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PRESENTATION

Operator

Ladies and gentlemen, thank you all for standing by, and welcome to today's Saipem First Quarter 2020 Results Call. (Operator Instructions) I must advise you all that this conference is being recorded today, April the 23rd of -- 23rd of April 2020. And without any further delay, I would like to hand the conference over to your speaker for today, Mr. Stefano Cao. Please go ahead. Our CEO.

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

Good morning, and welcome to the first quarter results presentation. I'm joined on the line today by Stefano Cavacini, our CFO; and Max Cominelli, our Head of Investor Relations.

As you know, today, we are all connecting from different locations for the first time. We are doing our best to ensure the technology works, but we are relying on mobile network connection. So please be patient if any issue arises during the Q&A session.

We will make sure that Max, our Head of IR and his team follow-up promptly after the call. I thank you in advance for your understanding. It's been almost 2 months since we last met to discuss the 2019 results, a positive year in which Saipem met all its targets. Since then, the spread of the coronavirus has globally affected economies and societies at large. And in the oil sector caused a deep collapse of the price. Indeed, we have seen WTI futures trading negatively in recent days. Saipem is in a solid position to navigate this storm, thanks to the business model and a diversified offering.

In common with other industry players, in recent weeks, measures have been adopted to secure as a priority, the health of our people, while ensuring business continuity. In a nutshell, we can rely on strong fundamentals to adapt and manage complexity.

Let's look at these fundamentals. First, a balance sheet structurally sound. At the end of Q1, net debt pre-IFRS 16 was around EUR 630 million, in line with our expectations. We enjoy strong liquidity headroom and a healthy cash position. Key debt maturities are several deals ahead, and the bulk of our debt has no financial covenants. Then a solid backlog of EUR 23 billion and a good forward visibility. This is based on diverse projects across a portfolio of clients with whom we have deep established long-lasting relationship of trust. Around 70% of the backlog is related to nonoil projects. And finally, we have already identified, and we are implementing a set of efficiency measures and CapEx reduction to protect our cash flow. I will certainly elaborate more on this later.

In addition to this, to tackle the crisis, we are revisiting our strategic plan to better tailor business priorities to the long-term changes this emergency will bring. We aim to further improving our market position, leveraging our innovation and adaptability. Moreover, we can rely on a mindset and on an approach that will help to adapt and face also this difficult scenario, and our strategy remains to be a key player in the energy transition.

Notwithstanding the turbulent environment, operating activities in Q1 performed in line with the plan. In the first 3 months of 2020, revenues were EUR 2.2 billion, slightly up year-on-year. And adjusted EBITDA was EUR 240 million with a margin of 11%.

At the divisional level, E&C Offshore had lower top line due to project rephasing. E&C Onshore revenue growth drove the group volumes and the division posted a good margin progress.

Drilling experienced lower volumes with margin growth in Offshore, driven by efficiencies, while Onshore experienced some dilution. Commercially, Q1 was lighter than usual for awards, and these were chiefly in E&C Offshore. Nevertheless, our backlog is solidly diversified and with good visibility. We started Q2 with a couple of new interesting E&C Offshore awards in infrastructure, high-speed railway in Italy and a downstream facility in Egypt.

A few words on diversification, which is structural and unique outside with its 5 division and wide range of offerings. This characteristic will provide today more than ever opportunities in segments such as infrastructure and low-carbon solutions.

Finally, last week, the Board of Director, we drew our 2020 guidance. We are taking decisive actions to respond to both the COVID-19 threat and to low commodity prices. But these 2 related factors have created a uniquely dynamic and volatile environment that makes more difficult to reliably estimate impacts on activities and results. We will continue to monitor business environment and the company's performance and will update the market as soon as there will be appropriate degree of confidence in the outlook.

Moving on to Slide 7. Let me spend some time on the recent events and key impacts on our business. The unprecedented threat generated by the COVID-19 pandemic to public health has resulted in severe restriction of mobility affecting all of us. These and other measures taken around the world resulted in a shutdown of industrial and commercial activities. Economic output and energy demand are dropping as a consequence. Finally, the battle for market share among all producing countries coincided with an unfortunate timing. Taken together, these factors have propelled all industry very quickly to a radically new price levels, the lowest observed in 2 decades. This severe short-term effect caused by a profound mismatch between supply and demand has prompted oil major, national integrated to react swiftly with CapEx cuts. These cuts announced in March were on average 20% to 30% with independent operator and U.S. shale players announcing even higher restriction to their budgets. These cuts may continue beyond 2020 if the situation does not stabilize. We expect this decision to impact upstream first and trigger a final investment decision. Bid and project delays for both E&C and Drilling, along with some E&C project suspension. In particular for drilling, we anticipate a potential repricing of contracts in specific areas and for certain clients. In the oil value chain, upstream will be the most impacted. We expect the Engineering and Construction market to be affected. For example, in E&C Offshore, we see construction installation to be more exposed than other segments. In contrast, we see some gas-related projects in regions like Middle East and Africa, more resilient over time. Finally, the Drilling segment, which is the earliest to be impacted, will probably take the biggest hit.

The world is changing fast. We are closely monitoring the situation, cooperating with all our clients, partners and supply chain to adjust and to fully assess mid- to long-term potential impact. Finally, we dedicate long energy transition path we reiterated back in February is uninterrupted. Indeed, it could actually accelerate, and it will certainly bring opportunities to the play, able to act swiftly. We believe to be definitely well positioned in this respect.

