# Saipem S.p.A.

## "First Half, 2023 Results Presentation Call"

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MODERATORS: ALESSANDRO PULITI, CHIEF EXECUTIVE OFFICER AND GENERAL MANAGER

PAOLO CALCAGNINI, CHIEF FINANCIAL OFFICER

OPERATOR: Good morning. This is the conference operator. Welcome and thank you for joining the Saipem First Half 2023 Results Presentation. As a reminder, all participants are in listen-only mode. After the presentation, there will be an opportunity to ask questions. Should anyone need assistance during the conference call, they may signal an operator by pressing "*" and "0" on their telephone.

At this time, I would like to turn the conference over to Mr. Alessandro Puliti, CEO and General Manager. Please go ahead, sir.

ALESSANDRO PULITI: Thank you and good morning and welcome to Saipem first half 2023 results presentation. I'm here with our CFO, Paolo Calcagnini, and with the rest of Saipem's top management team. I am also pleased to have here in the room Alberto Goretti, who recently joined as Head of Investor Relations.

Let's start with the financials. Q2 was another quarter of strong delivery, driven mainly by our offshore business. In the second quarter, we delivered a robust revenue growth of 70% year-on-year, and 7% quarter-on-quarter. EBITDA growth was even stronger than revenues, at 48% year-on-year and 15% quarter-on-quarter. In the second quarter, we achieved an improved EBITDA margin of 7.9%, reflecting better profitability of some of our business lines, as well as a better mix of activities.

At the end of June, we had a net cash position of €34 million and a net debt position post leased liabilities of €288 million. Order intake in the second quarter was also robust at €4 billion, a strong increase compared to the €2.7 billion in the first quarter and implying a book-to-bill of 1.4 times. In summary, the second quarter of 2023 was another quarter of progress and financial growth continuing in delivering our strategic plan.

Now, let's expand a bit more on the main achievement in the first 6 months of 2023. The financial results are robust, both revenues and EBITDA level, and continued to improve year-over-year and quarter-on-quarter in line with the 2023 guidance. Operating cash flow was positive, both in the first and the second quarter, contributing and maintaining a stable net debt despite the cash outflow related to the backlog review.

In addition, we have fully strengthened our balance sheet structure with 2 new facilities that entered into effect in June for a total of €860 million. The €390 million of SACE facilities was disbursed, while the €470 million revolving credit facility is undrawn. Our €500 million bond maturing in September will be repaid using our available cash, which will lead to a further improvement in the average debt tenure.

From a commercial standpoint, we keep winning orders with the right mix. The majority of the total order intake in the quarter is in offshore, the segment that historically have recorded the highest margins. Out of the total €6.7 billion of order in the first half, around 10% is in low or zero carbon activities in line with our commitment to the energy transition. We continue to receive quality orders from clients with whom we have long lasting relationship, both national and international oil companies in our core geographic areas and countries.

As far as operation are concerned, we are progressing well on wind offshore project execution, further reducing the risk of some of the critical projects that were a part of our backlog review. In particular, after completing the Seagreen project in Scotland, we significantly accelerated on the NNG project during the second quarter reaching an overall progress of 94%.

And now, I will hand over to Paolo for a review of the financial results.

PAOLO CALCAGNINI: Thank you, Alessandro, thanks everyone for joining the call today. So first, it's worth noting that we had no special items in the first half of this year, and while the first half of 2022 we had €20 million of non-recurring costs. Second, we reported a net result of €40 million, almost entirely achieved in the second quarter. This is the first positive quarter at net income level since late 2019 and the best quarter at net income level since 2017.

So revenues were up 38% year-on-year to €5.3 billion and margins have grown 56% to 410. Now, before diving into the business line results, I would also like to share two or three pieces of information in relation to these numbers. First, it's that the revenue growth has been consistent across all key geographies, Sub Sahara and Africa, Middle East and Americas witnessing an healthy market demand a smooth worldwide operations and the ability to ensure an effective supply chain.

Second, if you compare the 2022 and 2023 numbers, in a like-for-like basis, I mean, net of the adjustments made in 2022, the EBITDA growth would have been 68% versus the 56% you see in the chart.

Now, moving to the reporting segments, and let's start with the asset based services, which are related to the offshore engineering and construction and the offshore wind activities. This is a business line that has contributed the most to the increase in the group results, both in terms of revenues and margins. Revenues are up 30% year-on-year to €2.6 billion and margins increased by €96 million or 59% year-on-year and 24% over Q1, reaching €260 million.

