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PRESENTATION

Operator

Good morning, ladies and gentlemen, and thank you for standing by. Welcome to today's Saipem First Half 2019 Results Conference Call. (Operator Instructions) I must advise you that this conference is being recorded today, Thursday, the 25th of July, 2019.

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

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

Thank you. Good morning, ladies and gentlemen. Welcome to our 2019 half year results presentation. I'm joined today by Stefano Cavacini, our CFO; Davide Ruvolo, our Corporate Head of Strategy and M&A; and our Heads of Divisions, Stefano Porcari for Offshore E&C, Maurizio Coratella for Onshore E&C, Marco Toninelli for Drilling Offshore, Francesco Racheli for Onshore Drilling, Mauro Piasere for XSIGHT; together with our General Counsel, Mario Colombo.

As you may already know, we have a couple of changes in our organization. Starting from August, Stefano Porcari will take over leadership of the Onshore Drilling division while Francesco will be stepping to head the Offshore E&C division. I'm also glad to introduce today our new Head of Investor Relations, Massimiliano Cominelli who will replace Vincenzo Maselli Campagna as Head of Investor Relations. Vincenzo will be taking up a new opportunity within the company.

Let me start by highlighting the strong order intake achieved in the second quarter and in particular, the award of the largest contract in Saipem's history. This is the Anadarko LNG contract worth for Saipem circa USD 6 billion for the development of Area 1 field in Mozambique. Saipem is the leader of this project, which is in partnership. The award of this LNG contract recognizes our position as a key player throughout the natural gas value chain, a strategic segment from which to exploit the energy transition. I will expand on this later in the presentation.

This major contract, in addition to other important Onshore E&C and Drilling Offshore initiatives awarded in the second quarter, enabled us to deliver a book-to-bill ratio above 2 in the first half of 2019. Consequently, our backlog reached well above EUR 17 billion, a level not seen since second quarter of 2015, increasing the coverage of 2019 revenue guidance to circa 90%, in line with our historical average at this point of the year and significantly improving visibility in the medium term. Indeed, the award momentum remains favorable, with additional contracts signed since the closing of the half year such as Marjan and Berri gas treatment trains in Saudi Arabia and new initiatives in the Drilling Offshore, altogether totaling circa EUR 3.2 billion.

In Offshore, the pipeline of initiatives for which we are tendering remains promising. We have already secured around EUR 1 billion worth of new projects, subject to final investment decision, and therefore not yet booked in the backlog. We expect the division to reach a book-to-bill of around 1 in full year 2019. These achievements highlight the success of the strategic changes made in recent years from wide scale realization of efficiency and cost savings to recognizing the business into autonomous divisions, complemented by new manager at the helm, through a portfolio review, the setting of new strategic priorities and financial discipline. In this context, the turnaround continues for the E&C Onshore division, which has reset its strategy towards the energy transition, has reviewed its operational process and is recovering from the issues associated with legacy contracts.

Now move to results. Thanks to a solid operational performance, we closed the first half of 2019 with revenues above EUR 4.5 billion, increasing by 19% year-on-year. Our adjusted EBITDA margin was nearly 12%, supported by improvements in E&C Onshore. This was a touch lower than 2018, due to lower margins in the rest of the business. E&C Offshore posted solid results, closing first half with an adjusted EBITDA margin close to 14% as a result of strong performance on ongoing projects. These are now increasingly weighted towards more conventional activities. The subsea sector is showing encouraging signs, although a full recovery is yet to materialize. E&C onshore significantly improved its adjusted EBITDA margin, which proves the effectiveness of our continued turnaround. We believe we are on track to deliver the midterm margin target set for these divisions.

In drilling, our first quarter comment remains unchanged, an encouraging increase in revenues, return and adjusted EBITDA still at a solid level. Importantly, we closed the first half of 2019 with net debt down at around EUR 1 billion, underpinned by good cash flow generation. As a result of this performance and in addition to the net cash expected from the contract recently awarded and other consideration on which Stefano, our CFO, will expand later on, we are revising our net debt guidance for the year to below EUR 800 million. Our sector continues to experience headwinds, but given the operational performance we delivered in the first half, the award momentum and our progress in deleveraging, we are confident of our ability to meet our improved targets in 2019.

Let me now hand over to Stefano, who will talk you through the results in more detail.

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

Thank you, and good morning, everyone. I will start with group results for the first half 2019. I will then move on to divisional results and various metrics before handing over to our CEO for the business update guidance and closing remarks.

So starting with our customary Slide 6. Group performance in first half was solid. Revenues amounted to approximately EUR 4.5 billion, up by 19% compared to last year, reflecting growth in all division with a sequential acceleration in E&C Onshore. In line with our first quarter disclosure, we are presenting our results showing performances both before and after the application of the IFRS 16. In the appendix of our presentation, we provide a reconciliation table, which shows the impact of IFRS 16 on both Q2 and first half. As a reminder, for both EBITDA and net result, what we label with adjusted excludes special items, which I will comment on in a few minutes.

But now adjusted EBITDA. Adjusted EBITDA pre IFRS 16 was EUR 531 million, increasing around 10% compared to the same period in 2018. I would say driven by significant improvement in E&C Onshore, adjusted EBITDA pre IFRS 16 was close to 12%, where E&C Onshore margin accretion was more than offset by a reduction in the margin of other divisions. Adjusted EBITDA post IFRS, just for your information, was EUR 606 million. The improvement year-on-year in adjusted net income pre IFRS 16 came primarily from higher volumes, good operational performance and a lower tax rate.

With regards to tax rate, I would like to elaborate further. The tax rate on adjusted net profit significantly improved year-on-year to below 46%, from over 75% recorded in the same period of 2018. Indeed, for the full year 2019, we expect to achieve a tax rate of approximately 40%, as already mentioned during the previous conference call.

