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# EDITED TRANSCRIPT

SPMI.MI - Q1 2021 Saipem SpA Earnings Call

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## PRESENTATION

### Operator

Ladies and gentlemen, thank you for standing by, and welcome to first quarter 2021 result. (Operator Instructions) I will now hand the conference over to CEO, Stefano Cao. Please go ahead.

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**Stefano Cao** - Saipem SpA - CEO & Director

Good morning, and welcome to Saipem First Quarter 2021 Results. I'm joined today by Stefano Cavacini, our CFO; our Head of the E&C division, Maurizio Coratella for Onshore; Stefano Porcari for Offshore; Marco Toninelli for Drilling; and our General Counsel, Mario Colombo; and Max Cominelli, our Head of Investor Relations.

Last year has been very difficult for the effects of the pandemic. In our Q4 2020 results, we highlighted that the uncertainty in the outlook remains, particularly in the first half of 2021. The progress of the vaccine roll out those, of course, offer some light at the end of the tunnel. Today, the outlook remains uncertain as the impact of pandemic continues to be felt. In this context, our organization is navigating well this challenging environment, and we continue to prioritize the health of our people.

As you all know, in our industry, in particular in engineering and construction, a single quarter is not a proxy of the overall progress of the business. However, Q1 was characterized by some activity slowdown and postponement, which caused a sequential revenue decrease versus Q4. In fact, the overall volumes in Q1 were more in line with Q2 and Q3 last year, as opposed to Q4 2020.

Our business is made of complex project schedule, has more variation in these, which, frankly, is a natural course of business in our sector. This can affect a single quarter without jeopardizing the overall picture, which remains solid. This, I believe, should always be kept in mind.

The lower revenue has impacted EBITDA, and this is particularly visible in E&C. Our performance in terms of net debt was good. As expected, we closed slightly above EUR 1.4 billion, in line with our formal expectation of a net debt increase, especially in the first semester. Our liquidity profile further improved in Q1 with a recent new EUR 500 million bond issue, which was welcomed by the market, both in terms of demand and pricing. Our commercial activity was particularly good in E&C Offshore, and we ended Q1 with an order intake of EUR 1.6 billion, leading to a book-to-bill ratio for the group of circa 1, way better than the first quarter of last year. This award demonstrates our central role in the energy transition since they are in both renewable, in France; and in gas, Qatar. Unfortunately, some recent commercial awards came later than what we had initially anticipated and has also had an impact on the results of the first quarter -- first 3 months. These most recent awards should contribute to our financial later in the year. Backlog stands at an impressive EUR 25 billion. Despite some scheduled shifting, this provides us very good coverage for future years and the strategic position in new energies and infrastructure.

Before handing over to Stefano Cavacini to deep dive our results, I would like to briefly update you on the recent events regarding the Mozambique Area 1 project, and this is shown in Slide 6. Following the recent suspension on force majeure of Mozambique project activities and client press release on the 26th of April, assessment is ongoing in close cooperation with the client to preserve the value of the project. While awaiting for further instruction by the client and the outcome of the ongoing assessment within the parties, we are not in a position to evaluate impacts on our financial for 2021. Therefore, at this stage, we are not able to confirm or update the business scenario provided to the market on the 25th of February, 2021. The market will obviously be promptly updated when the situation becomes sufficiently clear and impacts can consequently be determined.

The project is included in Saipem backlog on the 31st of March 2021, for the -- for an amount of around EUR 4 billion, of which approximately EUR 1.4 billion to be executed from 1st April to year-end 2021.

I will now hand you over to Stefano.

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**Stefano Cavacini - Saipem SpA - CFO**

Thank you, Stefano, and good morning, everyone, from me as well. First quarter revenue decreased by over 25% year-on-year. The year-on-year trend was driven by a revenue decrease in all divisions, and I'd like to remind you all that Q1 last year was almost unaffected by the impact of pandemic on our industry.

I would say, Q1 last year belong to a totally different market context. Adjusted EBITDA was EUR 88 million, significantly decreasing year-on-year due to lower volumes. With the largest contributor to EBITDA, decrease was E&C Offshore. This resulted in a Q1 adjusted EBITDA margin of 5.4%. Compared to Q4 last year, the best performance in terms of adjusted EBITDA margin was Drilling Offshore, which improved significantly, while E&C and Drilling Onshore had sequential reduction, which more than offset the positive contribution of the foreman. Finally, the adjusted net result was negative at EUR 105 million, driven by the decrease in adjusted EBITDA, which was partly offset by some positive dynamics below the line, in particular, lower G&A and around EUR 30 million lower financial charges.

Now looking at the divisional performance from Slide 9, and starting with E&C. E&C Offshore revenue in the first quarter decreased by over 30% year-on-year. For the sake of comparison, let me stress that Q1 2020 was basically pre-pandemic and almost unaffected by its impact on operations and, I would say, client investment decisions. Moreover, in Q1 this year, we no longer have support from mix -- high mix serve projects, which last year still had a long tail of their final contribution. And the lower revenues were the result of reduced activity in Africa and Middle East, partially compensated by higher volumes in North Sea and the Americas.

Looking at adjusted EBITDA, Q1 ended at EUR 8 million. This variation is mainly due to lower revenues, but also to a different mix, more towards conventional and renewables. Some of you could have expected Q1 more like Q2 or Q2 last year -- Q3 last year, sorry, knowing that Q4 had a one-off impact related to a specific project. In reality, I have to underline that in Q1, we had a sequential decrease of volumes versus Q4, mainly driven by some postponement of activity in Middle East, due to the rescheduling of Offshore operations, pending some local permit, which is coming 3 to 4 months later than expected, which I have to say sometimes is normal course of business in E&C. This element impacted both revenue and EBITDA. EBITDA was also affected by increased vessel idleness versus Q4 due to quarterly phasing of our project portfolio, but we expect to gradually reduce the level of idleness in the course of the year.

Finally, and frankly speaking, the sizable awards we won in February and March were initially expected to be awarded much earlier, bringing contribution in Q1. This new awards will bring some positive contribution from Q2 onward. As we shared in our previous call, from second half, we expect a recovery of activity, supported by the most recent award contribution, efficiency actions and the development of our commercial activity. At this point in time, we expected a full year adjusted EBITDA not higher than 2020.

