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PRESENTATION

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

Good morning, ladies and gentlemen, and welcome to our First Quarter 2018 results presentation. I'm joined today by Giulio Bozzini, Chief Financial and Strategy Officer; and by Stefano, Maurizio, Marco and Francesco the head of our division, in order to provide you with an update of our first quarter performance and strategic actions.

As we continue to navigate the current trough in the cycle, we remain focused on securing new business, delivering projects for our clients through effective execution and enhancing our organizational efficiency. And of course, we are constantly alert to strategic initiatives as I will explain shortly.

Despite the declining level of revenues, due to lower activity across all divisions, this approach has allowed us to maintain, in the quarter, the margin in line year-on-year with adjusted group EBITDA in line with our full year guidance. This has been possible thanks to healthy E&C Offshore and Offshore Drilling margins, despite the significant revenue drop especially in Offshore Drilling year-on-year.

The E&C Onshore division is working to keep on improving its performance and positioning in current evolving markets. In Onshore Drilling, the difficult situation in Latin America is mitigated by ongoing cost efficient initiatives. In this area, we've started seeing a slight recovery of bidding opportunities.

We closed the quarter with a lower intake of circa EUR 1 billion mainly attributable to the Duqm project previously announced in February. Variation orders in E&C divisions and drilling contracts.

Book-to-bill ratio stood just above 50% and backlog coverage of 2018 revenue guidance slightly improved to circa 84%. However, I can confirm that we are very active with bids and tenders and enjoy good visibility across potential future awards.

I am pleased to highlight that we have taken advantage of the current trough in the cycle to pursue a strategic goal with a move to acquire our newest vessel to be remain Saipem Constellation. This new multipurpose vessel designed for deepwater rigid and flexible reel-laying operations gives us across the brownfield-type market where we had, until now, only a small presence. As a building block of our strategy, this acquisition will be a strong enabler for our integrated subsea project offering, and I will expand later on this.

As a result, our net debt and CapEx guidance have been updated to respectively circa EUR 1.3 billion and circa EUR 0.5 billion. Let me now hand you over to Giulio.

Giulio Bozzini Saipem S.p.A. - Chief Financial and Strategy Officer

Thanks, Stefano. Looking first at overall group performances. Revenues amounted to EUR 1.9 billion, 15% less than in the first quarter 2017, mainly due to the contraction of E&C Offshore, E&C Onshore and Drilling Offshore activities.

Adjusted EBITDA amounted to EUR 214 million compared to EUR 256 million in 2017, mainly as a result of lower activities in Drilling Offshore and high first quarter 2017 margins in the Floater segment, now part of E&C Onshore.

Adjusted net result amounted to EUR 11 million versus EUR 54 million in 2017. The contraction is attributable to lower operating result and higher tax rate. With regard to tax rate, as commented in March, 2 factors are expected to continue to weigh on the group tax rate at least in the short to medium-term. Firstly, the limited recognition, if any, of deferred tax assets in loss-making subsidiaries due to the uncertain market scenario. Secondly, the higher incidence of withholding taxes since they apply directly to revenues.

The 2018 first quarter reported result, which includes special items relevant to the provision of EUR 13 million for our ongoing redundancy plan shows a loss of EUR 2 million. As anticipated in our last presentation, starting from this quarter, Floater results are no longer shown separately but included within the E&C Onshore division.

Xsight results are also included in the E&C Onshore division because the business is still in the startup phase.

E&C Offshore revenues decreased by 18% versus the first quarter of 2017, mainly due to lower activity in Kazakhstan, and in Central and South America, partially offset by higher volumes in Middle East.

Adjusted EBITDA in this division was stable year-on-year as a consequence of healthy margin as 12.8% versus 10.8% in 2017, thanks to good operational performance.

The E&C Onshore revenues decreased by 12% versus 2017 due to the lower activity in the Middle East and Far East and in West Africa, partly offset by higher volumes in Central and South America and in Azerbaijan.

E&C Onshore adjusted EBITDA margins confirmed the recent trend of gradual recovery. The decrease year-on-year is a temporary phenomenon attributable to the high marginality of the business line Floater in the first quarter of 2017.

Drilling Offshore revenues decreased by 28% versus the first quarter of 2017, since both Scarabeo 5 and Scarabeo 8 were idle during the whole quarter. This negative effect was only partially compensated by the full activity of Scarabeo 9, which underwent class reinstatement works in the first quarter of 2017.

Adjusted EBITDA in this division decreased by 30% year-on-year with margins extremely resilient despite lower activity also thanks to cost savings initiatives. Results still partially benefited from long-term contract, negotiated in significantly better market environment as rates are renegotiated they will realign to current market conditions.