But moving ahead, let's take a deeper look at the divisional performance, starting with Engineering and Construction, Slide #7. E&C Offshore first half revenues increased by roughly 14% compared to last year. We can say a trend similar to Q1, mainly due to higher volumes in the Middle East and North Africa.

We closed the first semester with an adjusted EBITDA pre IFRS 16 of EUR 274 million and margin of nearly 14%, slightly diluted year-on-year. We have to say that the division continues to execute well despite increasing exposure to conventional activities and thus lower-than-expected recovery in the subsea segment. Just for your information, adjusted EBITDA post IFRS 16 was EUR 328 million.

Now moving on to E&C Onshore. Revenue growth accelerated sequentially in the second quarter, leading to a first half increase of 23% year-on-year, compared with just over 10% in Q1. The key growth drivers were higher volumes in the Middle East and Far East, West Africa and Caspian region. The division is turning around, as you know and -- as reflected by a 4.6% adjusted EBITDA margin increase compared to last year. Moreover, as you know, EBITDA margin performance doesn't reflect joint venture results booked in the equity participation line in our profit and loss, which is what we refer to as nonconsolidated projects. Adjusted EBITDA post IFRS 16, as you can see, was EUR 109 million.

Now let's move on to Slide #8 for an overview of drilling performance and starting with offshore. Top line improved by approximately 16% year-on-year, reflecting the higher activity of Scarabeo 8 and Saipem 12000, both partly idle during the first half of 2018. In addition to the start of activities of the Pioneer jack-up, which offset the idle state of TAB and the lower activity of the Scarabeo 9. Adjusted [EBITDA] pre IFRS 16 was slightly lower compared to the previous year at EUR 100 million, reflecting a still robust adjusted EBITDA margin in excess of 39%.

As previously described, the dilution is embedded in the contract portfolio structure. New contracts are awarded at current market rates whilst the contribution from long-term contracts negotiated before the downturn at higher rate is gradually phasing out.

Drilling onshore, on the other hand, revenues also increased by around 11%, reflecting the increased activity in Saudi Arabia and Latin America, partly offset by lower activity in the Caspian. Adjusted EBITDA at the end of the first half was close to 24%, the margin obviously. Finally, adjusted EBITDA post IFRS was, as reported in the slide, at EUR 102 million for Drilling Offshore and EUR 67 million for drilling onshore.

Now moving on to Slide #9. Here, you will have a look at the waterfall chart for our net result. Here, we present the special impact of special item as -- bridging from adjusted to reported for the first 6 months of this year. Our adjusted net income was EUR 65 million or EUR 60 million post IFRS 16, which is the starting bar on the left-hand side. As you can see, during the first 6 months of 2019, we made a provision of EUR 25 million for our redundancy plan, which is progressing in line with our time table and is on track to be completed by year-end. The other impact, although noncash, is for EUR 21 million related to the write-down of the Perro Negro 5 jack-up in Drilling Offshore and its associated working capital. In fact, market availability of latest generation offshore rigs is allowing us to evaluate replacement with leased assets.

After such special items, we closed the first half with a positive reported net income of EUR 14 million. Having said that, I should also mention that in the first half of 2018, the reported net loss was EUR 323 million, while today, 12 months later, we are announcing a positive net result.

Slide #10. In this slide, we present the evolution of net debt. On the right and left hands of the chart, we reconcile the impact deriving from the application of the IFRS 16 on our net debt, both at the end of 2018 and, as you can see, at the end of first half 2019. If you focus on the light blue shaded area, you see that we closed 2018 with a net debt pre IFRS 16 of approximately EUR 1.2 billion. At the end of June, we managed to reduce it by over EUR 100 million to EUR 1 billion in absolute terms, achieving a level of net debt in line with our full year guidance, an improvement of around EUR 300 million compared to the same period last year.

Cash flow positively contributed nearly EUR 300 million in the first half, as you can see in our graph. This contribution from operation was more than enough to offset the capital expenditures in the semester. The level of 2019 capital expenditures, as already mentioned during the previous conference call, will be concentrated in the second half as several assets are expected to be subject to maintenance and class requirements later on in the year.

Others, including working capital, in the graph is slightly negative, but let me say just a few words about this item. Within this line, working capital is positive, also supported by the South Stream settlement. The negative effect comes from a variety of items, among which is the acquisition of stakes in JVs or dividends paid to minority, just to give you some examples. Net debt post IFRS 16 at the end of June was nearly EUR 1.6 billion, including an impact of just above EUR 0.5 billion from the new accounting standard.

As our CEO announced in his opening remarks, today, we are improving our guidance on net debt to below EUR 800 million. And for that reason, I would like to walk you through our main assumption behind this new guidance. Firstly, this is a pre-IFRS 16 net debt guidance, just to be clear. Secondly, at the end of the first half, we have substantially achieved the level of net debt in line with our guidance for year-end 2019.

Thirdly, we took into account the positive cash implication of the significant awards recently announced and the related commitment to supplier in the second half of this year. Finally, we have already factored in higher minorities, some equity recapitalization and minor acquisitions. Consequently, our net debt/adjusted EBITDA ratio pre IFRS 16, is expected to decrease below 1x by the end of the year. Having said that, clearly, the positive working capital contribution expected from these advanced payments that I mentioned before, might be partly reabsorbed when project will reach the procurement and construction phase in the near future.

