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PRESENTATION

Operator

Good day, and welcome to the Saipem Third Quarter 2018 Results Conference Call. Today's call is being recorded. At this time, I would like to turn the call over to Mr. Stefano Cao, Chief Executive Officer. Please go ahead, sir.

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

Good morning. Good morning, ladies and gentlemen. Welcome to our third quarter 2018 results presentation. Following Giulio Bozzini's departure, I shall be presenting our financial results. We are grateful to Giulio for the significant contribution at Saipem during challenging times.

I'm joined today by Davide Ruvolo, our Corporate Head of Strategy, M&A and Investor Relator; and our Heads of Divisions, Stefano Porcari for the Offshore E&C; Maurizio Coratella for Onshore E&C; Mauro Piasere for XSIGHT; and Marco Toninelli for drilling offshore; and Francesco Racheli for drilling onshore; together with our General Counsel Mario Colombo.

Let me start by saying that after prolonged periods of challenging market condition, we are now seeing early signs of gradual recovery and improving visibility of commercial opportunities, especially in certain E&C segment. In this context, we are delivering a good set of results.

Group adjusted EBITDA remains on track to meet our full year guidance, thanks to margin growth year-on-year despite revenue decline. Empowering our divisional manager, who are now fully accountable for strategic, commercial and operational performance of their respective businesses has contributed notably to performance. In this regard, the organizational changes announced in July are progressing well and will be fully effective by year-end.



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All these has translated into healthy E&C offshore and drilling operating performance for the 9 months. The Onshore E&C margin has also been in line with the EBITDA recovery trend for this business although this does not reflect the loss incurred from a loss -- from a project-related equity affiliate first flagged in July.

At the group level, a positive adjusted net result was impacted by asset impairment, provision for redundancies, and write-offs and accrual on legacy litigations and legal cases, the bulk of which were already reported in the first half. This has resulted in a negative reported net result also in the full 9 months-period.

Our cash flow from operation was good also in the third quarter with net debt at the end of the period below its half year level. Naturally, this gives us greater comfort on full year net debt guidance. We have enjoyed a strong order intake through the quarter and after period-end with several sizable awards of which I will expand later in the presentation. I'm pleased to say that the book-to-bill ratio at the end of the first 9 months was about 1.

We expect this commercial momentum to continue and we are now targeting an order intake level above EUR 2 billion during the final quarter. Considered together, the group's progress to-date gives us considerable comfort that we'll achieve our guidance for the full year.

Let's have a look in more detail now at our financial result in the first 9 months of the year. Reported revenues in the period amounted to nearly EUR 6.1 billion, 4% lower than the same period last year as a result of the contraction experienced year-on-year in our businesses except for drilling onshore. Adjusted EBITDA amounted to EUR 760 million, 4% lower than EUR 795 million recorded in the same period of 2017 chiefly due to lower adjusted EBITDA in our drilling offshore division.

The lower adjusted net result of EUR 17 million versus EUR 151 million last year is a consequence of 3 factors. There was a net loss previously noted in an equity affiliate; and higher tax rates; and minority interest. Looking at the 9 months divisional performance, E&C offshore revenue decreased by circa 8% versus 9 months 2017 as increasing volumes in the Middle East and Caspian Sea only partially compensated for the lower activity in Central and South America.

However, adjusted EBITDA improved by nearly 6% year-on-year underpinned by a solid margin at 15% primarily attributable to strong operational performance on ongoing projects.

Moving to the E&C onshore, revenues decreased by circa 14% versus 9 months 2017 mainly due to lower activity in the Middle East, Asia-Pacific and West Africa although mitigated by higher volumes in the Caspian and in South America. The adjusted EBITDA margin of 3.1% achieved by the business year-on-year is in line with the trend of gradual recovery previously anticipated. As stated, adjusted EBITDA does not include a loss in a jointly controlled entity which accounts for almost all the loss from equity affiliate. For the project in question, construction of the new plant is close to completion and it has now been officially inaugurated.