Drilling Onshore revenues slightly decreased by 5% versus the first quarter 2017 due to the devaluation of U.S. Dollar. Adjusted EBITDA in this division slightly increased by 3% year-on-year benefiting from cost savings and slightly higher utilization rate in Latin America.

Net debt at the end of March 2018 amounted to EUR 1.2 billion, confirming a declining trend from EUR 1.45 billion at the end of 2016 and from EUR 1.3 billion at the end of December 2017.

As we have previously flagged, our payables linked to the settlement in Algeria mainly relating to the LPG arbitration were paid in the first quarter of 2018. Nevertheless, first quarter 2018 net debt evolution continue to be positive, benefiting from the cash flow generated in the period, additional CapEx optimization efforts and the working capital dynamic probably in line with our expectations.

It needs to be highlighted that the acquisition of the new E&C Offshore vessel is due to be completed shortly and will, therefore, impact

CapEx and net debt in the second quarter of 2018.

As usual this slide summarize our financial profile as at the 31st March 2018, which presents no major changes versus December 2017, characterized by an average debt maturity of 4.1 years, limited amounts to be reimbursed on average in 2018, 2019 and 2020, available cash amounting to approximately EUR 1.3 billion, undrawn committed cash facilities totalling approximately EUR 1.8 billion. A portion of the significant amount of the available cash will be used to finance the acquisition of the new E&C Offshore vessel. Thanks for your attention, and let me hand you back to Stefano.

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

Thank you, Giulio. Let's move now to our business update. I would like to start by introducing our new fleet entry, the Saipem Constellation, the acquisition of which is being finalized. We have made this strategic move to complement our set of subsea development solutions with reel-laying capabilities. We will now become a full-fledged player in the tie-back market, winning access to new project opportunities and expanding our client base and geographical areas of activity.

As you can see, we have decided to do it through a first-class vessel, she can lay rigid reeled pipes up to 16 inch diameter, and with industry-leading reel-lay tension capability. She can lay pipes in both conventional water depth and deep frontier acreage. The vessel is endowed with 4 interchangeable pipe reels and 4 spare reels together with 3,000 metric ton crane and exceptional storage capacity. These confer on the vessel the flexibility to work for sustained periods in remote locations and logistically inefficient regions. The Constellation's configuration allows its deployment as a versatile and competitive one stop shop and a multi-purpose vessel for brownfield projects as well as other offshore developments in combination with the rest of our fleet.

Over the years, we have been continuously evolving our fleet to best serve the industry in the safest, most effective and efficient ways. The acquisition of Rigid Reeling pipe lay capacity will allow us to participate competitively in the market of brownfield subsea tie-back. The developments are proliferating due to their lower level of investments, exploitation of existing infrastructure and shorter time to market by comparison to greenfield initiatives.

Saipem Constellation advances our subsea strategy as discussed, when we last met, we have innovative subsea solution and equipment under development aimed at reducing overall investment cost and unlocking new reserves. Their integration through the deployment of the Constellation capabilities will extend our services and provide added value to clients. These services include longer tie-back enabled to enhance fluid transportation by means of local heating station and electrical heater pipe-in-pipe, both technology are under development. By pursuing this strategy and extending our areas of interest, we believe we are also setting the basis for a stronger position in the integrated SURF and SPS segments.

The subsea rigid tie-back market enjoys a significant flows of opportunities in the Northern Norwegian fields and in the Gulf of Mexico, where the level of maturity of oil fields make them ideal candidates for brownfield development. These 2 geographies together account for the majority of the visible tie-back opportunities globally.

As you can see, by targeting these new activities in those regions, we consolidate our client base made of oil majors and the select group of local and independent operators. We also see a number of opportunities in West Africa where although the number of reeling-enabled project is smaller than the North Sea and Gulf of Mexico, they represent larger and more complex greenfield EPCI projects.

In conclusion, even though we have just commenced marketing in the vessel, we see a strong pipeline of opportunities. We have identified several, which we believe represent a target for 2019 and 2020, potentially totaling circa \$7 billion. The great versatility of the Constellation allows us to commit the vessel on ongoing projects in the Middle East in place of a third party vessel.

In a persistently difficult market, we recorded a low level of award in the first quarter, although we feel a good visibility on future prospects. The chief award relates to Package 3 Offsite Facilities for the Duqm Refinery project announced to the market in February. This valuable project was awarded to us in consortium with CB&I. The operation is expected to start during the second part of the year and to last for about 3 years. We are happy to return to Oman after many years of absence with the prospect of taking part in a new interesting program of investment ahead.

In Offshore Drilling, we're seeing new short-term contracts materialize, in particular for our harsh environment semi-sub Scarabeo 8 is a result of our recent commercial efforts.