Now moving on to my final slide before handing back to our CEO. This chart shows the improvement in our books of the picture that, only a few years ago, if you remember, was completely different. Indeed, at the end of 2016, we had approximately EUR 0.8 billion of unbilled revenues linked to legacy contracts and the legal dispute stuck in our working capital. Following the implementation of our derisking strategy, the amicable settlement with South Stream and the positive outcome of the Gladstone arbitration in Australia, which I'm glad to announce today, these revenues are substantially lower and no longer a risk element weighing on our balance sheet. The cash-in just for the sake -- just to be clear, the cash-in of the Gladstone settlement will come later on, on this year, in the second semester. This outcome is the result of our commercial discipline, which has limited the rise of new disputes and led to settlement of legacy disputes, coupled with continuous derisking, which together have enabled us to reduce the volume of unbilled revenue to a really and truly negligible level.

Now our CEO will take you through the business update section. Thank you very much.

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

Thanks, Stefano. I'd like to open the business update section with highlights of our presence in Mozambique. Starting with the drilling offshore activities of Saipem 12000 and boosted by the recent award of the LNG project.

For over 60 years, our distinctive model has led us to create and share value in the countries we operate. It is something deeply rooted in our culture and our way of working. Mozambique is a new frontier in Saipem's global presence. We are thrilled to start this new chapter. It will create stable and long-lasting relations and new opportunities both for the country in the development of the structure and for us, and our supply chain in taking part in such a strategic energy development. This fundamental step also allows us to recognize as one of important participant -- to be recognized as one of important participants in the development of the country, with vast potential and to strengthen our presence in the Sub-Saharan Africa.

In fact, Mozambique is a land with important resources and following the discovery of large gas fields at the turn of the decade, is expected to play a key role in the global gas market. The country though needs to develop infrastructure, from transportation to energy, logistics and telecommunications, in order to sustain such a role. And as a diversified service contractor, we believe we have the expertise to be an ideal partner in such development. We are also participating in both the Onshore and Offshore E&C tenders for the other LNG planned investments, carried by Eni and jointly with Exxon, related to the development of the Area 4 in Mozambique, and we are looking with interest to other future opportunity in these other countries in East Africa.

Slide 4 (sic) [Slide 14] provides some details on these projects. After several years of negotiations and engineering studies leading up to a final investment decision, we are proud to have reached the award of such a milestone project. With this major contract, Saipem becomes one of the key players in the LNG sector, and one of the main participants in the new wave of investments, underpinning our central role in the energy transition. This initiative has been awarded in partnership with Chiyoda and McDermott, and with our stake of circa 75%, we lead the project as joint entity based in a dedicated building here in Milan. The scope of work consist of construction of 2 gas liquefaction trains of 6.4 million tonne per annum capacity, associated utilities, 2 LNG storage tanks, marine logistics infrastructures and building. The plant will be built at a site circa 30 kilometers south of the border with Tanzania, in a remote area with very limited transportation infrastructure. The first train is expected to be completed in the second half of 2023.

Moving to Slide 15 now. Looking at the contracts awarded in the second quarter, in this slide, you will note the 2 Russian contract in E&C Onshore announced at the end of April, soon after our first quarter presentation, for a total amount of circa EUR 500 million, together with a new LTA order by Saudi Aramco in Offshore E&C regarding package 43. The new contract in Russia are part of the new business opportunities associated with the amicable settlement agreement of the business with our Russian client, Gazprom.

The first contract with GazpromNeft relates to the construction of a sulfur recovery unit composed by 6 trains for the Moscow refinery. The unit is aimed at reducing sulfur emission and is in line with the highest environmental standards. We believe this contract is a good basis to capture additional commercial opportunities ahead. The second project is an onshore pipeline awarded by Infrastructure Development and Construction, IDC in Serbia, which entails an EPC scope for a gas pipeline-related compression station.

Regarding the offshore LTA package 43 award from Saudi Aramco for an amount of approximately EUR 100 million, our scope consists of the installation of crude and condensate pipeline connecting the Abu Ali facilities to Khursaniyah plant on the Berri Field. The project is expected to complete in the second half of 2022. The project, along with other smaller awards which include initiatives not announced and in addition to the order intake announced in the first quarter by the Offshore E&C division, represents approximately EUR 2 billion in value and has led to a book-to-bill above 1 in the first half.

Slide 16 now. Our award momentum is set to continue with various initiatives under negotiation or in tender, which are expected to be sanctioned or awarded in the near term. Indeed, immediately after close in the half year, we announced the award by Saudi Aramco of 2 major contracts in Onshore E&C worth an overall amount of circa USD 3.5 billion, which are associated with the development of the Berri and Marjan field. The scope of the first for the Berri crude increment program aimed at doubling production of the Arabian light crude and reaching the full capacity of the field entails the construction of a new oil and gas separation processing unit in the Abu Ali plant, where the condensate generator should be sent to the Khursaniyah plant, a new condensate processing facility, including facilities and process automation system.

The scope of package 10 of the Marjan development aimed at increasing the crude processing capacity of the Tanajib plant will consist of the EPIC (sic) [EPC] of 3 gas processing trains for acid gas removal and 3 sulfur recovery units and gas treatment. The second project has a higher technological content as it aims to almost entirely recover sulfur oxide from the environment and support the client in meeting the highest standard of CO2 emissions.

In terms of new orders, we also made good progress in Drilling Offshore, which you can see in Slide 17. I'm happy to announce that a new leased high-spec jack-up named Sea Lion 7, recently built, has joined our offshore drilling fleet. The rig is based on a custom design similar to our Perro Negro 8 and will soon be delivered. The rig will be employed under a 3-year plus 1-year option contract awarded during the last quarter by Saudi Aramco. The lease is part of our new asset-light strategy, which allows us to leverage our vessel management capabilities and well-recognized drilling expertise, taking advantage of the availability of the latest generation of rig units on the market and attractive lease prices. It allows us to update our fleet and pursue the opportunities that otherwise we will not be able to capture without a material impact on our balance sheet.