A few short comments on the asset based performance. Performance improvements have been robust and balanced across geographies, projects and key clients, and we see it has a strong signal of an high quality growth of the business line. Margins were close to the 10% threshold in the 6 months, although already above the 10% in Q2, and this is notwithstanding the significant progress that Alessandro mentioned made in zero margin new projects, all this effect is still diluted on overall margins of the business line.

For the full year 2023, we expect EBITDA margin improve to…improve even further as we progress with the execution of order positions made mostly during the market downturn, and the start of the works on acquisitions that have been made recently with higher margins than in the past.

Moving to the offshore drilling at Page 9 of the presentation, revenues increased by 24% year-on-year and the margins increased 64% from €86 million last year to €141 million this year, with an EBITDA margin which is just below 40%. So the performance improvement came mainly from 2 factors, the increasing market day rates which has been consistent both in deep water, semi-sub and shallow water fleet, and second, the higher contribution in 2023 of the new drillship, Santorini, that was acquired if you remember in December last year, and Perro Negro that wasn't working in the first half 2022, while it worked fully in the first half of this year.

For 2023 and the remaining 6 months, we expect a substantial improvement in both revenues and EBITDA margins versus 2022, thanks to the strong market conditions and supporting big rates, higher utilization of the fleet, with a lower impact from cyclical maintenance on some of our vessels, and the increase in the fleet size, thanks to the recent DVD [ph] and jack-up additions that will enter into operations later this year.

Moving to energy carriers, this is a business line that deserves a few comments. If you look at the numbers, while revenues grew by 26% year-on-year, and this is a signal of an important increase in the pace at which projects are being executed, and therefore, a signal of healthy operations across our portfolio.

Margins struggle to show a similar performance. Now, these numbers do not come as a surprise for at least 3 reasons. The weight of zero margin projects coming from the backlog-review is still material on overall revenues, and this obviously, is putting pressure on margins. Margins recovery takes more time in onshore as project duration is longer than in offshore business. So, it takes more time to see the benefits of the new cycle.

And third, there are some key projects that either remained on hold this year or in other cases, projects that positively contributed to the first half of 2022 have been terminated, and the main example is, the Russian projects.

Now, on the other hand, we see the glass half full or 3 quarters full, as we are making a substantial progress on backlog-review projects, and this is a precondition to return to healthy margins on the business line. So, for the full year 2023, we foresee a growth of revenues with a positive EBITDA margin, although in the low single-digit area.

Now, I'm moving to the P&L numbers. As already mentioned, we didn't have any special items in the first 6 months, compared to roughly €20 million of special items in 2022…sorry, 2023 versus 2022. We are very pleased to report a positive net result of €40 million generated in Q2. As I said, it's the first positive quarter net income level, since late 2019 and the best quarter net income level since late 2017.

We already went through the EBITDA numbers, so I will spend a few words on what happened below the EBITDA. Net financial expenses were €87 million; this is higher than the first half of 2022, although decreasing from Q1 to Q2. We had €52 million of financial expenses in Q1 and down to €35 million in Q2. We had a decrease in interest and fees because of the higher cost in 2022 related to the financing package and the capital increase, which had been more than offset, however, by the higher expenses on FX hedging.

The positive results…the equity investments gave a positive result this year compared to a negative result 12 months back. And this is consistent with the general trend of recovering margins on our portfolio.

Now, moving to the net debt evolutions, this is a chart with a lot of numbers. I think that all these numbers tell 2 stories. The first one is that net debt remained unchanged in the first 6 months of this year, and the same happened, comparing Q1 to Q2. More important than the overall evolution is that we had a positive net cash flow from operations, you see it in the first 3 blocks of the chart, by €142 million, driven by strong operational results and the reduction in the working capital.

Now in the chart, for the benefit of clarity, we split the 3 components of the operating cash flow. The first one you see it in the first green block in the chart is the net result that was positive for €258 million. Then, you have a positive contribution of €107 million, which is the reduction in working capital from ordinary projects, with ordinary projects, I refer to the non-backlog-review portfolio. And the cash outflow of the backlog-review project that was €223 million in the first 6 months. And this is the progress…it's reflecting the progress that we're making in the execution of the legacy projects.