Moving to E&C Onshore. Revenue decreased 17% year-on-year, mainly in the Middle East and Asia Pacific due to certain project completion and COVID-19 related slowdown and rephasing. In fact, the first quarter of 2020 was not only unimpacted by COVID-19, but it also factored the completion of some projects. Despite the volume decrease, adjusted EBITDA margin was resilient and marginally better than last year, in the mid-single-digit area, supported by, obviously, efficiencies.

A few words on the quarter-on-quarter trend. The revenue decrease versus Q4 2020 is also driven by Sub-Saharan Africa, particularly from Mozambique, for which Q1 absorbed some delay triggered by the first wave of arrest due to terrorism, which calls the demanding of the site. In addition, we also have some activity slowdown in Middle East and Asia Pacific. Following the volume trend, EBITDA decreased versus Q4.

Now Page #10, turning to our Drilling performance. Let's start from the Offshore. First quarter last year was clearly unaffected by the decision of our clients to reduce their activity commitments. First quarter 2021, as already said, is still characterized by a tough market environment. So no longer that revenues decreased by 40%, honestly. The reduction is mainly attributable to lower activity of Saipem 10000 that was fully operative in Q1 of last year, and now is in a remunerated standby. In addition, Scarabeo 9 was idle in Q1 this year and Perro Negro 8 entered in maintenance class activity. So both vessels were fully operating in Q1 2020.

As you can see from the chart, EBITDA was consequently affected. On a positive note, if we compare Q1 with Q4 2020, the first quarter saw a sequential increase of revenue and margin, mainly thanks to higher utilization of Scarabeo 8 and Saipem 10000, the latter being remunerated for preparation activities expected to restart in Q2.

Unfortunately, the lower utilization of Scarabeo 8 and the pricing pressure on the Jacobs active in Middle East are expected to impact the remainder of the year, starting from Q2. So marketing activities for Scarabeo 8 and 9 are progressing, but we haven't come to agreement yet. So based on current contractual engagements, we expect each of the 3 following quarters of 2021 to post an EBITDA lower than Q1, even lower on average than Q4.

Moving on to Drilling Onshore, for which revenues decreased year-on-year as well. Key drivers were a lower activity in Middle East, resulting from temporary suspension of rigs, as communicated in previous quarters; operational issues now resolved and temporary discounts. Also, LatAm's operation resulted in lower volumes compared year-on-year. Adjusted EBITDA consequently decreased by 37%, mainly due to the reduction of volumes in the Middle East. However, adjusted EBITDA margin improved by 30 basis points year-on-year, up to 19.2%, supported by cost efficiencies. Still on the positive side, our LatAm operation are gradually restarting. As compared to Q4 2020, Q1 2021 saw a volume decrease mainly due to lower activities in the Middle East, partly compensated by the increased volume in Latin America. This trend reflected on the margin, along with some minor operational issues incurred in Middle East; some change in activity schedule; and finally, some positive one-off at year-end 2020. Having said that, in Q2 2021, we expect a broadly stable top line and the EBITDA versus Q1 with some maintenance ongoing on suspended rigs ahead of our start of operation in Middle East. From the second half, as we already discussed in our previous call, most of the suspended rigs are expected to restart operations, resulting in a revenue, EBITDA and margin improvement.

In Slide 11, we showed the bridge from adjusted to reported net result. Our adjusted net result was negative by EUR 105 million. As you might recall, back in February, we have indicated that for 2021, we expect the costs incurred to preserve the health and safety of our people and operating during the pandemic level as COVID cost within the special items and to be lower than full year 2020. As you can see from the chart, the amount in Q1 was around EUR 12 million, broadly in line with Q4 of last year. For this reason, we confirm our expectation for the full year 2021 of a lower amount of this cost compared to EUR 110 million recorded last year. Let me remind you that these costs are the ones directly attributable to COVID-19 summarized in this slide. The second item in the chart refers to our effort to be more efficient, which leads to approximately EUR 3 million of costs for redundancy positive in Q1. After these special items, we closed the first quarter with a reported net loss of around EUR 120 million.

Now going on, looking now at net debt evolution, Slide 12. On the right and left of the chart, we reconcile the impacts of IFRS 16. The light blue shaded area shows the variation of net debt in Q1 on a pre-IFRS 16 basis, as you can see, of around EUR 230 million. Key elements could be summarized as follows: first, cash flow, which was neutral in the quarter; secondly, we posted around EUR 70 million of capital expenditures. The vast majority of CapEx will be concentrated in the remainder of the year to support the business with cyclical maintenance and some vessel and rig upgrades. But in any case, as a first step, we are working to get to a CapEx level for the full year between EUR 400 million and EUR 450 million. But clearly, we will also consider further actions if required. Others including delta working capital increased by EUR 150 million, which is natural as project progresses further in the procurement and construction phase and fully in line with our expectation shared in the previous conference call. After lease liability of EUR 350 million, we closed with the net debt post-IFRS 16 just above EUR 1.4 billion, I would say, in line with what we were expecting.

But now let me say a few words about the trend of net debt for the remainder of the year. For Q2, we expect another slight increase versus Q1, already planned at the beginning of this year, since some projects are in the procurement and construction phase. For the year-end, based on our very preliminary assessment of this situation around the project in Mozambique, we are working on a plan to keep the impact of the project broadly neutral on net financial position. So therefore, we expect a net debt for the year-end between EUR 1.5 billion – I would say, EUR 1.6 billion post-IFRS 16 and, I would say, broadly in line and not far from our previous expectation.

Let's now move to my final slide, #13. At the end of March, we had a healthy liquidity position of around EUR 2.5 billion, which increased by EUR 400 million versus the end of last year, driven by the recent 7-year fixed rate new bond issue in March. This additional flexibility positions us very comfortably to support the business but also vis-à-vis next year's maturities. I'm very pleased with the market response, the new bond issue, both in terms of demand, which was around 3x the offer; and a very favorable coupon, even better than our previous one. Moreover, thanks to this new bond issue maturing in 2028. We're, I would say, prefunding the refinancing of 2022 maturities 1 year in advance. And on top of this liquidity, the group had about EUR 1 billion of what we call a restricted cash, mostly held in JV accounts to support our operations. I can say that this liquidity position allows Saipem to comfortably meet all its financial needs.