We are also applying this scheme in order to replace all rigs, rejuvenating the fleet and increasing efficiency. During the second quarter, we were also awarded one short-term contract by Repsol for the Scarabeo 8, boosting our utilization rate for this year. A new well in the Black Sea offshore Romania to be drilled by Scarabeo 9, the semisubmersible drilling unit is already undergoing conversion activities necessary to dismantle the rig tower and enable the transit under the Bosphorus bridge and reach the target location. Activities will start in the third quarter and last until second quarter next year.

I'm also glad to announce that after the closing of the first half, we were also awarded an additional 4-year contract by ADNOC in the Emirates for our Perro Negro 8. Activities will start in the third quarter in direct continuation with recent short-term extension. This achievement confirms the good relationship with clients in Middle East.

Moving on ahead. Our Slide 19 highlights the offshore drilling fleet's contractual engagement. Let me spend 2 words on the main ones. Saipem 12000, following the completion of activities in Pakistan for Eni, the unit is currently in South Africa for upgrading works before the start of its Mozambique campaign. Scarabeo 9 semi sub has completed activities in Egypt and is currently located in Cyprus, where conversion works are ongoing before reaching its next location, offshore Romania. Scarabeo 8, the rig is currently working for Vår Energi, former Eni Norge, for a quarter before going under contract for Repsol and subsequently Wintershall. As you can see on the chart, our opportunistic strategy has enabled nearly full utilization in 2019.

Scarabeo 7, following a recent extension, the rig is now expected to continue works in Indonesia until mid -- end of August 2019. We are currently marketing the rig. Perro Negro 8, as mentioned, the jack-up is now engaged under the recently awarded long-term contract with ADNOC. Perro Negro 7 is currently working on the long-term contract awarded by Saudi Aramco during the first quarter.

Regarding the leased assets which recently joined our fleet, the Pioneer and the Sea Lion 7, while the former is currently operating in the Mitzon project for Eni in Mexico, the latter is currently under preparation and expected to start operation in the last quarter of 2019. In addition to these 2, we are planning to substitute our Perro Negro 5 in Q2 next year with a new leased vessel which will take over activities in Saudi Arabia on a long-term contract.

Turning to Onshore Drilling. There is little update to our last commentary. The weighted average utilization rate in the first half was around 68%, slightly improved year-on-year from circa 67%. We believe that new long-term contracts will progressively contribute to a structural improvement. Following the recent commercial successes in Argentina and Bolivia with our first quarter results in April, we already anticipate 2 new contracts in Colombia with Ecopetrol. Altogether, these recent awards prove the effectiveness of our engagement efforts in Latin America, our efforts to diversify the region and represent a tangible sign of improvement in the area, aside from Venezuela. The Middle East remains a key area for Saipem as we consolidate our presence with the aim of expanding various contracts with Saudi Aramco as they approach the end of current commitments. Additional minor short-term contracts were also awarded in the second quarter.

Moving to Slide 21 (sic) [Slide 20], which shows the progress of our backlog. The Anadarko LNG award and other announced projects were major contributors, allowing us to reach EUR 9.5 billion of new orders in the semester, including minor acquisition and variation orders on contracts under execution, leading to a book-to-bill ratio above 2 in the first half. Our backlog jumped to EUR 17.6 billion at the end of June, the highest level since Q3 2015. This amount does not include nearly EUR 1.8 billion of contracts awarded in partnership with other players, which will be managed through dedicated project vehicles and therefore reported in the nonconsolidated backlog.

While the impact of recent awards is evident in the growth of our E&C Onshore division backlog, E&C Offshore Division backlog has increased in the first half delivering a book-to-bill above

(technical difficulty)

Finally, regarding contracts I commented earlier, the Offshore Drilling division backlog increased by nearly 14% while Onshore Drilling remained broadly flat.

Looking at the backlog by year of expected execution. You can deduce that our residual backlog for 2019, in addition to actual first half revenues, now ensures coverage of around 90%. The coverage ratio is in line with historical average at this point of the year. Large contracts awarded in the second quarter, in particular in E&C Onshore, coupled with contracts announced after the end of June, have increased our future revenue visibility.

Now there is a new slide. Slide 22 illustrates how Saipem is moving towards the role of global solution provider in the energy sector through the evolution of our E&C backlog components. This picture, I wish to highlight, might look counterintuitive if set against historical growth, I would say, given very close correlation of our share to the oil spot price. We are riding the energy transition, which is leading to a different mix of sources where gas, renewables shall play a growing role, supported by technology improvement, although conventional oil will still continue to play a significant role. Due to our diversified profile and recent awards, gas, renewables and oil development inversely correlates and now represents the vast majority, 2/3 of our portfolio in E&C. The key drivers of this growth are LNG regasification, pipeline, fertilizer and other segments such as infrastructure.

In order to become the partner of choice in this transition, we are increasing our investments in technologies and R&D. In fact, our portfolio includes, on top of key technologies in offshore and subsea E&C, LNG-related applications throughout the value chain from liquefaction to transport to regasification, our proprietary technology in fertilizer. Moreover, we are maximizing energy efficiency in our own assets to develop innovative and efficient initiatives to be applied mainly on vessels and in yards. We are devoting efforts to meet our clients' needs in targeting progressive decarbonization and management of the CO2 value chain. These efforts cover both onshore and offshore, presenting to clients applications such as carbon capture and storage, CO2 utilization and hybrid solutions which integrate renewables and energy storage concepts with traditional oil and gas.

In renewables, the focus onshore is on biorefineries and concentrated solar and geothermal energy. Offshore, our

(technical difficulty)

in Scotland is something we aim to replicate in other geographies. All this leverages Saipem's innovative culture, core to our DNA.