So, overall, the operating cash flow, excluding the backlog-review, was at €365 million in the first half, which in our view is a very encouraging result. In any case, even including the backlog review effects, the operating cash flow was more than sufficient to sustain the CAPEX made in the first half of the of this year.

So, the last slide before I hand over to Alessandro, and I'm referring to Page 13, this is the debt structure of the group. Since the last results presentation in April, we had some positive news. This is 2 new facilities that we signed in February and entered into effect in June for a total of €860 million that brought the total liquidity at the end of June to €3.4 billion. The 2 credit facilities were €390 million term loan, and the €470 million revolving credit facility, which is currently undrawn.

If we give a look at the chart on the left side, the available cash grew from €1.45 billion at the end of March to €1.8 billion end of June, while the cash in joint ventures was substantially stable at €1.12 billion from €1.16 billion in March.

On the right side, you see the debt maturities. I guess that the key message here is that our liquidity position is healthy and more than adequate to cover the debt maturities for at least the next 2 years, and that the €500 million bond maturing in September will be repaid using the available cash, which will lead to a further improvement in the average debt tenure of our capital structure.

I will now hand over to Alessandro for a few comments on the commercial and operational performance.

ALESSANDRO PULITI: Thank you, Paolo. So, now moving on the operational update, the order intake of 2023 year-to-date reached €7 billion, the bulk of which has been generated by the offshore market. In asset based services, we received quality new orders from national and international oil companies, across all our core geographic area and business segments. In drilling, we have recently acquired a 10-year contract extension for the Jack-Up Perro Negro 7 in Middle East, confirming the strong and long-term demand in this area. We have almost acquired 6 months contracts plus options for Scarabeo 9 in the Mediterranean, and a 2-year contract for the seventh-generation drillship, Santorini.

On energy carriers, which includes sustainable infrastructure, we have recently been awarded 2 additional railway projects in Italy.

Consistently with the strategic plan, the low zero carbon project in-take stood at 10% of the total of the first half of the year. And it has increased further considering the above-mentioned railway projects in Italy.

Regarding the prospects of the low carbon business, let me also flag out the letter of intent we received for a large carbon CO2 capture plant to be installed in an existing bio-cogeneration facility near Stockholm. The plant will be able to capture 800,000 tons of carbon dioxide every year and will be one of Europe's first large-scale facilities characterized by negative emissions. The letter allows us to proceed with early engagement in engineering and related activities while the finalizing of the main terms of the EPC contract we expect to be reached in Q3 2023.

Looking at the backlog, as you can see from Slide 16, it reached a record level of €25 billion, a 10% growth year-on-year. The increase is further confirmation of Saipem competitiveness as well as of the positive market cycle. It is very clear our shift over the last 12 months toward the high margin offshore segments fully in line with our strategy and ensuring the full utilization of our fleet of construction and drilling vessels. Our backlog is well diversified across geographies and covers a substantial share of the revenues we expect for 2024 and 2025.

And now let me give you an update on the offshore wind projects currently under execution. The majority of our offshore wind project has now been completed, namely Saint-Brieuc, Fecamp, Formosa II and Seagreen.

At this stage, 3 projects remain to be completed. Dogger Bank in the U.K. is almost finished, only one topside remains to be installed during the campaign planned for the spring 2024. In Scotland, the work on the foundation for the NNG project is progressing well, with a strong acceleration in the second quarter. We will provide an in-depth view of the project progress in the next slide.

Lastly, the manufacturing of monopiles at Courseulles-sur-Mer in Normandy is at good stage in the view of the installation campaign which is expected to start in late 2023.

Let's have now a closer look to the progress we made on NNG project. We had a significant acceleration of the execution, particularly in the second quarter. We have now done 52 out of 56 foundations for the jackets, drilling foundation hole and completing them with relative pile casing, almost finishing the riskiest part of our scope of work.

In addition, 37 jackets out of 56 have been installed, and the activity for the remaining 19 is progressing well. We have achieved a 94% overall progress, and our scope of the project is expected to be completed in December this year. Lastly, our client has recently started the installation of the wind turbine generators on the tripod foundation jackets that we delivered, as you can see from the picture in the slide.

And let's now have a look on what we see in terms of commercial pipeline for the next few quarters. The volume on near-terms opportunity is now worth €53 billion, representing an 83% growth versus one year ago.