In conclusion, despite the prolonged period of uncertainty, I can say that Saipem is on a solid financial footing. Our priority is unchanged and is focused on maintaining our financial flexibility. 2021, as we already said, is a year of transition, as we exit the long tail of 2020, obviously. As soon as the market recovers, deleveraging and gross debt reduction will be again our primary objective.

Now I reached the end of my financial presentation, I hand the floor back to our CEO.

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**Stefano Cao** - Saipem SpA - CEO & Director

Thank you, Stefano. The first quarter of the year has been subdued for the year E&C Offshore. Obviously, it should also be remembered that the year-on-year comparison is against the first quarter of last year, which was virtually untouched by the pandemic. The slide lines up some of the key performance drivers, mentioned early by Stefano, and related to the sequential performance versus Q4. The first 3 months of this year saw some postponement of activity in the Middle East, in particular, due to the rescheduling of Offshore operations, pending some local permitting, which is coming later than expected. The second element was the increased vessel items quarter-on-quarter due to specific phasing of our project portfolio. This is expected to improve later this year. In addition, we were expecting some of the awards that materialized in the final part of last year and beginning of this year to arrive earlier and to provide some contribution already from the first quarter.

With large projects, small changes in timing can make a difference on a single quarter. As a contribution from the more recent awards kicks in, supported by the efficiency actions and further development of our commercial activity, we expect a gradual performance recovery in E&C Offshore, albeit not earlier than the second half of this year. Finally, and this is a good news, we did not experience backlog cancellation. However, some activity already portfolio shifted from 2021 to 2022.

Turning now to E&C Onshore operations, in Slide 16. You have already seen in the past quarter, we leased the key projects underpinning onshore backlog. I would like to spend a few words on Mozambique, given the recent news flow. Since the beginning of this year, security issues have significantly slowed down the reopening of the project side, and security risk have been managed in strict coordination with the client. As you know, most of our activities performed to date were done out of site, in particular, engineering, procurement and modularization. On 26th of April,

however, Total issued a press release declaring the force majeure. We keep monitoring the situation and its potential developments in close coordination with our client. At present, there is not much we can add there.

For the other projects in the slide, I will not enter into details one by one, but we are overall satisfied with the schedule of activities we have agreed with our clients. As I've said several times, one of the very few positive consequences of the pandemic has been the strengthening of our relationship with core clients. We are working closely together to execute activities, and we are meeting our commitments.

Moving on to the commercial development to date. I would say that the beginning of this year saw a number of announcements for new projects in the E&C Offshore, which will pave the way for future sustainable growth. Q1 saw good momentum in renewable and gas, which is advancing as nicely in the energy transition journey. On Renewables, we won the Courseulles-sur-Mer Offshore wind farm project in France for the design, construction and installation of 64 foundation bearing turbines. Final investment decision and notice to proceed have been achieved. Hence, this will add nicely to our wind offshore portion of the backlog within the division.

On gas, we won in Qatar 2 additional contents, in the framework of the Norfield production sustainability offshore project. After the major NFPS contract for the PCI offshore facility previously and included in Q4 2020 backlog. The first conference call EPCI, and it's for 3 offshore export trunk lines for a total length of almost 300 kilometers, which is entering the Q1 backlog. And the second contract on additional scope of work offshore facilities. We have announced the second contract in April. Hence, it will enter our backlog in Q2, as you can see from the slide. On Qatar, I must say that this project is defining our good position in the country and our excellent relationship with the client.

Finally, we have just announced 4 new orders in the framework of the long-term agreement with Saudi Aramco, which has been renewed until 2024 with an option to extend for additional 3 years. The scope of work includes the upgrade of existing and the installation of the offshore facilities for the development of Zuluf, Berri and Abu Safah offshore fields as well as the Ras Tanura terminal. In conclusion, the start of the year, commercial for E&C Offshore with Q1 awards of around EUR 1.4 billion and a book-to-bill of 2.4x for the division.

Few words now on the backlog on Slide 18. Considering the nonconsolidated projects that are worth EUR 2.8 billion, overall, the backlog stands at around EUR 25 billion. 78% of E&C backlog is non-oil related. The majority of 67% of the total is gas, the transitional energy source. This portion also includes midstream, downstream and fertilizers.

Renewables and green technology represent together 5% of the E&C backlog and are mostly wind farms, while infrastructure represents 6% of backlog. This picture is at the end of March and include, as we said, circa EUR 4 billion for Mozambique LNG projects.

Coming to the backlog distribution by year in Slide 19. The chart is based on visibility at the end of March, before the recent events around Mozambique. The most relevant element here is 2021 -- '22, which increased its size as a positive net effect between new awards and the balance between shifting and acceleration. As I said, this picture does not factor the possible impact of the recent suspension of Mozambique project activities and client decision to declare force majeure.

The split by year of portion of backlog is shown in the lower part of the slide. To conclude, as you can see, backlog coverage is underpinning a solid midterm.

Let's look at the commercial opportunity for E&C, Slide 20. The pipeline remains sizable with circa EUR 21 billion of projects ahead of us. The figure is attached lower than the couple of months ago, mainly reflecting a number of awards, in particular, in Middle East. The beauty of this pipeline is that it is well diversified across geographies and segments, including gas and new energies.

Finally, the pie charts at the top right of the slide confirmed the growth of renewables in green, which represent 11% of the E&C opportunity as opposed to 5% already in our backlog. Also, infrastructure remained broadly stable at 6% versus the picture of the full year 2020.

The portion of natural gas has decreased due to the awards in Middle East that was mentioned earlier.

Moving on to drilling, starting with Offshore. I will just spend a couple of words on few key movements compared to the situation shared in our previous calls. Scarabeo 8 started the project for energy in November, expected to be completed in May. Then further activities will be performed from the same client from August until October. Scarabeo 5 is working as a support production vessel, and there's potential commitments until mid-2022, thanks to options. We are positive on potential outcomes. 8, after completing the class renewal works, has been assigned to a project recently award for drilling activities in the Arctic Sea.