Slide 13 (sic) [Slide 23] provides an update on the pipeline of projects we are negotiating or tendering for in the E&C Offshore. During the first quarter, I wish to remind you, we elaborated the slide of E&C opportunities, both offshore and onshore together, aimed at providing greater visibility on selected near-term opportunities. This has an aggregate value in excess of EUR 28 billion, potentially to be sanctioned by around year-end.

Indeed, a number of final investment decision has effectively been taken, and we have been successful in winning some important awards, especially in E&C Onshore. Therefore, this time, we decided to focus on offshore initiatives and show that we are currently tendering on opportunities worth around EUR 8 billion. These are geographically diverse and cover various business segment and are due for near-term awards and/or sanction. Among these are offshore projects still awaiting final investment decisions, such as Payara in Guyana, Rovuma LNG offshore in Mozambique, the Scarborough project in Australia, some LTA in Saudi Arabia and various renewable decommissioning and some integrated initiatives. Finally, although E&C Offshore had a relatively quiet Q2, it is worth highlighting that our initiatives worth circa EUR 1 billion that have already been awarded to us, pending final investment decision, which we expect to be forthcoming in the near term, underpinning our confidence to deliver a yearly book-to-bill in E&C Offshore around 1.

Let's now move to guidance and to closing remarks. The solid order intake year-to-date and the prospects across our divisions allows us to confirm our revenue guidance of approximately $9 billion, with an adjusted EBITDA margin in excess of 10% as well as our expectation of capital expenditure of around EUR 0.5 billion, broadly in line with 2018. The first half provides a good set of results for a transitional year such as 2019. We are closely monitoring our clients' behavior with respect to future FIDs, ready to take advantage of any tangible sign of recovery. Our CapEx already captures more investment in the space of gas and renewables in order for us to be well positioned for the emerging demand, and this goes on top of the structural investments, in particular those needed to maintain to the highest standard our offshore rig fleet.

Finally, on net debt, as I said, and as Stefano developed earlier, at the end of June, we had already brought down our net debt to EUR 1 billion, in line with our previous full year guidance. We now expect to close the year at a level below EUR 800 million pre-IFRS 16, which would represent on a full year basis a net gearing on EBITDA of below 1x compared to over 1.1x at the end of last year. This shows that the deleverage for this year is now secured in our number.

Let's move to the final slide, which -- of closing remark, just recapping all we said throughout the presentation. I would start saying that the first half showed good progress and results on trend with our full year guidance. Record order intake drove the backlog to above EUR 17 billion and the book-to-bill above 2, the highest since Q3 2015. We have taken on more significant further business in the gas segment, in Mozambique which delivered on our strategy to support the energy transition, there since 2019, and improve medium to long-term visibility. We see good near-term potential project sanction in E&C, including EUR 1 billion worth of projects secured in the Offshore E&C division, which are pending final investment decision. Finally, we have improved net debt guidance to below EUR 800 million.

And with this, I will turn the call over to the operator to open the Q&A section. Thank you very much.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Kevin Roger from Kepler.

Kevin Roger - *Kepler Cheuvreux, Research Division - Research Analyst*

Just 2 on my side, please. The first one is related to the E&C Onshore. Basically, it seems that there is another execution issue on the project managed by a joint venture. So I was wondering if you can precise the region, the nature of this project and why the project is basically lagging? And the second question is related to the next LNG opportunity in Mozambique. We had press article recently saying that the client has reasked for new bids on this project. So I was wondering if you can give some, let's say, information in terms of timing for potential FID on this project?

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

Okay. For the project manager in JV, I think Maurizio will address.

Maurizio Coratella - *Saipem S.p.A. - COO of the On-shore Engineering & Construction Division*

If you can hear me, that's Maurizio speak. I didn't get clearly your first question, if you could...

Kevin Roger - *Kepler Cheuvreux, Research Division - Research Analyst*

It's related that in the E&C Onshore, the -- basically, the adjusted EBITDA does not include the worsening from a contract executed by a JV company. So I was wondering if you can explain this contract. And the reason for the, let's say, sorry for the word, poor execution.

Maurizio Coratella - *Saipem S.p.A. - COO of the On-shore Engineering & Construction Division*

Yes. So that refers to a project we are executing in Turkey, the refinery or the STAR Rafineri that is currently undergoing performance tests, which we plan to complete by the end of July. The project has suffered some delays due to various reasons, but currently we are discussing with clients. And -- but yes, it has started production and processing feedstock for the client. So we have accounted for cost, aiming at achieving provisional acceptance by end of September 2019, and the presentation is considering cost to allow a completion of the project. So at this stage, we do not anticipate further deterioration of the margins of this specific project.

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

In terms of the other Mozambique opportunity, the Eni, Exxon. Obviously, we don't have a much different insight into the process. We hear that there is still the willingness from the operator to come to a final investment decision before the end of the year. That would imply the word about the LNG for which we continue our dialogue with Exxon, which is operating the onshore plant as well as we continue dealing with Eni as far as the

Rovuma offshore development. And of course, that is quite an important opportunity to us, but it is clear that we are not -- we do not have any control whatsoever on the process.

Operator

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

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

Yes. I would like to continue with E&C Onshore. Basically, I think, 3 years ago, you set yourself a target for an EBITDA margin of 5%. So you are here and you are here probably a little bit earlier than what most of us was expecting. So my question is that, is 5% EBITDA margin or 6.5%, is it going to be the new norm? So this is my first question. And my second question is just would like if you could give us a little bit of color about the relatively weak order intake in Offshore E&C.