In addition to the initiatives disclosed when we last met in March regarding the exercise of the option by Shell for a second well in Norway for Scarabeo 8, and the 5 wells plus 5 optional wells contract with Total in Congo for the TAD, which replaces the previous contract with Eni.

We have further secured our additional assignments for Scarabeo 8 in Norway. The first awarded in the first quarter is a 1-well project for Total to be executed following the completion of the operation under the Shell project expected during the fourth quarter of 2018. The second is a contract awarded by Aker BP during the second quarter, which entails 4 wells plus 2 optional, to be drilled after the completion of the contract with Total. Expected around year end, and employing the rig for activities at least until mid 2019.

These recent awards confirm an increasing demand in the area and the interest of the market for harsh environment semi[subs] like Scarabeo 8, one of the key asset of our fleet. Furthermore, we are very satisfied by the return of Total as a client also for the drilling divisions and to have established a new business relationship with Aker BP given its role in the Norwegian market. We are determined to extend our client base and while focusing on the short-term commitment to retain the flexibility to capture the market recovery. As announced in the second quarter, Saipem has been awarded an offshore sea project by ConocoPhillips for the commissioning in the U.K. sector of the North Sea. This project is further enforcing our presence and solid expertise in a strategic businesses such as the decommissioning.

Finally, Saipem Offshore Division has been awarded a new project in the Arabian Gulf involving engineering construction, offshore installation and commissioning of a new crude transmission pipeline. The contract has been awarded by a joint operation between Aramco Gulf Operations Company and Kuwait Gulf Oil Company. In terms of prospects, among the many projects under tender, it is worth mentioning how the process of early engagement with clients or collaboration with other players is uncovering interesting opportunities. In this respect, Xsight has been awarded several FEED and licensing contracts, which open for future potential EPC prospects in refining fertilizer as well as LNG segment.

I'd like to highlight an interesting project frame agreement signed with the Uganda government and a private investor group for the development of a refinery. The first step for Saipem would be the execution of a FEED contract which, in the event of a final investment decision in the longer term, may translate into an EPC contract.

Similarly, the Tortue Maritime construction package for BP in Senegal, which we are pursuing in collaboration with Eiffage, also involves an initial FEED contract, and in the event of final investment decision, an EPC award.

We closed the quarter with backlog at EUR 11.5 billion, down circa 7% from year-end. This reflects an overall erosion of circa EUR 0.9 billion following an intake of EUR 1 billion of contacts in the quarter, giving a book-to-bill ratio of circa 0.5. Thanks to the above mentioned Duqm Refinery, the onshore E&C divisions show a relatively stable backlog. While the reduction in Q1 is concentrated in the offshore E&C as well as in the Drilling division.

Regarding the backlog split, by year of execution, 2018 coverage of the revenue guidance for 2018 has slightly increased to 84% on the back of works related to new orders, including variation orders on ongoing projects to be executed during the year.

The new Offshore Drilling contract are improving our vessel utilization. With our customary slide, we provide a summary of the contractual engagement of our Offshore Drilling fleet as of today. You will appreciate improvement in 2018 committed utilization driven by the- awards on Scarabeo 8 and TAD as mentioned earlier in the presentation.

Regarding the rest of the fleet we should mention that Saipem 12,000 is close to completing the execution of an offshore well for Eni Morocco. We then plan to stack the vessel until the start of the well offshore Portugal, which following the delays in the Cyprus campaign has been postponed to the last part of this year. Meanwhile, we continue to market the vessel for possible initiatives in the Mediterranean

and in East Africa before the Mozambique project in 2019. Scarabeo 9 has completed the first well in Black Sea and is now on standby, awaiting the possible start of a new well under its current contract. We are also exploring deployment of the assets to other opportunities in the Black Sea and Mediterranean. Scarabeo 7 is committed until around year-end and is currently completing the preparation for one well project for Eni in Vietnam, where it will remain until the beginning of the summer. We are also exploring options for the rig future deployments.

Scarabeo 5 remains idle in smart stacking mode, ready to be reactivated in case we succeed in identifying new opportunities for the vessel. Regarding our jack-ups, we are marketing our high specification Perro Negro 7 and Perro Negro 8 for opportunities in the Middle East. Perro Negro 2 remains idle and is a candidate for scrapping should no opportunity arise soon. We continue awaiting more tangible signs of a market recovery, remaining meanwhile focused on improving our fleet utilization levels and cost base efficiencies.

Next slide provides an update of the Onshore Drilling segment, where you can see that the overall utilization rate of nearly 69% in the quarter, slightly improved from 62% recorded in the same period last year, as recalculated on a total fleet of 84 weeks on the back of recent short-term drilling awards.

