Saipem S.p.A.

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OPERATOR: Good morning. Welcome, and thank you for joining the Saipem First Quarter 2022 Results Presentation. The information furnished on this conference call does not constitute an offer of securities for sale, or a solicitation of an offer to purchase any securities in the United States of America, or in any other jurisdiction in which such offer or solicitation is not authorized, or to any person to whom it is unlawful to make such offer or solicitation.

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I would now like to hand over to Saipem's CEO, Mr. Francesco Caio. Please go ahead, sir.

FRANCESCO CAIO: Good morning, and welcome to Saipem first quarter 2022 presentation. I'm here with our COO, Alessandro Puliti, and our CFO Antonio Paccioretti, we also have other colleagues in the room for the Q&A session.

In a very short summary, we had a positive start of the year in Q1, EBITDA as you might have seen from press release was €145 million, which is in line with our target for the year, and also confirms the cruising speed of Q4 last year, which you may recall, excluding the impact of the backlog review we had an EBITDA of €120 million.

Net debt was at €1.25 billion, lower than the €1.5 billion of end of the year 2021. That's a result of both good control in the quarter from operations, but also benefiting from first steps in the financing package from our key shareholders. And Alessandro Puliti will take you through the details of where we got to in terms of the financing package.

Order intake was €2.4 billion, and that gives us a book-to-bill of about 1.2%. I think the important point I'd like to emphasize is that confirms the good momentum we see in the market for oil and gas, particularly in offshore E&C and drilling, as you will have the opportunity to see later in the call. And that finally, the backlog given that order intake amounts to almost €24 billion, and that including the nonconsolidated projects. So a picture overall, that give us great confidence in the foundation of our Strategic Plan that is now well under way in terms of execution.

And with that introduction, I'd like to hand over to Alessandro for an update, as I was saying, both on the financing package and more importantly, on the business. Thank you.

ALESSANDRO PULITI: Thank you, Francesco. And let's go through immediately the progress we made on the financing package after the 25th of March. As you may recall, and this is an important element, the 2 main shareholders, Eni and CDP Industria committed irrevocable to subscribe the rights issue pro-rata to their respective states. That means 43% of the future capital rise will be covered by them. The paid €646 million as contribution for future share capital increase at the end of March 2022. Eni, €458 million and CDP Industria, €188 million.

Eni portion of the contribution for future capital increase is already authorized to be accounted for as equity, while CDP's contribution is accounted for as debt. On 31st March, we signed with a pool of 8 Italian and international banks a liquidity facilities of €855 million, which is guaranteed by Eni. On 4th April, we drew down the first tranche of the facilities for an amount of around €680 million.

Regarding debt maturities on April 5th, we repaid a bond of €500 million. At the end of March, the Board of Directors of SACE**,** the Italian Export Credit Agency approved the issuance of a guarantee on the SACE facility in the framework of Garanzia Italia, that will replace the liquidity facilities guaranteed by Eni. The SACE guarantee will be issued after the relevant ministerial approvals.

Another good news is Standard & Poor, global credit rating for Saipem was improved from BB minus to BB, with positive outlook removing the company from the negative credit watch. As you can see, the process of the financing package is well underway.

The next step will be the Shareholders' Extraordinary Meeting to be held on May 17, which will be called to resolve, among others, on their share capital reduction to cover the loss of 2021, pursuant to Article 2446 of the Italian Civil code, and to empower the Board of Directors to execute the €2 billion right… rights issue announced on March 25.

Let's move to the contract acquisition of the quarter. As Francesco anticipated, the year had a good start with a positive commercial momentum in the offshore, both drilling and engineering and construction. In drilling offshore, we announced well over $700 million in 2 different press release. The most recent for Saipem 12000 to work with Eni and for 2 jack-ups to be employed for a duration of 5 years in Saudi Arabia.

In addition, as you may recall, we announced mid-March, a new contract for Scarabeo 8 to work for Aker BP in Norway. Operations are expected to start from end of Q4 this year, upon termination of the works in which Scarabeo 8 is currently engaged. Contract duration is 3 years for $325 million, plus 2 options of 1 year extension each, with a performance bonus scheme and the mechanism or rate adjustment to market rates from the third year onward.