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

As far as -- yes, I've been referring to our target margin for the Onshore E&C business consistently in the last few quarters. I think we said that the target is the mid-single digits. The -- I think, at this stage, we maintain the mid-single-digit 5% as the target. If you recall, I was connecting the target to the execution of the 4-year plan. We are in the process of executing the first year of the 4-year plan. So at this stage, I would still maintain the target, which we announced as the -- what we are aiming at. Then of course, should there be any different view in terms of improvement, we'll let the market know. But for the time being, 5% is the target over the 4-year plan. As far as the order intake in the offshore, Stefano Porcari.

Stefano Porcari - *Saipem S.p.A. - COO of the Off-Shore Engineering & Construction Division*

Good morning. First of all, I would like to repeat what Stefano Cao said, basically that our order intake in the first half of the year was related to a book-to-bill around 1. So I think that is -- we are in line with our forecast. Second point I would like to say that during the year, we have -- during the quarter, we have been awarded 2 contracts as a importer like the LTA Lamprell 43 for Aramco Saudi Arabia and as an upside contractor under the Tortue of phase 1 project for BP in Senegal and Mauritania. Then we have more projects that we are not mentioning because they are less important. However, as I said earlier, I would like to underline that we have already started to work on some projects for a value of more than EUR 1 billion and with some important projects, which we are working for the final investment decision. And hopefully, this final investment decision will be taken before the year-end. So it's not -- we are not in the position unfortunately to put these numbers in our slides, but they are very good, let's say, situation regarding the acquisition. And for the future, I can say that we have a very important prospect in the year. So we plan and we expect and we hope to achieve a book-to-bill equal to 100 at least in our plan.

Operator

Your next question comes from the line of James Evans from Exane BNP.

James Matthew Evans - *Exane BNP Paribas, Research Division - Analyst of Oil and Gas*

A couple of questions from me. On Onshore E&C, I want to ask about capacity. You've won a lot already in the first half and in July. Just how much more work can you really take on, especially given that LNG remains strong and when do you have to start being disciplined. Can you give us any idea of a revenue limit or people or intake? Just what was the limit for this business? And secondly, sorry if I missed it on the call, but could you just give us an update on what's going on with your drilling businesses, the joint ventures or divestments you want to enter into? Have you made any progress over the last couple of months?

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

Maurizio, I'll take over the first question concerning the workload and how much would be our spare capacity for additional contract award during the second semester. Well, in particular, as far as the Mozambique project is concerned, we are engaged -- sorry, we are engaged on these project since 2014. So we have been working since the very beginning, involved in FEED exercise that allowed us to reach quite a good level, a sound level of engineering progress to date, that will reduce also the execution risk, if you want, for the subsequent activities and phases of the project. In the meantime, in Saudi Arabia, we are almost completing a number of projects, like Khurais, like Jazan, that have absorbed a the big number of resources. So we see the new awards as a continuation of load for the region, which will not impact or subtract additional resources from the headquarter of the various hubs in which we develop our engineering activities. We don't see at the time, at this time, any particular restriction in terms of resource availability to carry over the project we have already been awarded and to look at those which we consider target for the next 6 months of the year.

Maurizio Coratella - *Saipem S.p.A. - COO of the On-shore Engineering & Construction Division*

In terms of update on JV, yes, you're right. A year ago, I was very vocal in saying that we were pursuing opportunities in the 2 drilling business in order to find suitable partners for the 2 businesses. The process is continuing. We are analyzing some situation, which we consider attractive. We are deepening our knowledge of the opportunity. And of course, we'll communicate to the market the outcome of exercise at the moment we are ready. For the time being, we remain positive. We continue the exercise. And indeed, we'll let you know the -- any possible outcome.

Operator

Your next question comes from the line of Sahar Islam from Goldman Sachs.

Sahar Islam - *Goldman Sachs Group Inc., Research Division - Analyst*

Firstly, just to come back on that Onshore E&C margin in 2Q, I know you've reiterated the 5% longer-term target. Can you give us any added color on what drove the strength in 2Q, please?

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

You're asking -- the question is related to the Offshore E&C...

Sahar Islam - *Goldman Sachs Group Inc., Research Division - Analyst*

Sorry, Onshore E&C.

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

Onshore E&C, right?

Sahar Islam - *Goldman Sachs Group Inc., Research Division - Analyst*

Yes, please.

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

And what is the color? Because as I said, we have established a target for the full year plan. We are in the process of achieving the target for the time being. We maintain the 5% as the achievable target. We are in that situation, which we cannot say is unsatisfactory. But still, we need to continue with the turnaround of the business, with the rejuvenation of the organization, with the further improvement of the working processes and commercial processes.

Sahar Islam - *Goldman Sachs Group Inc., Research Division - Analyst*

Okay. And then sticking with LNG, I know you've been asked about capacity, but how do we think about the risk management when we think about these big projects, particularly given some of the issues you've seen in the U.S. And I appreciate it's different geographies, but when we think about these large projects?

Unidentified Company Representative

Yes. Well, the projects we have in our portfolio are substantially different than those you're referring in the U.S. since it is, I would say, a big difference in the market environment. We are very familiar with awards of this size and nature, in particular, I would say, in Africa. So we believe if the question was related to the risk associated to the Mozambique project, that we have a very robust execution strategy that relies on more than 5 years of engagement in the project of studies. We will take into due consideration all the logistics implication of a country that is not prepared for such a huge industrial infrastructure. And this has been accounted for in the preparation works and studies along with our panel. So we believe that all the risks have been well identified and are tackled and under full control.

