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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Saipem First Half 2020 Results Conference Call. (Operator Instructions)

I must advise you that this conference is being recorded today, Wednesday, 29th of July 2020. And without any further delay, I would now like to hand the conference over to your first speaker today, Stefano Cao. Thank you. Please go ahead.

Stefano Cao - *Saipem SpA - CEO & Director*

Ladies and gentlemen, good morning, and welcome to Saipem's First Half 2020 results. I am joined today by Stefano Cavacini, our CFO; and Max Cominelli, our Head of Investor Relations. The 3 of us are in the same room, but our divisional CEOs are connected remotely from their offices. We are doing our best to ensure that the technology works, but since we are still relying on some mobile connection, please be patient if any issue arises during the call. As always, we will make sure that Max and his team will follow-up promptly after the call.

Last time we spoke was the 23rd of April, and most of us were in lockdown. Since then, the spread of the coronavirus has continued with different dynamics in different geographies. The oil sector, after the deep collapse of the commodity price in the spring has gone through a phase of mild stabilization. However, CapEx reduction by all companies, both majors and nationals, continue, coupled with the evolution of the energy transition.

Saipem is navigating safely through the crisis by relying on its diversified business model and technological devotion, which allow to adapt to increasing complexity.

During the second quarter, our priority has remained to protect the health of our people, while ensuring operations continue. We are learning fast, building resilience in this unprecedented scenario.

On top of this, commercial activity has not stopped at all. In fact, the second quarter saw a strong contribution in new contracts. And in the first half, we have been awarded project worth EUR 4.8 billion. Most of these are non-oil-related projects, such as the Nigerian LNG Train 7 in the E&C Onshore division and the renewables contract at Fecamp in the E&C Offshore. These awards boosted our book-to-bill to 2.6x in Q2 and 1.3x in the first half. As a result, our backlog stands at EUR 26 billion, which provides a good visibility. And with over 70% of the E&C related backlog coming from non-oil, we are also increasingly diversified. We haven't experienced material project cancellation by client. Instead working closely with them and our supply chain, we have secure project execution.

In the first 6 months of 2020, revenues were EUR 3.7 billion, and adjusted EBITDA was EUR 355 million, representing a margin of 9.7%. It should not come as a surprise that Q2 was more complex than Q1, given the macro developments faced during the pandemic.

At the divisional level in the first half, E&C Offshore and onshore saw some project slowdown and rephasing. Drilling posted lower volumes. Deepwater activities in the offshore and Latin America in the onshore are particularly affected. Saipem also benefits from its well balanced financial structure with ample liquidity and no significant maturities until at least 2022. This structure has been further enhanced in July with a new EUR 500 million bond issue with a maturity of 6 years. Stefano will give more color on this later.

As mentioned, we have revisited our strategic plan to better tailor business priorities to the long-term changes this emergency is bringing. In particularly, we confirm our business strategy and focus on the energy transition, along with our current group structure, but we are also enhancing our E&C divisions, future developments, targeting an even wider diversification.

Unpredicted situation like this one often accelerate the pace of certain processes and can bring opportunities for a company like ours, which levers our innovation, adaptability and an evolutionary mindset.

Finally, and as you know, we have identified and we are implementing post-COVID-19 efficiency actions. And today, we are in a position to assess the benefit in full year 2020, which we estimate at around EUR 190 million.

In addition to this, we are further lowering our CapEx target to below EUR 400 million for this year.

Let me add that this amount of OpEx efficiency is ambitious, and particularly, if you think that circa EUR 100 million of efficiencies were already embedded in our former 2020 guidance, then withdrawn in April.

As I said, health and safety of all our employees, clients, partners and supply chain is the top priority. To face the emergency, we have promptly activated the corporate crisis unit in coordination with local units, adopted response protocols, and we continue to actively monitor the situation.

I'm pleased to say that as of today, we haven't experienced any stop or delay to vessel operation caused by COVID-19.

All our key E&C onshore projects are progressing, although at a lower pace, especially due to logistical constraints. Some of our clients requested to postpone or slow down planned activities on some ongoing projects. Efficiency action on costs and CapEx rephasing are in progress. Actions range from the efficiency of our fleet to the optimization of G&A costs and local footprint. I will provide detail on this later on.

Finally, remote working continues, but we are gradually resuming the normal office activities in our headquarters and in our offices around the world.

To conclude, we are facing the challenge, drawing on our 60 years of experience, on the financial solidity and on innate resiliences strengthened over the last 5 years.

I will now hand you to Stefano. Thank you.

Stefano Cavacini - *Saipem SpA - CFO*

Thank you, Stefano, and good morning, everyone. I will start with a look at our liquidity and debt structure, our critical tools in getting safely through the current situation.

As you can see in Chart #8, at the end of June, we had a healthy liquidity position of around EUR 1.8 billion made of substantial cash available of EUR 800 million and the committed and fully undrawn revolving credit facility of EUR 1 billion.

In addition, the group had about EUR 1 billion of restricted cash, mostly held in JV accounts, a good backdrop to support operations. This liquidity allows Saipem to comfortably meet trading need over the year. Liquidity was further improved in July with the new EUR 500 million bond issuance maturing in 2026.

As you can see in the slide, it is represented by the dash, the blue bar in the chart. The overall chart shows a pro forma view, which adds the new bond to the situation at the end of June.

So moving on to our well balanced debt structure at the bottom of the slide, the chart shows the maturities and the composition of our gross debt, which amounted to approximately EUR 2.7 billion at the end of the first half. And as previously mentioned, a touch higher than Q1.

Back in April, I commented on the early redemption, in March exactly, of EUR 500 million bonds maturing in 2021. The new bond issued in July and maturing in 2026 increases the duration from 2.6 years to over 3 years. The 2 transactions together allowed us to improve our capital structure. The average cost of debt remains broadly stable at around 3% with the new bond issue, which is a level we are comfortable with.

So we can confirm that Saipem is on a solid financial footing with ample liquidity. And thanks to an improved debt structure, it can comfortably withstand also a prolonged period of uncertainty. Financial flexibility remains the priority for the rest of the year.

As I said before, when the turmoil is over, deleveraging and gross debt reduction will again be our primary objective.