All in all, the chart is showing a touch higher activities for the remainder of the year. However, due to a 0 plus and minus between volumes and prices, we do not expect a significant recovery by 2021, as Stefano mentioned earlier.

Looking now at the onshore fleet utilization. The total number of rigs in the fleet remain unchanged at 83. The full year average utilization rate is 36% versus 44% in full year 2020. The reduction mainly related to the suspension of activity in the Middle East that fully impacted Q1 2021, while the first quarter of 2020 was unaffected and the suspension had progressively increased during the following quarters of last year.

Also during Q1, we had some operational issues in the Middle East, which are now resolved. On the positive side, we had a small increase in the utilization rate in Latin America, attributable to commitments in Bolivia and Peru, partly offset by a decrease in Colombia.

Now let me close this presentation with a few final remarks. As I said, the impact from recent events around Mozambique are being assessed. We have safely navigated the 2020, one of the most challenging years, the world has faced in recent decades. Thanks to the huge efforts of our people, contractor partners and suppliers.

In this third quarter of 2021, world are still rough with some headwinds. But as the world emerges from the pandemic, there are positive signs pointing to a sustained period of recovery beyond this year. Saipem demonstrate resilience in these difficult times, capitalizing on the efforts made to transform the organization. Our solid balance sheet, ample liquidity and a well-diversified backlog has served us well. This transformation took 6 years, but the journey has come from over, as the world is rapidly changing and the transition away from fossil fuels has presented us with new challenges and plenty of opportunities.

We have delivered on this transformation, leveraging our innovation mindset and the engineering capabilities as a technology integrator. We are shaping the new low carbon world and established the pillars for long-term secular growth of Saipem operation.

You all know that this is my last conference as Chief Executive. I'm handing over the lead of the company in a couple of days to Francesco, with whom I've been working closely and fruitful in this current role -- in his current role as Chairman of the Board. I'm very proud of all we have achieved in recent years and grateful for the opportunity to contribute to the next chapter of Saipem's development. I would also like to take a moment to thank the old Board, my team, our people across item, our partners and contractors, and of course, our investors and the analysts that cover Saipem for all their support over the last 6 years. I'm confident that Saipem will continue to thrive over the coming decades.

And with that, let me now ask the operator to open the line for the Q&A session.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) We have our first question from the line of Alessandro Pozzi from Mediobanca.

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

I just want to wish Stefano Cao good luck with your next endeavors. On the Offshore E&C, I think I understood why the -- we had a weak -- another weak quarter. I mean Q4 was supposed to be one-off, but we are still seeing a major weakness in this quarter as well. You explained the reason, some postponements in permits and rephasing of projects. But I was wondering, we had the last update, I think, it was at the end of February. Were

you already expecting such a weak quarter in Q1? I think, for me, this is quite important to know because then I will be able to understand how it's going to develop over the next -- over the course over the next few quarters. And I was wondering, I believe it was mentioned that EBITDA will not be lower than 2020 in the Offshore E&C. Can you confirm that? So we are going to see still a flat EBITDA year-on-year?

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**Stefano Cao** - *Saipem SpA - CEO & Director*

Okay. First of all, thanks for the wishes. I'll take it with pleasure. And I'll ask Stefano Porcari to comment on the evolution of the Offshore E&C and then probably Stefano Cavacini will comment on the EBITDA level.

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**Stefano Porcari** - *Saipem SpA - Head of Drilling Onshore Division*

Good morning, this is Stefano Porcari. I just would like to say that, yes, we were expecting some situation like this somehow, but not of this extent, of course. And I don't want just to repeat what was said earlier. But of course, the 2021 is, for us, a transitional year. And in particular, for the first quarter, we had 3 -- let's say, 4 important issues that we had to face. The first one was the postponement of some activity in Middle East due to the rescheduling of the offshore operation because of some permits, which came and are coming later than expected. The second, that we are expecting some award that materialized at the beginning of this year to arrive earlier and to provide some contribution already for this quarter. Third point, which is a consequence of the first and -- in particular to the first point is that there was an increase of idleness -- of course, because of the lack of activity. And the fourth, I think, is also something that we are aware and we know is that we don't have in this quarter, in particular, in the beginning of 2021, all the support from the high mix of projects that are not there anymore at the moment. So I think that these 4 issues -- these 4 items contributed to the impact on the revenues and to the EBITDA. But I'll leave to Stefano Cavacini to answer your question on the EBITDA.

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**Stefano Cavacini** - *Saipem SpA - CFO*

Yes. About EBITDA, speaking deeply about E&C Offshore, yes, I confirm what I said during my speech. I mean we are forecasting an EBITDA full year for E&C Offshore not higher than 2020. So we are working to stay in that region. And for the moment, what I can say that the first half in E&C Offshore will be probably the bottom of the cycle because of several reasons explained and commented on before by Stefano Porcari. So for that reason, we are positive for the second half because there are some projects that are going to enter and a reduction in the idleness that has particularly affected Q1 2021.

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

My second question on Mozambique. Can you confirm whether all off-site is going to be suspended as well and also there is an option in the offshore trading to drill more wells in Mozambique, I think, is Eni. Do you think they are going to exercise this option or not? And when do you think we're going to know that when the option expires?

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**Stefano Cao** - *Saipem SpA - CEO & Director*

Okay, Maurizio, first?

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**Maurizio Coratella** - *Saipem SpA - COO of the On-shore Engineering & Construction Division*

Yes. So I will take -- this is Maurizio. I will take the first part of the question. To date, we have been suspended for convenience, site activities mainly. And we are working in full coordination with the client to assess what kind of activities will continue at the same pace to preserve the value of the project. Just imagine that the project of this magnitude has an importance in Asia. So the low pace, we will look at that is something we achieve by time. But to date, we have no enough information to define what would be the level and the number of activities that will continue. I will give it to Marco.



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**Stefano Cao** - Saipem SpA - CEO & Director

Marco for the...