This confirms that the market remains very strong and active with many opportunities to be addressed. Within this pool of opportunities, around 67% is offshore. Coherently with our commercial refocus

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toward the higher profitability segments, we are quite confident around the robustness of the current market up-cycle.

And in this regard, I would like to draw your attention to the long-term charter contract we have recently signed for a latest generation deep-water heavy-lift and pipe-laying vessel that is named JDS 6000. The contract has a 5-year duration plus two options of one year each, and the vessel is scheduled for delivery in the second quarter of 2024. This is an important addition to our fleet of higher technology vessels and fully in line with our strategic plan, and it can be used to execute projects already acquired as well as an enabler for future opportunities.

And let's now turn to the final slide of the presentation. This slide concludes our presentation and summarizes the main messages we would like to leave with you. Order intake and financial performance continue to be positive and well in line with the strategic plan targets backed by the restarting of an important investment cycle by our customers. New awards are improving backlog portfolio quality in line with the plan.

In E&C offshore, this is already visible in the financials, as the average duration of the offshore contract is relatively short, while at least the positive financial impact is yet to materialize on the onshore business as these projects have much longer lead times. Backlog review projects are progressing according to plan and gradually exiting from our portfolio. Our volume of activity is growing, but we are maintaining a strict working capital discipline.

Finally, all of the above leads us to confirm the guidance we gave in February, both in terms of 2023 financials as well as our longer term business plan targets.

This concludes our presentation, and I will now turn to the operator to open the Q&A session.

Q&A

OPERATOR: Thank you. This is the Chorus Call conference operator. We will now begin the question and answer session. Anyone who wishes to ask a question may press "*" and "1" on their touchtone telephone, to remove yourself from the question queue, please press "*" and "2." Please pick up the receiver when asking questions. Anyone who has a question may press "*" and "1" at this time.

The first question is from Guillaume Delaby with Societe Generale. Please go ahead.

GUILLAUME DELABY: Yes. Good morning. I'm going to be a little bit greedy this morning for quick questions with quick answers. First, 2 for Paolo, regarding energy carriers, you mentioned that energy carriers could be…should show some positive EBITDA in the coming quarters of 2023. First, did I understand correctly? So, this is my first question.

PAOLO CALCAGNINI: I said that we expect a positive EBIDTA for the full year and increased revenues year-on-year, yes.

GUILLAUME DELABY: Okay. Second point, still for you, Paolo, please. You made €15 million the investment. I guess this should not be repeat at all in the coming quarter. What is the outlook for investment revenues in the coming quarters because €15 million was a big number.

PAOLO CALCAGNINI: Well, when we say investments it's mostly joint ventures. So it's projects that we do with other partners where we are not consolidating the numbers from an accounting perspective. So, it's…they are reported as results from equity investments but in fact it's projects where for example we have minority stakes. So for the remaining of the year, we expect a positive result and even though we do not expect huge numbers it's going to be still positive. But you cannot expect there to multiple that number by I don’t know 3, 4 it's going to be positive, higher than first half, but let's see, not a huge increase in the second half compared to the first one.

GUILLAUME DELABY: Thank you, Paolo. And 2 quick questions, maybe not as quick for Alessandro, regarding your Sweden BECCS contract. Tell me if I am wrong or right. I think it is going to be the largest unit in the world, correct me, and second point, I would like to know what is the main competitor for BECCS carbon capture. So, you have in mind SAB Microsoft, Chevron. Maybe, if you can give me one or two as a name and my last question very quickly, just would like to know the JSD 6000 vessel, who are you chartering it from and was it the old Petrofac vessel? Thank you.

PAOLO CALCAGNINI: Okay. So, I will give you some color on this activity we just acquired in Sweden. So, this is a bio-cogeneration project and why, because it is fuelled with biofuels and this is why it is bio. And this is the reason why capturing CO2 leads to negative emission. In terms of size of the plant, it is one of the most sizable plants in the world. It is not the biggest in the world in terms of carbon capture, but certainly it is one of the highest capacity that will be stored in terms of carbon capture.

Competitors, they are our usual competitors. Sometimes we compete directly with provider of the technology. Sometimes we do apply our own technology that we are…that we cannot sell in the market. So, I will say that our…in this case, the competitors are the one that we used to compete in our onshore activities.