In engineering and construction offshore, we received earlier this year, the notice to proceed for the Scarborough export trunk line in Australia, thanks to our recognized track record in very long trunk lines, leveraging the advantage pipelayer Castorone.

In Guyana, we are continuing our free full relationship with Exxon, that has assigned a further SURF development in the country after Liza 2 and Payara. These 2 projects together are worth over $1 billion.

Looking at the backlog, the stock of IFRS backlog at year-end of last year amounted to €22.7 billion. We had a new acquisition in the quarter for €2.4 billion, with a book-to-bill around 1.2 times, resulting in a backlog end of March of €22.2 billion. The March backlog, including nonconsolidated projects of €1.8 billion amounts to €23.9 billion.

In the quarter, there has been a reduction in the engineering and construction onshore backlog that was not offset by the acquisition of new projects. The reduction was triggered by the termination of some contracts subject to condition precedent clauses, which did not materialize. This is consistent with our policy of higher commercial selectivity in the onshore engineering and construction business. And just to be clear, the Strategic Plan presented on 25th March, 2022 did not include any contribution from these projects in the economic and financial targets.

Regarding Russia, we confirm we are in line with what was communicated on March 25th. We are actually negotiating as we speak with clients and partners the best available options for our project in the countries, in full compliance with applicable regulation and sanction preserving the interest of the projects for all the parties.

Before handing over to Antonio for the numbers, I would like to touch based on the material and logistic cost escalation in relation to the current geopolitical situation.

I was quite explicit on March 25th on how we deal with this Saipem, but I want to take the chance to provide you some extra color on how it works here when it comes to dealing with such issues. In relation to certain projects, it is worth to mention that we are experiencing positive attitude from several clients in terms of risk allocation. In particular these clients being aware of the current market conditions where it is challenging to predict both unit rates and also availability of raw material and certain special equipment are more open to share a portion to the risk with the contractor.

And the best way to do it, it is this by operating with transparent open book mechanisms during the initial phase of the projects. And of course also entering fit contracts in order to study the best solution again in a full transparent way with clients, give us the possibility to study with them and decide if and when it is the right time to set the new pricing for lump sum turnkey contracts or to move on with hybrid models. The ultimate goal is to accelerate the time to first hydrocarbon production for the clients and we are here indeed to support our clients in achieving this goal.

Let me close with few elements on the event that has occurred 7 days ago on Saipem 7000, and it was promptly reported to the market. Saipem 7000 include into an accident during the periodical lift test, which is usually performed in Norway. After completing dynamic positioning testing, Saipem 7000 was conducting the 5-year crane leaf test of crane #1. With attendance of the classification society arena, nobody was injured during the incident.

Further to a preliminary assessment, the main block wire of crane #1 broke during the test for reason yet to be determined and the testing load, the 2 cargo barges with the main block of sub-crane were released into the water. The unit after an initial tilting caused by the load release, promptly return to a stable position and safe conditions. The assessment carried out so far have not shown any significant structural damage over those to crane #1.

In particular, the integrity of the ship-hull is confirmed. Crane #2, which was not involved in the test operations, can be put into service at the end of the precautionary checks that are now in progress. Based on the information available, it is reasonable to expect the second 7000 vessel will be able to return to operations starting from June, even if with a partial use of the lifting capacity.

And now, I hand over to Antonio for the review of the first quarter financials.

ANTONIO PACCIORETTI: Thank you, Alessandro and good morning everyone. Starting with group results. Revenues increased by 20% year-on-year driven by E&C Offshore and the 2 drilling businesses whose revenue both increased year-on-year. Q1 revenue were also higher than Q4 last year, which is a tangible sign of the recovery of activity. For the remainder of the year, we expect to see an acceleration, since we project around €6.6 billion of backlog to be executed from April to December.

EBITDA adjusted in the quarter was €145 million, a level in line with our expectation of over €500 million for the whole 2022. I must say that this level broadly confirmed the excess speed we had in Q4, 2021, where we adjusted…where the adjusted EBITDA before backlog review was around €120 million. Key drivers were the same as revenue. I will enter into more details on the next couple of slides. Adjusted EBITDA margin was around 7.5% despite the backlog review we made in Q4 left part of our backlog with a substantially neutral margin profile.