Revenues in drilling offshore declined by circa 29% versus 9 months 2017, mainly due to higher inactivity of Scarabeo 5 and Scarabeo 8 which was partially mitigated by higher utilization of Scarabeo 9. Adjusted EBITDA for the division decreased by 34% year-on-year with margins remain resilient at 47% despite lower activity, although slightly below levels in the third quarter of 2017.

This was achieved thanks to cost-saving initiatives and reflects long-term contract negotiated in significantly better market environment. As rates are renegotiated, they will align to current market conditions.

Drilling onshore revenue remains stable versus third quarter of 2017, while adjusted EBITDA improved by 21% year-on-year mainly thanks to the cost-saving initiatives in Latin America and efficiency recovery in Middle East operation. This accounts with a margin growth to 26.8% in 9 months 2018 from the 22.4% recorded in the same period last year.

As mentioned at the beginning, our third quarter net result was affected by a number of special items. First, write-downs associated with impairment tests which has already been recorded in the first half of 2018 for an amount of EUR 256 million. You will recall that these were a consequence of



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reduction of long-term rates beyond our strategic plan horizon in drilling offshore, as well as a revision of the discount rate applied to future cash flow of the cash generating unit resulting from our new strategy and reorganization.

Secondly, the provision for redundancy totaling EUR 29 million; lastly write-off and approval now totalling EUR 89 million related to long-term trend in litigation on completed projects as well as the amount in July 2018; and second, the provision of EUR 38 million associated with the recent ruling by the Milan court of first instance concerning offences allegedly committed in Algeria before 2010. The decision of the court of first instance is not enforceable and Saipem reserves the right to appeal the court's decision once the reasons behind the ruling are published before year-end.

The amount of the provision has been estimated based on the difference between the confiscation order by the tribunal, about EUR 197 million and the amount already seized against some individuals about EUR 160 million. A final and enforceable decision on the Algerian criminal legal proceeding can reasonably be expected in 2020-2021 following the final decision of the supreme court.

Let's now update you on the successful reduction in our exposure to unbilled revenues associated with projects and subject to dispute or arbitration. We are pleased to have reached an amicable settlement with First Calgary Petroleum during the third quarter regarding the Algerian MLE project which follows is the definitive settlement with Sonatrach announced earlier this year.

This new settlement with First Calgary Petroleum was in line with Saipem expectations and it had an effectively neutral profit and loss and cash impact. Indeed we achieved practically full recognition of the unbilled revenues already booked in our project account for which we had previously received an equivalent advance payment on a without prejudice basis pending the arbitration. As a consequence of the above settlement, our unbilled revenues exposure linked to arbitration court disputes has now been reduced to around EUR 0.4 billion for which we continue to push through amicable resolution.

In the event of full recognition of such amounts by counterparties, we would record a neutral impact on profit and loss coupled with a cash inflow. Further details on the main pending disputes can be found in the recently published half year report 2018.

Turning now to our financial position, at the end of the third quarter net debt was EUR 1.27 billion, down from EUR 1.33 billion at the end of the first half. This improvement for the period was driven by good cash flow generation thanks to the level of EBITDA coupled with effective capital discipline, both on CapEx and working capital optimization. I would remind you that the first 9 months net debt reflect the acquisition of the Saipem Constellation and the settlement in Algeria including the arbitration around LPG project, both of which occurred in the first half. The evolution of our net debt position in the first 9 months of the year give us even greater comfort around the full year 2018 net debt guidance.

In terms of our capital structure, we are comfortable with our debt maturity profile as well as with our liquidity position which is now at EUR 2.3 billion following the extension of our revolving credit facility now due to expire in 2023 for a reduced amount of EUR 1 billion.

Turning now to the more comfortable for me business update, I'd like to begin by reminding you of a few of our recent awards. In the third quarter, we have now 2 large projects in E&C division, combined with several other smaller initiative and variation order, this led to a total of EUR 2.1 billion new orders coming into the backlog during the quarter, keeping us on track to meet our full year book-to-bill target.

I'm delighted that the ExxonMobil and its partners have awarded us the Liza phase 2 SURF project offshore Guyana. This award confirms our strong position in the SURF segment with key clients and underline our good performance on Liza phase 1 as well as our effective negotiation and pricing with ExxonMobil for phase 2. This award was -- also consolidate our presence in Guyana, an exciting frontier basin where a number of large-scale deepwater hydrocarbon discovery had been made recently.