So, the last question is regarding the new lifting and installation vessel JSD 6000. This is leased by ZPMC and in this vehicle, the yes, it is true that Petrofac has a minority stake in the vehicle that we leased this from to ourselves.

GUILLAUME DELABY: Okay. Thank you very much. I turn it off. Very useful. Thank you.

OPERATOR: The next question is from Alessandro Pozzi with Mediobanca. Please go ahead.

ALESSANDRO POZZI: Hi, there. I have a few questions and the first one on the offshore operations in terms of EBITDA. You will have more offshore drilling, more vessels in the second half compared to the first half and also probably a utilization rate as well in the offshore E&C. So, I was wondering how we should think about the second half for the offshore activities compared to the first half and whether especially in offshore drilling we will see higher average daily rate on the back of new contracts that you have announced. Also remaining in the offshore drilling, I was wondering if there is any update on the…any potential strategic partnership in offshore drilling especially for the jack-ups there. And finally the usual question on Mozambique, please, whether there is an update on the projects. Thank you.

ALESSANDRO PULITI: Okay. So, the first question Paolo will answer and then I will answer on the other question.

PAOLO CALCAGNINI: So, the way, Alessandro, you should think about the offshore operations is a performance going forward closer to the second Q rather than the first Q, where second quarter has been already better in terms of revenues and then margins and this applies both to drilling and E&C offshore. And yes, there is some increased capacity especially in offshore that will positively contribute to the overall numbers for drilling. Those vessels will enter into the fleet later this year. So, you cannot expect a peak contribution for 2023, but it's going to affect the 2024 for sure.

In the E&C offshore, we are working with the fleet at record level. Idleness is very…remains very low. So, the second quarter is a good proxy at least of…in terms of level of activity of the pace at which we can deliver on offshore E&C.

In relation to the margins, as I said before, the more new contracts enter into the execution phase, the more the margins will increase since the old projects will leave the portfolio and will replace by new ones that are typically higher margin than before. Then just an additional information on the drilling fleet. We will have the Scarabeo 9 going the 5-year recertification in the second half and this is just to give you the full picture of the vessels that are working versus not.

ALESSANDRO POZZI: Thank you.

PAOLO CALCAGNINI: And Mozambique, I will leave the CEO to comment.

ALESSANDRO POZZI: [indiscernible].

PAOLO CALCAGNINI: Sorry, no we didn't catch you.

ALESSANDRO POZZI: Yes. Total Energy's conference call is right after yours.

ALESSANDRO PULITI: Okay. So, the…regarding the Mozambique, what I can tell you is that I personally visited the site last week. I was…I spent the day in Afungi in the…directly in the site. And what I could see and record without my eyes is that the relocation activity is almost completed and all the social sustainability activity that the Mozambique LNG joint venture is doing is really impressive.

The second point is that we are working with Mozambique LNG JV for…coming to the right price for the restarts this means that we have already had a very intensive round of renegotiation with our subcontractors, and there is some tendering activities again with subcontractors that is going on and we expect to have results by the end of the summer, so this new tendering activity. So, all in all, what we can say, we can say that it is work-in-progress in Mozambique and progressing in the right direction.

ALESSANDRO POZZI: Okay. So, is it a full restart potentially still at the start of next year or maybe it could be…?

ALESSANDRO PULITI: We…I cannot say a precise date, but what I can tell you is that the work that has been done as I repeat what I said before in terms of the social sustainability is impressive. And the work that we are doing in…regarding coming to an acceptable cost for restart is progressing and I'd say it's progressing in the right direction.

ALESSANDRO POZZI: Ok, understood. And just I had another question on the potential partnerships in offshore drilling for the shallow water fleet, is there any update there?

ALESSANDRO PULITI: We are keeping evaluating possible partnership, you know that especially for the shallow water drilling fleet, as I said before, this is an area where we achieved long-term subcontractor order intakes that gives us stability of revenues to this kind of business. So this business remains an ideal target for possible part monetization of the…of its value in the near term. So we are evaluating possibilities in this direction.

ALESSANDRO POZZI: All right. Thank you very much.

OPERATOR: The next question is from Massimo Bonisoli with Equita. Please go ahead.