The majority of this utilization improvements are in Latin America, confirming the slight signs of the recovery we have detected in recent quarters. We surmise that the oil price trend is confirming a degree of comfort and a sense of greater stability for local NOCs and more independent players. In the region, our cost saving initiatives are still ongoing, supporting our results. The Middle East remains strong, with full fleet utilization. And we view Algeria as a growth target for the future.

And now guidance. 2018 revenues and adjusted EBITDA margin guidance remains unchanged, backed by backlog coverage. CapEx, net debt guidance are updated to effectively EUR 500 million and around EUR 1.3 billion to reflect the investment in the new vessel.

Let me close today's presentation and leaving you with few key outcomes from this first quarter of 2018. Our persistent focus on execution and efficiency has delivered a solid operational margin, this is a good first step in the direction of meeting our full year guidance. The trend of debt reduction from previous years continue during this quarter, thanks to good cash flow generation and CapEx discipline, despite the cash impact of the Sonatrach settlement. We expect this trend to be only temporary interrupted by the payments of the purchase price for the Saipem Constellation. The order intake it as a clear signal that the trough in our market continues. However, we are busy tendering and we have good visibility on a number of potential projects at an advanced tendering and assessment stage by operator, albeit not yet reflected in final investment decisions. We are excited by our new vessel. The Constellation brings Saipem both this strategic capacity to secure access throughout the brownfield tieback market and to significantly advance our position as a global subsea solution provider. In the near term, we are assessing the potential developments to contribute on ongoing projects already started from this year.

And now, I'll be happy to take questions together with my colleagues. Thank you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We will now take our first question from Maria-Laura Adurno from Goldman Sachs.

Maria-Laura Adurno Goldman Sachs Group Inc., Research Division - Equity Analyst

So the first question which I have is with respect to the Offshore Engineering & Construction vessel. I was just wondering if you could maybe give us some thoughts as to where the vessels utilization stood in this segment and how you see that progressing in the year. And likewise, if you could comment on how you see the margins in this segment evolving? And then the second question which I have is with respect to the floater segment, which is now incorporated in the Onshore E&C segment. I was just wondering whether you could provide us with a -- take us as to where the Kaombo project stands?

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

So I'll ask maybe Stefano to quickly give you an update in terms of where we keep the project utilization for the new vessel.



Stefano Porcari Saipem S.p.A. - Head of E&C Offshore Division

Okay. Thank you very much. So first of all, our 2018, we have a ready plan of utilization of the Constellation. In some projects in Middle East, in order to replace a vessel that we are utilizing which is -- who is under charter for the moment. So 2018 is covered. For the future, of course, the vessel we'd utilize mainly for the new market segment, the tieback segment, in particular, for her capabilities of reeling a rigid pipeline. So the area of interest, of course, will be the North Sea and the Gulf of Mexico. So we're in the process of bidding new tenders about this market segment in these 2 regions, and we believe that the main utilization of the vessel will be there. On the other hand, we think that the vessel could be also utilized in other projects. You have the list of the projects that we are pursuing and we consider commercial opportunities, and are for example also in West Africa.

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

Okay. As far as the second question is concerned, you are right, we had said recently that we were not reporting floaters, after a period during which we have shown the 2 segments separate, the Onshore E&C and floaters as declared, we are not reporting it in together. As far as, the specific question related to Kaombo I would say that the project is progressing according to the new schedule which has been agreed quite some time ago. Do you know that the first FPSO is on site in Angola and that the mooring operations are in progress. Once the mooring will be completed, then there will be the tie-up with the subsea facilities and then obviously the startup operations will be initiated. As far as the overall situation, there are no new update. As I said, we are working in accordance with the schedule, which has been agreed with our client, Total. So the current situation is pretty much in line with what has been in the recent quarters.

Maria-Laura Adurno Goldman Sachs Group Inc., Research Division - Equity Analyst

And sorry, just coming back to my first question, which wasn't -- in respect to the constellation, I was actually talking about the overall Offshore E&C that you currently have access. Just if you can get some thoughts around current utilization and how you see that progressing through the year?

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

Okay. I think -- let's -- we'll give you the answer. We'll split the answer between myself and Stefano. I would say that, that is a premise. You know that we'll always provide you with the list of opportunities, a wide portfolio of project on which we are concentrating our attention and from which we reckon that we will get the future -- the forthcoming new awards. This time we have not provided the list, the specific list. However, Stefano, if you wish to comment where you see the most important opportunities going forward.

Stefano Porcari Saipem S.p.A. - Head of E&C Offshore Division

I think that question was about utilization of the vessel in 2018. I think that the utilization rate is stable compared with the previous year.