Operator

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

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

Three, if I may, actually. Just firstly, I wanted, Stefano, just to follow-up on James's first one, on the drilling business. Is there any particular issues that you faced over the past year in any of these negotiations that you could potentially us more color on? Secondly, just -- obviously, I note that in the slides that you've settled on Gladstone LNG. Is there any more granularity you can provide on the settlement there? It sounds you said you're going to get some cash-in in the second half. Any more details around that would be great. And then thirdly, obviously, cash flow is good in the quarter, balance sheet is clearly getting better, your backlog is growing very quickly. When can you update us about potentially resuming the dividend?

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

Okay. A bit more color on drilling. I think the color I may add is the fact that, obviously, we have been coming to market, trying to collect all the available opportunities. And that was an exercise, which was not something very easy. Certainly, it has been time consuming. Then obviously, among the potential opportunities, we had to make an assessment on the compatibility of the portfolio of assets, if we are talking of an industrial combination. And indeed, on the reliability strength and value assets, which would have been brought by the -- an investor, sort of a equity investor, which would have relied on our operational capabilities. So that has been time consuming, but it has been quite interesting as far as the number, the restricted number at the end of the process of opportunities. Then once we have set a target, a limited number of targets, you have to start discussing and getting into the nitty-gritty of the potential agreement. So I would say that we are still in the process. And as I already had the opportunity to comment, we consider that there are some limited, as I said, very limited number of opportunities, which deserve indeed time and attention. And this is exactly what we are busy on at the moment. And as I said, it will be obviously our utmost interest to let the market know that we have finalized one of these deals. As far as Gladstone, Stefano?

Stefano Porcari - *Saipem S.p.A. - COO of the Off-Shore Engineering & Construction Division*

Yes, about Gladstone, to be honest and transparent, was already taken into consideration at the guidance of the initial this year when we gave net debt in the region of EUR 1 billion. So in reality, we do not have any changes in the latest guidance that we gave today.

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

Okay. In terms of dividend, the dividend is up to the Board to decide. We had a historical, I have to say, but very less philosophy approach of 1/3 of the net profit. For the first time this quarter, we show a positive profit in the reported numbers. And as I said, that will be taken into account at the end of this financial year and the Board will take a position. At this stage, we don't neither confirm nor contradict any expectation. This is something which we'll be dealing with the full year results.

Operator

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

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

Quick question for me, please. Stefano, you made some comments during the presentation about some strategic investments in new technologies, and you named off carbon capture, decommissioning renewables, solar, geothermal. Just wondering if you are going to develop some of those technologies internally or were you planning to look at some inorganic acquisitions as well?

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

Amy, I think -- I mean you have been following me for the past 4 years. And you know that I believe to be particular interest in the develop -- technology development of our industry. So I think we have devoted a lot of time and attention. And also part of our budget of the innovation on the direction of identifying what are going to be the winning technologies for the future, taking into account the profile, which we intend to take going forward, moving from a straightforward oil service contractor to a solution provider, a technology solution provider. So I think the emphasis was on the fact that we are not indeed disregarding this focus. So we'll keep working on it. We do not think as a cultural -- in terms of cultural approach to develop our own technology. We rely much more on our capacity to scan the market and identify those, which may be particularly consistent with our strategic target. So to make a long story short, no, we are not -- we do not intend to be a developer. We intend to group together with people who are or have been developing those technology and join forces with them.

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

Okay. And perhaps as a follow-up on related question, though, your CapEx to date is only EUR 135 million, quite below the run rate needed to get to your full year guidance of EUR 500 million. So any -- so kind of guide us on kind of what you're spending on in the second half of this year, please?

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

Yes. Yes, obviously, we have highlighted the fact that after 6 months, we have only spent EUR 135 million and we have renewed the guidance for the EUR 500 million. You know that there are some major expenses, which come on lump. And specifically, the class of our major rigs. At the moment, we are undergoing the -- some of these class works. And so we see a second half of the year, which will be much more intense in terms of CapEx absorption. So all in all, we think that EUR 500 million is the level for the full year CapEx.

Operator

Your next question comes from the line of Lillian Starke, Morgan Stanley.

Lillian Starke - *Morgan Stanley, Research Division - Research Associate*

Just a couple of questions from me. The first one is with regards to the Mozambique project, I mean, generally, your involvement in the country with LNG projects. If you could just share a little bit -- and you mentioned you've been involved with these since the FEED stage, so probably you're quite familiar with their requirements, et cetera. But I was just wondering if you could share a bit more color on how are you assessing derisking the project in terms of the infrastructure available, access to local resources or any sort of things that you have anticipated in order to manage the risk that this project may entail? And the second question I had was with regards to the comment that you mentioned on renovating the fleet, looking at more leasing of rigs, how should we think about it going forward? Is there any segment you're looking to position yourselves more into with these pieces, whether it would be jack-ups or floaters?

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

Onshore, Maurizio?

Maurizio Coratella - *Saipem S.p.A. - COO of the On-shore Engineering & Construction Division*

Yes. As far as the derisking strategy and the execution plan for Mozambique, we are looking at reducing the spec build activities to the maximum extent possible, given the fact that the site location is remote and has not land easy access from the main towns surrounding the areas. Limiting the spec build will require us to engineer for a more modularized approach, where activities will mainly be carried out in a more controlled environment in terms of quality, in terms of material warehousing, requiring less of a pick of people and labor directly engaged on site. This is in brief the execution strategy. I don't know if it answer to your question hopefully.

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

Okay. Marco? Opportunistic approach and rig available.