MASSIMO BONISOLI: Good morning. Thank you for taking my question. I've only one question, regarding…and back to the question of Alessandro before. If I understood correctly, your guidance implies a flat EBITDA versus second quarter this year while drilling should be improving in the second half and as you mentioned before, energy carriers is expected to be positive in terms of EBITDA. So, I struggle to reconcile the outlook. I mean, there should be a worsening of the offshore construction, if you can provide some color on that? Thanks.

PAOLO CALCAGNINI: Well, if you are referring to drilling and they we will have Scarabeo 9 undergoing the cyclical maintenance. So, this is a few weeks of…a few weeks not charging any daily rates fines and even though the same period there are going to be other vessels entering into the fleet. And that explains why you can expect overall positive results but not the growth you may…you might have in mind if you take the Q2 and then multiply the Q2 by 4 or by 3, and I think the results were in Q1 which is I guess the number you are referring to.

MASSIMO BONISOLI: Very clear. And the second question…

ALESSANDRO PULITI: Let me add also that also the Saipem 7000 towards the end of the year will enter into yard to complete the works to re-establish the full lifting capacity of the crane that was damaged in the incident last year. So, just to complete the framework of the utilization of our vessel in the very end of the year.

MASSIMO BONISOLI: Thank you. Very clear now. And the second question on the remaining backlog review for the second half considering that the first half was quite sizable?

ALESSANDRO PULITI: If I understand your question, it's how much we expect to deliver on the backlog in the second half?

MASSIMO BONISOLI: Yes.

ALESSANDRO PULITI: We expect a similar number. But obviously, it depends on the number of conditions that are to some extent outside the Saipem control first of all weather conditions. So, when we refer to the work in the offshore wind, this is to say that some works can be either anticipated or postponed based on the general conditions that we find when we work.

So it's not a linear…it's linear activity where you progress a certain percentage every week, sometimes you go faster, sometimes you go…you're going to be slower, we expect to do a similar number and it's…that's the expectation.

MASSIMO BONISOLI: Thank you. Very clear. Thank you.

OPERATOR: The next question is from Richard Dawson with Berenberg. Please go ahead.

RICHARD DAWSON: Hi, good morning. Thank you. My first question relates to the energy carriers. I mean I appreciate the number of projects in there that are still running at those zero margins. But when can we expect those projects to no longer drive performance for that segment? So that sort of put in a different way, when do you expect those projects to complete? And then secondly, my second question relates to the backlog. So last year, significant backlog review was undertaken, but as anything similar been undertaken since and or are you confident that project execution and margins within that backlog remain in line with your expectations? I know that's clearly positive, the offshore wind projects are completing according to plan, but what about the other projects? Thank you.

ALESSANDRO PULITI: Okay. So the cycle for completing projects on the onshore as you know is far longer than the offshore projects. So while we will clear our backlog of offshore wind projects that were part of the backlog review almost by year end because then there remain only one project to be executed at that point. When we focus on energy carriers, then we have to consider that our typical cycle of the project in this area is for 4 to 5 years. So, just one year enough as elapsed since we had the backlog reviewed in January 2022. So we will have at least another year and a half ahead of us [indiscernible] all the backlog of the energy carrier. So the projects that were part of the backlog review, this is something that we have to…that we have to recognize.

Then the second question was on the backlog….

PAOLO CALCAGNINI: Yeah, so if you understand, the second question is whether we see risks of new backlog review, is it correct? The part of the audio was not perfect.

RICHARD DAWSON: Yeah. Yeah, they are not correct. It's just to see if project that keeps the margins within the current backlogs that remain in line with your expectations.

PAOLO CALCAGNINI: Now, actually, the fact that we are making so much revenues, especially in energy carriers but also in winds with margins that are very low, close to zero for energy carriers but they are still in the positive area, in our view it's a signal that while we deliver on those projects, there are no bad surprises when it comes to the overall cost. So we see…when I said that we see the glass half full or three-quarters full is I meant precisely that probably seeing on the portfolio, especially on the backlog review is the best way to derisk the overall portfolio, especially the backlog reviewed projects and the more we progress and the more we make revenues, the stronger the signal that what we provisioned one year ago is sufficient to cover the full life…full life cost of those projects.

RICHARD DAWSON: Okay. Thank you very much.

OPERATOR: The next question is from Peter Testa with One Investment. Please go ahead.

PETER TESTA: Thank you. I will go one at a time. Maybe, just a follow on the topic you just discussed. So I was wondering if you could give us any sense on the cash flow side, the extent to which you think the cash flow outflow on the zero margin project should be in H2 and how much of the cash flow outlook is still left for 2024, please?