Operator

We will now take our next question from Alessandro Pozzi of Mediobanca.

Alessandro Pozzi Mediobanca - Research Analyst

Just wanted to go back to the acquisition of the new vessel, and I was wondering if you can maybe take us to the rationale of buying the vessel right now. Is it more a function of the price that you can get the vessel at? Or the size of the market? Or the rigid relay market that you see right now? Or just to increase the flexibility of your fleet? And the second question is the usual, on the backlog, I think 2019 is still a little bit on the weak side, I think, especially in the Offshore E&C. Just wondering how you think about 2019, net 2019 coverage and potentially, if you can maybe talk about the -- potentially the next key order you can win in the Offshore E&C, that will be great.

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

As far as the vessel concerned, we have consistently referring to one of the gaps which we intended and we needed to close was the segment of tiebacks, the tieback market. So the vessel ought to be seen in light of the strategic decision to fill that specific gap. Then there was an opportunity coming from a bankruptcy. As I said, it's quite a recent vessel, was built in 2013. We made an in-depth analysis on the capability of the vessel. We made a business plan. We thought that the terms and conditions for the acquisition were attractive and all in all, that was an opportunity which we could not afford missing. So that is the underlying reason for the acquisition. That is, in the simple terms, the process which we have followed. In terms of backlog, Stefano?

Stefano Porcari Saipem S.p.A. - Head of E&C Offshore Division

Yes. Okay. I believe that you are aware, you know the list of the projects, who we have that -- which are considered by us commercial opportunities. In particular, the major ones. As you can see no one of these major projects has been awarded in the first -- the first quarter. We believe that some of them could be awarded between second and third quarter of the year. So, overall, I think that there is still the, let's say, opportunity to build up let's say -- a solid backlog in the next periods.

Operator

We will now take our next question from Amy Wong from UBS.

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

I had a more macro question here. There has been some comments about irrational bidding by certain contractors and yesterday, there was also news flow about a couple of competitors -- one of our competitors looking to bid for another contractor. So can you give me some thoughts on how you feel about offshore installation pricing? And how that -- more consolidation can affect the pricing? And thirdly, how we should think about what actually needs to improve? Is it the supply side or is it the demand side in order to get pricing, improved pricing in the offshore installation industry?

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

In the macro picture, I would say that both. On one side, certainly, the rationalization of market will help improving the particular segment. On the other hand, we need to see more final investment decision be taken. And so more projects to come to fruition. So in simple terms, I would say that it is a combination of the 2 things that you mentioned in your questions.

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

Perhaps a follow-up to that. Than -- if a rationalization of market capacity is needed to improve pricing, would you take it into your own hands potentially to look to consolidate some of the smaller players?

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

Consolidation is something which, tendentially, comes with the recovery of the market. We have seen it in the past and so there is no reason why it should not happen again in the future. Then you know that this time, I think, the alternatives are either a consolidation of contractor with similar feature in order to extract synergies or it can be a consolidation, sort of a vertical integration like we have seen with TechnipFMC. These are the 2 types of integrations. I think in a way we consider -- as far as the accomplishment of our strategic target, the acquisition of the vessel as sort of -- ,although not in a large scale, of rationalization of the market.

Operator

The next question comes from Vlad Sergievskiy from Barclays.

Mick Pickup Barclays Bank PLC, Research Division - MD

It's not Vlad, it's Mickey here. A couple of questions, if I may. Can I go back to Constellation and firstly, just say she looks great. Couple of questions operationally, just to clarify, where exactly are you going to do the spooling is the first point?

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

Okay. Stefano?

Stefano Porcari Saipem S.p.A. - Head of E&C Offshore Division

Okay. It depends on where the project will be. The spooling -- as you know, now we have a different, let's say, process for the spooling --vis-a-vis our competitors -- we will have a spooling barge potentially, or we --can also spool directly on the vessel. We have both possibilities because of the capacity, also of the crane of the vessel. And the spooling will be -- I mean, located on where it's necessary to have the facility. In the past, we have been working in the segment, in the subsea segment in the North Sea and we rented a spooling base at (inaudible), for example. So we can always do, let's say, the same process in the future.

Mick Pickup Barclays Bank PLC, Research Division - MD

Okay. And secondly, clearly, more established players in the spooling rigid reel-lay market had a look at this vessel and decided to go ahead and build a new build instead. Is there any requirements for CapEx to expand the capabilities of this at some stage, given we're going towards (inaudible), wider pipelines, longer pipelines, et cetera?

