to know if you could maybe quantify what might be the long-term opportunity for Saipem for New Silk Road projects and maybe what could be the timing of this opportunity, if there is any?

Stefano Cao - *Saipem S.p.A. - CEO & Non Independent Director*

Okay. I believe you are referring to the celebration of our 60th anniversary?

Guillaume Delaby - *Societe Generale Cross Asset Research - Equity Analyst*

Yes, exactly, exactly, exactly.

Stefano Cao - *Saipem S.p.A. - CEO & Non Independent Director*

Yes, we have invited Professor Khanna, who was a Professor very capable in depicting future development scheme for the world. And he was emphasizing the fact that the future of the world, his opinion, it was strongly based on the development of the infrastructure as a sort of nervous system of the human body.

And obviously, the connection, the implication, which was for us was related to the fact that any opportunity coming from the infrastructure development, it is more than welcome for us and for our business. Then, I would say that it was sort of fly-high type of approach. Now we have -- we keep our feet on the ground and we have to deal on the forthcoming opportunity as we listed in today's presentation.

Operator

And your last question comes from the line of James Thompson of JPMorgan.

James Thompson - *JP Morgan Chase & Co, Research Division - Analyst*

Just a couple, if I may. What really -- firstly, on sort of customer behavior. I mean, your book-to-bill was very solid in the first quarter. Some of that was obviously variation orders. I just wondered whether customers were more willing to look at variation orders again now and whether they were becoming more attractive? And sort of related to that, in that EUR 28 billion pipeline, can you talk at all about not necessarily margins, but cash advances, whether it looks more favorable than it has been in the last couple of years from that front? And then sort of finally, related to order intake. Obviously, the Gazprom settlement is taking some time there, but you're saying nearly done obviously with the potential for future work there. I just wondered how that's all going to pan out and when you might -- what sort of scale of work you're looking at, and why you're looking in Russia, is that particularly the Moscow Refinery, for instance?



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Stefano Cao - Saipem S.p.A. - CEO & Non Independent Director

Okay. That is our custom behavior. I would say that -- first of all, let me state that there is no dramatic difference in analyzing the behavior of our customers. Obviously, we have both been very severely hit by the crisis. So we have been, on both sides, very much concentrated on the regaining of the efficiency and on the loss of weight, which have been put on over the too many years of very good markets.

What I would see as a difference is not as much as in terms of behavior, but more in terms of willingness to have a different type of approach. And I would certainly refer to the Zohr as a sort of example of a project which has been developed on a different approach. I see more projects which start with the development of a competitive FEED and then which gets converted at the end of the FEED to contract. So I would say that, in a way, there is -- there has been a change in the market, but rather than based on the different approach in terms of behavior, more in terms of perception that we need to adjust the model for the future development to -- in a way pursuing new approaches and new alternatives.

In terms of order intake, in Russia, in particular, yes, I referred earlier on to the Moscow Refinery as an opportunity which was not there for us, which we are currently pursuing quite actively. There are a number of also pipeline projects, which are, you know, maybe forthcoming, in particularly in Bulgaria, in Serbia. There are -- I don't need to refer to Arctic LNG which definitely is something we are currently working on and differently from any relationship with Gazprom. Then, there are other things, which are not really there yet, which may be coming at downstream from downstream opportunity like melamine plant, methanol plant and other gas mission opportunities.

James Thompson - JP Morgan Chase & Co, Research Division - Analyst

Okay. If I could just wrap up on IFRS 16, thanks very much for the disclosures and the sort of segmental guidance there. Just a question on volatility really. Do you see it being relatively stable quarter-on-quarter, the levels that you disclosed in the first quarter for the remainder of the year?

Stefano Cao - Saipem S.p.A. - CEO & Non Independent Director

That's very difficult -- you refer to volatility in terms of margin?

James Thompson - JP Morgan Chase & Co, Research Division - Analyst

Yes. Just in terms of the IFRS 16 impact on margin over the next 2 to 3 quarters. Is it going to be pretty stable? I mean, your vessels and offices are all going to remain. So I assume it's going to be stable around those levels for the rest of the year?

Stefano Cavacini - Saipem S.p.A. - CFO

Yes, yes, you are right. I would say that it's stable. We are not estimating huge volatility quarter-on-quarter.

Operator

(Operator Instructions) At this time, there are no further questions coming through, sir.

Stefano Cao - Saipem S.p.A. - CEO & Non Independent Director

Okay. So thank you very much for your attendance and look forward to talk to you in the near future. Thank you.

Stefano Cavacini - Saipem S.p.A. - CFO

Thank you.



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Operator

Thank you. That does conclude our conference for today. Thank you all for participating. You may all disconnect.

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