PAOLO CALCAGNINI: So we made a €220 million of cash outflows in Q1. The projection for the full year was just slightly above 400. So the remaining for the second half is roughly €200 million. That's the number you can have in mind. And for 2024, we expect still a €100 million of cash outflows from the backlog review, so it's 200 this year, 100 the next year.

PETER TESTA: Okay. And then for the backlog or the value of the backlog that remains in this category for offshore E&C and onshore E&C, can you sense as to where you would expect the backlog to remain at the end of the year.

PAOLO CALCAGNINI: Good question. I guess I will need to give you the numbers after the call. We do not have the precise figures in front of me. So I apologize for not giving you the straight answer but we will get in touch soon after the call and then show the numbers.

PETER TESTA: Thank you. That would be appreciated. And then the other question I had was looking at the activity in the offshore E&C and looking at the listing, essentially your largest vessels are winning contracts and business, which seems to be really the sweet spot and I was trying to understand if you looked at the quality of backlog for these vessels, the extent to which '23 might be still not optimal but what if that mix is substantially changing in 2024 and 2025. I am thinking things like the FDS2, Saipem 7000 and Castorone. These are your co-assets and I was just wondering whether you could give some qualitative discussion on how the contracts you are active versus what you are winning is changing the nature of utilization for these assets.

ALESSANDRO PULITI: Okay. Clearly, as we said before, the backlog is covering already almost more than I would say 75% of the capacity of our fleet in 2024. That is already booked and we are almost 50% in 2025. And what I can share with you is that in the next week you will see that further projects will join our portfolio. So what will happen in 2024 is that we will have almost complete utilization of the fleet both in terms of installation and pipelay vessel and I would say 100% of the fleet in terms of drilling.

And really, the addition of the JDS 6000 really is the physical proof of the fact that we couldn't complete all the jobs for our client with existing fleet but we took JDS 6000 to serve all the demand from our clients.  So this is the situation where we are in.  Clearly, there is tension, so basically, when JDS will exit from the yard, it will go straight, for example, to serve LAPA project in Brazil.  So that's really the situation.  Clearly, also we expect an increase on marginality of this project as an effect of the increase of the balance between offer and demand in the market.

PETER TESTA: This is my last question.  If you could give some sort of sense having learned the lessons of the past years and being in a different market, any sort of sense if you can give in terms of how you've managed to evolve contract terms to manage risk?

ALESSANDRO PULITI: Okay.  I believe that you are referring to the wind…especially to the wind projects.  Certainly, the lesson was very much learnt, not only by Saipem but I would say by the entire supply chain of the wind projects.  So the coming new projects that will have certainly a better balance out between risk and reward, between the developers and the supply chain, simply because what happened to Saipem but what happened also to many other important suppliers in the supply chain is that what it has been awarded in 2019, 2020 and partially also 2029 was not sustainable by the supply chain.  So definitely, there is great balancing.

Regarding the other contracts, we are doing…we are applying a different strategy that protects better Saipem by the complexity of the world in which we are in.  So we have much more reimbursable items in the new contracts we are taking.  We introduced installation price closest, especially for our commodities.  This is to protect us in situation like we experienced just after the Ukrainian war the cost increase in the escalation. And then we have a general policy that we would like to go to enter EPC activities basically only if we have been doing frontend engineering exercise ourselves. But, this is what is giving EPC contract or the right protection against any surprise and engineering default is done by others, if not ourselves.

PETER TESTA: And would you say that those comments you made on reimburse [ph] for the escalation et cetera also include apply to the energy carriers contracts?

ALESSANDRO PULITI: All right, definitely, definitely that will apply to many contracts for energy carriers. This is the general policy even more for energy careers, because duration as I said before, typical duration our contract in energy carriers is longer than in the offshore business. So, this clauses are even more needed in the energy carriers business.

PETER TESTA: Thank you. Thank you very much for the color. Thank you.

PAOLO CALCAGNINI: Just to…just to add an information you asked for, in terms of weight of backlog reviewed projects on over the total of the backlog, the number is roughly 3 billion, so we still have 3 billion backlog reviewed projects out of the 25.4, which is a total backlog reviewed.

PETER TESTA: And that's primarily in energy carriers and execution in '24, and '25?