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

Well, I would say -- in general terms, I think every tool, it needs to be adapted to the capability of the company. And I think we consider ourselves a fully fledged subsea contractor with all the necessary capabilities. That addresses also, I would say, -- your second question, obviously, we take a judgment on the additional investment, which may be required by the execution of specific projects and then, obviously, we'll plan for those. As far as 2018, we are not considering any major -- then, obviously, both are not at any major CapEx expenditure on the vessel.

Mick Pickup Barclays Bank PLC, Research Division - MD

Okay. And just a quick segue somewhere else. You mentioned Onshore Drilling and opportunities in Algeria. And after your settlements in country, are we fully clear, no impediments to go back into Onshore E&C in Algeria?

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

No. It was an inherent part of the settlement, which obviously closed a long litigation with Sonatrach and obviously eliminated the -- all the problems related with our access to projects. So the moment we have finalized that deal, we can pursue all opportunities in Algeria, onshore E&C, Onshore Drilling, as well as potentially there are opportunities in the Offshore Drilling as well.

Operator

We will now take our next question from David Farrell from Macquarie.

David Richard Edward Farrell Macquarie Research - Oil and Gas Research Analyst

One question for me. I'm sorry to take [a label of] point on the Constellation, but I'm just wondering, given this is -- appear to be kind of a new capability for you, how do you actually break into the market? Is there a case of the first couple of contracts you take, they're going to be relatively small and more competitively bid in order that you build out track record with your client base?

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

Stefano?

Stefano Porcari Saipem S.p.A. - Head of E&C Offshore Division

First of all we are bidding this year for this kind of projects, so the utilization with the vessel will not be 2018 -- in 2018. And for sure, there is a large opportunity of bid, -- we're talking about billions of dollars of opportunities. So the market is interesting for us and I think that we're targeting 2, 3 projects for the next year, of course, yes.

David Richard Edward Farrell Macquarie Research - Oil and Gas Research Analyst

But I guess, kind of why would someone go with Saipem rather than the more established player, given that there's probably more execution risk around you doing it for the first few projects at least?

Stefano Porcari Saipem S.p.A. - Head of E&C Offshore Division

First of all, I think that as I was saying earlier, we have done this kind of projects in the past with a vessel called at the time, the Helix Express that we chartered from (inaudible) in the past, that way we prove to clients like Conoco Phillips and Total our capability also to manage this kind of technology. Of course, we have the capability to manage even more complex projects in the subsea. So I think that there is a guarantee of quality and safety from our side. I think that we have the same level of the others competitors --. I'm not...

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

As well as we have full knowledge of our clients and our clients have full knowledge of our capabilities and the quality of our portfolio of capabilities.

Operator

We will now take our next question from Mark Wilson from Jefferies.

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

Just to -- a question on one of your projects. You said Duqm start up in the second half, so -- but can you confirm that project has got financial closure? And is there -- I think at full year results, you said that you'd expect that in the next few weeks?

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

Look, can you say again? Sorry. We didn't catch what was the project you are referring to.

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

Referring to the Duqm project in Oman. Has that project achieved financial closure? You said it will start up in the second half. In full year results, you said we expect financial completion in the next few weeks, notice to proceed. So has the project been complete?

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

No, I think this is one of the things which is ongoing at the moment but we don't receive any sign whatsoever of possible delay.

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

But surely, second half '17 is a delay.

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

No. If you remember, we never announced the -- we never added to the backlog, the project in '17. [It was not us]. We added the backlog this year in the -- to the backlog this year the project.

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

Sorry, yes, I meant second half '18 in terms of the -- I mean, has there been a delay in starting that project this year?

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

There has been a delay, yes. You're right. There has been a delay, but we don't see reasons why there should be additional delays.

Operator

We would now take our next question from Michael Rae from Redburn.

Michael Rae Redburn (Europe) Limited, Research Division - Research Analyst

The first one, just looking at the order for the run rate for the first quarter. Did that play out as you expected in terms of award timing? Was it just a quiet period for awards? And in terms of the major opportunities for the rest of the year, where do you see them landing in the year? Will they be weighted towards the second half? Or should we go back to a more normal order run rate in the second quarter? And then the second question, just with respect to your tax rates. Should I extrapolate the current level for the rest of the year? I think you mentioned before that there's a withholding tax impact this year, but could you just remind me of the magnitudes of that.

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

As far as the first question, you know that in our business the awards they come when they come. When the client decides to award as a matter of fact first quarter of last year, we only managed to get EUR 500 million. EUR 0.5 billion of new awards. Having said that, obviously, we don't consider EUR 1 billion awards as a satisfactory level. We have -- we need to have much more, which is coming from the opportunities we are highly focused at the moment. As far as the timing of the award as well as the timing of the final investment decision, that is obviously something which will strongly dictated that whether the recovery will be recorded in 2019 or maybe later.