So how are we facing the challenge of the current environment? First, to be clear, the health, well being and safety of all our employees is our top priority, and we acted promptly to safeguard them. Since the beginning of the outbreak, we have activated our corporate crisis unit in coordination with local units and our response protocol. Communication to all employees is proactive and real time. Presently, we have 13,000 people working from home worldwide. I can say that this way of working is going pretty well with good levels of productivity for both engineering and other staff. Indeed, our program for smart working launched some time ago has proved valuably effective. Both Onshore and Offshore at our working side and onboard our vessel, we have actively had some monitoring actions for our employees and third-party personnel. We have medical emergency plan, demanding and remaining procedures. And in addition, all efforts are dedicated to guaranteeing business continuity. Our actions are closely coordinated with clients, partners and suppliers and rely on long-term relationship and trust. We face a complex and unprecedented challenge that, of course, affects the [rhythm] of our operation. But we have 60 years' history of facing the tougher challenges at the most complex situation, and we have large shoulders.

Saipem today is a more solid company compared to a few years ago. A new 2015 industry crisis as an opportunity to lay the new foundation, to reshape and grow stronger. We have a record backlog of EUR 23 billion, well balanced in terms of clients, segments and geographies, providing good visibility several years ahead. Around 70% of this backlog is nonoil-related segment, which is a pillar of our strategy and a plus in these days. Our balance sheet is strong. We are liquidity, made up of a good level of cash and a committed and undrawn revolving credit facility. There are no longer-term debt maturities before 2022. And finally, the bulk of our debt has no financial covenant. Stefano will elaborate more on this shortly. We are identifying and implementing efficiency measures and scheduling our CapEx plan to quickly adapt to the changing environment. Finally, in difficult times or after difficult times, the industry consolidate. Should the current turmoil continue, opportunities may arise for the healthier companies to further strengthen themselves.

Let me now hand over to Stefano. Stefano?

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

Thank you, Stefano, and good morning, everyone. In these extraordinary times and following from what Stefano just presented, I'm going to break the tradition and look first at our balance sheet and liquidity, our critical tools in getting safely through the current crisis.

So starting with liquidity in the upper part of the slide. We had a healthy liquidity position of around EUR 2 billion at the end of Q1, made of substantial cash available of EUR 900 million. And a committed and fully undrawn revolving credit facility of EUR 1 billion. In addition, the group has an amount of about EUR 1 billion of restricted cash, mostly held in JV accounts and another EUR 200 million of uncommitted facilities. This liquidity position comfortably allows Saipem to face its requirements over the year even under severally adverse conditions. But moving on to our well balanced debt structure, you can see that, first of all, the chart at the bottom left of the slide shows maturities and composition of our gross debt which amounts to EUR 2.5 billion. The early redemption in March of EUR 0.5 billion of bonds maturing in 2021 significantly derisk our balance sheet. And on the other hand, increased the average debt maturity, which is now approximately 3 years. Secondly, our bonds have no financial covenants and represent approximately 60% of the gross debt. Finally, the average cost of that is, as you can see, around 3%, excluding treasury hedging, I would say, which is a level we are comfortable with. So we can see that Saipem is on a solid financial footing with ample liquidity and a conservative debt structure. And I can add that can withstand a very considerable period of crisis. That's clearly our priority right now. When this is over, the leveraging a gross debt reduction will again be our primary objective.

Now moving on to Slide 12 on group performance in the first quarter. Revenue were EUR 2.2 billion, up 0.7% on Q1 2019. Today, we are presenting our P&L results for the first time only after IFRS 16. As a reminder, for both EBITDA and net result, what we label as adjusted excludes special items. And in the first quarter of 2020, this did not affect EBITDA but only net income. I will comment on these items later in a few minutes. Adjusted EBITDA was EUR 240 million, decreasing year-on-year, mainly due to the expected mix and project rephasing at E&C Offshore and a decrease of Drilling Onshore. This more than offset the positive performance of E&C Onshore and Drilling Offshore. Adjusted EBITDA margin dilution in E&C Offshore and Drilling Onshore brought the group margin to 11%. And as I'm sure you'll recall, a margin of around 11% was implicit in the floor of our formal 2020 guidance for the full year. So finally, adjusted net income was slightly negative by EUR 9 million, but I would say that it is simply due to the lower EBITDA. Below EBITDA, just for the sake of completeness, the year-on-year increase of financial charges and the slightly higher losses from investment or called also equity participations, were partly offset by lower taxes and lower income attributable to third parties.

A few word on taxes, I think that it's important to underline. We have commented several times on tax rate on previous calls, adjusted profit before tax significantly reduced year-on-year to EUR 15 million, and obviously, taxes did not reduce proportionately since the tax paid in line is mostly made of withholding taxes. And as you know, this line is affecting directly the top line of our profit and loss. For this reason, any comment on the tax rate would not be relevant on Q1 2020 or even for the full year. Since, as you know, we review the guidance, and we are reviewing our current strategic plan.

