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PRESENTATION

Operator

Good morning, ladies and gentlemen, and thank you for standing by. Welcome to today's Saipem 2018 Full Year Results Conference Call. (Operator Instructions) I must advise you that this conference is being recorded today, on Thursday, February 28, 2019. I would now like to turn the conference over to your presenter today, Mr. Stefano Cao, CEO. Please go ahead, sir.

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

Good morning, ladies and gentlemen, and welcome to our full year 2018 results presentation. Firstly, I am pleased to welcome Stefano Cavacini who has recently joined us as a CFO, following Giulio Bozzini's departure. Stefano has significant experiences in the CFO role with major multinational groups in several industrial sectors. He's already fully engaged in his new position and as part of our senior team.

I'm also joined today by Davide Ruvolo, our Corporate Head of Strategy and M&A; and our heads of divisions, Stefano Porcari for Offshore E&C; Maurizio Coratella for Onshore E&C; Mauro Piasere for XSIGHT; Marco Toninelli for Drilling Offshore; and Francesco Racheli for Drilling Onshore; together with our General Counsel, Mario Colombo.

Allow me to open our full year presentation by recalling the sharp drop in oil prices during the fourth quarter last year, which set back the improved sentiment that built before October, causing a major selloff of shares in the oil industry, with the oil service sector even underperforming oil and gas players. Since then, there has been a deterioration in sentiment towards the overall oil and gas sector but, reassuringly, we had limited reaction in terms of progressing new projects and the announcement of awards.

This continued progress supports our outlook and coverage for 2019. Against this backdrop, we have announced awards worth more than EUR 4.5 billion, including the second phase of Zohr developing in the E&C Offshore and the Arctic 2 LNG GBS contract in E&C Onshore. Momentum has continued in the first quarter 2019, with additional contracts exceeding, as of today, EUR 1.4 billion.

With the new year, markets started normalizing, and we are happy to announce our yearly result in a better environment although I believe volatility in our industry is expected to be the new norm. In 2018, we have delivered a good set of results ahead of guidance. This was sustained by our divisional setup completed during the year by the review of our business portfolio and by the completion of the empowerment and autonomy of our divisions, providing to our heads of divisions the levers and flexibility to shape their organization to fit different market needs and to anticipate the industry evolution. I will expand on this later.

But to return to our performance for 2018. Offshore E&C performance was strong throughout the year with an average adjusted EBITDA margin at nearly 14%, benefiting from good execution experienced on flagship projects, some of which are coming to a conclusion. The divisional result also takes into account the effect related to the envisaged amicable settlement of the South Stream pending arbitration. Both parties share the common objective to complete negotiation on a without-prejudice basis by the end of March 2019 but considered promising by both parties. We believe this important evolution will open to important future business opportunity once negotiation are completed.

Onshore E&C result, built on the improvement seen in 2017, delivered a 3% adjusted EBITDA margin. This is consistent with the turnaround plan we are implementing for our business. In drilling, our adjusted margins held up with Offshore at nearly 49% and Onshore even improving to 27%, backed by the positive impact of additional efficiency actions launched recently following the divisional reorganization.

Day rates in Offshore drilling are still at a low despite some signs of a pickup in demand, reflected in recent new awards, which are improving our 2019 coverage. At the group level, a positive yearly adjusted net result was impacted by special items, the bulk of which were previously reported in the first half and additions booked in the last quarter, mainly connected to year-end impairment test. This result in a negative reported net result of EUR 472 million for the full year.

Thanks to the strong level of awards throughout the year, our backlog stood at EUR 12.6 billion, slightly improving since the end of 2017 and ahead of the book-to-bill target of above 1 we set in July last year. This amount does not include EUR 1.8 billion of net backlog related to projects executed in joint ventures with partners.

We closed 2018 with net debt below EUR 1.2 billion, ahead of the guidance set for the year, thanks to the healthy cash flow from operations offsetting CapEx, including the purchase of Constellation.

Turning to our guidance for 2019, we have set a target for group revenues of circa EUR 9 billion, building on the good level of awards achieved in 2018 and underpinned by around 72% backlog coverage. This is in line with historical levels at this time of the year. Guidance of adjusted EBITDA margin is in excess of 10%. We have set a net debt target of EUR circa EUR 1 billion at the end of 2019, which accounts for CapEx of EUR 0.5 billion, in line with last year. Please note that this guidance is before the impact of IFRS 16.

Let me now hand you over to Stefano, to [many] Stefano Cavacini.

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

Okay. Thank you very much, Stefano, and good morning, everyone. First of all, it's a great pleasure and honor to have joined the team at Saipem, a company much admired internationally for its world-leading expertise and I would say historical track record in the oil and gas market. But having said that, let's go through our full year 2018 presentation.

I will start by commenting on the key financial figures related to our sales and operating profitability. From there, I'll move on to our net result focusing on D&A, net financial expenses and group tax rate. And finally, after having had a closer look at our net debt evolution and capital structure, I would like to provide you with some details regarding the impact deriving from the first application of IFRS 16.

So Chart #6, let me start with the full year reporting revenues, which amounted to approximately EUR 8.5 billion, 5% lower than the amount recorded at the end of 2017. The contraction experienced in E&C Onshore and Drilling Offshore was partially offset by higher volumes recorded mainly in E&C Offshore. We closed the year with an adjusted EBITDA in the region of EUR 1 billion, approximately 4% higher than the amount recorded in 2017. And considering that in the first 9 months of 2018, we were slightly below the previous year, we have been able to entirely bridge the gap, delivering a good set of results in the fourth quarter. In fact, the lower results in the Offshore division was offset by the improvements recorded in all the others.

In terms of net result, the adjusted net result of EUR 25 million in 2018 was lower than the amount of EUR 46 million positive in 2017 due to factors already flagged in previous quarters such as the loss in a project-related equity affiliate, higher minority interest and tax rate, only partially mitigated by lower financial charges that we'll see later on.

Now in Slide #7, we can have a look at our divisional performance. E&C Offshore revenues in 2018 increased by approximately 4% versus 2017. Lower activities in Central and South America and the Caspian region were more than compensated by higher volumes in the Middle East. We closed the year with an adjusted EBITDA margin of 13.6%. And the E&C Offshore division performed well throughout the year and above our initial estimates, thanks to the good project execution, cost-saving initiatives and the completion of certain flagship projects. Revenues and operating results in the fourth quarter were impacted by the effects of the envisaged amicable settlement under discussion for the South Stream pending arbitration surely.