It positions us to play a continuous significant role in supporting future oil and gas infrastructure development in the country. As a reminder, the offshore activity will be performed by our newly acquired Saipem Constellation and by our FDS. Project execution is expected to be completed by early 2022. Furthermore, we have also received a major award from Saudi Aramco, another strategic client for the installation of more than 700 kilometer of pipeline as part of a program to improve the company's large onshore South Gas compression pipeline system which serves the needs of the Haradh gas plant. This award confirms our well-established competitive position in Saudi Arabia.



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In addition, we have also been awarded a DS6 package of the onshore West Qurna Development Project in Iraq by ExxonMobil, which entails debottlenecking activities to improve production processes and capacity in the existing plant. The project which is smaller in size will be executed for a considerable part in our full owned local yard in Rumaila. Currently, we are also tendering for the DS7 package in West Qurna. Iraq is an important country for Saipem that offers great future development potential. Again, I believe that our track record in the country position us well to compete for future contract.

Looking briefly at our commercial activities in the fourth quarter, today we have seen continued positive momentum which puts Saipem on course to meet our target of a book-to-bill ratio above 1 in the second half of 2018. The Clean Fuel expansion project has been awarded by ThaiOil to a consortium between Saipem and Samsung led by Petrofac. Overall, the contract is worth in the region of USD 4 billion with Saipem's position -- portion accounting for around USD 1.4 billion. The project EPCI Scope is aimed at transforming the existing refinery into a more environmentally friendly facility as well as increasing its high-quality fuel production capacity by circa 45% to 400,000 barrels per day. This important award consolidates our presence in Asia-Pacific where we have worked for many years and where we intend to further strengthen our presence and role.

In Offshore E&C we have also been awarded a couple of new projects worth a combined USD 400 million. This includes a new SURF contract by Total in Azerbaijan for the development of the Absheron field in the Caspian Sea, a core region for us; the EPCI scope of which entails a 12-inch single production flow line, it's relevant termination structure and umbilicals for circa 34 kilometer of length.

Finally, I'd like to highlight the maintenance, modification & operation, MMO contract awarded recently in Congo by Eni for activities on various offshore platforms. This award is in addition to the MMO contract awarded by Centrale Electrique du Congo in the third quarter. These contracts are a practical illustration of our diversification portfolio strategy, not only in terms of geographies, but also in terms of business segment.

Looking ahead now at the backlog split by year of expected execution, as you can see, for 2018 our revenue guidance is fully covered. In terms of backlog to be executed in 2019, the amount has increased by circa EUR 0.7 billion, versus the amount disclosed in the first half, thanks to the contract awarded in the third quarter. When taking into account of those awards announced in the fourth quarter to-date amounting to circa USD 1.8 billion. As a preliminary estimate, we would envisage an additional volume of activities in 2019 for a few hundred million euro with the balance in the following years.

Visibility on near-term additional commercial opportunities in all division is good and we are confident we will be able to continue to improve outlook for the future revenues.

So going back to Slide 15, turning -- okay, Slide 15. Turning now to our backlog which stood at EUR 12.5 billion at the end of the third quarter, slightly ahead of our position at the end of 2017. This is the result of a good level of order intake reached at the end of September 2018 that I've just talked through, as well as a number of other small projects and variation orders recorded in the period, which last -- which total around EUR 2.1 billion. The book-to-bill ratio in the first 9 months 2018 is equal to 1x. But onshore and offshore drilling backlogs are still falling due to a delay in decision-making amongst clients on final investment decision and the awarding of new contracts. We are confident that our ongoing commercial activities will allow to secure new contract also for our drilling fleet in the near term.

Going back to Slide 17, the Slide 17 provides our usual summary of the contractual engagement for our offshore drilling fleet. We are still very active in pursuing contracts to be awarded in the near term and we are confident in being able to improve fleet utilization for 2019. In current market environment, we are focused in ensuring we strike the right commercial balance between near-term fleet utilization while avoiding contracts that lock us into lower rates for the long term.