Now looking now at first half performance, Slide #9. Revenues were EUR 3.7, down approximately 19% on H1 2019 and a factor in second quarter characterized by activity slowdown due to the COVID-19 and project rephasing.

Q2 was fully impacted by the effects of the pandemic, while Q1 was only partly hit. Second half volumes will be supported, as you will see later, by the portion of backlog to be executed for the rest of the year and are expected to remain broadly in line with first half.

Adjusted EBITDA was EUR 355 million, decreasing year-on-year due to lower revenues in both E&C and Drilling divisions. I'll elaborate more later on in the presentation.

Adjusted EBITDA margin was 9.7%. The second half will be supported by the OpEx efficiency actions, which could lead to a group margin level up to first half.

Finally, adjusted net income on the right of the slide, was negative by EUR 132 million, mainly driven by the decrease of adjusted EBITDA, which was partly offset by some positive dynamics below the line, particularly income from investment.

Now let me say just a few words on taxes. Adjusted profit before tax was in red for the first half, and we have not seen taxes reduce proportionally. Instead, we had a quarter increase, mostly related to higher profit reported by entities which had no available tax losses to offset against current taxable income. In Q1, the majority of reported tax was made by withholding taxes, as you should remember. And as most of the profit subject to corporate income tax was generated by entities with either available and recognized tax assets or low tax rate.

Since the adjusted net income was in red and in line with what we discussed in previous call, I think that any comment on the tax rate would not be relevant for first half 2020 or full year. In the second half, I can say that tax burden should be in line with what we recorded in the first half.

Now looking at divisional performance. Slide #10, beginning with Engineering & Construction. E&C Offshore revenues in H1 2020 decreased by over 25% year-on-year, reflecting a full quarter of impact of COVID-19. Revenue decrease was triggered by reduced activity in North Africa, Middle East and sub-Saharan Africa, partially compensated by higher volumes in the Caspian area and Italy.

With respect to quarter-on-quarter performance, the second quarter has been severely impacted by the effects of the pandemic. And on the commercial side, we've also experienced rephasing of FIDs that impacted our book and bill revenue opportunities.

So we closed the first half with adjusted EBITDA of EUR 173 million and with a margin at 11.6%. The year-on-year decrease was due to lower revenue affected by COVID-19. And as you might recall, a different segment mix due to, I would say, the phasing out of major high-margin EPCI projects in Africa.

It's also worth mentioning that on the supply chain side, we experienced delays in the delivery of materials and in fabrication yards.

Let me finally stress again that shifting of some ongoing activity, as our CEO explained earlier, did not affect the backlog, but only the profit and loss. We are adopting efficiency measures across the whole organization to safeguard our economic and financial performance.

Looking ahead and with the disclaimer that current visibility is still affected by a highly volatile environment, we expect continuing weakness in the second half for the reasons, I would say, just commented.

Moving to E&C Onshore. Revenue decreased in the first half by almost 12% year-on-year, and after a positive first quarter, Q2 slowdown was triggered by the impact of the pandemic on operations, in particular, supply chain constraints and forced extensions, and by client decision to shift forward investments on specific Middle East initiatives that were expected to contribute volumes during Q2.

In contrast, I can say that activity in East Africa positively contributed. Our adjusted EBITDA margin, as you can see, was 3.6%, with a dilution attributable to volume shifting and anticipation of full year costs in line with international accounting standards, with revenue recognition expected in the second half. Africa and some country Middle East were the most resilient in terms of margin.

In the second half, we expect some margin recovery triggered by revenue associated with costs already recognized and higher activity progress in some areas.

As you know, in E&C Onshore, our target is to reach a mid-single digit margin, as already disclosed in the past.

Finally, it's important to remind you that there is no backlog cancellation in E&C Onshore. It's just a matter of variation of project schedule, with a significant portion falling into 2021.

Turning to our drilling performance in Slide 11. In offshore, our top line decreased by over 27%, mainly driven by deepwater drillships Saipem 10000 along with Scarabeo 7 and Scarabeo 9, partially offset by Scarabeo 5 and jack-up Sea Lion 7, which were not generating revenues in the same period of last year.

As anticipated, and as you will see later on in the fleet management chart, our deepwater drillships are subject to some activity shifting, blending and extended, since 2 vessels will be, I can say, will be remunerated with the standby rate.

We are in the final process of formalize this agreement, which will positively contribute to backlog later this year.

And in addition, we have recently formalized a new agreement for Scarabeo 8, whilst we received the notice of early termination on Perro Negro 8.

Adjusted EBITDA was lower compared to the previous year at EUR 63 million, with margin dilution at 34%, mainly due to idleness increase, only partially offset by higher efficiency on the cost side.

Our COVID-19 impact on oil and as a consequence, on client decisions to review their annual commitments, affected both revenue and margin.

This picture is expected to continue for the remainder of the year, triggering a material decrease in terms of revenue and obviously margins, caused by idleness and rate revision.

We've duly analyzed current business environment and the effects of market deterioration for drilling. As a result, you can see we have made a noncash impairment, which I will elaborate on the next slide.

The assumption underpinning the impairment mirror a situation for drilling offshore, which is not expected to improve in the upcoming months. And as you might know, this is a business with a high portion of fixed costs. Hence, a revenue decrease flows almost directly down to EBITDA.

In the second half, both revenues and EBITDA are expected to significantly deteriorate.

Moving on to Drilling onshore. Revenue fell around 14% year-on-year. Key drivers were lower activity in Latin America, Caspian against steady volumes in the Middle East. In Argentina, we began operations with our high-spec rig for the unconventional market. And EBITDA fell 18%, mainly due to Latin America and resulted in a margin above approximately 23%.

Our Drilling Onshore Division, unfortunately, is not immune to pressure from our clients. For example, for activity suspension as well as rate discount. Hence, we expect this to be reflected on revenues in the second half.

Now Slide #12, we show the bridge from adjusted to reported net result. With regards to half of this year, our adjusted net income was negative by EUR 132 million. We identified as special items, the costs we have incurred to preserve the health and safety of our people during the COVID-19 pandemic for EUR 44 million. This amount, just to give you more color, includes costs directly attributable to COVID-19 and not related to projects. Among which individual protection devices and equipment cost of quarantine protocols, charter flights, massive purchase of IT equipment, just to name a few.