Moving on to the E&C Onshore. Revenues decreased by approximately 10% versus last year, mainly due to lower activities in the Middle East and Asia Pacific, mitigated by higher volumes in the Caspian region and Central and South America. I would like to remind you all that the difference between our reported and adjusted revenues in E&C Onshore relates to special items for legacy legal cases and litigation booked during the year. The adjusted EBITDA margin reached 3.1% performed by the division and, I would say, in line with the trend of gradual recovery, which we previously guided for.

As already stated in past conference call, adjusted EBITDA does not include the loss in a jointly controlled project entity. Regarding this project, give an update, the new facility is now close to completion, and it has been officially inaugurated end of last year.

Now next chart, revenues and performances in Drilling Offshore and Onshore. Starting from Drilling Offshore, revenues declined by approximately 24% versus 2017, mainly due to higher inactivity of Scarabeo -- sorry, Drilling Offshore and Onshore. Sorry, I made a mistake. The -- I would say that's mainly due to higher inactivity of Scarabeo 5 and 8 and the progressive alignment of daily rates at current market conditions, partially mitigated by higher utilization of Perro Negro 8 and Scarabeo 9.

Adjusted EBITDA for the division, as you can see, decreased by 30% with margins still resilient and at around 49%. It should be noted that margin is still benefiting from long-term contracts negotiated in, I would say, significantly better market environment and supported by the usual cost-saving initiatives.

Drilling Onshore. Revenues remained stable versus 2017, while adjusted EBITDA improved by nearly 24%, mainly as a result of cost saving in Latin America and efficiency recovery in Middle East operations. This accounts for a yearly margin growth to 27% in 2018 compared to the 22% recorded in the same period of last year.

Moving on to Slide #9. As Stefano mentioned before in his opening remarks, our net result was affected by a number of special items during the year with some addition also in the fourth quarter. So first of all, as you can see in the bar chart, the provision for our redundancy plan totaling EUR 45 million for the year. An update of our plan is provided, for those of you who are interested, in the appendix of our presentation. Secondly, write-off and accrual related to legacy legal cases and litigation totaling EUR 109 million are respectively related to, on one hand, EUR 61 million for pending litigation on completed projects, I have to say largely announced in July 2018, and of which, in the fourth quarter, EUR 20 million increased. The provision of EUR 38 million already accrued in the previous quarter related to the recent ruling by the Milan Court of First Instance, concerning, if you remember, the criminal offenses allegedly committed in Algeria before 2010.

Lastly, impairments result, as you can see, EUR 343 million. I can recap as follow: first of all, an additional impairment test run at year-end, mainly as a result of a revised mix of day rates over the next years for certain Offshore Drilling rigs amounting to EUR 79 million; some equipment, mainly in Onshore Drilling and accounted in the last quarter of the year for approximately another EUR 8 million; EUR 256 million already accounted for and disclosed during the first half 2018, which were a consequence of a reduction of long-term rates expectation in Drilling Offshore as well as a revision of the discount rate applied to future cash flow of the cash generating units according to our new strategy and reorganization presented last year.

In Chart #10, you'll see some of the items that have fluctuated significantly in the past few years. D&A, in this slide, we summarize the breakdown by division for the past 2 years. The significant decrease in 2018 is mainly due to 2017 asset write-downs in Drilling and the decommissioning of an FPSO, which ended its useful life. In 2019, we estimated D&A will be broadly in line year-on-year.

Financial expenses. So financial expenses, first of all, reduced by approximately EUR 60 million compared to last year, so good result. And let me remind you how this P&D line is broken down. In broad term, first of all, financing cost. In broad terms, this P&D line is the result of an average EUR 3 billion gross debt at a blended all-in interest rate of around 4%, which is inclusive of the cost associated to treasury hedging activity. The cost of hedging is relating to approximately USD 2.5 billion or correlated currencies of project exposures, which are hedged to our Euro reporting currency. In 2019, I have to say that for the time being, we are estimating higher hedging cost due to the increased spread between the U.S. dollar and the euro rates.

Finally, with regards to tax rate, as we mentioned before, 2 factors are expected to weight on the group tax rate, at least in the short- to medium-term. On one side, the limited recognition, if any, of deferred tax assets in a loss-making subsidiary due to the still uncertain market outlook and, on the other side, the higher incidence of withholding taxes since they apply directly to revenues. So as long as the market improves, I think that the group tax rate should return to a normalized level of around 30% based on the corporate income tax in the large majority of the countries where we are operating. And in 2019, we estimate an improvement in our group tax rate in line with the expectation of our long-term normalized target.

Chart #11. We'll -- here, we'll have a closer look at our net debt evolution. As you can see, at the end of 2018, net debt reached EUR 1.2 billion, approximately, below the target we guided for the year and down from EUR 1.3 billion at the end of 2017. The improvement over the period was driven by good cash flow generation, thanks to the -- our EBITDA, coupled with effective capital discipline. It's worth underlining that thanks to our sound cash generation, we have been able to offset approximately EUR 485 million of CapEx, as you can see in the graph. And our working capital evolution was slightly better than our expectation of a neutral profile, with an inflow mainly resulting from an improvement of net advance payment from clients and the consequence of recent awards, so good news for the time being. Yet, probably it's worth mentioning also the fact that in net working capital, this year, we had the negative impact coming from Algeria settlement that occurred in the first half of this year.

We are reaching the end of my presentation, only 2 slides, now in chart #12, I recap the capital structure as of December, end of the year. During the last quarter of the year, we have -- first of all, it's important to point out that we have early prepaid EUR 250 million loan expiring in 2019. The transaction was funded by a new EUR 150 million 5 years amortizing loan and EUR 100 million of available cash. As a result of this transaction, we have been able, on one hand, to lengthen the average maturity of our financial debt and, on the other, to reduce our gross financial debt. As you might remember, for the benefit of everyone, during the second half of 2018, we amended and extended our revolving credit facility up to 2023, reducing the total amount from EUR 1.5 million to EUR 1 billion.