Adjusted EBIT was positive for €14 million, notwithstanding the increase of D&A for around €9 million. Bottom line online our adjusted net result was negative by €85 million, this is the result of the positive adjusted EBIT being more than offset by results from the equity participation, financial charges and taxes. I will share more detail later. Since January 2022, the company has had a new organization based on 4 business line, asset based services, energy carriers, robotics and industrialized solution and sustainable infrastructure going beyond the divisional structure.

In order to facilitate the financial markets understanding on the evolution of the economical financial performance during 2022 also in the context of the capital increase, the company maintains in continuity with previous years the reporting structures based on offshore E&C construction, E&C…onshore E&C, offshore and onshore drilling.

Moving on results by business, starting with E&C Offshore. E&C Offshore accounted for revenues of €832 million in the first quarter with an increase of €275 million year-on-year. Such an increase was mainly driven by activities in the Middle East where offshore campaign have started with a significant deployment of our fleet.

Adjusted EBITDA was positive for €65 million with an increase of €57 million versus the first quarter of 2021, mainly driven by volume increase and vessel idleness reduction, leading to an adjusted EBITDA margin of 7.8%, a remarkable result also considering the dilution coming from certain offshore wind projects, which after the backlog review progressed substantially neutral in terms of margin in Q1.

The key driver of this EBITDA was the contribution from oil and gas projects, which progressed well. For the full year 2022, we expect oil and gas activities to support adjusted EBITDA margin. Offshore wind activities are expected to be neutral in terms of margin with a full-year 2022 revenue expected at around €400 million.

Moving on E&C Onshore, revenues in Q1 were €863 million and below Q1 of last year. Looking at the key region, Asia Pacific, Americans and Europe posted a growth while sudden decrease year-on-year led to a decrease for the whole business segment.

Adjusted EBITDA was likely positive by €10 million versus €43 million in 2021, due to the lower contribution from suspended Mozambique project, which in Q1, 2021 was up and running with revenues close to €400 million and lower profitability from Middle East as a consequence of the revised margin after the backlog review.

For the whole year, given the impact of the backlog review on the E&C Onshore, certain projects are expected not to generate margins going forward. For this reason, we confirm our prudent expectation of E&C Onshore EBITDA margins around breakeven.

Let's look at the drilling positive performance in this slide. Drilling offshore revenue increased by over 65% year-on-year ending at €129 million in Q1. Volumes increased year-on-year from Saipem 10000 engaged in Egypt, higher Scarabeo 9 utilization in Angola, and the start of the new drilling ship center in Gulf of Mexico both for Eni.

The adjusted EBITDA almost doubled. That's with the same period of last year from €22 million to €40 million. Such a step increase was driven by the revenue growth due to the improved utilization and the operating leverage typical of this business. Adjusted EBITDA margin remained strong with margin at around 31%. The strong adjusted EBITDA of Q1 however should not be projected throughout the year due to the plan cyclical maintenance for a couple of vessels later in 2022.

Drilling Onshore on the right hand of the slide, posted an increase of revenues of over 50% year-on-year, mostly due to the increased utilization in the Middle East and partially in Latin America. For the first quarter, the average rigs utilization rate has been 59%, a good improvement versus 45% in Q1, 2021.

Adjusted EBITDA doubled year-on-year in Q1, boosted by revenue increase. The positive trend and further activities improvement in Middle East are expected to continue in 2022, with a restart of certain rig contracts. Drilling Offshore and Onshore together are expected to improve their total revenues, EBITDA versus 2021, driven by the visible recovery of the markets and the resilience of EBITDA margins.

Let’s now take a look at the lines below EBITDA in this slide. D&A slightly increased year-on-year by €9 million, also due to the suspension experienced in the first quarter 2021 for certain vessels in both drilling and E&C offshore due to cyclical maintenance. Financial expenses were €23 million in Q1, 2022 or €8 million lower than in Q1 last year, mainly due to the positive impact of Forex exchange differences and hedging costs.

All-in-all, the average cash cost of our debt in the first quarter of 2022 was around 3%. For the remaining quarters of 2022, it will be affected by the costs related to the financial package. The average cost of our debt after the financing package for this year is expected to be around 4%. As you know, this line also includes project hedging costs and some impacts from IFRS 16. More details are included in the appendix.