PAOLO CALCAGNINI: Yes, it's mostly in energy carriers. And there more in asset-based, mostly wind.

PETER TESTA: Yes, very good. Thank you very much.

OPERATOR: The next question is from Kevin Roger with Kepler Cheuvreux. Please go ahead.

KEVIN ROGER: Yes, good morning. Thanks for taking the question. It's coming back on the energy carriers, please, if I remember in Q1, you were saying that 40% of the top line was made by the non-performing backlog, so I was wondering if you can give us the color for the Q2. And then, if you can help me to understand the performance, because I understand that you are still impacted by the non-performing backlog. So, I would like to understand first of all, is the non-performing backlog with the zero percent EBITDA margin for less than that.

And then if it's at zero, can you help me understand why the 60 plus percent backlog related to new orders is not generating more than 0.5% or 1% EBITDA margin, because you are still close to breakeven. So, it's trying to understand the dynamics for underweight of the non-performing is it zero percent or less than that. And the margin of the new backlog.

And just a technical question to understand the backlog provided that you are next year in energy carriers, this is lower at the end of the Q2 than at the end of Q1. So, is it related to Mozambique or what has been the dynamics also on the lower backlog right for next year, please?

PAOLO CALCAGNINI: So, the first question on the relative weight of zero margin projects on the…on the energy carriers was 40% in Q1, that the figure is not different in Q2, that's just slightly lower. And then, yes, you are correct, the remaining of the portfolio is still a low margin portfolio, it's that if you run the numbers that remaining portfolio has a single digit low…low single digit, low single digit overall EBITDA margin. And then…

KEVIN ROGER: So, justifying it means that the non-performing is zero and the performing is not something like that?

PAOLO CALCAGNINI: Yes, roughly.

KEVIN ROGER: Okay, understood. And maybe for the backlog coverage next year, please?

PAOLO CALCAGNINI: And the…yes, that the coverage for 2024 for energy carriers is a bit lower than it was in Q1 and the reason being that we have been as, we said quite a few times very selective in the new positions and we feel that I mean acquiring…well, we are following a very simple even trivial rule which is value over volumes and we wait to acquire projects whereby we can, we can increase that very limited margin that we are doing today and obviously by being more selective, the volume of acquisitions is lower than in the past few years. But, it's consistent with the strategy we are following in energy carriers.

KEVIN ROGER: Okay, understood. Thanks a lot.

OPERATOR: The next question is from Daniel Thomson with BNP Paribas Exane. Please go ahead.

DANIEL THOMSON: Hi, good morning. Just one quick question on offshore drilling and related to that's escalation mechanisms we were talking about earlier. I mean, could you provide some color on frequency of rates reviews within the longer term contracts in offshore drilling, I mean how frequent are these usually and does…do the rates get fully rebased to current market conditions or there is some sort of lag or index there. Just trying to gauge, how exposed the [indiscernible] portfolio is to increasing day rate environment in offshore drilling? Thank you.

ALESSANDRO PULITI: Okay. So, offshore drilling you see nowadays is, it is characterized by heavy demand and it demand many clients, who wanted to like to cover by assigning long-term contracts, so to secure the drilling activities for the long-terms. This clearly give us a good advantage because its gives the security of revenues and the income from the activity, but as you said its exposed to some risk in case there for whatever reason the rates that we are fixing today that it can become more than the market in the future.

Normally, in this contracts, we are running with the fixed rates the first year, for the contracts and then we keep an option to reopen the negotiation according to the trailing market condition. So, this is the way we ensure those long-term contracts are following the market, the current market trends. And before we said that we got 10 year on the shallow water drilling, but I would like to mention also the fact that we are correctly under the negotiation with the client that we cannot disclose long-term contracts also for the deep water activities. This means that really, there is…and when I say long-term contracts, we are speaking about 5 years plus contracts in deep water activity, but this means really that nowadays the operators are looking basically for securing really capacity in the future years also for deep water.

DANIEL THOMSON: Okay. That's helpful. Thank you.

OPERATOR: Mr. Puliti, there are no more questions registered at this time. I turn the conference back to you for the closing remarks.

ALESSANDRO PULITI: Okay. So, we can…we can close here the conference call. Thank you for the participants and then we'll remain in touch. In case there are further question, our investor relation function will be happy to answer. Thank you all.

Saipem Classification - General Use