Now we remain comfortable with our debt maturity profile as well as with our liquidity position. So the main feature of this chart can be summarized as follows. As you can see, average debt maturity of 3.5 years, limited amounts to be repaid in 2019 and 2020. We can count on available cash stable and approximately EUR 1.1 billion. And we have undrawn committed cash facility for an amount of EUR 1.3 billion, in addition to EUR 300 million of uncommitted facility. But anyway, we still continue to monitor the debt capital market, and we are ready to evaluate any opportunity which may strengthen our debt maturity profile.

We are -- we have reached the end of my presentation with the IFRS impacts. In this Slide #13, we recap the key impacts related to the first-time application of the new accounting principle. I have to honestly say that after an extensive exercise, we are now providing indication of the opening restatement of accounts based on commitments at the end of 2018. Our leases mainly relate to 2 E&C Offshore vessels on long-term charters and 2 office buildings.

Now let's have a look at the main impacts of the new accounting principle as of January 2019. So the first important thing is net debt adjustment will be in the region of approximately EUR 550 million. We are going to have an EBITDA improvement by around EUR 140 million, an increase of depreciation cost for nearly EUR 130 million and, finally, financial charges are going to grow in the region of EUR 25 million, approximately.

So the above -- but probably, I have to point out that the above amounts don't include the impact of the recent lease agreement for the jack-up Pioneer, which will be employed in Mexico for drilling operation with Eni. And the leasing amounts might also be subject to variation, depending on project equipments, requirements as well as possible new future leased assets. Going forward, we shall provide you with a reconciliation slide in order to monitor the evolution of the IFRS 16 impact during the year.

Now in this final chart, I'd also like to, I will say, take the opportunity to refresh all of you about another topic that relates to equity affiliates, as it will be important in the coming years. In 2018, 2 sizable contracts in partnership with other players will be managed through jointly controlled entities, consolidated through the equity method. We believe we will be applying similar scheme on other future project opportunity, and for that reason, in order to enable the market to monitor the evolution of this project, we are going to begin to report a nonconsolidated order book in addition to our customary consolidated backlog, as you will see later on in the presentation. But anyway, in 2019, the P&L contribution from the new awarded project equity affiliates is estimated to be negligible.

Now I reached the end of my presentation. Thank you very much, indeed, for your attention. And I turn the call over back to our CEO for the next session of the presentation.

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

Thank you, Stefano. Let's move swiftly as there are a lot of topics still to be covered. As I said in the opening remarks, Q4 last year saw a sharp dropoff in the oil price. While this impacted the stock market sentiment, it had less effect on the sanctioning and development of new projects, which have continued through the period and give us greater clarity over the outlook for 2019.

All players in our industry, oil companies, service companies and contractors, have taken steps to cope with the lower oil prices over the past 4 years with a continued focus on: one, implementation of efficiency programs, capacity reduction and rejuvenation; two, integration of services, increasingly important in all segments; and certainly, last but not least, innovation and technology to open new business opportunity, to reduce time-to-market, optimize cost structures and develop creative collaboration schemes.

E&P global spending is expected to continue to gradually recover, and the significant pipeline of projects is expected to come to final investment decision during 2019 and beyond. One sign of this positive trend is the intensifying engineering demand, which we monitor through our XSIGHT division. In Offshore E&C, budget requirements and cost efficiency amongst the oil and gas players have favored modularization solutions and project developing phases. Furthermore, demand remains resilient for gas projects and in the Middle East.

In Onshore E&C, competition remains strong. However, we see a number of opportunities in selected regions such as Middle East, Asia Pacific and Africa, and in selected segments such as LNG and in those traditional segments which need to cope with environmental priorities.

Drilling Offshore is not expected to show significant day rates improvement in 2019. The recovery should materialize only midterm as soon as demand and supply of rates rebalances. The harsh environment of offshore drilling market is already showing signals of vitality, and demand in the Middle East remains good, but also competition is still tough. The international onshore drilling market is expected to gradually recover with Latin America dynamics, depending on the evolution of geopolitical issues. In the Middle East, demand remains significant, but competition, too.

Looking at the longer term, we are leading the transition for oil, gas and coal to new sources of energy generation, which will require time to see new infrastructures implemented. Meanwhile, oil and gas is expected to remain the main energy sources for a number of decades, with gas recognized as a key transition energy source. LNG will also allow further exploitation of gas and we believe to be among the best-positioned actors in this segment. Furthermore, we believe renewables energy sources will significantly grow and contribute to the carbonization of energy in all scenarios, supported by technology improvements and economies of scale. Our competencies in offshore wind farms, in the biofuels production plant, will allow us to further participate to global effort to tackle the climate change challenge. In addition, we remain focused on carbon capture and sequestration where we are concentrating specific efforts.

Finally, our diversified business segment portfolio in E&C, including maintenance, modification and operation, decommission and infrastructure will continue complementing our business portfolio.

Let's move to Slide 16. I would now like to come back to our strategic priorities. Our new divisional organization is proving to maximize the exploitation of each business potential. Divisional autonomy provides, indeed, better control on short-term business performance, flexibility and stronger focus on long-term targets and positioning, being ready at the same time to catch across divisional integrated projects.

During the downturn, players focused their efforts on innovation and cost efficiency or realized mergers and acquisitions, trying to maximize their value potential through complementary combination, a process which is still ongoing. In line with this trend, we believe that our global solutions provider model will fit the transition and will be more and more appreciated by the market. E&C Offshore remains the core business in our portfolio. We intend to catch all opportunities to further strengthen our leading competitive position by extending the concept of integrated solution also to MMO and decommissioning and not only in the subsea, strengthening our partnership strategy and looking selectively at investment and growth opportunity as we have done in the past.

Moving to E&C Onshore, the market context has suffered less from the downturn. However, competition is fierce in this sector. In this context, the E&C Onshore division turnaround is progressing well with a focus on margin recovery efforts and repositioning in the sector.

Future performance recovery and strategic repositioning will mainly come from LNG and refining and petrochemicals, and targeted geographies expansion in addition to renewables and carbon capture and sequestration.

Moving now to Drilling Onshore and Offshore division. We are proud of the operating and economic performances in considering the very competitive context in which we are working. Going forward, we envisage a constant capital discipline for this business with asset-light growth opportunities coming from late leasing initiatives.