Looking at the visional performance, Slide 13. Let's start by commenting on Engineering & Construction. E&C Offshore revenues in Q1 2020 registered a decrease of over 9% compared with Q1 2019, mainly due to lesser volumes in North Africa and sub-Saharan Africa, partially compensated by higher volumes in the Caspian area and Italy. We closed Q1 2020 with adjusted EBITDA of EUR 106 million and as you can see, with the margin at 12.8%. The year-on-year EBITDA margin decrease was, I would say, driven by the impact of a different segment mix on one hand. And on the other, the phasing out of major high-margin EPCI projects in Africa. With respect to quarter-on-quarter performance, let me remind you that the positive EBITDA performance in Q4 last year benefited from some positive contribution coming from specific projects. COVID-19 implications on supply chain material delivery, vessels operation and the yard fabrication activity had in reality, not significantly affected our Q1. However, we are monitoring the situation closely, and we expect a meaningful impact for the remainder of the year on both revenue and EBITDA. As our CEO mentioned earlier, we are adopting and planning efficiency measures across the whole organization to safeguard our economic and financial performance.

Now moving on to E&C Onshore. Revenue growth in the first quarter, as you can see, was robust at over 12% year-on-year on higher volumes in the Middle and Far East, partly offset by the Caspian region. Our adjusted EBITDA margin rose to 4.7% from 4.3%, same period of last year and was supported by the positive contribution from sub-Saharan Africa.

Turning to our drilling performance in Slide 14. In Offshore, our top line decreased by around 7% versus Q1 2019, mainly due to lower activity on Scarabeo 7, either during the quarter and Scarabeo 9. This was only partly offset by the other activity of Scarabeo 5 which was idle during Q1 2019, you should remember as well as activities of the new leased jack-up Sea Lion. Adjusted EBITDA was slightly higher compared to the previous year at EUR 59 million, with a significant increase of margin to over 45%, mainly due to higher efficiency of the fleet. We currently expect 2020 to see a material decrease in terms of revenue and margins for a variety of reasons, ranging from shifts in activity to probable rate discounts with duly analyzed current circumstances and the effects of market deterioration for Drilling Offshore. As a result, we have made a noncash impairment, which I will elaborate on in the next slide.

Moving on to Drilling Onshore, revenues decreased by approximately 5% year-on-year. Lower activity in LatAm and the Caspian region was partly offset by higher year-on-year volumes in Saudi Arabia. Since we mentioned it in the previous quarter, in Argentina, we started operation with our new high-spec rig for the unconventional market. So at the end, EBITDA decreased, mainly attributable to Latin America, resulted in, as you can see, a margin of 11% -- sorry, 18.9%. Our Drilling Onshore division is not immune to pressure from our clients. I'm speaking, for example, about activity suspension as well as rate discount. Hence, we expect this to be reflected in the next few quarters.

Now let's turn to Slide #15. We show the bridge from adjusted to reported net result for the first quarter of this year. So our adjusted net income was slightly negative by EUR 9 million. As I briefly mentioned earlier, due to the market deterioration, we have reviewed certain assumption on the progress of our business. We ran an impairment test, which triggered a noncash impairment of approximately EUR 260 million, shown in the bar chart, as you can see, related to the Drilling Offshore. This amount includes the EUR 3 million write-off of the (inaudible). The main drivers of the impairment have been recapped on the right of the slide, so some activity shifting, renegotiation of rates on some vessels, a possible contract cancellation for 1 unit, particularly, and the delay in contract acquisition. After the noncash impairment, we closed the quarter with a reported net loss of EUR 269 million.

Slide 16, our net debt evolution. Looking at the graph, on the right and the left of the chart, we reconcile the impacts deriving from the application of IFRS 16 on net debt both at the end of 2019 and at the end of Q1 2020. As usual, the light blue shaded area shows the progress from year-end 2019 net debt pre-IFRS 16 of approximately EUR 0.5 billion.

So looking at the various drivers for the first quarter 2020, I can say that cash flow was positive by approximately EUR 100 million, more than offset the capital expenditures. We posted EUR 59 million in capital expenditures, as you can see, which is in line with what we discussed in February, includes some CapEx shift from last year. However, this amount does not include the cash out for the new vessel in E&C Offshore, which we are buying in Q2. Others, including delta working capital, was around EUR 200 million and as expected and anticipated in our previous call, factors in some natural cash absorption from projects awarded in 2019, which are entering into the procurement and the construction phase in 2020. As we commented with full year 2019 results, this effect set to continue also in Q2. And finally, what we refer to as other in our label includes, among others, the purchase of treasury shares that we did in the first quarter. As a result of these drivers, net debt pre-IFRS 16, at the end of March, slightly increased compared to year-end '19 to a touch above EUR 600 million.

If you remember, last time we spoke and we said that we expected the first 2 quarters of 2020 to post an increase of net debt. Hence, the March level is fully in line with what we anticipated to be fully transparent, it's even better than our internal expectations. Having said that, again, we expect to see an increase in Q2 compared to Q1, mainly due to the natural absorption of working capital as projects progress. And with this, I reach the end of my financial presentation, and I will now hand back to our CEO for the next session.

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

Thank you, Stefano. Let's open the divisional section with a look at the evolution of the E&C business. As anticipated, the continuity of our operation is a must. Notwithstanding some difficulties and unavoidable delays triggered by constraints to people mobility and some challenges on the supply chain, the execution of our projects is going ahead. Smart working has proven to be effective for our engineering workforce and for the staff personnel. External circumstances forced the organization to adopt a scale and quickly new way of working, I'm confident that we'll structurally capitalize on this. We have put in place efficiency measures aimed at supporting our future profitability in both Onshore and Offshore. We are also revising our E&C Offshore CapEx plan. Some natural rigidities posed mainly by mandatory class maintenance to our fleet. In addition to classes, as anticipated, we have recently purchased a new Offshore construction bar Saipem Endeavour, that is going to substitute the old Castoro II. We already own the vessel and are finalizing the setup to perform activities in the Middle East.