As mentioned earlier, due to the market deterioration, we have reviewed the assumption regarding the Drilling Offshore business, and we run an impairment test, which triggered a noncash impairment of approximately EUR 330 million in addition to the impairment of approximately EUR 260 million that we made in the first quarter also related to Drilling Offshore.

The main drivers, as you can read in the slide, of Q2 impairments were some activity shifting, renegotiation of rates of some vessels, our contract cancellation for 1 jack-up delaying contract acquisition, the revision of the expectation for long-term rates and the increase of the discount rate.

Finally, you can see in the chart approximately EUR 120 million, which includes write-downs associated with the efficiency plan and other items.

After these special items, we closed the semester with a reported net loss of EUR 885 million. Now we are reaching the end of my financial presentation, Slide #13. As usual, the light blue shaded area shows the variation from year-end 2019 net debt pre-IFRS 16 of approximately EUR 400 million. Looking at the various drivers for the first half 2020, I can say that cash flow, as usual, defined as net profit plus D&A, was positive and around EUR 60 million. We posted shy of EUR 200 million CapEx. which is in line with what we discussed earlier this year, includes some CapEx shift from last year, and in particular, the cash charge for the new vessel in E&C Offshore, which we bought in Q2 2020.

Others, including delta working capital was approximately EUR 300 million and as expected and anticipated in our previous call, factor basically 2 elements.

First, some natural cash absorption from projects awarded in 2019, which entered the procurement and construction phase in 2020. Second, the impact of COVID-19, which has delayed the progress of some activity, along with the decision of some clients to slow the pace at some specific sites.

In the second half of this year, we expect further working capital expansion, mainly triggered by the 2 impacts I've just mentioned and the shifting of some potential award, which was initially expected to bring advanced payment during second half of 2020. But part of this working capital increase will be compensated by the additional CapEx reduction embedded in the new target of below EUR 400 million.

And finally, I have to say that what we refer to as Other in the chart includes, among others, the purchase of the treasury shares performed in Q1 and dividend pay in Q2.

As a result of these drivers, net debt pre-IFRS 16 at the end of June 2020, slightly increased compared to first quarter of around -- to around, sorry, EUR 900 million. This level is fully in line with the expectation we shared with the market in our previous call. And as you might recall, we anticipated a net debt increase in the second quarter versus Q1.

Going forward, we expect to see our net debt increase in the second half from the level of June, mainly due to natural absorption of working capital as project progress and the impact from COVID-19, which is delaying some activity execution.

The progress slowdown of some projects with delays of invoicing and related cash in is -- for the time being, I would say -- is a temporary effect that we expect to be absorbed once project execution comes back to full speed, hopefully in first half 2021 based on the assumption of no further escalation of the pandemic.

Finally, the level of IFRS 16 liability has decreased compared to Q1, simply due to revision of [some of these] contracts and nothing of important more.

For the full year, we expect a level of lease liabilities broadly in line with what we recorded in the first half.

Now I reached the end, and I will hand back to Stefano for the next session.

Stefano Cao - *Saipem SpA - CEO & Director*

Thank you. So Slide 15, moving to the main awards year-to-date. In the first quarter, we had a good momentum for E&C Offshore, as shown on the left side of the slide. On the right side, you can see the second quarter, each 1 in terms of award in both E&C Offshore and Onshore. We already mentioned the high-speed train Brescia Est-Verona in Italy. This is the second leg of the project that follows the first award announced in 2018, and testifies that our diversification strategy is bearing fruit, also in the infrastructure segment.

Continuing with the E&C onshore awards, during the second quarter, we have been awarded in Nigerian LNG Train 7 project as the leader of a joint venture, for [pipe onshore] worth approximately USD 2.7 billion.

This award confirms our strong presence in Nigeria, where we have been proudly operating for over 50 years, and reinforces our central role in the gas value chain with a recognized technological leadership in the energy transition.

In Q1 call, we also mentioned the award of the EPC of a polybutadiene facility in Egypt, the first plant of this kind in the country. On the E&C Offshore, we have been awarded 3 projects. The first is the second offshore wind farm foundation. This is a new award following the NnG and the Formosa, 2 projects announced last year, confirming a robust positioning in the offshore wind market, for a combined last 12 months amount of awards of circa EUR 1 billion.

As you might recall, we have recently announced post-Q2 other new offshore wind contract. We still reinforce our role in the renewable segment.

The second award was for pipe transportation and installation of a natural gas pipeline between Denmark and Poland in the Baltic Sea, a strategic project for the European Energy Security.

The third and most recent project award in the offshore is the APC of a rigid riser-based subsea system to serve the Buzios Petrobras project in Brazil, interconnecting 15 wells to an FPSO in water depth up.

(technical difficulty)

Okay. Sorry, but the line was cut off. So I will assume where I left I was on Slide 16, E&C Offshore, the business comments on the business evolution in the first half of 2020. So I was referring to the fact that in this section, we look at the current evolution of our business.

So starting with E&C Offshore operation, I wish to highlight that all key projects are duly progressing, and we did not suffer any backlog cancellation.

During the most acute period of the COVID-19 crisis, the prolongment of crew shifts guaranteed the continuity of offshore operations and the application of strict protocols. And that's monitoring, minimize risk of infection aboard the fleet.

We had, of course, some delays that have been caused primarily by the constraints in moving people and supplies and by the slowdown of some yard activity.

In this period, we continue constructive dialogue with our clients and some of them requested us to postpone planned activities or slow the pace of some projects. We are implementing a series of efficiency actions with the aim of partly mitigating the effects of the crisis.

The first set is related to the optimization of the cost of our assets. For example, the stacking of the underutilized vessel and yard. We scrapped a couple of old units and implemented a variety of other actions focusing on both G&A costs and personnel.

We have started a comprehensive review of our local footprint, and we have rerouted unutilized engineering capability to areas, which peaks -- with peaks of activities, leveraging cross-divisional synergy.

Finally, we revised our CapEx plan, postponing all the nonessential investment or vessel adaptation expenses on specific projects, which are shifting. At the bottom of the slide, we recap our strategy.