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**Marco Toninelli** - Saipem SpA - Head of Offshore Drilling Division

Yes, the question about Mozambique option. Technically, the options are still open. They are still valid. However, the plan is to extend the activity of Saipem 12000. We're negotiating with clients for further activity behind this option -- alternative to this option actually. For the first half of '22, probably in other area outside of Mozambique to -- with the plant probably to return after that. So we expect our Saipem 12000 to be leased at least until the end of the year. And we are negotiating already to expand activity behind those time.

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

Do you know if the additional drilling is going to be on Coral South or on the main fields on the...

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**Marco Toninelli** - Saipem SpA - Head of Offshore Drilling Division

I cannot disclose clients' plans, but I expect to continue the activity with the drillship.

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

Okay. Just last one on working capital. I was wondering if you can disclose maybe the level of prepayments that you received in Q1?

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**Stefano Cavacini** - Saipem SpA - CFO

Yes, sorry. No, in Q1, we didn't have a material and significant prepayment. So it's not affected by one-off impact from a cash perspective.

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**Operator**

The next question from the line are Nick Konstantakis from Exane.

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**Nikolaos Konstantakis** - Exane BNP Paribas, Research Division - Analyst of Oil and Gas

I will start with the Offshore E&C. Look, I thank you for the 4 main drivers. I think this is quite clear. What's bit harder to understand is kind of the quantum of each of these. I guess what I'm trying to go with this is, if I look at the current backlog margin level, what is a good run rate for us to have as activity recovers as operational leverage or all comes back. So what is the new margin, I guess? And extension of that, what would it take for you to get back to kind of 10% level on EBITDA?

On Mozambique, look, I appreciate you cannot share any specifics. Can you just tell us what is the level of working capital associated with that project, receivables, net product liabilities, et cetera?

And lastly, look, Stefano, good luck with all of the future endeavors. I'd just like to echo that. You returned to Saipem on a difficult time and made a lot of progress, leaving them with EUR 25 billion of backlog. Can you give us some thought on the changes in the industry on this stint that you had at site? Directionally, where do you think we're going? And I guess your scorecard of what you and the team has achieved, do you have an understanding stuff that you didn't manage to achieving your tenure?

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**Stefano Cao** - *Saipem SpA - CEO & Director*

Yes. I'll start with the final one, which is personal. I think in the last 6 years, we have seen so many changes in the world, in particular, in the world of energy. The concept of the new energy scenario is something which obviously is transforming faster. The old industry is imposing a faster transformation also to the operator in the industry and, particularly, Saipem. I think if I have to highlight something which I've seen very clearly in this transformation is that moving forward, we have managed to understand and realize that there are a lot of competencies, there are a lot of technologies, and there are a lot of valuable people who are capable of changing the mindset and helping the company to transform itself. Saipem has a long history, 60 years -- more than 60 years history. Over the course of the 60 years history, has accumulated a number of know-hows incredibly deep and extended. And I think what we have been doing and what I'm sure, Saipem will continue doing, will continue digging in this valuable mind of knowledge in order to identify and assess what are the components, what are the contribution really Saipem can bring to the new energy scenario. That's the reason why I ended my speech saying that I'm very positive for the role of Saipem in the future, as one of the leaders in the energy transformation effort worldwide. Stefano?

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**Stefano Porcari** - *Saipem SpA - Head of Drilling Onshore Division*

Okay, Stefano Porcari. I try to answer to your question. So first of all, I have to say that we cannot disclose the specific margin of our backlog. But as you know, our current backlog includes mostly conventional, for example, the last projects in Qatar and renewable work, like the last one in France. So we -- I have to repeat it, but we are no longer support from the SURF project on the past, which last year still had a long tail of the final contribution. As of today, and according to our current visibility, as I was said earlier, we expect 2021 full year adjusted EBITDA not higher than 2020. This is what we said also earlier, not during this teleconference. And I have to reiterate that we expect from the second semester 2021, a recovery of the activity, supported also by the last awards and efficiency actions and development of all our commercial activity that is ongoing at the moment.

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**Nikolaos Konstantakis** - *Exane BNP Paribas, Research Division - Analyst of Oil and Gas*

And Mozambique receivables and net contract liability?

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**Stefano Cao** - *Saipem SpA - CEO & Director*

Sorry, say again, Mozambique?

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**Nikolaos Konstantakis** - *Exane BNP Paribas, Research Division - Analyst of Oil and Gas*

Mozambique, what is the receivables you guys have around the project at the moment? And what is the net contract liability position, just so we can understand a bit the working capital evolution around the projects and the actions you are going to be taking?

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**Stefano Cao** - *Saipem SpA - CEO & Director*

See, Stefano Cavacini?

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**Stefano Cavacini** - *Saipem SpA - CFO*

About Mozambique, as I told you before, we are working on a plan in order to make the impact for 2021 neutral in terms of cash absorption. I would say that the plan is reliable. By definition, we have to work a lot, but we are not worried at all for the time being. And I repeat again, we are reconfirming our net financial position for the whole group in the region of EUR 1.5 billion, EUR 1.6 billion post-IFRS 16. So in line or not so far from what we have already shared 3 months ago.

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**Operator**

We have the next question from the line of Mick Pickup from Barclays.

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**Michael Brennan Pickup** - *Barclays Bank PLC, Research Division - MD & Senior European Oilfield Services Analyst*

Couple of questions, if I may. Firstly, you gave the Mozambique expected revenues for 2021. Can you just give us the number for 2022? What portion of your backlog it is?

Secondly, obviously, you're talking about SURF projects not being in the midst. Can you just talk about the outlook on the bidding pipeline for SURF? And if I may, as a final one, Stefano, given it's your last time here, and hopefully, we don't see you again in 10 years' time, like we did last time you left. You talk about new energy technologies. Obviously, you're leaving in a few days. So which one do you think Saipem has the most capability of making good money in?

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**Stefano Cao** - *Saipem SpA - CEO & Director*

Okay. Again, I'll start with the personal question and then my colleagues will address the other question. And Mick, I can assure you, you will not be seeing me coming back. This is my fourth mandate as Managing Director of Saipem, 2 in the '90s and 2 in 2015. So be assured that you will not be seeing me. Having said that, as far as I can tell you that you may be seeing me in other areas of activities because I think I will not stay hand-in-hand for the time -- in the near future. Okay. Then Mozambique, Maurizio?