CapEx replanning mainly targets project-related investment, in particularly those linked to ongoing projects or opportunities, which will shift in time. Having done a significant efficiency exercise with a fit for the future program launch in 2015, I have to say that nowadays Saipem and the whole industry are in a completely different situation. All the players have undergone a drastic reshaping during recent years in terms of structural cost. Certainly, there are always costs that can be streamlined and optimized. But today, we can rely on a different base than 5 years ago.

Looking at the commercial opportunity, on which I will expand more in the next slide, we are seeing final investment decision postponed and award delays. Rovuma in Mozambique as well as the Scarborough pipeline in Australia have recently been postponed by clients. And these are 2 projects with Saipem was in a very strong position. It will just take longer compared to our previous expectation to see them joining our backlog.

Within our key geographies, the Middle East market for both Onshore and Offshore is expected to be more resilient. Outside Middle East, we continue to see opportunities in Offshore Wind and in the Brazilian market. In E&C Onshore, Africa looks promising and some key initiatives are expected to move forward, notwithstanding the issues posed by the current situation.

Let's look at the commercial opportunities for the E&C divisions. This picture reflects our current visibility, and indeed, we are living in very dynamic times. With this caveat, the headline is that we still have the same visibility on EUR 20 billion we presented in the full year '19, but we now expect a worse diluted over longer time span. It's ultimately up to the client to set the time frame. We are a flexible and solid organization. Hence, we can afford to wait for the right time while working alongside our partners and leveraging our relationships with clients. And just to be more precise, on sizable E&C Offshore projects, including in this list, have already been awarded to Saipem in Africa and Asia Pacific, and are just pending final investment decision. In other cases, like the LNG train 7 in Nigeria, as you know, we are preferred bidders, along with our partners since the client signing of the letter of intent.

In conclusion, as of today, it's not a matter of if, but simply matter of when since these projects are still likely to go ahead once the industry returns to more normal times.

Moving on to Drilling. In this slide, we have a look at the evolution of the Drilling business. As you can see, most of the teams and ongoing operation are common to both Offshore and Onshore. Drilling operations are going ahead, but in specific cases, in particular, in Onshore, they have slowed down by constraint to people mobility and logistics. We are experiencing activity suspension and delays as the drilling is an early cycle activity, and all companies tend to immediately start reducing CapEx to tackle a downturn. We have activated a series of efficiency actions, which we'll explain later in more detail. And we are replanning CapEx, in particular, whatever refers to activities, which will be delayed.

From a commercial outlook perspective, we expect the Middle East to remain the most resilient area in the world. In the Offshore, deepwater exploration will be most affected. In the Onshore, Latin America is expected to slow down. As Stefano commented regarding Drilling Offshore, the situation is very dynamic, and there are several moving parts in our drilling fleet commitments at the moment. For this reason, for this quarter, we decided to skip the usual chart on vessel activity planning and levering utilization by area. We will, of course, introduce them when the picture is more -- will be more stable.

On Slide 21, we show the main awards year-to-date. As you may recall, the year has started with good momentum in E&C Offshore. In fact, in February, we announced a series of award that you can find summarized on the left side of the slide. Among them, Cabaça and Agogo subsea in Angola, a carbon steel pipeline in Saudi Arabia, a gas pipeline in Equatorial Guinea and offshore activities for the Saipem 7000, both in decommissioning and level lifting in U.K. and U.S.A.

On the right side, you can see the most recent awards, which were secured after the end of the first quarter and both in E&C Onshore. In Italy, we received the green light on the second construction lot of the high-speed train Brescia-Verona. This is the second leg of the project on top of the first award that we announced in 2018 and for which our client has now exercised its contractual option. This award is evidence of our diversification strategy, bringing its fruit, also in the infrastructure segment where we can grab interesting opportunities. For example, we are now the preferred bidder for a railway project in the Souther part of Egypt, which once materialized, could yield interesting further development. This brings us to the second award. In Egypt, we recently won the EPC for a polybutadiene facility, the first plant for this transaction in the country. Albeit the value of the contract is not massive, it is a further consolidation of our historical presence in this strategic country. Finally, in our offshore E&C division, we are extremely well positioned on 2 nonoil projects worth approximately EUR 0.5 billion, which we expect to announce in the near future.

Slide 22, we show our customary bar chart on backlog. We closed the first quarter with a solidly consolidated backlog of around EUR 20 billion or around EUR 23 billion including nonconsolidated projects. What is worth mentioning is what, so far, we have not suffered material cancellations since the beginning of the year. Let me also remind you that the majority of this backlog, exactly 68%, is nonoil related. Bearing in mind the uncertainty of the current business environment, we will not show the split of the backlog by year of execution this time. So I'll move directly to closing remarks.