The 3 pillars represented that full year '19 results remain.

Furthermore, the COVID-19 turmoil has further accelerated our forward-looking on the future of our business, as you will see next.

Slide 17. E&C Offshore is indeed our core business and as it is our DNA. It also offers a huge amount of future opportunities for a leading offshore operator with advanced offshore technological solutions, first-class fleet and engineering capabilities.

In recent years, we have gained a strong position in the offshore wind market, leveraging on our assets. But our capabilities give the edge to be the partner of choice in a broader marine environment.

We are targeting and exploring a broad spectrum of technology. Some of them are currently under development; other, less conventional new solutions are entering in the radar and are being assessed.

Oceans and seas are our natural habitat. And since 70% of our planet is covered by water, we do believe opportunities will not be lacking in the future.

E&C Onshore. Moving to E&C Onshore. I think it is worth to remark that also in the Onshore, we didn't suffer any backlog cancellation.

On the contrary, first half awards further boosted the backlog of the division. We had a slowdown in the operations at some of our working site, but we managed them with an effective response, in collaboration with clients and suppliers, to guarantee the progress of all projects.

In particular, let me provide an update on the Tangguh project, an example I cited in my previous call. We had 16,000 people working on the site before the outbreak, and we quickly de-manned the site down to 6,000 people. By establishing strict rules for the mobilization, quarantine and post-quarantine health protocols, we have been able to bring the number of people back to 8,000, a level compatible with social distancing protocols in the site.

And this case has been sort of a pilot. A pilot to manage at best health and safety issues related to COVID-19 on working site, then applied to plenty of other locations.

To give another example, the Mozambique Area 1 site has now been re-manned back to the pre-COVID-19 workforce level.

In other cases, such as the Arctic LNG 2, workforce remain at full level. This consideration makes me confident in saying that the first half of the year absorbed most of the direct impacts from COVID-19 on working sites.

At the same time, we have agreed with the clients a material shifting of some projects scheduled in Saudi Arabia, albeit no backlog cancellation.

On the efficiency action, we are revisiting commercial conditions with the supply chain and reducing contingent expenses, such as travel, external services, consultancies and G&A.

Finally, we are confirming the strategic lines. The virus outbreak did not change our strategic view. Even if we had to slow the pace for our digitalization process, whilst in the case of decarbonation, the current turmoil at least will not slow down the energy transition.

Slide 19. The energy transition is often tackled into a simplistic manner, implying a sort of on/ off process. The change has undoubtedly begun, but it requires a path that is still long and complex. Many challenges need to be addressed by societies, regulators and industries to get to a low-carbon world, while meeting the growing energy demand. Whatever this future will be, we are in the right position to help shape it. We are innovators and experts in creating and integrating complex systems, which will be increasingly necessary.

Today, we are among the leaders in the gas value chain. We are more diversified into infrastructure, but our strength lies in our capacity to design solutions to tackle complexity and help our clients to meet their needs and efforts to decarbonize.

Next Slide 20 shows the commercial opportunities for the E&C division by geography and segment. With the caveat that this reflects our current view and things are moving fast, we still retain visibility of around EUR 21 billion of projects. What we say in Q1 is still confirmed. Compared to a couple of quarters ago, we are now fully aware that some awards will spread over a longer time span. The positive side is that visibility in our offshore has slightly improved with a growing number of opportunities, the largest in Middle East and Africa, with valuable opportunities also in Asia Pacific region.

Finally, let me also recall that some major E&C Offshore projects included in this list in Africa and Asia Pacific, such as Rovuma and Scarborough, have already been awarded to Saipem and are just pending final investment decision, which is now expected to shift into 2021.

Before moving on to drilling, let me spend some words on our approach to early engagement in next slide. It is worth to reconfirm once more that the rationale of XSight Division is not the revenue generation by itself, but instead, the value generation for other division and to be a kind of technological incubator to serve and anticipate market and clients' needs.

XSight is then vital for the whole organization, as it is our innovation engine and through its close dialogue with clients, we believe we can unlock opportunities for other division for developing full cycle projects.

The day-by-day interaction with clients, combined with its innovative mindset, will also pave the way for future business, developing new solutions to satisfy client needs.

In the slide, you can see a selection of the most relevant examples, such as the agreement with Equinor for an open sea floating solar panel solution, the collaboration with various partners for an offshore wind farm and floating solar farm in Italy, the memorandum of understanding with Cassa Depositi e Prestiti, the Italian public investment fund, to cooperate for innovative and sustainable project in Italy and abroad.

Green hydrogen is also an area of great focus for the technological competencies we have through the value chain of its production, storage and transportation and indeed, utilization.

In this segment, we are starting, amongst others, a solution to design and build an hydrogen production package supported by renewables energy that could be deployed on existing or [this midst] offshore platform to reduce carbon footprint or add a green hydrogen and oxygen value chain.

Finally, the development in collaboration with Politecnico di Milano of a new cracks monitoring technology for the monitoring of pipeline.

Let's now move to the Drilling business, starting with the offshore. During the most intense day of the COVID-19 crisis, the continuity of drilling offshore operation has been as well secured by the prolongment of crew shifts, stricter health protocols to minimize the risk of infection on board the fleet. As drilling is an early cycle business, our clients tend to react faster in a downturn, reducing exploration and development. As you will see in more detail in the next slide, both our flagship deepwater drillships experienced a postponement of activity, but with no backlog cancellation. The 2 vessels are not operating for the time being, but they are being remunerated with a standby rate and their activity has simply shifted forward.

A similar situation occurred for one of the leased jack-up, Pioneer. Scarabeo 8, the semisub, had a commitment that was initially canceled, but we managed to finalize a new contract, which will cover part of the previous one.

The only vessel that caused a backlog cancellation, and it's worth stressing that this is to date the only backlog cancellation for the whole of Saipem in both Drilling and E&C, is the jack-up Perro Negro 8, which is supposed to end its current engagement by the end of this year.

Tender-assisted drilling is now fully devaluated.

We have activated a series of efficiency actions. So we are going to green recycle 2 jack-ups, Perro Negro 2 and Perro Negro 5, with the latter to be scrapped after the substitution with Perro Negro 9, which is a lease unit. We are also going to scrap Scarabeo 7 semisub.