Results from the equity investments were negative by €43 million due to, firstly, the contractual variation for a project in the Far East that determined the recognition of certain activities directly provided by the partners of the relevant JVs. This one-off item has been included in the adjusted EBITDA of the E&C Onshore.

Secondly, the negative figure is also due to the exchange differences for the project in Russia, which impacted the net equity of the joint ventures. On the right side of the slide, you can see the reported P&L where the only differences related to €30 million of special items due to direct COVID-19 costs.

Let's look at the evolution of our cash flow and net debt in the first quarter. The cash flow evolution before IFRS 16 is highlighted in the light blue shaded area. Net cash flow from operation before working capital and CAPEX was positive by around €40 million due to the positive results of our post operation in the quarter.

Delta working capital was negative for around €170 million, of which around €100 million is mostly absorption from the backlog review costs recognized in the last quarter 2021 and ready cash out in 2022, which is part of the €0.5 billion of absorption we expect in the full year 2022.

The remainder cash absorption of around €70 million is the combination of net cash advanced payments from clients and to suppliers, lower payables for investment activities, along with cash impact from other taxes, partially offset by lower receivables.

CAPEX in the quarter amounted to €45 million, a limited number due to the phasing of maintenance and class renewals expected for the remainder of the year. All these elements led to a net financial position of around €1.4 billion at the end of March, prior to the contribution from Eni for future share capital increase, which has been booked as equity. This confirms the ability and the discipline of the company in managing the cash flow dynamic and maintaining the level of our net debt under control.

Considering the above Eni contribution of €458 million and the IFRS 16 impact for €295 million, net financial position at the end of March was around €1.2 billion. Looking at the maturity profile and the liquidity, we described the situation at the end of March 2022. The chart at the top with bonds and banking facilities shows the maturity profile excluding CDP contribution of €188 million for the future capital increase, which at the end of March 2022, has been booked as debt. When the capital increase is concluded, the amount received by CDP will be converted into equity. At the end of March 2022, we had around €3.7 billion of gross debt, considering around €3.3 billion of bonds and bank facilities, €188 million received from CDPs at around €170 million for accruals.

Let's look at the liquidity bottom of the slide. Total liquidity amount...amounted to €2.75 billion at the end of Q1, of which €1.4 billion was fully available and €1.35 billion was restricted and mainly related to projects and joint ventures. It is worth mentioning that after the end of the quarter, on 05th of April, we repaid €500 million of bonds, as well as, €100 million of short-term banking facilities. Furthermore, after the signing at the end of March of the loan agreement for the liquidity facility on April...on the 04th of April, we drew down the entire Tranche A for the amount of €680 million.

This is all for the financials. I will hand over to Francesco to close the presentation.

FRANCESCO CAIO: Thank you, Antonio. Thank you, Alessandro, for your presentation. As I was saying before, just in summary, a positive start of the year. And I think a further progress in the transformation strategic journey that we've announced in October last year. I think results are also confirming a good momentum in the investment in oil and gas in the market with positive impact on both commercial and financials, particularly for our offshore activities, which, as you know, come with interesting margins.

A quick reminder before I open the Q&A session. We have an EGM on May 16th, that would be an important step towards the capital increase as part of the financing package that we've announced on March 25. That's a further sign of progress on that front.

I'd like to thank you for your attention, and I'm now opening the Q&A session. Just a reminder I am here with the heads of the main business units and the Commercial Director with also Paolo Calcagnini helping us on important elements of the finance impacts who is here available to your questions. Thank you very much.

Q&A

OPERATOR: Thank you. This is the 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. We will pause for a moment as callers join the queue.

The first question is from Alessandro Pozzi with Mediobanca. Please go ahead.

ALESSANDRO POZZI: Hi, good morning all. A couple of questions from me. Certainly today, probably the positive surprise was the EBITDA, probably a reflection of a clean quarter and the earnings potential of the group. If...of course, there's a lot of volatility between quarters-and-quarters, but if we annualize it we are above the guidance. And I was wondering is this...are we going to see a progress in terms of EBITDA for the next few quarters or this is the EBITDA that the company can deliver for the next quarters up until the year-end?