Giulio Bozzini Saipem S.p.A. - Chief Financial and Strategy Officer

Okay. With respect to tax rate, I would remind that in a normal context of market and marginality, group tax rate would be lower than 30% on the business of the corporate income tax of the large majority of the countries where we operate. However, in recent years, this was never the case, mainly because of the conservative approach in recognizing the first tax asset in loss-making companies and higher

incidence of withholding taxes since they apply to revenues. And we expect these factors to continue to wait on the group tax rate, at least in the short to medium term. So effectively the reply is, yes, you can extrapolate these for the full year. As long as the market will improve, the group tax rate should normalize close to the above indicated normal tax percentage or even below in case of utilization of the significant losses not realized. Just a final remark on 2018, the cash out related to income tax payment is expected to be lower than the profit and loss charge due to the utilization in some countries of previous year's tax losses for which a deferred tax asset has been recognized.

Operator

We will not take our next question from James Thompson from JPMorgan.

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

It's just a couple of questions for me. The CapEx run rate in the first quarter is obviously very light. I know you adjusted for the acquisition, but could you maybe talk about potential for capital, say, CapEx savings during 2018? And then the second question is really around drilling. Obviously, we're starting to see a step down in the topline there in terms of utilization, but margin seems to be holding up pretty well. Could you give us an indication of where you expect margins in Offshore Drilling particularly to trend through the rest of 2018?

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

Can you repeat -- you are referring to the debt level under your first question? Can you simply repeat it?

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

No. It's just in -- sure, sure, Stefano. Just in terms of CapEx, your CapEx level in Q1 was very light. Just wondering how much of an indication that is of opportunities to save on capital expenses through the remainder of the year on an underlying basis. Clearly, obviously, the vessel cost will factor into that. But underlying, is there any chance to save money during the year?

Giulio Bozzini Saipem S.p.A. - Chief Financial and Strategy Officer

But with respect to CapEx, first of all, our normal CapEx, I would say so, excluding the acquisition of the Constellation we had indicated previously that it was in the range of EUR 300 million. Then clearly, since this applies mostly on class activities, this is also dependent upon the timing within the year that these kind of activities are done. So effectively in the first quarter, it was extremely low. In the remaining part of the year, I think it will be consistent with the indication of EUR 300 million that we gave before. And in addition, we have the Constellation, which will be basically impacting the second quarter of the year. Can you repeat the second question as well?

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

Of course. Just in terms of drilling, we're obviously looking for a step down in revenues in Offshore Drilling as expected but margins continue to hold up very well. Clearly, it's a tougher pricing environment. So I was just wondering how we should think about the trend on EBITDA margins in drilling through the rest of the year?

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

Marco, would you address the question?

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

Okay. I think the margin can be resilient due to the ongoing long-term contract that was secured in the market when the condition was better. And especially due to the fact that we are strongly marketing our vessel to improve -- to reduce our idleness, which is the main cause of reduction on margin right now. And we are positive in that respect due to the negotiation ongoing. On top of that, well, we are -- implemented a strong cost reduction program, which has proven results, so we are confident the margin will keep being resilient.

Operator

We will now take our next question from Rob Pulleyn for Morgan Stanley.

Robert John Pulleyn Morgan Stanley, Research Division - Analyst

So first of all, given the Constellation comes with some backlog and you mentioned it's utilized for 2018, I was just wondering why revenue guidance hadn't changed. And secondly, if I could just revert back to the question on the Kaombo project in Angola, obviously

costs have been in excess of the plan, but could you talk about the risk of liquidated damages given your customer has obviously had a delayed-to-production startup?

Stefano Porcari Saipem S.p.A. - Head of E&C Offshore Division

It's Stefano Porcari speaking. Maybe there was a misunderstanding. What I said is that -- I didn't say it that there was a backlog attached into the Constellation. We are utilizing the Constellation in some ongoing projects in Middle East replacing a vessel that we have chartered for this use.

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

Okay. As far as Kaombo is concerned, when I was saying earlier on that there is no change. There is -- refer to the fact that we have made some time ago and we confirm it now that we made an assessment between the risk of incurring liquidated damages and the opportunity related to recognition of the change orders with the clients. The assessment which we made was a sort of balance between the two risks, so at this stage we maintain that, that is the situation.

Robert John Pulleyn Morgan Stanley, Research Division - Analyst

Okay, that's very clear. And if I could just have as one final question for me, if I could maybe just have a bit of an update on how you see the two drilling businesses within the strategic role of Saipem going forward. In the past, you've communicated that you've been looking at disposing of noncore assets, certainly the bid ask on drilling assets seems to be improving. Is this still something we could look forward to? Or have you revised your thinking about the role of drilling in the business?