Many players in the industry have realized or are exploring consolidation options with the goal of optimizing their fleet mix and quality, increasing size and financial firepower and maximizing possible synergies. In the second half of 2018, we have started our assessment of strategic options, considering our presence in strategic countries, our strong relationship with selected clients and our long-term backlog for certain assets. Consistently, over the last months, we have been exploring the available strategic options for the onshore and the offshore drilling sector. Initial feedback from the market recognizes the value of our overall business assets. We will continue to consider all opportunities for industry realignment, and we are determined to remain flexible on possible solutions. However, we will only progress transactions that will recognize and allow to maximize the Drilling division's value potential in the current market.

Let's move to Slide 18. Technological innovation has been one of Saipem's strongest strategic pillars over the last 6 years. For us, innovation must lie at the heart of the business, capable of delivering immediate results in terms of improved efficiency, diversification and advancement. With our new divisional organization, the overall Saipem strategy is transforming to specific plans that capture precisely the needs of each division, optimizing cross-divisional synergies and solution at the corporate level.

To encourage disruptive innovation, we have leveraged our innovation factory, Saipem's sort of innovation incubator. In the last 2 years, this has proven to be successful in promoting innovative and collaborative culture to bring new ideas and new technologies into our business and to our clients. By adopting a fail-fast and fail-cheap approach, we can explore uncharted territories swiftly, applying the technological innovation with an agile, open approach. Finally, the ongoing digital transformation is also providing additional tools to support simplification, integration and digitization of processes.

Let me spend now some words on a topic which is of the utmost importance for the future of our business, sustainability. We are devoting significant time to this at group and divisional level. Our steps on this path do reflect best international practice, indeed. For governance, in addition to the Managerial Sustainability Committee, which I personally chair and is -- which is responsible in implementing our sustainability strategy, this year, we have created a new Sustainability Scenario and Governance Committee headed by the Chairman to support the Board of Directors in approval of our policies and disclosure of sustainability and nonfinancial information.

Climate change, safety, human and labor rights were identified among the most material issue in the annual stakeholder survey, and they are included also for 2018 in top management short-term incentive schemes.

In addition to the annual sustainability report, our comprehensive ESG reporting has been added to the consolidated nonfinancial statement, in line with the requirements of the European directives and Italian legislation. Our sustainability efforts have been positively evaluated by the most reputable EFG agencies, resulting in a significantly improved course. And our inclusion was confirmed in the most important sustainability indices worldwide, like the Dow Jones Sustainability and the FTSE4Good indices.

Our continuous commitment in enhancing our anticorruption model had been recognized by the DNV certification ISO 37001. We also recently published Tackling Climate Change in line with the recommendation of the Financial Stability Board Task Force on Climate-related Financial Disclosures. This constitutes Saipem's comprehensive strategy on climate change and its related risk and opportunities. Overall, we are convinced that our sustainability strategy will create long-term value for all our stakeholders.

Let me start now with a new section, Slide 21, on the business update with our E&C Offshore division. During the last quarter of the year, Petrobel entrusted us to continue with the development of the Zohr field offshore Egypt that's now entering the ramp up to plateau phase. Since its inception, we have been iterating the breakthrough characteristic of this project, both in terms of schedule and execution strategy, and the paramount level of engagement Saipem has deployed to meet the managerial, technical and operational challenges. Once again, we will deploy our flagship technologies and engineering capabilities to execute the new scope of work, specifically the EPCI of additional SURF facilities and installation and precommissioning of an additional gas export pipeline. Momentum continue in the new year with the new awards under the LTA frame agreement of the Berri and Marjan field expansion offshore Saudi Arabia. We are proud of our long and trustful relationship with Saudi Aramco and honored to continue it. We are also pleased to announce today the award of the EPCI contract for the LNG terminal for Greater BP Tortue (sic) [BP Greater Tortue] in consortium with Eiffage. This award follows the FEED work which have progressed into the execution phase following BP's final investment decision.

Finally, let me mention the FEED. We are performing for both sides related to the gas export trunk line on the Scarborough development offshore Australia. This contract that includes an option for the execution phase marks Saipem's return to the country where we had previously delivered successful projects. We are actively promoting the Saipem Constellation on deepwater tieback projects, mainly in North America, as well as being engaged in commercial subsea initiatives in Africa, Australia and Black Sea. In Offshore wind, we are positioned to capitalize opportunities mainly in Europe and Far East while in Middle East, we continue constantly targeting conventional projects.

In summary, even though E&C Offshore markets continue to be slow with only very slight signs of recovery, our recent awards together with the pipeline of near-term opportunities in excess of EUR 20 billion are well diversified in terms of geography and segment and prove how effectively we are positioned. This gives us confidence in the achievement on the division commercial objectives.

By now you will be familiar with the strategic pillars of the E&C Offshore division. They underpin our ambition to be recognized as the global solution provider in the energy industry.

Turning first to markets and our strategic focus. We are taking significant steps to enhance our subsea business. The acquisition of Saipem Constellation in 2018 by means of which we can more efficiently target works involving deepwater reeling tiebacks in the Gulf of Mexico and elsewhere. Under our alliance with Aker Solutions, we are positively cooperating in pursuing integrating SURF project, particularly through early engagement and engineering studies for our clients.

Our life of field model leverages technology, and our strategic presence in key countries as well as our trusted relationship with clients delivering service in the OpEx phase. We continue pursuing our vision of transferring surface facilities to the seabed through development of technological solution for subsea processing. Indeed, I'm pleased to announce that together with our client, Petrobras, we have engaged in the technological qualifying process of our subsea CO_2 separation system, ISEP.

Turning to diversification. We are positioning ourselves in offshore wind farms: leveraging on our vessel and yard; decommissioning, offering a service-oriented approach designed to alleviate clients' need to manage different phases on the project; MMO, by recently reorganizing our business line to maximize internal synergies. In terms of assets, our clear objective is to evolve into an efficient and asset-light organization by leveraging on our strategic assets, selective and enabling investments, process improvements backed by technology and digitization. A disciplined approach to CapEx, aiming at maintaining our fleet at a constant readiness to operate.