And also, the second question is going back to the opening remarks about the attitude change, I believe, from the clients. I think there is more emphasis on our open book commercial strategy and hybrid models. I was wondering whether you've seen a big change in the last few months and whether that could be the way forward to unlock new contracts.

ANTONIO PACCIORETTI: As far as the first question, we confirm the results we updated in the first quarter is a good reference for this year, and it's a confirmation of our guidance made on the 25th. Anyway, it is important to underline the fact that the €145 million of EBITDA also benefited in addition to the positive, let's say, operation, but also benefited of the contribution of around €35 million due to the technical accounting techniques, let me say, which moved such an amount from the income from associates, so below EBITDA to the EBITDA itself. So €35 million is the effect that I tried to describe. Alessandro.

ALESSANDRO PULITI: Okay. So regarding the commercial strategy that has to comply with the current market situation of commodities and services, as was explained during the presentation, yes, we are moving toward a more open book approach with the client, especially in the first phase of the project where together with the FEED study with the Front End Engineering Studies and the main procurement activity for the most important item of the projects. We progress on an open book basis with the client, because at the end of this period, then it is possible at that point in the current market condition to turn the activity into a lump sum turnkey without having excessive risk for the contractors in terms of turkey lump-sum contract. And also, the client is winning a contractor that is not protecting itself in the turnkey lump-sum with excessive contingency to cover for surprises in procurement. So this is a sort of win-win strategy that we are applying with the clients in the last negotiation we are carrying out. I cannot provide you examples because they are covered by confidentiality, but this is the line where…in which we are moving along.

FRANCESCO CAIO: I'd like to add that what the team is doing is now applying that notion of being more selective going from just volume to value, which entails an engagement with clients talking around the lines Alessandro was explaining right now in contrasting and comparing opportunities and costs in a way that at least allocates the proper risk to the various players in the value chain.

ALESSANDRO POZZI: All right. Thank you. Just a final one on technicality. You…I think you booked a part of the contribution from any as equity, but the number of shares outstanding have remained the same. Is that right?

ANTONIO PACCIORETTI: Exactly. We…I am just talking about an accounting technique, I mean, since Eni authorized upon the closing of the liquidity lines, the transformation or the consideration of this payment as equity, it has been booked at the end of March as equity. What has been paid by CDP will be considered equity once the capital increase will be executed.

ALESSANDRO POZZI: And that is not changing the number of shares outstanding.

ANTONIO PACCIORETTI: Absolutely not.

ALESSANDRO POZZI: Okay. That's fine. Thank you.

OPERATOR: The next question is from Mick Pickup with Barclays. Please go ahead.

MICK PICKUP: Good morning. A couple of questions, if I may. Sorry, a clarification here. You talked about something moving from the equity results up into EBITDA. Obviously, that equity result of minus €43 million is a big number and moving up. And within that equity result, there's a loss in there for Far East project. Can you just disaggregate what the lost value is within that? Because clearly, that's part of the operational performance of the company?

ANTONIO PACCIORETTI: It is not a loss. We are talking about a margin in relation to a project in the Far East, which has been decided together with the clients and the partner, it is a nonconsolidated project, which has been decided for certain services to be passed directly to the partners. And therefore, it is a margin that it is now to be recognized as above the EBITDA, so it is not a loss.

MICK PICKUP: Okay. And then a follow-up. On the Saipem 7000, clearly, you're indicating you can go back to work with one crane that crane is gone…the other credit I assume is going to have to be repaired sometime during the year. Do you have a schedule for the 7000 later in the year to repair it or will that impact any further projects?

ALESSANDRO PULITI: Okay. So, situation of Saipem 7000, there is a further positive update just coming this morning. And actually, we got permission to lower Crane #1 on its own pedestal. This will further accelerate the inspection activity and also will allow the Saipem 7000 to quickly access a proper yard to carry out the final inspection and reparation. So this was something that yesterday evening when we prepared the press release was not yet official. So, this is something that came this morning. So, what we will do with Saipem 7000 is that we will have an initial, let's say, repair period on yard during the month of May. At the end of which the crane, the vessel will have the crane #2, the one that was not involved in the incident, recertified because it was undergoing the same process of crane #1. So the vessel will become operational with Crane #2. And with Crane #2, now we are working with our clients since we believe that most of the jobs that can be done there wasn't…they were in the schedule can be done with just 1 crane.