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**Maurizio Coratella** - *Saipem SpA - COO of the On-shore Engineering & Construction Division*

Yes. About the forecast for the revenue of 2022, this will depend a lot on when the activities will be resumed. So we are not in the position at this stage to address this question, as we have not finalized the assessment in coordination with the client.

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**Michael Brennan Pickup** - *Barclays Bank PLC, Research Division - MD & Senior European Oilfield Services Analyst*

But you surely have a bit in the backlog number, don't you? You know what portion you've included in there?

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**Maurizio Coratella** - *Saipem SpA - COO of the On-shore Engineering & Construction Division*

Yes, the figure that we have provided that we have a backlog of EUR 4 billion. And the revenue expected from the April 1 till year-end 2021 was EUR 1.4 billion. Meaning that if the suspension is lasting, for instance, 3 months, then we will have a shift and we'll see this revenue coming up partially in 2022. So it's very difficult to assess how much would be the revenue in 2022. The backlog is still there since we have only received an extraction to suspend for convenience site activities and some other minimal activities of engineering.

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**Michael Brennan Pickup** - *Barclays Bank PLC, Research Division - MD & Senior European Oilfield Services Analyst*

Yes, but you have a backlog of EUR 4,019 million for 2022. There is an element of Mozambique included in that.

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**Maurizio Coratella** - *Saipem SpA - COO of the On-shore Engineering & Construction Division*

Yes, for sure.

**Michael Brennan Pickup** - *Barclays Bank PLC, Research Division - MD & Senior European Oilfield Services Analyst*

Okay. And you're not disclosing that.

**Operator**

We have the next question from the line of Michael Alsford from Citi Group.

**Stefano Cao** - *Saipem SpA - CEO & Director*

Sorry, before moving on, I think there was another question from Mick regarding the Offshore. So Stefano Porcari?

**Stefano Porcari** - *Saipem SpA - Head of Drilling Onshore Division*

Yes, I think that we're asking some details on the projects that we have in the pipeline for the subsea, for the SURF. I think that talking about geographical area, for sure, we have projects in Angola, in particular for Eni. And talking about Brazil, there is a couple of projects, 1 for Petrobras and 1 for Total. We are looking at some, of course, always changing area, going to the Americas, we are looking for the development of ExxonMobil in Guyana. The lease -- the next phases of lease, let's call like this. And there are some small, but interesting projects in Gulf of Mexico that we are targeting. And of course, if you want to include also Rovuma in this list, it could be interesting for the future. Rovuma is a project in Mozambique, of course, with Eni. Yes.

**Operator**

The next question came from the line of Michael Alsford from Citigroup.

**Michael James Alsford** - *Citigroup Inc., Research Division - Director*

I've actually got a follow-up question on the last topic around SURF activity. It feels that the trend is still more and more towards integrated awards. And I just wondered whether you feel that you need to rethink the strategy there for the business? Do you feel you're competitive in this market as activity recovers? That would be my first question.

**Stefano Porcari** - *Saipem SpA - Head of Drilling Onshore Division*

Because we are talking -- excuse me, this is Stefano Porcari. If I understand well, you are asking if we are basically looking at reorganizing to be more efficient in the various segment of the market? Actually, we had internal reorganization in the division offshore. And we had structured our division with 3 business units, tackling 3 different business and product, 1 is subsea, SURF, of course; 1 is the pipeline at fixed facilities, what we call conventional projects; and the third one is new energy, which, of course, is offshore wind farm, fixed or floating, decommissioning, and all those activities, which are diversifying our -- basically -- our business.

Regarding the -- we think that this structure, which leads to the business unit, sort of, autonomy regarding assets and resources will be more efficient also vis-à-vis the competition. We continue to be more similar to our competitors in the frame of the commercial activity and the operational activity. I don't know if this was the question.

**Michael James Alford** - Citigroup Inc., Research Division - Director

It was. And I guess would you say you would need to formalize more your alliance around with Aker around the SPS and SURF offering?

**Stefano Porcari** - Saipem SpA - Head of Drilling Onshore Division

Okay. Of course, of course. At the moment, this business unit of subsea and SURF has still an engagement commitment with Aker, and we are working in some bids together with this intent on the integrated, let's say, EPCI projects, SPS.

**Michael James Alford** - Citigroup Inc., Research Division - Director

And the other one was just on CapEx. You talked about, obviously, a reduction in CapEx. I'm just wondering what's getting sort of pushed? Is it rephrasing? Or is it just a different plan on re-prioritizing your investment?

**Stefano Cavacini** - Saipem SpA - CFO

Yes. I would say both. It's a rephrasing on one hand and on the other, we are reviewing critically the way we are investing in capital expenditures.

**Operator**

We have the next question from the line of Amy Wong from UBS.

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

Had a couple of questions, please. And firstly, let me join the rest of the line left to wish Stefano good luck in the future. But -- my first question is kind of bigger picture. And I wanted to get your view on -- there's a lot of discussions where governments are starting to restrict export credit financing for fossil fuel projects and also lots of talks from financial institutions, restricting financing for fossil fuel projects. So my question is, how do you -- how are your clients, your customers viewing this? And how are you responding to the potential that this could be a bottleneck around projects moving forward? So that's my first question.

**Stefano Cao** - Saipem SpA - CEO & Director

Amy, so for the moment, we do not have indication or information about your -- what you raised in your question. So it's a neutral answer, I know, but we do not have any response.

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

Understood. Okay. Yes. So it's definitely one of the developing themes, I think, in the industry where investors are increasingly concerned. Okay.

Well, then my next question is just a bit of a housekeeping follow-up. In terms of the project that you flagged in the fourth quarter and offshore construction, in the renewable space. Just to understand how things have moved on in the last 3 months and whether that the situation has deteriorated, stabilized or has it improved?

**Stefano Porcari** - *Saipem SpA - Head of Drilling Onshore Division*

This is Stefano Porcari. At the moment, we are working with our clients to solve the issues. I think that there is a collaborative and transparent interaction between the parties. And we are looking forward to solve, let's say, in the best way possible the situation. We are progressing as we expected. But of course, there is still an ongoing discussion with the client that we have to solve.