Let me conclude by highlighting our subsea autonomous vehicle FlatFish, developed in conjunction with Shell, which is capable of performing complex inspections of risers, with data harvesting and contactless monitoring. It will be a material advance in delivering our subsea vision and provide our client with unprecedented solutions.

Looking briefly now at our commercial activity in the fourth quarter. Our recent awards reflect our technological capabilities and our wide geographic reach, providing us with market niches we believe have strong growth potential in the coming year.

To give some project outlines. We secured a clean fuel expansion project awarded by the Thai Oil Public Limited Company through a consortium between Saipem, Samsung and Petrobras. In December, a Saipem-led joint venture with Renaissance, a Turkish contractor, was awarded a new contract worth of around EUR 2.2 billion by Arctic LNG 2. The project will be executed in the western part of the Gydan Peninsula. And it encompasses the design and build of 3 30-meter high concrete gravity-based structure with LNG storage facilities.

Before presenting our next slide on E&C Onshore strategy, allow me a quick reference to an ongoing project close to completion, Kaombo, well known to all of you. Kaombo has caused in the past a number of concern and is now derisked, while its execution progress is in line with the schedule agreed with our client. Indeed, the second FPSO completed commissioning and following -- sail away to Angola is now safely moored at site, awaiting to be connected to subsea infrastructure.

Let's move now to our strategic vision on E&C Onshore. The energy industry scenario will see oil and gas to continue playing a key role, notwithstanding the growth of green technologies. We strongly believe that there isn't contradiction between the 2 worlds, and our ambition as part of our turnaround is to become the partner of choice for clients committed to the energy transition. This will be achieved: One, by providing a new value proposition to our traditional clients and projects with a different design approach based on simple concept, carbon neutral operation and green technology throughout the entire EPC value chain; two, by developing a new operational model supported by the exploitation of digital technologies aiming to shorten time-to-market. Last but not least, third, by consolidating our presence in core markets and products in upstream and downstream segment.

As a consequence, we have set new operational and market targets for the division. We aim at strengthening our strategic presence in Middle East by consolidating Saudi Arabia and Kuwait and growing in countries such as Oman, UAE and Qatar. Further, we intend to improve our position in Southeast Asia, which remains a center of gravity in the downstream, both in refining and petrochemical segments.

The LNG market is a pillar of the energy transformation. We intend to increase our share, although in general, our project target is to reinforce our leadership in the field of gas treatment, in particular, sulfur and CO2 technology. Finally, we'll take our share in the green technologies field, leveraging on our DNA as system integrator by combine renewables into the oil and gas value chains.

XSight, after its first full year of activities, the division is increasingly recognized as an important player in the early engagement activities. The value proposition, which brings the experience of an EPCI contractor to the early definition phase of a project, has been appreciated from the conception, feasibility studies to the basic and front end engineering works by clients that have decided to entrust the division with increasingly complex works. Although the volume of the work executed in 2018 is still light, the visibility of a new opportunity generates another value for our E&C divisions in terms of optimization of commercial cost, reliability of information and understanding of projects.

The level of optimization carried in the engineering process, meanwhile, sustaining the [tougher] phase commercial effort is proved by early result as breakeven. Looking at 2019, and in particular to the most recent works, we can optimistically -- be optimistic to the growth potential of the division and on the value we can generate for our clients. All product lines have a list of opportunity where IM technologies, attention to energy efficiency, carbon neutrality, cost and time optimization will be key driver for our acquisitions and execution success.

Offshore Drilling. The main award recently recorded in the mid-zone project in Mexico for Eni. The value of this project rest in its duration, estimated at 3 years for the current period plus option for a further 2 years, making it one of the few long-term opportunities available in a tight market. This acquisition underline, again, our reputation as a reliable offshore drilling contractor.

Furthermore, thanks to this project, Saipem has enlarged its geographical footprint entering into an area with long-term business opportunity.

The rig that will be deployed is the jack-up Pioneer, a design in strong demand across the industry. The rig has been hired for the overall duration of the project and has been preparing Sharjah, UAE and is now sailing to Mexico. At divisional level, having almost delivered the plan of efficiency action along to optimize and improve our processes, facilities and on-board rigs, we believe that our cost base is now fully in hand, although we continue to focus our attention on further possible improvement. Our digitization program is progressing as planned with several initiatives ongoing, able to improve our efficiency and our HSC and asset management capabilities.

Our [disho twin] our Scarabeo 8 is already available and will be extensively used for training in HSC and operation. By mid of the year, it will be further developed in order to provide maintenance using remote support. In HSC, we're pioneering with the development of smart wearables, aiming at improving our personal safety as well as preventing unsafe behavior. Furthermore, after selecting suitable filers among our rigs, we have installed a data collection and analytic system aimed at improving our operational performances, and following successful trial, are ready to implement our own predictive tools to optimize maintenance. The contractual engagement of our offshore drilling fleet is summarized in our customers Slide 27 highlighting recent improvements. On this slide, I will not -- I will address any questions you may have later on.

Turning to onshore drilling, in the last quarter of 2018, our commercial operational efforts deployed over recent years in Argentina have been positively rewarded by a long-term project for 5 years as well as extension of existing contracts by ExxonMobil. This confirms our strategy to consolidate our presence in this country, which we consider one of the most promising in the continent. Activities are concentrated in the Vaca Muerta area for the drilling of unconventional fields and are expected to be performed through efficient and technologically advanced rigs. Indeed, one of the mentioned long-term contracts will be executed through newbuild rigs, recently ordered, while leveraging selective components available in our bases in Latin America on presently idle rigs.

Our business strategy remain consistent with the implementation discussed last year. The focus of the division is to: continue enhancing safety and operational excellence throughout the fleet; pursue geographical expansion into new or existing regions such as Latin America, West and North Africa and Middle East; extract the full potential of our drilling system by consolidating our business franchise with blue-chip customer, both NOCs and IOCs; and by expanding into some oil and gas adjacent business such as unconventional and geothermal. Our strategy has already proven its effectiveness out here. Look at digital drilling with great expectation. Indeed, we recently launched a pilot project for the digitization of our drilling operation in Kuwait. The project implied benefits are the improvement on invisible lost time, safety, preventive maintenance and automation. Such benefits are evidently scalable across our entire fleet.