We are working with our clients on the project schedule and the options to carry out the jobs with the current configuration of the Saipem 7000. Then later in the year, when we will have collected all the, let's say, spare parts, and we will be ready to carry out the final, let's say, the final repair on Crane #1, we will undergo to another yard period and put Crane #1 back in full operation. This will be done, let's say, also with timing that will fit the schedule of our clients trying to minimize any problems to the…to the jobs that are now on the schedule of Saipem 7000. So, this is the path we see ahead of us on the Saipem 7000.

MICK PICKUP: Okay. Thank you, very clear.

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

MASSIMO BONISOLI: Good morning. Sorry for the background noise. The first one, E&C Offshore margin, if you can give us an indication of the margin of the oil and gas project you have mentioned as responsible for the improvement in EBITDA of the division. And the second on Russia, if you can give us some color on the positive evolution in the country. And if you believe those projects may continue to be executed and delivered on time under current conditions? Thank you.

ANTONIO PACCIORETTI: In a nutshell, I would say that the 7.5…the return, the return in terms of margin, EBITDA margins, as you have seen, is an important result even if you…in particular, if we consider that we do have a couple of projects in the wind…in offshore with a margin neutral. If we consider…if we consider the return of oil and gas without such a dilution, I would say that we have to increase the margin, the EBITDA margin by around 100 basis points, so 7.8% to at least 8.5%.

ALESSANDRO PULITI: Okay. Regarding Russia project execution, now as we stated on the 25th of March, we…first of all, we will be fully compliant with the essential framework. And within this framework and the latest upgrade of the framework or sanction basically the 2 projects where we are in, both Moscow refinery and Arctic LNG, basically they have to see our…the end of our involvement by May. So we are…what we're doing now is we are working with both clients in order to find the…and implement the most smoothest way to come to this situation. And basically, the strategy is to handover the projects to the client by this…by the month of May. So, clearly, I cannot enter into details that are covered by confidentiality, but the strategy basically is this one.

MASSIMO BONISOLI: Thank you.

OPERATOR: Next question is from Guillaume Delaby with Societe Generale. Please go ahead.

GUILLAUME DELABY: Yes, good morning and thank you for taking my highly politically incorrect question. Basically, what surprised me this morning is that you feel extremely relaxed. So tone is much more positive than one month ago. The body language has changed. So my question is, what is the main driver of this change? Is it better? Is it mainly a better economic outlook for new projects? Is it mainly because Francesco, Alessandro and Antonio now are knowing each other better and start to better work together? Is it because you have a sense of relief after all the hard work you needed to have put over the last few months? So what has changed in terms of atmosphere within Saipem over, I would say, the last 4 or 5 weeks. And my second question, which is much more specific is, when should we expect to have new reporting segment in the coming…well, will it be next year? That's it for me. Those are my 2 questions.

FRANCESCO CAIO: Thank you. Look, perhaps there is a difference between confidence and relaxation. The notion of being relaxed around the place here is not really part of our job. We're in the process of a highly challenging financing package. And believe me, I don't think the center of relax is something that comes with a package here. So, we work together well, yes, we do. But we're also very aware of the main challenges we have in just at the beginning of the journey. So, I'm perhaps…the beauty is in the eye of the beholder, maybe you yourself look at Saipem with different eyes knowing that there is a financing package coming, that the numbers are coming in.

And more importantly, that demand is out there. In the areas where we know historically, we've been good at generating margins. So that’s for clarity and hopefully, the positive engagement with you guys will continue, but I'm very keen to highlight what Alessandro and Antonio have already highlighted is that there is a challenge here, and this is not a walk in the park.

On the second question in terms of reporting segments, you might have seen that in light of the capital increase, in light of the many information…much information will have to rely and process. We will continue to report along the previous segments for few quarters, I believe. And we'll come back to when and if changes will be reported, and we'll keep you posted. Thank you.