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

Okay. And a quick follow-up there is, where -- which stage would you say the project? Is it still very early phase? Or has it moved on to kind of more, like, good moving to critical, like offshore execution at this point?

**Stefano Porcari** - *Saipem SpA - Head of Drilling Onshore Division*

Today, we are in offshore as a cushion, of course, with our assets. And we are progressing, as I said. Of course, we are working with the client to improve the schedule, but it is something that we have to agree together.

**Operator**

We have the next question from the line of James Thompson from JPMorgan.

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

Yes. I would just like everybody else did, say Stefano good luck in the future. All the best for future endeavors. A couple of questions from me. Firstly, I just want to talk a little bit about Middle East. It feels to me that OpEx is getting a little bit more comfortable with the demand recovery and bringing their production back to the market. Obviously, you've made some decent contract wins in the first quarter from Qatar. And now obviously, Saudi looks like it's going to award you some work in the second quarter. Perhaps you could just give us a flavor of the Middle East region, in general, and just how much activity you can see picking up as we head into the second half, thinking about places like Abu Dhabi as well?

**Stefano Cao** - *Saipem SpA - CEO & Director*

Maybe we can give an answer for Onshore -- Offshore and Onshore. Maybe Stefano, you start with Offshore and then Maurizio follow up on the Onshore.

**Stefano Porcari** - *Saipem SpA - Head of Drilling Onshore Division*

I can -- this is Stefano Porcari speaking. Of course, it's a very interesting area for us, Middle East. In particular, there are opportunity in Qatar, as you know, in the Emirates and in Saudi Arabia. At the moment, we are bidding important projects like, in the Emirates, Hail & Ghasha, Umm Sheif. We are bidding even NFE also in Qatar. So I think that there are important developments, and our presence there with the last commercial award is something that we want to consolidate in the long term. I'll leave to Maurizio to complete.

**Maurizio Coratella** - *Saipem SpA - COO of the On-shore Engineering & Construction Division*

Yes. As far as the onshore is concerned, we are seeing some projects that were planned earlier on the -- in the 2020 coming up, in particularly in Saudi Arabia. We are seeing the projects for ADNOC picking up and taking momentum. We are seeing also the other packages of the Qatar LNG expansion coming up. So the Middle East is still remaining an important area of opportunity, I would say more on the upstream than midstream and LNG other than Qatar.

**Stefano Cao** - *Saipem SpA - CEO & Director*

And I also asked something about drilling. Drilling in the Middle East is definitely a very resilient area. It is one of our most important area, both for onshore and offshore. We have not seen any cancellation in this project, only slight -- some temporary suspension, both for onshore and offshore, but very minor. Of course, some pressure on grades. Also, those are temporary, in that effect, long-term backlog or long-term rate. As a matter of fact, we are even negotiating some contract extension right now. So we are very positive that this area -- that area will remain very important for us.

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

Great. Second question, I want to just dive back into Mozambique, if I may. I mean I appreciate you -- it's early days here. But clearly, these surface issues or security issues that are facing maybe not going to take that long to or maybe take a little while to sort out. And as you say, the project is a big one with plenty of inertia. I mean can you give us any guidance about effectively what delay you are sort of feeling yourself for? I mean, 3 months feels like it maybe is too quick a turnaround? And if you can't give us any update on that, do you think you could give us at least some guidance on when you might be able to update us on how long you think this force majeure and the delay may be in place for?

**Maurizio Coratella** - *Saipem SpA - COO of the On-shore Engineering & Construction Division*

All right. It's a very difficult question to answer as things are unfolding, as we speak. We are in close coordination with Total. And you can imagine a project of this magnitude has already accrued significant progress for engineering procurement in term of commitment, and commitments also towards subcontractors. We have equipment mobilized at site, and the suspension should consider what would mean to secure the equipment, secure the value of the project, save the progress accrued so far. And this exercise will require us to interface with hundreds of suppliers across the supply chain, dozens of subcontractors. So it's an exercise that may last 1 month or a little more. So it's too early to assess what could be the, I would say, suspension mode of the project for resumption in months. Or if it is above 12 months, then it requires other actions to be undertaken. So at this stage, I have no information enough to give indication, I'm sorry. As we said, workshops with the client are ongoing and they're going through this kind of exercise. Of course, long bid items -- to give you just the flavor, long bid items, the major purchase orders, major supplies, those are well advanced. So it is to be considered whether it makes sense to complete the supply rather than suspending at this stage, which will burn a lot of value of the project. So all this consideration are in evolution.

**Stefano Cao** - *Saipem SpA - CEO & Director*

Yes. Before moving forward, I realize that I skipped the answer to one of the questions I believe Mick was raising earlier on was to concentrated on the threat to come back to the business. No. And you are asking what, in my view, the support, which can Saipem provide to the building of the new energy environment? Then I think I would certainly seize 2 technologies, which have been a strong part of our history. Certainly, one is related to the management of CO2, something which we have been regularly doing for the last decade. Recently, we have acquired this Canadian company, CO2 Solutions, in order to improve and adjourn our competence. So definitely, CO2 management is one of the fields where I believe Saipem can be stronger. The second one and, again, related to historical reason, but indeed something which is bound to have an extremely important role is the management of hydrogen, management of the hydrogen from production to transport and utilization. Again, in the large number of refineries, almost 60 refineries we will be building around the world to deal with the hydrogen production and handling. As well as currently, we are in Nigeria dealing with the fertilizer -- the building of a fertilizer, and that -- there management of hydrogen resumption, which is an intrinsic part of the process. So I would highlight these 2 segments as the one most significant, without, obviously, denying that there are plenty more we can do also in infrastructure and in sustainable infrastructure building.

**Operator**

The next question came from the line of Luigi De Bellis from Equita SIM.

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**Luigi De Bellis** - *Equita SIM S.p.A., Research Division - Co-Head of Research*

3 questions for me. The first one is on the mix of projects in execution in E&C. How do you expect the mix to develop over the next quarter for both Offshore and Onshore compared to the level of Q1 2021?