Marco Toninelli - *Saipem S.p.A. - Director of Drilling Offshore Division*

Okay. Yes, Marco Toninelli. Talking about rig availability, fortunately, we have a very good level of occupancy of our own rigs. And we see a window of opportunity in this period of rigs available in the market. We also are seeking new and idle shipyards, which are available for rental at very competitive prices, which gives you -- us the opportunity to bring them to our fleet, exploiting our capacity to manage those rigs. Of course, this is mainly driven by the limitation that we have in capital expenditure. Bringing these rigs into the fleet requires very, very limited expenditure related mainly to adopting rigs to specific contract requirement. We secured so far 2 rigs already. We are negotiating the third, and we are looking at more. Of course, this is a window of opportunity, as I said. It will not last forever. The rigs in the markets are not infinite. But as far as we can grab any opportunity, we're quickly and opportunistically, going after that. This turns into our rejuvenation of the average age of fleet. With actions that we've taken so far, we lowered from an average of 20 years of age to around 15, 14 years, which of course increases our efficiencies and our position within -- with our clients. I hope this has been clear.

Operator

And your next question comes from the line of Mick Pickup from Barclays.

Michael Brennan Pickup - *Barclays Bank PLC, Research Division - MD & Senior European Oilfield Services Analyst*

A couple of questions for me. Firstly, when I look back to West Africa opening 15, 20 years ago, you went in with a strategy of local content, building yard. Given you're so excited about Mozambique, is there any plans for building out your own presence in Mozambique looking forward to the future in the offshore, sir?

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

The -- I'm not sure I quite got the point, but I think you referred to our history, whereby we have created -- we have positioned ourselves over the years in various countries. Obviously, that was with the aim of becoming sort of local operators in the various countries. So if the question is whether we intend to apply the same approach to Mozambique? I think the answer straightforward is as simple as yes. We have done it already in other countries. We heavily rely on the expertise and the experience, which we have made over the year. We have already -- we had already the opportunity to have some important meetings with high -- very high official, actually the President of the country who has kindly accepted to come and see us here in Milan. And that the impression all in all that there is the utmost motivation for the political structure of the country to create a solid basis for growth. They recognize that there is a lot to do, and we have tried to convey the message on our end that we are there not only to fulfill the contractual commitments, but we are there to establishing ourselves as well as we have done in many other countries in the sub-Saharan Africa.

Michael Brennan Pickup - *Barclays Bank PLC, Research Division - MD & Senior European Oilfield Services Analyst*

Okay. And second question. If I look at the press release by one of your competitors yesterday on Arctic LNG and I read between the lines, it would suggest that there's likely to be an award for you on that project. Am I correct in that assumption?

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

I'd notice myself. On the slide, the one was -- which was an attachment as it was a very small name. It was referring to Saipem. I think that is what they had decided to announce in their own right. We will announce the commitment when the commitment will be finalized, if any commitment will be finalized. At this stage, we have not much more to add.

Michael Brennan Pickup - *Barclays Bank PLC, Research Division - MD & Senior European Oilfield Services Analyst*

Can I assume that you're going to want to build modules in Karimun and fill out your capacity there?

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

Yes, you are right. We are there. We are in the process of doing the substructure, the building of the substructure. It would certainly make some sense to avoid difficult interfaces and do a sort of continuous work without interfaces. But that is not a contractual commitment. That is something which still needs to be seen and to be finalized.

Michael Brennan Pickup - *Barclays Bank PLC, Research Division - MD & Senior European Oilfield Services Analyst*

Okay. Perfect. And just a final quick one. I think in the press the other week, you're doing a few reshuffling around the divisional head level. Can I just ask what's behind that? Or is it just part of normal business?

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

Let me say, I think there has been a sort of continuous evolution in the way we have decided to redesign the operational structure of the company. And at the moment that we have decided to move from the highly centralized organization to an organization based on divisions, I think I've been very vocal in saying that by doing that, we would -- we were expecting and we -- indeed, we are expecting to expose a large number of the management organization, taking progressively higher level of responsibilities. I think what we are showing with this latest change is the fact that by the same token, we need to expose those managers, those first-level managers to different experiences. So it comes as a sort of natural conclusion that there may be -- indeed, there has been a shift whereby the chief operating officers, they change seats and they expose themselves to different business. All in all and in summary, the target is that there is still -- although we have 5 divisions, there is still one Saipem and one Saipem only.

Michael Brennan Pickup - *Barclays Bank PLC, Research Division - MD & Senior European Oilfield Services Analyst*

Well done on the backlog.

Operator

And your final question comes from the line of Mark Wilson from Jefferies.

Mark Wilson - *Jefferies LLC, Research Division - Oil and Gas Equity Analyst*

Sorry, one more regarding Mozambique LNG. You've answered quite a lot around it. But I'd just like to follow-on that and say, in the 4 years since the CCS JV has been -- was chosen for that contract, I was just wondering what has changed in the contractual terms that you may want to speak to, given that the market has changed so much over those 4 years?

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

I'll reply since I've been participant to the 4 years. What has been contractually changing? Probably not so much. What has been changing is the JV because originally, we were 1/3, 1/3, 1/3 JV. And then during the latest round of negotiation, we have taken the -- not only the role of the operator of the JV, but we have taken a 75% portion of the JV. So we have taken a larger responsibility in terms of execution of the project. That's the reason why we have the staff dedicated -- a fairly large dedicated office here in San Donato Milanese, where the various partners will convey in order to develop first the engineering of the project and then procurement and then the execution, which will lately move to the site.

In terms of relationship with clients, the difference is, we have been developing engineering. So we have progressively become more acquainted with the complexity, the difficulties and the peculiarity of the project, which in a way has helped to increase the confidence on our capacity to execute the project as a profit.

Mark Wilson - *Jefferies LLC, Research Division - Oil and Gas Equity Analyst*

Okay. And just to confirm on that, is there any reimbursable component within the contract?

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

No, no. There is no reimbursable component. That is from EPC.

Thank you. I think that's all. Thank you very much for participating, and certainly look forward to next opportunities in the ongoing future. Thank you.

Operator

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