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

KEVIN ROGER: Yes, good morning. Thanks for taking the question. The first one is related to the offshore drilling business. You recently signed several contracts, of which some of them are for very long-term period of time, 5 years. So, I was wondering what has pushed the client to commit yourself for such a period of time with you. And I was wondering if you can give us a bit of color on the pricing mechanism that you have agreed with the client, how you will revise potentially the pricing, et cetera for those units that have been secured by the clients. That will be the first question, please.

ALESSANDRO PULITI: Okay. Clearly, the main reason beyond the offshore drilling business seeing a very good, very positive increase. The price of the commodity, both oil and gas clearly are pushing our clients to more drilling, to do more exploration activity to do more development activities in the oil and gas fields. And so, the drilling rig market, especially the offshore drilling rig market is really picking up. And I would say that some of the clients, they realized that we are at the beginning of a positive cycle. So, they like to enter into long-term contracts to give certainties of their cost of operations for the future, for the next 3, 4 years, so this is the reason. The pricing review mechanism clearly are covered by confidentiality between ourselves and the client, but certainly, it's what we can say that there are mechanisms that at a certain point, they find a link between the existing daily rate and average drilling daily rate of the market, making a sort of automatic and previously agreed system to update the daily rate. This is the way it works.

KEVIN ROGER: Okay. Okay, understood. And the second question is related to the onshore drilling. I was wondering if you can update us on the utilization rate of the fleet because if I'm not missing it, you did not provide the slide in your presentation in terms of number of rig utilization, et cetera for offshore and onshore. And also, you said at the capital presentation that you were potentially thinking about asset disposal, onshore drilling business was part of it. I was wondering if there is something new on that, please.

ALESSANDRO PULITI: Sure. In terms of fleet utilization, we have 2022, a very good, very good rate. Basically, the entire offshore fleet is fully booked this year. So, we'll work all the year, and this is a very good improvement compared with 2021. And also, we see very good signs on the onshore improving, so we have now a utilization rate of the offshore around 60%. So I would say offshore drilling unit is fully booked and onshore around 60-plus percent of utilization, picking up as long as client pushed again by the commodities value are increasing their activity.

Then you know, there was another part of the question.

Okay, so on the M&A, okay, now sorry, I was…

KEVIN ROGER: No problem, too many questions maybe.

ALESSANDRO PULITI: The…I don't have any further, let's say, update compared to the Capital Day, we still have our targets to come to fully termed sales and purchase agreement for the drilling offshore by end of May, and we are confirming that target.

KEVIN ROGER: And sorry for that one, but maybe I missed it. But is it…let's say, if you signed an agreement with the potential acquirer, would it be for the entire fleet or for part of the fleet?

ALESSANDRO PULITI: No. It will be only for onshore drilling activity [multiple speakers] avoid any doubt, the offshore fleet will remain with Saipem core business, this is...

KEVIN ROGER: Yes. Totally understand that, but it's just related to the onshore drilling. Basically, if you find an agreement, it will be related to your more than 60 rigs fleet.

ALESSANDRO PULITI: Yes, it will be the entire drilling onshore business.

KEVIN ROGER: Okay. Perfect. Thanks.

OPERATOR: The next question is from James Thompson with JP Morgan. Please go ahead.

JAMES THOMPSON: Thank you very much for the presentation and the answers so far, gentlemen. A couple from me, if I may. I guess, first 2 are sort of related. But you know so far, you clearly laid out a view that the kind of risk profile, if you like, in Saipem is changing or at least you're trying to change behaviours in the business. So 2 questions really. One goes back to an earlier one, you talked about kind of a more open type approach. I mean is that really a kind of permanent feature? Or is it more a kind of temporary factor just because we're seeing so much volatility in kind of raw material pricing at this point in time? Or is that a feature of your business you think is going to now persist? And then secondly, you've walked away from a contract in the E&C Onshore division. Obviously, you've made clear that you didn't include that in your kind of forecast to 2025. But I was just wondering if you could give us any more colors on what was in the quotation precedent that didn't meet kind of the level that would be required in Saipem. And this is a…is there any more color that you can give us on that, which kind of helps us to understand why you've taken that decision and whether that decision can kind of happen again in the future?

FRANCESCO CAIO: Okay. Let's start from the last one, really, we cannot disclose, as you can imagine such details, but there the maximum we can say is that there were condition precedent relevant to conditions to be satisfied by the client and not by ourselves clearly. But more than that, we cannot enter into detail.