During the third quarter, we signed a new contract for exploration activities in Egypt with our semi-submersible Scarabeo 9 for an estimated duration of circa 6 months, plus 1 well option and we are exploring a number of other opportunities in the area. The rig has started operation in September following the sail away from the Black Sea last summer.

Regarding Saipem 12000, regretfully, our client, Eni, is suspending their exploration campaign in Portugal due to issues in obtaining permits from the local authorities. However, the impact on Saipem has been mitigated by a new contract just awarded for activities to be executed in offshore Pakistan still for Eni and expected to start in December. Negotiation are also ongoing with our client relating to another possible short-term initiative



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to be executed in the Indian Ocean after the completion of the well in Pakistan and to the consequent shift of the drilling campaign in Mozambique later in 2019.

Scarabeo 8 is currently drilling for Total in the North Sea and will start work under the Aker BP contract around year-end, although the additional contractual offshore works are now expired. We are currently pursuing new opportunities as demand in the area is picking up. Scarabeo 7 is currently working in Indonesia under a contract with Eni, which is now expected to end in March next year after a renegotiation of its terms. Discussion are ongoing for a potential new contract in 2019. Scarabeo 5 remains idle in smart stacking mode.

Regarding our jack-ups, we are awaiting possible new contract for our high-specification Perro Negro 7 and Perro Negro 8 in the Middle East and other areas, while Perro Negro 4 is expected to continue working in Egypt on a well-to-well basis. Lastly, tender-assisted drilling is expected to complete its ongoing firm activities around the end of the year. Although market demand seems to be improving, this segment is still under pressure with their rates expected to remain low in the short term. Consequently, we continue to focus on execution and cost savings as well as on the short-term contractual opportunities.

Turning toward onshore drilling, the weighted average utilization rate at the end of the third quarter was around 66% marginally higher than the circa 63% recorded in the same period last year. While the Middle East fleet is fully utilized, the situation in Latin America remains challenging in particular in certain countries. The oil price recovery to current level appears to be encouraging the NOCs and some of the independent, as measured by the increase in a number of inquiries for Saipem's drilling services.

We are looking with interest at the initiatives in Argentina, and we believe that there are other opportunities in the area in the short term. Our efforts continue to be focused on cost saving to consolidate our recent operation -- operating performance while awaiting new project sanctions, over and above the short-term drilling contracts awarded in the third quarter. We are confident that the future business prospects in other regions such as North Africa and the Middle East will contribute to the improvement in the fleet utilization rate and the divisions grow in mid-term.

Guidance, we are again confirming our guidance as updated during the first quarter following the acquisition of the Constellation. During the first 9 months in 2018, we have delivered against our target and I'm encouraged by the pace of new project awards that are feeding into our backlog. This gives me confidence today that Saipem remains well on track to meet our full year 2018 guidance.

In conclusion, I would like to make few comments. First, the work we have undertaken to restructure the business and strengthen divisional autonomy and accountability has translated into a stronger focus on execution and operational efficiency. I believe we are beginning to see the benefit in the results we have presented today.

Second, good levels of cash generation continuing through the third quarter helping drive the reduction in net debt and ensuring we are on track to meet our full year guidance for net debt of EUR 1.3 billion. Furthermore, during the third quarter, we have benefited from our effective divisional tendering activity, which has secured a substantial order intake and continues into the current quarter. We are fully confident of meeting our full year book-to-bill target and rebuilding our backlog to above full year 2017 level.

Finally, I believe that good visibility on near-term commercial opportunities coupled with our new organization and improved divisional efficiency accountability point to a better outlook, although we recognize that challenges still remain for our industry.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We will take our first question from Alessandro Pozzi from Mediobanca.



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

The first one is on the performance of the offshore in sea, I think you had a couple of very good quarters, Q2 and Q3 as well. I was wondering if you can give us a bit more insight on what has driven the performance there. I think you mentioned operational efficiency, but if you can give us more color, that would be appreciated. And also in Saudi Arabia, I think Saudi Arabia is a big client for you, probably we're going to see more competition there. I think you all just announced a big order from -- in Saudi Arabia. I was wondering how the outlook looks like and more potentially orders you may announce in the region?