Let me briefly revisit Slide 24. The Board's decision last week to withdraw our 2020 guidance due to rising business uncertain caused by the pandemic. There are essentially 3 points I'd like to make. First, thus far, operating activities has been broadly in line with planning. And that has not changed since last week, supported by all the initiatives adopted to manage the health emergency and deliver business continuity. But secondly, we have seen that 2 related factors, demand reduction as a concept of the COVID-19 pandemic and oversupplied by competing producers have conspired to create a uniquely volatile low commodity price environment. And third, as a consequence of project delays caused by the swift capital reduction by clients, the Board has concluded that at this present time, it cannot with certainty, assess the likely impact on our commercial and operating activities. And consequently, on our economic and financial results. I can promise that the Board of Directors will continue to monitor the business environment and the company's performance. The Board reserves the right to issue new guidance should the market conditions become more stable. Market will be promptly updated. In order to weather the storm and preserve value, we have adopted measures for both OpEx and CapEx and will support our cash flow across the organization. Some efficiency steps have been identified and launched across the whole group both centrally and at the divisional level.

In the light blue shaded area, we have listed a key cost business initiatives currently identified. For instance, we are rightsizing support functions, implementing a higher increase and reducing overhead. Some of these are quick wins. Some actions directly stem from the current situation, such as the reduction of travel expenses. None of us has traveled for weeks nor will be doing so for the immediate future. As I said, we are adopting comprehensive smart working practices across the organization, and it's working well. Expansion in the future is expected to bring further benefits. We are also phasing the plans for some digital initiatives. Operationally, in our Offshore E&C and Drilling fleet, as you can see on the left-hand side of the orange shaded block, we have identified and are applying fleet management measures such as reduced POB, passenger on board. In terms of lower efficiency, we can (inaudible) but we managed and to do it efficiently, we are implementing vessel warm stacks. Finally, we are discussing some commercial terms with our supply chain to find further room for improvement. This is the case, transversal in all divisions. In particular, in the E&C Onshore, the most -- in almost 0 CapEx business, by the way, the supply chain is the key operational leverage, along with OpEx reduction. We have revisited our structural cost, rationalizing geographic footprint, rebalancing engineering hubs workloads and reducing construction equipment items.

In Drilling Onshore, we are adopting measures to optimize rig logistics, supplies and inventors. And last but not least, we are flexible enough to be commercially selective. Since activities are still in progress, we haven't precisely quantified yet the economic impact of these measures. What we can anticipate is that we expect to be -- the room for CapEx improvement achievable by the phasing exercise we have conducted. At the moment, we see possible CapEx reduction of approximately 20% to 25% in 2020 compared to our formal guidance for this year of around EUR 600 million.

Closing remark. To close, let me summarize a quite unusual set of message for a quarterly report. In terms of Q1, operating activities performed broadly in line with plan. And in terms of our strategy for navigating the current crisis, historically, Saipem was successful in capitalizing on cyclical downturns to reshape and grow stronger. Cautiously, it's our determine intention to do so again now. We have some significant advantage that will give the flexibility to take charge of our costs through the crisis. We have a strong balance sheet, good liquidity and robust long view and diversified backlog. Commercial opportunities are still out there, and we keep on working to cash them, maintaining our strong market position. And we are not sitting still. We know what we do -- what to do in a downturn. First, we have identified and are now taking robust measure to reduce OpEx and CapEx immediately. Second, we are identifying what will change as a result of this crisis, reviewing then our strategic plan to determine how Saipem can exploit the change and get ahead.

So before taking your questions, I can conclude that Saipem goes into this crisis, relying on its solid position and with determination to come out of it stronger still. Thank you for listening. Stefano and I would now be pleased to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Sir, our first question comes from the line of Alessandro from Mediobanca.

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

I appreciate the situation. It's quite a dire in the upstream, the visibility is low for the rest of the year. Last time we went to acquire this, I believe you announced a fit for the future program, which had a 2.0 version. I was wondering whether it's the time to have this 3.0 version as well with a more decisive action on OpEx, also in light of the fact that in Q1, even at the adjusted level, you reported a small loss. And I don't think that was impacted by COVID-19. So I think as we look at the rest of the year, that loss probably is going to increase. So I was wondering, yes, so if the company is getting ready with a new fit for future program?

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

Okay. This is Stefano Cao. I think we have to take into account the situation in 2015 was drastically different from the one we are living in now. The 2014, '15 was a period after some sort of crazy spending period. I mean, the oil price was at such a level that the concept -- even the concept of efficiency was fading away. So I would say that at that time, there were some very low-hanging fruits, which could be harvested. And that was indeed what we have been doing. At the moment, the business of Saipem, but indeed of most of the industry is completely different shape, the industry is much more efficient. When I say the industry, I refer to our customers and to the contracting entities like ourselves. So on one side, we have to be careful, obviously, at this stage, to -- not to take measures, drastic -- too drastic that may then impact the subsequent recovery. Having said that, as you said, indeed, we are going through the sort of 3.0, as you called it, but with a lot of care. For instance, if you look at the -- our engineering workforce, in order to fulfill the backlog, which we have in hand, we were in the process of growing significantly with the manpower of our engineering workforce. So what really we have to do at this stage, we cannot cancel because still we have to do the backlog, we have to rephase it. And this is part of the exercise, which we are doing right now. Then there are other expenses, which are not really totally related to the business success and some are consultancy work, some -- a further improvement in the management of fleet and operations, which, of course, we have to implement. But all in all, I think we have to be very cautious in looking at our future. We have the very sizable backlog, which we need to perform, and we need to be ready to do it in the right way. This is what our clients expect. We undertake a regular conversation in these days, although at the distance with our main clients because they want to ensure that our performance is not impacted -- it's impacted at the least, I would say, it is impacted by definition, but suffers the list of the impact from the situation.