The second question on the order intake. Do you expect or do you plan to reach a book-to-bill for 2021, at least 1x considering the current pipeline?

And finally, on the Drilling. Can you provide some outlook for 2021 EBITDA for the division or the trend expected in the coming quarters compared to the Q1?

And finally, good luck, Stefano, in the future. In my view, you performed an impressive job in your journey in Saipem, considering one of the most difficult periods in the history of the sector. Good luck.

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**Stefano Cao** - *Saipem SpA - CEO & Director*

Okay. The business, Offshore.

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**Stefano Porcari** - *Saipem SpA - Head of Drilling Onshore Division*

This is Stefano Porcari. If we are talking about the mix, I think that the prevailing type of contracts that -- in projects that we are going to see in the next month, our conventional projects because not only on the number of projects, but for all conventional or renewable project. But they're not only of the number, but also because of the volume of these projects, which are a large project as you have seen. The value of this project is of \$100 million or even \$1 billion. So the mix will be, in the next months, still a mix where the conventional projects or renewable projects will prevail vis-à-vis the SURF projects.

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**Maurizio Coratella** - *Saipem SpA - COO of the On-shore Engineering & Construction Division*

This is Maurizio. As far as the Onshore, we don't see quarter-on-quarter or -- with respect to the second quarter and their own, any particular change in the mix as we will have the contribution of LNG, and this will definitely compensate eventual slowdowns in Mozambique. The mix we are looking at is extremely diversified, centered on gas. You would see also in the pipelines of opportunities, fertilizer plant; methanol plants in Europe, in South America. Floaters, there is a momentum for floaters. We are pushing seriously 2 big opportunities. So the mix would be pretty much diversified where the upstream will be in the range of 35% to 37%.

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**Stefano Cao** - *Saipem SpA - CEO & Director*

In terms of EBITDA trend, Stefano Cavacini?

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**Stefano Cavacini** - *Saipem SpA - CFO*

Yes. I would start my answer in this way. So before the recent news around Mozambique, followed by total pressure on force majeure, we would have presented to you a business scenario, I would say, broadly in line with the one presented in February or slightly below, but really in that region. So overall, without excluding Mozambique, for the moment, we are forecasting an EBITDA adjusted level slightly below 2020. But it's true that we have to understand the assessment from Mozambique. I think that for the first time in this presentation, we gave you the key drivers of profitability by quarter and year-end for each division. So at this stage, I can recap what we have said by -- for every single division, E&C Offshore probably reached the bottom of the cycle because in the second half we are forecasting a growth.



In the E&C Onshore, we have the big question mark related to Mozambique, even if -- from a cash perspective, we are working to stay where we were 3 months ago. And also from a bended impact, the division is working closely to the client in order to minimize as much as we can the impact in the P&L.

And regarding the 2 drillers. As we said, for Drilling Onshore, we are expecting a second half stronger. And for Drilling Offshore, we are expecting, I would say, a slowdown in the coming quarters, but by definition, increasing the overall in absolute figures the EBITDA. But Q1 has been really a big positive surprise. And probably, we won't be able to replicate exactly in Q2, Q3 and Q4. This is the overall picture by division and for the company. And I repeat again, I think that really is the first time that we gave a guidance for each division, never done and never happened before. But considering the big event of Mozambique, we think that it is fairly transparent to share the vast majority in the Total, is the majority of our information.

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### Operator

We will take the last question from the line of Kevin Roger from Kepler Cheuvreux.

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

Yes. Actually, most of them have been already answered. First of all, Stefano, wishing you all the best for the next journey. I understand that it's probably not the last one that you just had at Saipem.

I have one question for you, and sorry to come back on that one. But for the E&C Offshore, I was wondering why are you guiding for improvements not before H2, meaning that Q2 should be rather in line with the previous 2 quarters? Because at the full year earnings, basically, we're saying that the Q4 performance should not be seen as a kind of proxy. Finally, Q1 is in line, Q2 would be in line. I understand that maybe some projects have been delayed, and especially, for example, Qatar, that is probably happening 1 or 2 months later. But now that the project has been awarded to you and that the activity is probably picking up, why do you not expect an improvement in Q2 in terms of performance for the E&C Offshore division, please?

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### Stefano Porcari - Saipem SpA - Head of Drilling Onshore Division

Okay. This is Stefano Porcari speaking. I mean it's -- I think it's a natural delay of all the activities because, as I said -- as we said earlier, because of this slippage of the activity in Middle East and of -- the late award of the new contracts at the start of this contract, is later on in the year. And as you know, in this kind of projects, the activity at the beginning is quite low and is not -- there is no a complete development of all the spread of the activities, including, for example, from the procurement to the fabrication or the installation phases. So we are in the early stage of the project. So also the progress will be not as expected, of course. But as we said, there will be a gradual recovery in the second quarter. And we think that in the second half of the year, we will have the results that we expect. It's a natural restart of the activities. It's not something particular or specific.

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### Operator

I will now hand back the call to the CEO. Please go ahead, sir.

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### Stefano Cao - Saipem SpA - CEO & Director

Yes. I wish to thank all the participants for the wishes. They have been friendly to me. I think that, that's quite personally rewarding after 6 intense years. I'd just like to refer to the point in this 6 years, and that was about the -- at the end of 2019. And quite frankly, we thought we were out of the bush, and we were just ready to start for a new cycle -- growth cycle, which inherently was part of the long-lasting history of the company. Then the -- obviously, this COVID came up. We have to reshape the way of tackling the business from the personal point of view, personal for all the management and for the people, the women and men of our organization. I think we cover a lot of ground. We learn a lot in terms of restructuring in the business of the of the company. That has been a very intense period in any case. Smart working is something which -- it was already part of

the new way of running the business, a more digitalized way of running the business. There has been a great acceleration. I believe that the response which the company has put in place has been very positive. So again, just to put things in perspective, I believe that the level of resiliency of the company has been growing substantially. And I think this is a very good proxy for the much better future going forward. So with this, thank you very much for your kind words, and I think we can close the session. Thank you very much.

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**Operator**

That concludes the conference for today. Thank you for participating. You may all disconnect.

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