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

Okay, I think Stefano on the Offshore E&C. Stefano Porcari.

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

This is Stefano Porcari. There are various reasons because our performance was convincing during these past quarters. I think starting from our decision to reorganize the offshore business unit and during the transition from the business unit to divisional organization and we have identified the 4 pillars for our division and one of these pillars was, of course, the operational efficiency working on, in particular, the efficiency of our asset, working on new technologies, working on innovation and of course we are starting also to apply the first let's say programs related to our digital -- digitalization project. Of course the focus of the division today is bringing us some results, but it's not only because of the efficiency that we are bringing with our asset, but also because the philosophy that we are having in our commercial activities. One of these point I think is to work for the project client, early engagement, proposing new technologies, proposing standardisation, simplification and proposing also, let's say, solutions for the operational life of the field. So we have a new approach from a technological point of view, from the commercial point of view and also from the organizational point of view. We feel that our organization based on the regional presence with allocation of assets also in particular regions and proceeding with region from the commercial point of view and the commercial point of -- operational point of view is bringing us some value and bringing value also to our client.

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

Okay. As far as Saudi Arabia which is obviously a question -- very "trasverse" through the all five business of ours. Historically, Saudi Arabia has been always one of the pillars of our strategy. As a matter of fact, even today, the largest share of backlog is in Saudi Arabia, in particular with Aramco. The sheer size of the investments which are made by Saudi Aramco in the country, in all the business which are of interest of ours obviously are the long-term basis for our attention and our engagement and commitment. As a matter of fact, we have also established a number of permanent ties. For instance, we have established a fabrication yard in the country. One of the -- probably the only one at the moment in the country and this is obviously gives us advantages in terms of the local content of the activities we carried out in the country. And looking ahead, I have to say that still there are a major -- a large number of major developers which are on the desk of our tendering people. Just making it simple, a single reference I would refer to Marjan which is a huge development, which entails opportunities -- commercial opportunities both onshore and offshore construction as well as the onshore and offshore construction, as well as the onshore and offshore rigs are being progressively renewed and their utilization extended over time. So this is the situation as far as we can see.

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

Just going back to the previous question, in terms of adjusted EBITDA in the offshore E&C, I think you delivered a 16% to 15% in the last couple of quarters. I mean, are you saying this is sustainable going forward? Or is it driven mainly by certain projects?



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

Obviously, as you well know, we don't provide guidance until the right time comes and this will be March next year. This is the -- at the present, the level of margin for the business you have seen that it is -- over time has been moving up and down. And I would say that the present level is what we consider quite a satisfactory level also, we would consider a quite satisfactory level even going forward.

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

Just two questions for me, please. The first one is your competitor/alliance partner just gave a first look at their 2019 revenues and margins expectations. I'm wondering if you could -- I know you don't normally give guidance at these set of results, but wondering if you can give us a sphere in terms of your financial operating performance for 2019. My second question relates to the associate loss that was booked during the quarter. That comes after a EUR 45 million loss that was booked in the second quarter as well. Is it related to the same project that you are booking those losses, and how do we get some comfort whether this is the last of the losses on that project? And secondly, how does the cash flow impact of that loss, how should we expect that to come through in your financials?

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

Quite frankly, I'll answer the second question. I couldn't understand the first one. So the -- first with the associate, the loss in the associated company, this is, yes, it is related to the same project. I'd be more explicit this time saying that the project is very close to completion. As a matter of fact, it has been inaugurated by a couple of presidents of states last week. So I think this is by itself an indication that since the work is coming to an end, we would expect this to be full inclusive. I mean the amount which we have considered is fully inclusive up to the end of the project with the usual prudence which need to be associated with the evolution of the project. In terms of cash flow...

Davide Ruvolo - Saipem S.p.A. - Head of Strategy, M&A and Investor Relations

With regard to cash flow -- Davide Ruvolo speaking, good morning everybody. The project, as stated, is accounted for in accordance with the equity method. Therefore, in our consolidated accounts, the impact was marginal and simply linked to the fact that we had together with the other partners to recapitalize a bit the participation for the completion of the process, so the cash flow at the consolidated level impact is limited since everything is in the equity associate.