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

Okay. Just a follow-up on the -- for the rest of the year. You mentioned revenues and margins could have -- could see a material impact there. I was wondering on the cash flow, potentially, I'm wondering what we're going to see is a much lower order intake this year compared to last year. And I was wondering whether that is going to impact the working capital in terms of down payments and whether you see a much different level of net debt at year-end 2020? And I can appreciate again the visibility at the moment is low.

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

Stefano?

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

Yes. So regarding net debt evolution, to be honest, I think that today, it's too early for a trend on net debt. What I can say for the time being is that, as I -- I told you before, in Q2, for sure, we are going to see an increase as expected. For the second service semester of the year, we are reforecasting whatever related to our net debt. But for sure, we are going to have some negative and positive but the only thing that I can say today that the formal guidance, unfortunately has been withdraw also for net debt. And it will be crucial what is going to happen in the second quarter of this year, and I hope to have a clear picture for the rest of the year.

Operator

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

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

Just a couple really. In terms of the formal guidance of 2020, now, I can understand and appreciate why you decided to remove it. You're obviously aligned with some of your peers in that regard. I just wanted to kind of understand a little bit more about, is this really just your concerns about E&C Offshore that's caused you to withdraw the guidance and you're kind of more comfortable about the other parts of the business? Or is it really kind of all of the divisions? And what will it take for you to reinstate the guidance?

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

Sorry. The point is that we are running on a very sharp page. And I'll try to give an example. We are, at the moment, successfully moving forward, although in a slower manner in some of the most important operation we are running. And I will particularly concentrate, for instance, on Mozambique, on Tangguh in Indonesia, and up in the Arctic for NOVATEK. At the moment, things are moving ahead, although in lower fashion, however, obviously, we are closely monitoring the situation. And at the moment, the visibility on running of operation is limited. And touching wood, if I had to for a minute to consider the impact on the rest of the year related, for instance, to the full shutdown of one of these construction sites. Obviously, that will have impact in terms of top line and EBITDA. So at the moment, it's not as much that we don't want to disclose the view which we are taking. The fact is that the level of visibility and predictability of the situation right now does not allow to make reasonable prediction. So for the time being, we have decided -- the Board has decided to suspend the guidance. But again, as I said, not because we don't have visibility. Obviously, we have some internal very important guidelines. But we don't know what may happen in next few weeks or next few months. So we believe that at the moment, the utmost of our priority should be on the continuity of the business. And then, of course, as soon as we 'll have a better visibility, as we said, we'll issue a new guidance.

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

Okay. Just following up in terms of the kind of overall industry outlook. Obviously, you say that you've weathered plenty of downtowns over the years, and you obviously look to be selective and get stronger. Could you maybe just talk a little bit about your view that, is it too early for kind of more widespread industry consolidation in your view? What are you thinking about the drilling divisions at this point in time as well?

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

Okay. As you said yourself, at the outset, it's very, very early to say. But you also asked me about past experience. I have to say that in the past, the duration of the crisis, especially commodity prices have been sufficiently short to rebound sufficiently quickly. Although they have created conditions for substantial consolidation in our industry. This time, there is, obviously, the additional impact related to the COVID-19, which is very difficult to take into account. However, what we have seen in the past is that after the crises, always the opportunities have have come up. And Saipem just to set an example, Saipem has taken advantage of the crisis at the end of the '90s for the -- to acquire Bouygues Offshore and then to consolidate with Snamprogetti. So I think we have the capability to -- and the strength at the moment to look at the market and if there are opportunities to seize them.

Operator

Our next question comes from the line of Amy Wong.

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

I have 2 questions, please. The first one, just can you give some more color on your launch of the cost savings program. What level of cost savings are you targeting? And over what time period they will be realized? And then my second question is, could you give us a bit of color on conversations you've been having with your customers since the start of the crisis. I know you can't be specific on a contract by contract basis. You have said that there's no material cancellations, but what percentage of the contracts you're executing or have the customers reached out and, and said they wanted to talk about the deferrals or pushing the work out?

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

Okay. In terms of cost savings, again, as we said in our presentation, that is an exercise which is ongoing very swiftly. We have not come to a level which we consider satisfactory, so we consider working on it. I think in terms of timing, this action, they need to be quick win basically. And in terms of quick win, I refer to things which we can implement straight away. And we can, at the same time, we can suspend, should there be a different evolution on the quick evolution in positive terms. So basically, the area -- I mean, we listed the area we are concentrating on. I think I made the example of the freeze of the hiring. We definitely need more engineering capacity to fulfill our backlog. We are not canceling. We are delaying this hiring of people as well as we are not canceling a major work which we are doing, for instance, in the digitalization -- digital transformation of the company. We are just taking a breath in the process, and we are postponing certain activities. Of course, the -- one of the important driver is that whatever we do, especially if things which we consider strategically important, we need to be capable to quickly restate them and restart the situation becomes different.

In terms of conversation with clients, indeed, I think I already mentioned, we have a frequent conversation with the major clients. I think if I had to identify the areas where this conversation are more frequent, I would say that these are on gas projects, in particularly are on the LNG side. These are projects which cover a long time span. The client consider strategic, and they don't want to lose the benefit of the -- having the outcome of the project available. What -- it becomes what is more affected. As we said, of the upstream-related project for the time being. But more than in terms of cancellation, as I said, in terms of postponement.