Rigs that are currently reduced operation have been put into smart stacking mode. On lease vessel, we managed to reduce the passive lease rates.

Other actions include the optimization of vessel maintenance and rightsizing of personnel on board, the revision of commercial condition with suppliers and the review of some structural costs. For instance, the ones related to local offices and logistics bases.

Finally, a recap of the offshore drilling strategy. We not only continue with an asset-light opportunity approach, but in principle, we do not exclude opportunities that may arise from financially distressed assets or potential partnership.

We have introduced Slide 23 on our chart showing the contractual commitments of the Drilling Offshore fleet. Saipem 12,000, this unit after the start of operation in Mozambique for Eni Rovuma in September '19, has been put in standby, following a request of the client expecting and now she is expected to restart the operation in 2021.

10000 similarly to the 12000, the vessel has been put in standby on request by the client. She's expected to come back to work in mid-2021 and to benefit of contract extension until August 2023. Both the drillships at the present are remunerated with standby rates. Scarabeo 9, after the completion of the [demart] from Black Sea, she has been put in smart stack mode and is actively marketed. Scarabeo 8, after the completion of the works for Wintershall in April, she has been put in smart stacking mode following the decision by the client to early terminate the contract which she then expected to start in July this year.

Subsequently, the discussion led to an agreement to restart the activities in Q4 this year. This allows the rig to remain active and preserves its competitive edge in the North Sea, where the asset has been a key player since 2012.

Scarabeo 5 is continuing to perform as a production support vessel for Eni in Angola.

Perro Negro 8, following the decision of ADNOC to early terminate the contract, the rig will complete the operation within the end of 2020, and then the rig will undergo the 5-year plus maintenance in early 2021 in order to be able to secure further contracts.

Perro Negro 7 and Sea Lion 7 are both continued their activities for Saudi Aramco.

Perro Negro 5. The swap with Perro Negro 9 has been delayed to August, September, following the issues due to COVID-19 such as the restrictions to travel for operating personnel, or delays in supply of critical items. At present, Perro Negro 5 is continuing operation.

Pioneer, the rig has been put in standby by the client at the end of June, but it will remain on location to provide assistance to the facilities of the client. Standby period is expected to last up to 9 months.

Perro Negro 4, the rig is in operation and has recently taken benefit of a contract extension until November 2021.

Three rigs have disappeared from this chart. Since no operations are envisaged at the TAD tender-assisted rig in Congo, we took the decision to fully write it off. Scarabeo 7 and Perro Negro 9 will both be sent to green recycling.

Onshore Drilling. We maintained business continuity through the COVID-19 crisis, thanks to a prolonged crew shift as we did in the offshore. We have received some requests from clients to suspend activities for a certain period. The contracts have not been canceled, but the operation have been put on hold and postponed. This occurred especially in Saudi Arabia and Latin America.

There's been some pressure on day rates of ongoing contracts. But in the Middle East, we also signed a 3-year renewal for 2 rigs.

Finally, we had some delays in the start-up of new rigs in Latin America due to constraints in the mobility of people and supplies.

On the efficiency side, we are planning fleet rightsizing in the second half of the year. We continue to optimize inventories. We are revisiting collaboration scheme with our clients and suppliers as we are currently rethinking and exploring new opportunity through technologies and more integrated business model.

We are also approaching the geographical footprint of our -- the logistic bases officer and workforce. We will continue redesigning processes to make the organization more agile.

Our strategy hasn't changed, and we continue to pursue options to ensure the continuity of business and long-term resilience.

On the utilization of the onshore drilling fleet, a new high-specification rig for the unconventional market started operation in Argentina in the first quarter, bringing the total number of rigs in the fleet to 83 from 82 in 2019 year-end. The total fleet utilization rate in first half was 51%, which compares with the first half '19 of 59%.

In the EMEA region, the ratio was 90% in the first half compared to 97% in the same period of last year, while Americas was 22% versus 31% last year.

The decrease in both areas is due to contracts that came to an end and were not renewed, in particular in Peru, Ecuador, Argentina and Romania and some activity suspension. The 2 new rigs, the start-up delay in LatAm also contributed to the decrease.

In the second half of this year, we expect a further reduction of utilization rate based on the discussion we are having with clients; in particular, on some suspension of other rig in Middle East. For the sake of clarity, suspension do not imply backlog cancellation, but only postponement of activity.

Quickly moving to backlog after a solid first half in terms of our work, we reached a consolidated backlog of over EUR 22 billion, which increases to around EUR 26 billion including nonconsolidated projects. I reconfirm that we have not experienced cancellations since the beginning of the year in the E&C. While as you can see from the chart, the only cancellation has been Perro Negro 8 in Drilling Offshore.

Over 70% of D&C backlog is not-oil related, as a result of our diversification strategy. Despite a still highly volatile business environment, we have re-introduced the split of backlog by year of execution in next slide.

Obviously, this Chart 27 is based on current visibility, which may change in one direction or the other, according to the evolution of the COVID-19 pandemic and, of course, following negotiation with clients.

The shift from 2020 to '21 is evident in the chart, especially in the E&C onshore business. The split by year of nonconsolidated portion of backlog is shown in the lower part of the slide.

Business Outlook, Slide 29. Back in April, the Board of Directors decided to withdraw the full year guidance on the basis that COVID-19, together with low commodity prices, created a uniquely volatile environment that made difficult to reliably estimate impact on activities and results.

In Q2, we posted a deterioration of results, but we currently expect the situation to gradually stabilize. Hence, we would like to share what our current view is in terms of business outlook, which remains impacted by COVID-19. We had discussion with clients that resulted in backlog shifting. We managed to progress work at the best of our capacity without stopping the activities.

No material backlog cancellation and a [sound] semester in terms of awards leave us positive on the development of the business in next few years. And this backlog, as we presented in the previous slide, will support the second half volumes expected broadly in line with the first half.

Efficiency action of EUR 190 million in 2020, in a still challenging environment give us visibility for a remainder of the year, for a group marginality up to what we posted in the first half.

CapEx yearly target is now at below EUR 400 million and will partly offset other impacts on cash flow. For the sake of clarity, this outlook does not factor further possible material business deterioration for Slide [19].