The weighted average utilization rate in 2018 was around 65% for the onshore drilling fleet, representing an increase of approximately 12% compared to the circa 58% recorded in the same period last year. While the Middle East fleet has remained fully utilized, the situation in Latin America has been gradually improving during the course of 2018, with various new important contract awards, among which the most relevant are in Argentina, as I've already mentioned.

Turning to the backlog. Thanks to EUR 4.5 billion contracts awarded in the final quarter, including minor acquisition and variation orders on contracts under execution, we closed 2018 with a position of nearly EUR 12.6 billion with a slight improvement year-on-year and [IS] of our book-to-bill ratio of above 1% we have guided for. However, it should be noted that this amount does not include some EUR 1.8 billion of contracts awarded in partnership with other players, namely ThaiOil Clean Fuel expansion project and the Arctic 2 LNG, falling within the Onshore E&C division. This, as I already anticipated in the presentation, will be managed through dedicated project equity affiliates. The onshore and offshore drilling backlogs continue to reduce throughout the year due to a delay in the final investment decision and new contact awards. However, since the last quarter of 2018, we have experienced an improvement, which appears to be continuing into 2019, proving (sic) [providing] us with a cautious confidence that our ongoing commercial efforts will convert in additional initiatives.

Let's look at the backlog split by year of expected execution. As you can see, our 2019 revenue guidance is covered for about 72%, and this is in line with historical data at the same period of the year, with an increase of around EUR 1.6 billion versus the amount disclosed in the third quarter. Visibility on near-term additional commercial opportunity in all division remains good as demonstrated by the new acquisition, exceeding EUR 1.4 billion so far in the first quarter of 2019. And we are confident we'll be able to continue to improve the outlook for our future revenues.

Finally, let's get to the guidance. 2019 is expected to show a slight improvement for the capital program and final investment decision taken by oil and gas company year-on-year. The recent high level of our worth and our order backlog at the end of 2018, combined with prospects of commercial tenders, underpin our guidance of achieving revenues of around EUR 9 billion with adjusted EBITDA margin in excess of 10%. The investments are guided for approximately EUR 500 million, in line with 2018, reflecting earlier mandatory maintenance on our shore rigs and selective enabling investments aiming -- aimed at our position in the renewable market, in particular wind farm, where we expect some contract to be sanctioned. Net debt is expected to be around EUR 1 billion at the end of 2019, reflecting also the potential impact of possible amicable resolution of disputes with clients.

In conclusion, I would like to close such a lengthy presentation with a few comments. Thanks to the effective divisional organization and the constant attention to operational execution and cash generation throughout the year, we have delivered a robust performance ahead of our guidance for the year. Importantly, we look forward and continue the promising negotiation for a possible amicable settlement regard South Stream arbitration, an evolution which we believe will open to important future business opportunity once completed. Notwithstanding oil price volatility and oil gas players still focused on capital discipline, investment in E&P are expected to slightly increase with new developments coming onstream, while decarbonization future requirement are setting the scene for opportunities to be captured in the entire energy transition area.

In the market context, which have seen many players focus on improving their setup to face the challenges in the downturn, we believe that our portfolio strategy and organization is centered with a target to evolve into a global solution provider and the partner of choice on green technologies in E&C. Meanwhile, we remain open to evaluate all options with recognized value to our drilling business. Our guidance for 2019 reflects a good momentum in our works and the visibility of near-term project, as well as the improvements achieved through our divisional organization in delivering efficiency and operational performance in challenging times.

And now, with apologies for being longer than usual, but I thought that this time, it was worth highlighting so many important aspects in the development of our strategy, together with my colleague, I will be more than happy to take all your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Henry Tarr from Berenberg.

Henry Michael Tarr - *Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst*

Just a couple of questions. One was on South Stream. I guess you're still negotiating the settlement. But was there anything -- was there any impact of that on the 4Q results or not? And then secondly, just on -- to go back to the tax rate, did I hear you correctly when you said you expect tax to normalize in 2019 while you move back to a sort of 30% tax rate? Or is it just moving in that direction for this year?

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

Okay. I'll address the South Stream question. I think quite consistently with the message which we've been delivering for probably the last couple of years, we've always been more than keen to sit at the table and pursue alternative avenues, alternatives, obviously, to the arbitration. This has taken quite some time. For the first time in the last few days, it has come on the table in a scheme which would appear to be, let me say, acceptable to both parties. Does that mean that this is a done deal? Certainly not. But what really means that in the presence of this negotiation, there was no other alternative than take into account in our 2018 financials of this option, which as I said, we are still negotiating. So 2018 results, they reflect these options in terms of possible settlement. There is obviously a component which will be related to the final possible settlement, which is related to the payment of a certain amount of money, which would eventually impact the cash flow in 2019. As far as tax rate...

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

Yes. About the tax rate, what I mentioned before, in reality that as you can see, in 2018, if I'm not mistaken, we are in the range of slightly below 70%. The tax rate normalized is, according also to our history, 30%. If through that this year 2019, we are going to improve, but it takes time to reach the normalize, not too much time, but not in 2019 for sure. I hope that we can give you a good improvement but we have a way to run considering the fact that still today we are having a deferred tax asset in a loss-making subsidiary, not accrued, because we have to be prudent and also because of the incidence of the withholding tax that is still ongoing as process.

Operator

Your next question comes from the line of Nick Green from Bernstein.

Nicholas James Green - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

Two please. So the first one -- sorry, it's a bit of a technical one. Could you talk through the pending litigation numbers in a bit more detail? And I think helping us bridge it just to be completely crystal-clear on how that's moved, because you obviously had a -- you had a number at year-end '17 somewhere between EUR 300 million and EUR 400 million from memory. You said that it's gone down, I think, EUR 71 million over the year is what your impairments here suggest. You mentioned that some of that had already occurred by the mid-year results. And so the net of it is, what I'm trying to get from this, is what is the pending revenues you have in your accounts on the 4 remaining projects, South Stream, Sunrise, Gladstone and Jurassic, please? I'll come to my second question after that.