Recently, talking about the Offshore, we had a long conversation with Exxon, with the management of Exxon and about the subsequent phase of the developing Guyana. And again, they confirm that they intend to go ahead but there will be a shifting in time. So it is, at the moment, a very variable scenario but all in all, we don't get messages that the world is going towards the end. But we get messages that you have to be patient and wait and work along with them. We have to cooperate to the utmost of our capability. And this is, if I may summarize and I'll close with it, the solution can only be reached if a client and contractor, they work closely together. In the past, the relationship was much more confrontational. It was a sort of cut down cost all along the value chain, and they were very strong in doing that. This time, they realize that either we work hand-in-hand or we go nowhere.

Operator

Next question comes from the line of James Evans from Exane BNP Paribas.

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

I've got a couple, please. Firstly, I know it's very difficult to give forward guidance, but I wondered if you could talk about any way to quantify how much the virus has actually impacted progress in recent weeks. I think in other segments of Offshore, so oil and gas services, companies have talked about a 4%, 5% productivity hit. Is that the sort of impact that you are seeing? That's my first question.

And then my second question is on Offshore Drilling. You've seen -- you talked about percentage of contract cancellations coming through. I just wondered what's the contract sanctity like? Would you be due termination fees, which we generally saw in the last crisis, but this time around, we have seen a couple of cancellations at your peers where they've not been compensated. So how protected are you if clients decide to end those contracts early?

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

Okay. Okay, quantify the impact of the virus. I think, again, as I said already, this is a sort of a day-by-day exercise. Let me, however, provide make an example. In Tangguh we have up to -- we had -- before the outbreak, we have 16,000 people working on the same site. Right now, those -- that workforce has been brought down to 6,000. However, again, in a conversation with our clients, we have decided to grow, again, to increase the number of people. How? Simply establish strict rules for the mobilization of these people, quarantine, in post-quarantine, checks on the health of the incoming people. We have taken the responsibility on behalf of the client to control the oil working site in terms of the health of the people, that is quite a major effort. However, I mean, the example gives you the view that we were down to 6,300 people. But we thought at some stage, only a few weeks ago that we had to shut down the site. Now only few weeks later, we are working closely with our clients to increase again, the number of people mobilized. So this is the sort of day-by-day management, which is made more difficult by the fact that, obviously, we have to work from distance. Again, I'd like to emphasize this, the distance has created a much closer bonding with our clients. And regularly, we have a conversation with the top management of the major client of ours in order to devise the best measures to continue and to reaccelerate the process of the valuation.

Drilling, of course, we do all we can to avoid the calculation. The situation is continuously in evolution. At the moment, as we said, the impact on the backlog is absolutely marginal. There's almost no impact on the backlog. We are trying to complement this conversation on the reduction of activities with the conversation of possible different allocation of the units. For instance, for some of the major largest vessel in our fleet, we are renegotiating the, the schedule of activity, which means suspending immediately, but restarting again as soon as the conditions allow. And that is the reason why the backlog has not been impacted. Obviously, that creates gap in the utilization of the units. The contractor are various. You know that the concept of sanctity is very very variable depending on client by client. We have some cancellation fee in some of the contracts. However, as I said, we try. And for the time being, that is what we are doing. We rather than resourcing to cancellation, we try to accommodate the new schedule the client in order to maintain a safeguard the contract duration as a whole. Then again, the situation is very volatile. We'll have to see when things stabilize. And at that time, we'll give you a better view on this.

Operator

Our next question comes from the line of David Farrell from Crédit Suisse.

David Richard Edward Farrell ***Crédit Suisse AG, Research Division - Research Analyst***

I got 2, if I may. Firstly, I just wanted to ask around kind of payment terms whether or not you're seeing kind of any impact from the kind of your clients or the suppliers around payment terms? Are you worried about any of the supply chains financial viability?

The second question relates to, would you be able to tell us in which country you're currently finding it most difficult to operate or is it a question that it's the offshore market, where it's actually the hardest to operate?

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

Okay. In terms of payment terms, so far, we haven't seen major impact. I mean -- and I think you can measure that from the outcome of the first quarter. Obviously, it depends on the duration of the crisis. Sometime, they used to tell us that the -- our clients, they tend to dilute payments. We have seen it already. As I said, and I'd like to repeat this for the major and large projects at the moment, that is -- that would delay in payment that will go against the interest of our major clients. So at the moment, we will not expect on the large LNG to see delay in payments. In terms of our country, I think the -- you have to look at business by business because obviously, the onshore is much more country related. At the moment, the countries where we see difficulties in terms of possible impact of the virus, I already mentioned Indonesia. Indonesia is to be kept under very close control. It is, for instance, north of Russia in (inaudible). At the moment, there are some cases which we need to deal with. So in general terms and the onshore, where we have big sites, those are the most critical places where we are dealing with. In terms of offshore operation is much more related, as you may figure out to the market condition and the cut in terms of CapEx. The constraint from our side rather than country is to safeguard our vessels, our operating units. And that is the reason why we established very strict rules for the crew changes. We have extended duration of crew change. We rely on the patience of our people and the understanding of our people. We imposed 15 days quarantine before boarding the vessel. All in all, certainly, that is not a satisfactory situation. We hope that soon, we'll manage to reestablish a more workable condition. But at the moment, things are working well.

Operator

Next question comes from the line of Guillaume Delaby from Societe Generale.

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

2 questions, if I may. First for Stefano Cao. I would like to come back to your discussions with your clients. What makes you so confident that the current environment is going to accelerate the energy transition or rather than decelerate. So if you could provide us with 2 or 3 words on this point?