Finally, let me conclude by saying that the first half and the second quarter, in particular, have seen Saipem, along with the whole world, facing the most extraordinary challenges, but I'm very proud of how our people reacted to the challenge. Throughout this difficult period, we have put the health and safety of people at the top and highest priorities.

We have also been able to secure the safety and continuity of our operations. We have adapted fast to the new reality.

This, thanks to a great teamwork and also to what has been achieved in recent years to reshape Saipem, which now has a business model, a large enough backlog and the financial flexibility to navigate this storm.

We are not being complacent. We have taken further significant steps to identify efficiency, significantly reducing OpEx in 2020 and rephasing our CapEx.

Furthermore, we continue to invest in R&D, looking to leverage skills and experience built over 60 years to put Saipem in a competitive position to originate and exploit the technology to propose innovative solution for the world of tomorrow, from global energy to infrastructure.

I would like to end by thanking all our people from the front line, those probably undergoing the greatest sacrifice, and all Saipem people for their huge efforts over the past 6 months. I have no doubt the next 6 months will present new challenge, but I'm sure we are well equipped to keep on navigating safely.

With that, thank you for listening, and I look forward to answering your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Your first question come from the line of Alessandro Pozzi from Mediobanca.

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

My first question is about the revenue decline. We were expecting this quarter to be a challenging one, and that it has been indeed. When we look at the pre-COVID guidance, I think it was EUR 10 billion revenues for 2020. It looks like we're going to be maybe 25%, 30% below that. Could you tell us how much do you think is COVID-19. I mean, logistical issues and how much could be related to oil prices and the deferral of the backlog? And do you expect -- and how long do you expect the COVID-19 impact to have -- to be a drag on the top line? Do you still see that in Q4, for example?

Stefano Cao - *Saipem SpA - CEO & Director*

Yes. As you correctly pointed out, there is a major revenue decline. I think that identifying and analyzing the different impact coming from COVID-19 and coming from the overall decline on the commodity price is something which is extremely difficult and indeed very much time-consuming. We do believe that, in a way, they are closely cross-related. It is a sort of definitely perfect, perfect storm, which has been caused by the combination of the 2, then define how much has been the decline of the commodity related to the COVID-19, what was the effect of the action of the OPEC decision to reduce production, counteracting the impacts of both construction collapse related to COVID and unrelated to COVID. It's indeed an interesting exercise, which we are trying to run.

But quite frankly, I have to say that at the moment, this is not our highest priority. The highest priority is to set up the organization in order to cope with the overall situation. I think we have highlighted the means and tools, which we indeed, we have been utilizing and we intend to continue utilizing over the -- indeed, the rest of the year. Most of the revenue reduction is related, I think, as I said a number of times during my presentation, is related to a shifting of contracts. Some shift have been requested by client in order to cater for their cash constraints. But indeed, some other shifts that have been caused by the physical difficulties in managing operation. I think the example I made about Tangguh is something which is very visible, and it is representing very much the reality of the present situation. I hope that I have addressed your question.

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

Yes. So when we think about the second half, you mentioned flat volumes compared to the first half. Should we assume a gradual recovery from Q3? Or anything that you can say about the shape of the bounceback from Q2?

Stefano Cao - *Saipem SpA - CEO & Director*

I think we have given quite a clear indication. As far as if you look at overall volume in the first half, which is a combination of a quarter which was, I wouldn't say untouched, but certainly less affected, and second quarter, which has seen the worst of the impact. Then what we project is that the combination of the first and second quarter volumes. It's a good, a reasonable proxy to identify the overall volume for the second semester, which implies, obviously, that there is an amount of substantial recovery. I mean, comparing -- if you had to take a proxy of second quarter, you would expect a much lower volume. What we expect, indeed what we are representing, a situation whereby there is definitely a recovery in the second half of the year.

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

Okay. Just if I may, last 1 on the scrappage of the Scarabeo 7. Do you expect idle cost to come down in the second half of 2020 because of the scrapping of the 2 vessels?

Stefano Cao - *Saipem SpA - CEO & Director*

Indeed, that is the driver. I mean, that's the driver for the decision. Even the -- I mean all the scrapping, which we continue to make in our fleet. Obviously, they go in the direction of reducing the fixed cost. Those units, they were idle or they are bound to be idle, so they are a source of cost. The age of the units is beyond what we now consider an acceptable age of rigs being part of our fleet. So indeed, yes, it is, as I said, is a sort of driver.

Operator

Your next question comes from the line of James Thompson from JPMorgan.

James Thompson - *JPMorgan Chase & Co, Research Division - Analyst*

A little bit of a follow-up, really, from Alessandro. Just I wanted to understand the kind of backlog progression as we go into 2021. And obviously, the impact that we've had in the second quarter, which I think is clearly greater than many were expecting. When you're talking about the major projects here, whether it's Arctic LNG or Mozambique LNG, how are the discussions in terms of rescheduling the projects? I mean, are the clients just looking for you to get back to previous levels of manpower, and effectively, you're on a new schedule? Or are you going to be asked to catch up a little bit? Maybe if you could just sort of talk about some of the dynamics there as we think about the backlog unwinding over the next couple of years. Because clearly it's a very sizable backlog, but just want to understand a little bit more of the dynamics of these projects, please?

Stefano Cao - *Saipem SpA - CEO & Director*

The dynamic is fairly clear. I think, as I commented all along, one of the -- I mean, if you can call positive side of the pandemic is that we have completely reshaped. When I say we, in the industry. We have completely shaped the relationship with our major clients. So I already mentioned Tangguh. So BP as a client. Then I would refer to, indeed, Total for Mozambique. And then I would add NovaTek for Arctic LNG 2. During the period of lockdown, we have established a number of direct communication lines to top-to-top. We had the regular meetings involving myself at the top of the -- of our clients because we felt that we were both playing the same game, that we wanted to overcome the situation, and we want to restart as fast as we could with the normal course of activities.