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

Okay. Maybe we give you dual answer. First of all, I would ask Mario Colombo to give you a view on the status of the pending litigation. (foreign language)

Mario Colombo - *Saipem S.p.A. - Member of Compliance Committee*

As far as pending litigations are concerned, we provide details in our financial report. The last update was provided for the [Alcia] report last July. Details about the pending litigation will be provided in our financial report 2018, which will be issued with respect to the forthcoming shareholders meeting, which is scheduled for April 30, 2019. There, you will find all the details about the pending litigations. What I could say as far as the impact, which has been mentioned, is that it is the consequence of the periodic review of the pending litigation. We cannot disclose the specific details, obviously, because they are confidential. Counterpart (sic) [counterparty] of the litigation, obviously, could consider those details in the litigation themselves, and so we cannot provide. I'm sure you will understand the relevant details. Again...

Nicholas James Green - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

Are you able to confirm the -- did it fall EUR 71 million over the year? And if so, what is the balance at year-end '18? Are you able to tell us that even if you can't give us the split?

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

Stefano, would you like to...

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

Yes, I'll try to answer. Firstly, as already commented on before, unfortunately, we cannot give you a full disclosure about the impact in 2018 accounts because we are still negotiating. What I can say in order to help you is that if you remember in the past, there was a slide called unbilled revenues in which all the unbilled revenues related to arbitration/litigation was in the region of EUR 400 million of, I would say, trade receivable outstanding. Now, in our 2018 account and in our 2019 guidance, we have factored in the positive resolution of the amicable settlement even if we are still negotiating and is not sure by definition. So what does it mean, that for 2019, what we called in the past unbilled revenues are going to decrease up to a no material amount in the region of EUR 100 million. About the impact in the P&L, I apologize, but for the 4 quarters, I cannot give you the full numbers.

Nicholas James Green - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

Okay. I'll follow that up separately. And then just a different topic then, please. You talked through LNG and that was helpful, your outlook on that, but clearly in the last quarter, 2 of your biggest partners, Chiyoda and McDermott, have gone into various degrees of financial distress around LNG projects. Can you just talk to investors about the -- whether you feel having these partners in difficulty somehow jeopardizes your own ability to actually bid for new work? And then also, to the extent that you're willing to work with these partners, such as the Mozambique project, should investors be concerned at all around things such as joint and several liability? And whether you are somehow exposed to their financial distress?

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

Okay. In general terms, I think the starting point is the momentum we were living a couple of years ago. I do remember that during similar conversation, most of the consensus was about an energy market which was dead. I mean, then that the world has completely gone upside down, and now there is a volume of prospective projects related to LNG, which are probably far beyond the capabilities of the overall contractor families in terms of -- there are more projects than contractor capable of doing them. So under that scenario, obviously, we need to be on one side quite careful. I mean, we have to pursue the commercial opportunities which we consider valid in terms of return and difficulty of the project and indeed partnership. There is no doubt that after the news flow which has come out about difficulties in certain projects, these difficulties, they need to be fully considered and analyzed at the timing of taking up other commitments in the future. But let me say this is not so different from what we consider the normal duties of a sensible contractor in selecting projects and in selecting a partnership for the commercial opportunities.

Operator

Your next question comes from the line of Robert Pulleyn from Morgan Stanley.

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

Two, if I may. The first one, if you could just talk about offshore margins, seemed a bit weak in the fourth quarter. If we could sort of investigate what was going on there? And also the direction versus the 2018 results as included in your 2019 guidance; i. e. how are those margins going to evolve year-over-year? And the second one, I recognize that increasingly these very large contracts, or very large projects, are shared amongst JV partners and, obviously, you recognized that with a non-consolidated backlog. In which case, could you be able to give us a guidance around the JV contribution for 2019 as those projects actually come through, through equity accounting rather than through your divisional business units?

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

First of all, just to talk about 2019 guidance, as you know, we don't provide guidance on a business-by-business basis. So we only provide the overall guidance, which is the one we have disclosed today. As far as the margin for the fourth quarter, I think we mentioned all along that we have accounted for the outcome of this possible settlement on South Stream, which is an articulated sort of a solution on which I'm not in a position to duel at all. But I can say that, certainly, it's a combination. Should we come to a point of making a final -- of agreeing a resolution, will be a combination of a cash component and the access to commercial opportunities with the client. In terms of a contribution for -- it's marginal. Of the nonconsolidated project for 2019, I would say even negligible. These are projects just been awarded. We are getting set up with the JV and developing engineering. So the -- I would say, you will see -- you will start seeing a significant contribution starting in 2020 onwards.

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

Okay. I mean, but my question on 4Q was really to try to understand -- I recognize you mentioned about South Stream, but to understand the underlying movement in the offshore margin, i.e., shall we take the sub-10% margin as the leading edge run rate for 2019? Or is the 9-month 2018, before 4Q, a better indication of 2019? If you could provide a little bit more color about the direction there, I appreciate you don't put it in the slide, but given there's an abnormality in the fourth quarter, this would be extremely helpful.

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

I think you're commenting yourself. I mean, in a way, I don't think we can take a judgment on a business on a quarter-by-quarter basis. Look at the overall performance for the year, the overall performance is quite satisfactory. Then, obviously, there may be variation. You know that the resulting seasonality in terms of the activities for the -- or particularly the offshore E&C. So I think the reference should be made at the overall performance over the year rather than extending a specific quarter to then consider the performance for the subsequent quarters.

Operator

(Operator Instructions) Your next question comes from the line of Alessandro Pozzi from Mediobanca.

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

It looks like the outlook for E&C has somewhat improved. I believe you mentioned EUR 60 billion of combined opportunities. I was wondering if you can give us maybe a bit more color on the near-term opportunities that you're hoping to finalize. And also, can you comment maybe on the offshore subsea opportunities that you see in 2019? I guess, I was wondering with the increase in volumes potentially, margins could be better on those projects? So any commentary on that will be helpful. And going back to Gazprom. I believe the original claim was around EUR 700 million. I was wondering if you include any of that in the 2019 year-end net debt guidance?

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

So I think I'll turn it over Maurizio and Stefano Porcari. Onshore, Maurizio?