And my second question would be for the other Stefano, would you try to give us maybe some kind of a steer about what might be idle cost for 2020?

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

Okay. I'm confident on the acceleration of the process. I would say, the view comes, is basically at large related to the gas component of our portfolio. As I said, we see issues and delays. Whenever we are talking about upstream, in particular, upstream oil project, we see far less impact on the -- when it comes to upstream gas and the gas value chain. Then what is the confidence? The confidence -- the rest of the confidence relates to the -- relates to the fact that we are adding to our portfolio projects -- continue adding to our portfolio, we're going to the -- in this direction of the new energies. I think I loudly mentioned the fact that we expect some good awards in the wind farm. And in general, if you look at the smaller projects, which we have -- which we have acquired in Egypt. So these are all projects in which relies on different technologies, which, of course, we need to master and master even better. But I think that, as I said, the old things of the new energy paradigm is continuing. And it is bound to continue. I think for the time being, we have to play both games. The conventional and the renewable part of the game. Stefano?

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

Yes. About your question related to idleness. As you can imagine, for sure, if we look at the rest of the year, we are going to expect an increase in absolute figures. I'm speaking about the impact in P&L. But having said that, for example, in terms of Drilling Offshore, we are trying to offset as much as possible, thanks to the standby rate, just to give you some example. In terms of E&C Offshore, we are putting in place a new cost saving in order to mitigate the impact that could come in the coming 9 months of the year. So having said that, for sure, an increase in absolute figures, but we are mitigating as much as possible with specific and really focused actions.

Operator

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

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

I just have one-trick question regarding to equipment that you have in procurement and as well as conversations with suppliers. Is there any scope that you're -- haven't purchased equipment or haven't yet secured any contracts with suppliers that you're seeing opportunities for benefits in terms of obtaining discounts on projects? And as well, on the flip side, is there any reason of concern for any of your suppliers that might be going through growth times during this period where you would need to change your supply chain?

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

Okay. Supply chain is obviously one of the utmost priority at the moment. The first part of your question, yes, we are seeing a lot of opportunities coming up. We see that at the moment, we receive unsolicited offers for equipment and material, which has been left by other clients -- other [serious] customers who have seen their contract canceled. Our backlog -- I mean the amount of work we have to do is massive. So we are looking at all these opportunities. I think there is a provider. We have to always to be careful because we have to avoid to transfer all the burden downstream of our operations. The moment they do not spend, then obviously we are in trouble ourselves. So it's a fine game of taking in a way advantage of the situation in the supply chain without impacting too heavily on the capability of the supply chain to provide their services. In the exercise, which we are doing in terms of cost cutting, we have covered for a certain percentage of discount both from existing contracts and from contracts we are negotiating right now. Then obviously, we shall have to see our success. We are, but again, I think the real difficulty is to pushing forward as much as we can without damaging ourselves for the distraction of the supply chain, which definitely will need to be strong enough.

Operator

The next question comes from the line of Kevin Roger from Kepler Cheuvreux.

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

Two on my side, please. The first one is related to the Drilling Offshore environment. There have been some news recently saying that the Saipem 12000 vessel will be idled until the end of the year, while it was supposed to drill at Coral South. Was wondering if you can comment on it and especially as you just mentioned recently, the standby rate that you have on the drilling unit? And the second question is related to the wind farm opportunities. You mentioned that you have opportunities for the coming months. Just if you can give some details in terms of location or size of opportunities, et cetera, please?

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

Okay. Marco, Marco Toninelli, I think if you wish to address the first question on the contracts.

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

As we said, regarding the first question, our approach to our clients is to have very close conversation with all of them. To contain them through this crisis and looking forward, not just reacting to this panic mode. Specifically, we're starting 12000, through the rig is already idle. But we negotiated with a client blend and expand contracts, which means we keep all their backlog. And the client in postponing the activity to 2021 but at the same time, we negotiated with the client the compensation for making the rig available for next year. So we will be paid for a standby rate, that will basically cover all our cash costs during this period of time. So we -- basically we are suffering in the short term, but we want to keep a look at the future and be ready to capture the starting activity as it comes. And this is the approach we've taken with almost all our clients. We try to quite avoid a contract -- conflicts or negotiation and going to more into a conversation that helps both. Good to describe it. So far, touching wood, we have been quite successful in this. But of course, we cannot say what happens in the next year, what will happen in the next few weeks.

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

Okay. In terms of wind farms, we still see a healthy list of opportunities. We can -- we view a pipeline which is about [1 billion] of opportunities or projects, which we are working on, mainly in Europe, I have to say that it's not only Europe, it's also Asia. And lately, we are also working in the Middle East for -- on a potential 500-megawatt wind farm. So all in all, we see a healthy pipeline of opportunities in the segment.

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

Okay. And maybe just to be sure that I well understood. Basically for the drilling, you will have a compensation potentially for the standby rate that will cover the cash costs that you have when the rig is either, right?

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

That's correct.

Operator

No further questions at this time, please continue sir.

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

If there are no further questions, let me end the session, thanking all of you for the participation, and wishing all of you good health and keep safe, and I'm sure we'll make it. Thank you. Thank you very much.

Operator

Thank you. And that does conclude our conference for today's speakers. Please standby participants. You may all disconnect. Thank you for joining. Stay safe, everyone.

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