So at the moment, this is on the positive side. And we -- this is the reason why we project the situation for 2021 onwards, whereby the major project, they will go back to the original progress of activities. Slightly different is when it comes to national oil companies, national companies, they are more inclined to protect their budget. So this is the reason for some postponement like the one I referred to in Middle East. So it is a situation which is not clear-cut yet. But I would say that, all in all, what is essential is the improved level of communication, not only vis-à-vis the customers, but also with -- throughout our supply chain. So indeed, all in all, 2021, we expect 2021 with project activities picking up to a much more normal way of progressing.

James Thompson - *JPMorgan Chase & Co, Research Division - Analyst*

Okay. So I guess I just -- from that, we should be comfortable that the impacts from COVID-19 are genuinely being shared by everybody, and it's not just -- and it's not putting more pressure on you to deliver projects.

Stefano Cao - *Saipem SpA - CEO & Director*

We don't -- I mean, so far, bear in mind that we are in July, so we are still in the middle of the pandemic. I would say that the priority has been devoted to operations. There is always time for commercial discussions. Some cases, they have already advanced, in some other cases, they are simply waiting for the situation to restore and then concentrate on the commercial matters.

Certain direct costs related to the pandemic, like all the equipment which we have mobilized to maintain a close control of the health of our people, these are widely recognized as being part of the measures which we are implementing in order to restart operations. So these are far less a part of this discussion. They are recognized.

Operator

Next question from the line of Sahar Islam from Goldman Sachs.

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

Firstly, I appreciate it's probably early days in the upcoming tenders, but have you seen clients talk about price deflation for the new projects? And do they expect the services base to share some of the cost savings we've seen from the E&C names?

And then secondly, on M&A, you've talked in the past about expecting to see consolidation on the E&C side. Do you expect to see that in the near-term and would Saipem play a role in that, please?

Stefano Cao - *Saipem SpA - CEO & Director*

Okay. In terms of pricing, obviously, we have to be quick and flexible enough to cater for any -- use the word advantage, it's a bit too strong, but any opportunity which comes from the difficult situation in terms of supply chain to incorporate this in our prices for our bids. So I would say that in terms of pricing, I reconfirm that we have very strict rules, we have set up processes, whereby we need to safeguard the margin of the bids which we present to them. And at the same time, safeguard the amount of contingency, which we always cover for in our bid. So this is a sort of ongoing process where, all in all, there are certainly opportunities for a reduction -- I mean, reduction in prices related to a reduction on costs. But that does not imply that we bend in any way the rules which we have set for ourselves.

In terms of M&A. I think like other situations, probably none of the previous situations are comparable to this one in terms of depth and duration of the crisis. However, the history tells us that after big crisis there are always opportunity. Just to qualify the approach, I think I can only reconfirm what we have mentioned, unfortunately, now since 2 years that we are looking for opportunities to create partnerships to creating value for both partners for our 2 onshore and offshore drilling business. And indeed, we keep an open eye on situation of stress which we might find in other companies, and we keep analyzing opportunities, and the history of Saipem has always been the history of -- after a big crisis take an advantage. And indeed, this is the frame of mind. Then we'll analyze case by case.

Operator

Next question come from the line of Amy Wong from UBS.

Amy Wong - *UBS Investment Bank, Research Division - Head of European Oil Services, Executive Director & Analyst*

A couple of questions from me. On your cost savings, you're talking about EUR 160 million to be realized in the second half. And we think forward to 2021, will that same rate of savings carry on into 2021 as well?

Stefano Cao - *Saipem SpA - CEO & Director*

Stefano? The other Stefano.

Stefano Cavacini - *Saipem SpA - CFO*

Amy, the vast majority of saving in the plan that we put in place relates to 2020. For sure, there will be a carryover next year, but the vast majority is related to this year.

Amy Wong - *UBS Investment Bank, Research Division - Head of European Oil Services, Executive Director & Analyst*

Okay. So to clarify the kind of feature of the say, how did you guys come up with that number, EUR 160 million? What does it relate to? And I guess the thrust of my question is really just trying to understand, are you making very quick changes to variable costs then? Or are there more structural costs related to that EUR 160 million, please?

Stefano Cavacini - *Saipem SpA - CFO*

But -- it relates to partially variable costs, but we, I would say the vast majority is related to some corporate cost, temporary actions because in 2021, 2022, as you can see in the backlog, we have big challenges in order to deliver the backlog. So for that reason, some action relates I would say, primarily for this year. But just to give you more color about this cost saving, I can tell you that the vast majority relates to labor cost, some specific action taken. The digitization program has been postponed in the coming years in order to save costs in 2020. Other actions that we are executing are in reducing legal expenses and consultancies. Just another example, we are critically reviewing our research and development costs and finally, also in terms of commercial, considering that the -- this year is a really particular year, we have, once again, postponed some activities.

Finally, if I have to wrap up, I can say that approximately 25% of the total amount, you can consider as a structural reduction cost.

Amy Wong - *UBS Investment Bank, Research Division - Head of European Oil Services, Executive Director & Analyst*

Yes. Okay. That's very helpful, Stefano. Second question, completely unrelated. Just related more to your offshore wind business and the projects there. Just could you help us understand in terms of the kind of, once you deliver the projects, what the ancillary kind of maintenance, modifications, operations, type kind of follow-on work is related to offshore wind projects, and contrast that to offer oil and gas projects. How should we think about that kind of revenue over the life of the project in terms of how that -- what the scope of Saipem's work is there, please?

Stefano Cao - *Saipem SpA - CEO & Director*

Amy, I think Francesco Racheli, who's on the line, will address properly your question on the offshore wind. Francesco?

Francesco Racheli - *Saipem SpA - COO of the E&C Offshore Division*

Sure. Amy. So with respect to the offshore wind projects, we can say that once -- so if the question is specifically related to the, let me say, life of field, so to speak, of an offshore wind farm, then for us, this is a business that we are building as we speak. As you might be aware, we created a solution, that is to say life of field business unit, within the offshore wind division that, amongst other things, of course, will follow the life of field of offshore wind farms. And so clearly, I think within sight, and we have the brand, we have the vessels, we have the -- let me say, capital, there is, let me say, the brain power to serve customers throughout the life cycle of those farms. And so we will definitely try to pursue that segment over the next several years, not necessarily only in offshore wind, but also in, let me say, conventional projects. We have also ROEs, that will be the enabling all the maintenance and repair type of activities in offshore wind farms and traditional projects.