Regarding the risk profile and our strategy of working open book in the first…let's say, in the first stage of the projects prior fixing a turnkey lump sum pricing. Is this temporary or will be permanent? Certainly, it will…this will be a strategy that must be in place until volatility of the market is like the one that we are experiencing because with current volatility there is no, let's say, other options left on the table to have a proper level of risk for the contractor, as I said before. And for the client avoiding the contractor, putting extra contingency in its price to cover for the risk. So, as I said before, this is win-win. Certainly, the strategy will remain until we will enter again into a period of predictable inflection, predictable procurement time of material, predictable pricing of raw material and logistics and so on. So, I will say that looking ahead at the strategy will really last for this year and next year for sure.

JAMES THOMPSON: Okay, thank you.

FRANCESCO CAIO: I'd like to add on this risk management issue that you raised, which I agree is central to what we're doing. There are many ways. One is clearly the shape of the contract. The other one is that we mentioned the notion of industrialized solution and standardizing and going to modules now working on that, there is no major news to report today. But that is something that we are working on as a way to mitigating risk and de-risking the unknown in the projects, working with clients for modular and standardized solution.

JAMES THOMPSON: Okay. I just had a number of kind of smaller detailed points, if I may, just quickly. So obviously, offshore drilling, you've had a very, very good quarter in terms of order intake. You're pretty much full as you mentioned, for 2022. I just wondered, I mean are you out there kind of bidding on 2023, 2024 capacity? Or should we expect offshore drilling to be relatively light, I suppose, for the rest of the year in terms of orders would be the first one. Secondly, I mean, was the Saipem 7000 obviously is greater that nobody was injured. But was the vessel meant to be operational in April and May. So just to see if there's any sort of slip page there?

And thirdly, I just wondered whether Saipem was facing any impacts from some of the lockdowns in China at the moment, particularly in Shanghai. I don't know whether that was potentially any impact on the business at all in the sort of second quarter of this year or not? And the final one is you kind of mentioned the 21 for 100 share consolidation. I assume so, but I assume that, that will happen obviously, before the rights issue, so we will be basing any rights issue of 212 million shares.

ALESSANDRO PULITI: Okay. So let's start from the offshore drilling. As we see this market where they will grow in the next year, yes, we are looking maybe to add some units to our drilling fleet to serve our clients. The strategy will be the same. We have been utilized for the Santorini drilling ship. So an asset light strategy. So, we…certainly, what we are looking is to have a drilling unit in rental to serve the market that is growing. And actually, we have clients that are asking us more capacity exactly what you said, '23, '24. So this is…so we are looking to that definitely.

Regarding 7,000, I said, yes, we…certainly, the vessel cannot operate during the month of April. And I would say that most of the month of May will be utilized to recertify Crane 2 and to finally assess and start repair to Crane #1. So…but definitely, it will be operational in June. And if we can even early May. I would say that we say June to have a bit of safety factor, but it could be even as early as end of May.

The lockdown in China, for the time being, we do not record any, let's say, any important disruption to our…a significant disruption to our business. And then I give the floor to Antonio for the…for the consolidation.

ANTONIO PACCIORETTI: Consolidation, we have announced, first of all, it is important to say that nothing has to do with the capital increases, just a technical solution for covering the losses we had at the end of 2021. We had losses after the available reserves of around €1.7 billion out of a share capital of €2 billion. And this is the provision for 6 of the Italian Civil code, which imposed to cover such losses through a reduction of the share capital. The reduction will occur through the reduction of the number of the shares, it is indeed something that will occur before the capital increase, the execution of the right issues. It will occur just after the shareholders meetings, which is a call to approve such a resolution. So, we expect to have on the 17th of May, the shareholder meeting. And just after a few days after the registration of the resolution, we expect to have the execution of such a consolidation of shares.

JAMES THOMPSON: Thank you very much for answering all my questions.

OPERATOR: Gentlemen, this concludes today's Q&A session. The floor is back to you for any closing remarks.

FRANCESCO CAIO: Thank you very much for your attention, and we will continue to inform the market over the next few quarters. Thank you very much.

OPERATOR: Ladies and gentlemen, thank you for joining. The conference is now over. You may disconnect your telephones.