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

Amy, you should repeat the first question. It was about the competition, but your voice was so loud that it came garbled.

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

I was just saying that another company in the subsea space this morning gave some guidance on -- gave the indication of the guidance for 2019 revenues and 2019 margin. So I know this is not a usual quarter where you give formal 2019 guidance. So wondering if you would be so kind to give us a directional steer on how the margin mix is shaping up in your 2019 numbers?



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

Amy, you know as I think so long that -- you should know that we only disclose guidance once we have completed the process of our 4-year plan and we have also closed the accounts for the previous year. So that is the right time. So as a matter of fact, the guidance, you can extract this from the amount of backlog, so in terms of revenues which are already referable to 2019 in terms of other variables that is something which we'll tell you at a later stage.

Operator

Our next question comes from Michael Alsford.

Michael J Alsford - Citigroup Inc, Research Division - Director

I've got a couple, just to lead on from the last question. When I look back at last year, your backlog for execution in 2018 was round about EUR 5.8 billion. Now obviously you're more like EUR 4.9 billion. So I was just wondering given you're obviously seeing good momentum in awards intake this year relative to last year, should we think that the consensus expectation of revenues are about more so flat year-on-year is achievable? Or would you say that that is a bit optimistic in the context of the environment that we currently sit in? And then just secondly, I was just wondering whether you could give some guidance on your progress, on your strategic review in the offshore E&C business as to where we are on that process?

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

In terms of backlog, I think I have to a bit repeat myself saying that what we can tell you is that, yes, we confirm the guidance with some much stronger support the guidance for revenues in -- of this year. Then the pace of new awards coming will largely dictate what will be the guidance we will provide in next March. Indeed we have not been expanding too much in this quarter being an intermediary quarter, but if you look at the previous presentation of opportunities, we will find still a number of projects which are definitely on the desk of our commercial guys to be actively pursued which have not shown a conclusion in the negotiation. Just to make a few references and attention in the -- specific situation of attention, we would refer to Zohr, you know that we continue negotiating the phase 2 of Zohr. So we would somehow expect that that might be a potential good contributor. We also refer to some opportunities in the LTA in Saudi Arabia which, you know, definitely those projects will be awarded and we hope that we can get a share of those. Then there are situation which may be materializing later such as Zaba Zaba in Nigeria, Bonga Southwest. There are things which may develop on the onshore E&C as well such as the Arctic LNG which is an ongoing tender process, as well as there are other opportunities. So the -- we shall come out with an indication at the time when we have a clearer visibility on these awards on projects which are currently negotiating. Then again, you have to repeat the first question because of the...

Michael J Alsford - Citigroup Inc, Research Division - Director

Yes, it was around the -- yeah, the progress around the strategic review on the offshore E&C business. I just wonder whether you can provide us with an update on that today.

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

Well, I think largely if I understand the process in terms of the offshore E&C, you refer again to the portfolio of opportunities to the backlog in a...

Michael J Alsford - Citigroup Inc, Research Division - Director

I was thinking more your strategic position. You talked about potentially extending your alliance with Aker. I was just wondering whether you could talk a little bit more around how you're thinking of positioning competitively in that market.



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

Okay. From the general strategic point of view, I think we have clearly established that going forward the evolution of our thinking is that offshore E&C evolves, it is and it is bound to remain the core business of the company; the business on which we'll invest the resource -- financial resources which will come available, the acquisition of the new vessel is a strong indication in that direction. We'll continue to devise the best shape of the business going forward and you refer to the integrated projects. And then I would say that again as we have said all along we have -- we are working at the moment to an alliance with Aker, I mean we already said that there is a logic in considering further evolution to the alliance in order to be more effective in the proposal on integrated projects. Integrated projects certainly is only one part of the future of the division. Then a large part lies also in the renewable -- presence in the renewable in particular in the wind farm offshore and in the decommissioning activities which are bound to grow in the near future. So overall this is the confirmed strategy for the business. Again, we had just started the process of redesign the new 4-year program and certainly we'll come to the market with the further evolution that we're looking.

Operator

Our next question comes from Robert Pulleyn from Morgan Stanley.