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

So -- and I think the starting point goes a few years back, just before my return. At that time, it was a process which were -- had been launched to dispose the Onshore Drilling business. And then all of a sudden, in conjunction with the collapse of the market, the old process was stopped. The reference to the strategic view, which I've mentioned a number of times is that the Onshore E&C (sic) [Onshore Drilling] business, it is a business for which we can now consider and arguably now refer to the recovery of the market situation. And now it refers to the fact that in Latin America, we have still a major issue as far as the market concern while we continued reducing our cost structure and improving our efficiency the Onshore Drilling might be a candidate there for operation which can be -- can see a combination with other operators in the same field, obviously, with the target of creating additional value through the combination.

Operator

(Operator Instructions) We will now take our next question Luigi De Bellis from Equita SIM.

Luigi De Bellis Equita SIM S.p.A., Research Division - Analyst

Three questions from me on the E&C Offshore division. Do you think the level of profitability reached in Q1 could be a good proxy for a full year? And second question, how do you expect the backlog to develop over the next couple of quarters or when you see the inflection point for this division? And last question, could you quantify or qualify that the short-term opportunities that you see in the tendering phase for both Offshore E&C and Onshore E&C?

Giulio Bozzini Saipem S.p.A. - Chief Financial and Strategy Officer

With regard to the first question, yes, we think that the marginality which we reached in the first quarter is, at the moment, a good indication also for the full year.

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

Okay. As far as the second and third question, I would tend to lump the 2 answers together. As far as obviously for us, it's not possible to project a specific timing for all the -- for awards. What we are carefully monitoring and what we are trying to sense from our clients is whether there is what you defined -- quite rightfully defined an inflection point. That inflection point will be related to a substantial change in the CapEx program of the oil companies. So far, what we have seen are only timid signs, we have heard what Exxon as announced, but all in all, I think we are still waiting for more substantial fine. There are a lot of projects, both onshore and offshore, which are at different stages of development, which may get the final investment decision and in some cases, those projects are already awarded so we would move -- find a way to the execution phase. And we have named some of these projects in our presentation.

Operator

We will now take our next question from Guillaume Delaby from Societe Generale.

(Operator Instructions)

Guillaume Delaby Societe Generale Cross Asset Research - Equity Analyst

In 2017, you reduced the account by 13% and we can see that impact on your staff cost in Q1, it's EUR 362 million. If I remember correctly, it was EUR 386 million in 4Q 2017. Just would like to know if we can take this Q1 number and extrapolate it for the rest of the year? Or should we expect, I would say, further a second short reduction in staff cost?

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

Your voice come broken. Unfortunately, we need to ask you to repeat.

Guillaume Delaby Societe Generale Cross Asset Research - Equity Analyst

So basically in 2017 you reduced headcount by 13%. And in Q1, when I look at your staff cost, it is EUR 362 million, which is down like 6% versus Q4 2017 when it was, if I remember correctly, EUR 386 million. What I would like to know is whether we could extrapolate this Q1 number of EUR 362 million for the remaining of the year? Or if we could maybe expect good news or so on that front in the coming quarters?

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

I think we have specifically -- highlighted and mentioned throughout our recent communication that the targets for the reduction of the headcounts and we have got to the additional 1,250 full time equivalent. I think that, that is -- remains the target as it is -- as we have said. All there is -- just going quickly through, I don't know whether I'm addressing your question, but in 2017, we have achieved a headcount reduction 450. We have increased -- we are increasing to -- in 2018 to more than 1,000. And in 2019, we project a further increase of 1,200 and this number has been updated recently. So these are the best reference you can make to the evolution of the headcount.

Operator

We will now take our next question from Daniel Vonz (sic) [Butcher] from JPMorgan.

Daniel Butcher JP Morgan Chase & Co, Research Division - Research Analyst

I think most of them have been answered. I guess the last one was just -- we've got the IFRS 16 implementation coming in -- I believe in January of next year. The initial expectation was that leverage was going to creep up from about 1x to just over 2, but I understand that was based on your very early estimates from the capital market's say. Do you have any more of an update for credit investors on that?

Giulio Bozzini Saipem S.p.A. - Chief Financial and Strategy Officer

No. We do not have any updates with this respect -- as I said before, this was sort of educated guess, which we had at end of last year. For example, it was mentioned previously by Stefano due to the fact that possibly the new vessel will replace one vessel, which was previously leased could change the number. So it was, I guess, based on the situation at the end of 2017, that's all. It would have to be recalculated at the end of 2018.

Operator

As there are no further questions in the queue, I would like to turn the call back to your host for any additional or closing remarks.

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

Okay. Thank you very much for your attention. We look forward to meeting you soon. Thank you.

Operator

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



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