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

Yes. This is Maurizio speaking. I would answer of course for the E&C Onshore opportunities we're looking at for the coming year or in the current year. I would say that definitely, as Stefano has pointed out, LNG projects may play a significant role. As you can understand from the press that some of these large projects may be awarded during 2019 and early 2020, in which Saipem is looking at playing an important role, being engaged in these projects with fee status since 1 year from now. As far as other opportunities in the areas in which we are currently present and active, you may know that Aramco in Saudi Arabia has launched an important plan of enhancement of production, which is composed of various packages that could be tendered in the -- or are currently in tendering for the coming 2 quarters in which we are participating to a large number of them. And we have expectations of succeeding and getting awarded some of those packages. So altogether, we see opportunities positively, coming on screen and we are motivated on gaining shares where we are present or increasing our shares where we have been present in the past. As far as the offshore...

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

Regarding offshore. This is Stefano Porcari. I am dividing the world in region for you. I can tell you that today, we are focusing in different region at the same time. In particular, we see opportunities in West Africa, Nigeria and Angola. Also, in East Africa in Mozambique and in particular, this project will be related to subsea development. Subsea development will be also interesting in the Americas, talking about Brazil in particular and in Guyana. We also focus on subsea developments in the North Sea and Australia. Some of these bids in the subsea are bids that we are submitting with our partner, Aker Solutions, for the integrated projects. On the other side, we're continually pursuing our -- to try to keep our position in the conventional developments, in particular shallow waters. And one of the region which is very interesting for us is the Middle East. We are talking about Saudi Arabia and Qatar. We are also continuing to pursue initiatives in other countries like in the Black Sea and in the Caspian Sea, in particular in Azerbaijan. I think that covers the most part in...

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

Just on the order intake. I guess your guidance is in order -- book-to-bill of 1 or above 1 for 2019?

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

We don't provide guidance on book-to-bill, quite frankly. I think we give the information as they come. Overall, I think the message was quite clear. Maybe also repeated more than needed. We see positive evolution in terms of commercial opportunities, and this is the main reason why we still view 2019 as a sort of year of transition. And we expect to see the positive impact of the -- let me say, better scenarios environment in 2020 onwards. As far as the South Stream, you're right. The overall claim that it was clearly mentioned by us. This is a 2 parties discussion. I think there has been, obviously, an evolution, but -- which is quite normal. The amount which has been added to our accounts 3 years ago, it's a totally different figure. As far as the impact, as I said, economical impact, they're all included in 2018 results while the 2019 guidance, yes, consider the contribution -- cash contribution coming as a result of the settlement obviously if we manage to settle the [oil] issue.

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

Okay. I guess, can you disclose how much you are considering for '19? Or is it still...

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

No. I'm afraid not. I'm afraid not. This is a very delicate -- as you may appreciate, this is a very delicate matter. It involves negotiation at different levels. So no, that is not something which we can disclose.

Operator

Your 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*

A couple from me. From CapEx, sorry if I missed it, but can you talk about the drivers for the EUR 500 million guidance for 2019? Why are you spending extra? Should we consider this a new longer-term run rate for the business as activity picks up? That's my first question. My second is a little bit related to what Nick was asking about on LNG and your partners. Obviously, one partner in particular, I think they have lost more money on LNG projects than they have made consistently on a 5, 10, 15 year view. Why is Mozambique going to be different? What can you say to reassure us that, that's going to be a good and profitable, not just a large project for Saipem?

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

In terms of CapEx, I think, I mentioned briefly -- outlined briefly in the speaking notes. I would say that the CapEx -- the increase in the CapEx compared with 2018 before the acquisition of the new vessel, it is related to a specific class for drilling unit, which in order to fit with the requirement of the client had to be brought forward to 2019. It was originally expected in 2019. It has -- we had to bring it forward into 2019. Then the other we mentioned, but something which is quite important because it is most strategic. We are, as we said all along, we are obviously aiming at being an important operator in the wind farm market. That implies that we need to design, build, make ourselves -- make available to ourselves all the tools and paraphernalia which are required for that business. So we expect, we are envisaging to invest some reasonable amount of money in 2019 in order to, obviously, to be competitive in that market. Then we are also considering the replacement of some old traditional assets, and particularly asset which may be utilized for the project in Australia, which we mentioned has been awarded at the feed stage so far. Should we be awarded the execution of that, we would need to rejuvenate the traditional feed. So we would progressively devote some of the CapEx also to this. So it's a combination of facts. In general terms, the world looks different. I mean, we cannot be optimistic but certainly, we take a view that there will be sooner or later a recovery. And indeed, we have to be competitive in such an instance. In terms of the LNG market, maybe Maurizio, if you wish to comment?

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

Yes. Yes, Maurizio speaking. I can say that the losses you've been referring to which have been declared by our partners are mainly relevant to projects in the U.S. that has been signed in different market context, I would say, with very specific U.S labor constraints and implications that we might not have in the project which we are targeting with the same partners. I would say that also the timeframe in which those projects have been awarded were such where clients had expectation of cost per tons that resulted to be very challenging for the contractors. Stefano was pointed out, pointing out today the opportunities are much bigger than the ability of contractors to satisfy them. Therefore, I believe there is enough room to agree on prices, which would make our performance more comparable.

Operator

Your next question comes from the line of Michael Alsford from Citigroup.

Michael J Alsford - *Citigroup Inc, Research Division - Director*

I've just got one, please. It's really regarding the strategic options that you've got for the offshore and onshore drilling businesses. Should we expect the changes to occur in 2019? Or are these changes likely to be more longer-term given, I guess, the challenging conditions that we -- that you face in those areas?

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

I think, in very simple terms, I think the time is right. So I think you don't plan on extraordinary operations, but certainly 2019 would seem to be a good year to make such an assessment and to take certain decision. As of today, obviously, we don't have any such decision. Otherwise, we would have made it known to the market. But certainly, I think as we are implying in our presentation, we are very actively working on those options. And I think 2019 would appear to be a good year for implementing at least one of these options.

Operator

Our final question comes from the line of Grace Osborne from Barclays.

Grace Osborne

Just a follow-up on the South Stream. I'm sorry if I missed this earlier, but can you explain how much you've put into profits this year? And how much has gone into cash on South Stream?

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

I think I have to repeat myself. Negotiations are ongoing. Negotiation obviously are extremely sensitive. There are 2 parties who need to find an agreement. I think it would be really quite a mistake to disclose the terms and conditions of this negotiation. So we cannot make any comment whatsoever.

Operator

We have no further questions. Please continue.

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

Okay. So thank you very much for your participation. I look forward to meeting you again in the near future. Thank you.