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

So against a backdrop of lots of positives, I just want to investigate a couple of risks if that's okay. So could you please give an update on the Kaombo Project and specifically the extent to which there is a risk of liquidated damages from the client given the late delivery? And the second one obviously you've referred to the Milan interim decision, I just wondered to what extent there is any risk of the Department of Justice in the U.S. becoming involved as they have done in the past in these types of events? And then finally, if I may end on a positive, I was just wondering how the progress to a normalized onshore margin was going. Or is 3% sort of the best we can expect in current market conditions?

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

Kaombo, Maurizio, an update on Kaombo?

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

Yes. This is Maurizio Coratella speaking. Good morning. So the Colombo Project has been extremely complex and -- but nevertheless we have achieved some important results by delivering the first floater that is already in operation and the inauguration scheduled for the beginning of November, next week which is definitely derisking significantly the project. The second floater is progressing per schedule. There was a re-baseline schedule discussed with the client on which we are working on to meet the date agreed and we are confident at this stage to reach the target.

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

Okay. As far as the Milan -- Milan Court, Mario Colombo?

Mario Colombo - *Saipem S.p.A. - General Counsel*

Yes, Mario Colombo. As far as the DOJ is concerned, we are not aware of any existing interest into the file into the Algerian matter. For the sake of completeness, I would remind that Saipem has always disclosed in the financial report since 2013 that in 2013 this item entered into a tolling agreement which extended by 6 months the limitation period applicable to any possible violation of federal laws of the United States in relation to previous activity of Saipem in Algeria. This tolling agreement was signed with the DOJ, it has been renewed sometimes. It expired on November



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2015 and since then the DOJ has not applied for a renewal. And since it does not ask the renewal, we have not heard from them since 2015 and so this is again a confirmation that we are not aware of any existing interest into the matter by the DOJ.

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

In terms of the progress to normalize the margin on the onshore E&C, again I would refer to the comment I was making earlier on to Michael about offshore E&C. The -- if Offshore E&C is the business which is bound to remain the core business. The onshore E&C is the business from one side which has create the most the prominence in terms of negative results in the past and we now view it as the business of the turnaround. Turnaround which has been pursued through a completely restructuring of the organization, completely restructuring of all the processes, and a complete after divisionalization, a complete rethinking of also -- of all the portfolio of projects and region in which we intend to operate. In a nutshell, we are moving from a portfolio project which was largely related to upstream projects to much more LNG, much more downstream, much more refinery as you have seen from the recent awards, infrastructure like the high-speed trains and eventually in renewables. So that is a process which takes obviously some time, we are well on track at the moment. We have a margin of 3%. Obviously the target is to increase it and to increase it to a higher -- an higher level than that, the mid-single digit which we have said consistently in the recent past.

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

And sorry, just back on Kaombo, that sounds very encouraging regarding the progress. But specifically I wondered if you could comment at all about the risk that your client would push for liquidated damages versus the late delivery compared to when the project was initially started; is that something we should be worried about?

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

Well, as I mentioned before -- this is Maurizio Coratella speaking, the first floater is currently in production and inauguration is scheduled for the beginning of November in Angola. So we have derisked at least 50% of the project at this stage. The second floater is progressing per schedule and at this point of time we don't envisage any delay that would eventually expose us to this application.

Operator

Our next question is from Nadine Sarwat from Bernstein.

Nadine Sarwat - *Bernstein - Senior Research Associate, European Oil Services*

This is Nadine at Bernstein. I just wanted to follow up on the questions that we're touching on, strategy update. So can you provide an update on the strategic options that you previously said you were exploring for your drilling divisions? What is the progress on this and what sort of timeline should we be thinking of?

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

I think again consistently with what we said in July, we are -- we have launched an internal process to completely review the options, strategic options for both onshore and offshore drilling business. The target which we would expect to have at least an indication of the direction in which we intend to move on the 2 businesses I would think -- I would say that logically there will be most likely an update together with the new plan. But I would say that in terms of things which -- options which can actually be pursued, I would say second or third quarter next year.