Operator

Your next question come from the line of Vlad Sergievskii from Bank of America.

Vladimir Maximovich Sergievskii - *BofA Merrill Lynch, Research Division - Research Analyst*

And thank you for taking my 3 questions. Just 1 would be on the impact of government support on 2Q results. In particular, would you be able to give us some color on what the positive earnings impact was from labor support schemes and how it was accounted in Q2?

My second question is on debt. Are there any debt covenants or either RCF or bonds that we should be aware of? And also, how do you plan to use the recent EUR 500 million bond this year?

And lastly a more, I would say, a general strategic question. You talked a lot about energy transition in this presentation. Can you be overestimating the pace of this transition? As earnings opportunity from these new energy markets will probably remain relatively small in the coming years while bulk of Saipem earnings will still come from traditional oil and gas activities, where Saipem has always been and remains very good. So don't future prospects of core oil and gas business is your bigger focus on this call? That's my question.

Stefano Cao - *Saipem SpA - CEO & Director*

Okay. Vlad, I'll start addressing your last question on energy transition. I think if you hear the message which we continue delivering the -- on 1 side, our approach is that on one side, energy transition is something which is ongoing, definitely, there is no doubt whatsoever.

On the pace of energy transition is something which I think is quite debatable. And I think we always are quite clear in saying that although it is an ongoing process, the timing is something which is totally undefined. Certainly, it will take some time to develop, they will take a substantial amount of time to develop all the required technologies to move to the new world.

Then in terms of transition, I think you see that the way we account for our -- looking at our portfolio, we consider the gas as the major transition support, to move from the world of today to the world of the future.

So for us, transition is something which is extremely solid. It implies all the projects which we are adding to our backlog in the gas value chain, from upstream development to the LNG or indeed, to the midstream: pipe transportation, gas transported by pipes, and utilization of gas in the downstream.

So all in all, I don't think at all that we are overestimating the -- how quick the world will go through the transition. Actually, the reverse. Personally, I'm extremely prudent. However, I believe that with the use of gas and with the quality and capacity and capability of our staff of managing these complex projects, we are anyway on the right path as a company. In terms of debt, Stefano?

Stefano Cavacini - *Saipem SpA - CFO*

Yes, if I correctly understood your question, it was about our solidity and the financial covenant, which are related to our key facilities and bonds. First of all, the first information is that the indicator that you have to consider in order to make any estimate or simulation about our financial covenant is the EBITDA reported, I would say there are some little adjustments, but pre-IFRS 16. This is important to note because it's another indicator, which is not the EBITDA post-IFRS 16, which is used to be disclosed in our financial presentation. Having said that, I'll it simply. Today, we have outstanding EUR 2 billion of bonds without any financial covenants.

So we are, from that point of view on asset side, the revolving credit facility amounting to EUR 1 billion has a financial covenant as the other 1.5, 1.6 approximately facilities. And the covenant is net debt over EBITDA 3x. As you can see -- as you know, the covenant will be at the end of the year because our 12 months from January to December. But if you make an estimate or a simulation based on June, it's not correct at all, but if you want to make some estimate, you can see that for the time being, we do not have an issue related to the covenant. It doesn't mean that we have to undervaluate the risk, because we monitor our financial solidity and liquidity, I would say, weekly, but in reality, it's daily. And we are extremely attentive to the evolution. And for that reason, second semester for us is extremely important, both for delivering results on 1 side, but on the other, to confirm our strong and solidity in terms of financial structure.

Stefano Cao - *Saipem SpA - CEO & Director*

As far as the -- yes. No, I was asking if you could repeat the first question, we couldn't catch it up actually at this end.

Vladimir Maximovich Sergievskii - *BofA Merrill Lynch, Research Division - Research Analyst*

Yes, absolutely. And that's very helpful commentary. Just very quickly, how do you intend to use the EUR 500 million proceeds from the bond? And what was the impact on your earnings in Q2 from government labor support schemes, if you can give some indications.

Stefano Cavacini - *Saipem SpA - CFO*

Regarding the first of the 2 questions that you raised now. So regarding the use of proceeds of the bonds are for general purposes. But as I told you during my speech, you should consider the issuance of the bond in connection with the buyback that we put in place in the first quarter, because the financial strategy was to extend the duration of the debt and collecting also liquidity in order to continue to stay on the safe side. So we do not have particular use of bonds, simply the general management of business.

Regarding the second question, honestly, we do not have any expectation about nothing from any support from any government institution.

Stefano Cao - *Saipem SpA - CEO & Director*

Other than the fact that we resource to Article 4, which is a tool which was established a couple of years ago, whereby we can accompany some of our older resources to the pension. But that was already in the plan before. And the process is coming to an end with 2020. Other than that, we do not expect to resource to any other support from government aid.

Operator

Our next question comes from the line of Amy Sergeant from Morgan Stanley.

Amy Sergeant - *Morgan Stanley, Research Division - Research Associate*

Yes. I just had 2 questions, if I may. So the first one, just coming back to the cost savings that you mentioned. How should we think about what's sort of been achieved so far within 2020? And what's still to come in the second half?

And then my second question as well is with the EUR 44 million of costs in the first half related to COVID, do you expect that these are largely complete now? Or would you still expect some ongoing additional costs in the second half related to safety measures, et cetera?

Stefano Cavacini - *Saipem SpA - CFO*

Regarding the first question about the cost savings, in the first half, we recorded, obviously, only a small part because we started after the pandemic outbreak. So just to give you a number, we are in the region of EUR 30 million already positive in our profit and loss account. So the big chunk will be posted in the second half.

Regarding the question about the COVID, I do not have a clear answer because for the time being, for us, the EUR 44 million are the cost recorded up to date. We do not have any other information. Probably, there will be another small part, I don't know, but it's too early to understand if what we have already invested is enough or not in order to sustain all the different category of expenses that I listed before.

Stefano Cao - *Saipem SpA - CEO & Director*

If there are no further questions, I think I will thank you all for your participation. We apologize for the interruption which we incurred due to the utilization of the new way of communicating, but in any case, look forward to talk to you next event. Thank you very much.

Operator

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