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Nadine Sarwat - Bernstein - Senior Research Associate, European Oil Services

So just to clarify, you said that you will be -- you will know your options second or third quarter next year. But what was it for the -- having an indication of the direction you want to move in, is that at full year or later?

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

No, no. Okay, regularly we provide the market with an update on the strategic direction together with the new 4-year plan, and this is in March. So you will have first update in March next year together with the results for 2018. Then you were asking what is the expected time for this -- so starting some of the implementation in the -- in the strategy and I said a logical time is second, third quarter.

Operator

Our next question is from Michael Rae from Redburn.

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

First just on offshore E&C, can you give us a bit of color on the current pricing environment for new work? It looks like there's quite a few indicators of increasing tendering across the industry, so I'm just wondering have you seen any kind of change in the more aggressive betting practices that you've talked about over the past few quarters? And then second just on offshore drilling, would you say that all of your units are now operating on mark-to-market day rates or are you still benefiting from some of the kind of legacy higher day rates on some of the rigs? I'm just trying to understand if I take utilization out of the equation and just consider revenue per day of your operating units, are we kind of at trough levels now or should I expect a further step-down in the future?

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

Stefano Porcari for an update on the offshore E&C. No?

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

Stefano Porcari here. Actually, I mean the pricing of the new projects of course is very variable, depends on the clients and the type of the project, it's deepwater, if it's integrated, if it's shallow water conventional projects. Let's put in this way. It depends. It's true that in some cases there is very aggressive competition. In other cases, it seems that there the competition is less aggressive. However, I mean, what is important to see is the -- this increase of bids that we have in the pipeline. And so we hope that sooner or later this volatile -- this pricing will be more stable for the future of our business.

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

In terms of providing more color on the offshore drilling, Marco.

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

Good morning, Marco Toninelli speaking. Your question refers to the fact that if we still have contract with higher than average rates due to contract coming from the past, we say, yes, we still have some luckily, contracts that benefit for higher rates. However, most of the fleet is now on the level of markets, therefore this has been in order to maintain a good EBITDA, we work a lot on cost saving or cost optimization which we adjust to new levels of market. We are confident that when all contract will expire, we will replace with sufficient returns on the business.



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Operator

Our next question comes from Guillaume Delaby from Societe Generale.

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

Yes, to be honest, my question has just been answered, so I don't need other -- have a nice day.

Operator

Our next question comes from Mark Wilson from Jefferies.

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

You said at last results there was close discussion on a number of offshore drilling awards or extensions supposed to mature this quarter, could you give us an update on those, please?

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

I think Marco Toninelli.

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

Yes. As you look at Slide 17 and you look at 2019, it could be a source of worry and feeling a little bit nervous, but I can reassure you that we are working. Unfortunately, client has postponed the decision on a number of project. We are confident that a number of them will be closed in the next -- in the short term to close the gap. We mentioned Saipem 12000 for example which shows a gap between the Pakistan project and the beginning of Mozambique that we count on closing that gap. Same goes for Scarabeo 8, we are working on a number of opportunities in the North Sea. Some are very likely to be positively complete -- closed in the near future and same with the jack-ups as well. Perro Negro 8, we negotiate an extension of the contract ongoing right now and also there's other opportunities, Perro Negro 7 as well and Perro Negro 8 that we are very confident he will continue to work. So the gap that you see there will be hopefully -- I'm pretty confident that will be closed before the end of the year.

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

Let me give you -- let me add a little bit of color. I think consistently with what we said already recently, we are receiving a larger number of inquiries and we are addressing more clients than before. The characteristic of the request are for long term and at the present market rate. So at the moment, there is a rule of the game, at least for us, in-house is to avoid to commit very valuable units, we haven't got a large number of units and we want to avoid to strand the unit for a long time on a present low market condition. So we view the time -- the present time as a transition time, so we see good signals, we don't want to waste better opportunities of the future against the anxiety to get the best in committed. This is a difficult bet, but this is the bet we decided to play.

Operator

(Operator Instructions)



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

Okay. If there are no -- okay, no more questions. Thank you very much for the attendance, and look forward to next meeting. Thank you.

Operator

Ladies and gentlemen, this concludes today's call. Thank you for your participation. You may now disconnect.

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