REFINITIV STREETEVENTS

EDITED TRANSCRIPT

SPMI.MI - Full Year 2020 Saipem SpA Earnings Call

EVENT DATE/TIME: FEBRUARY 25, 2021 / 8:00AM GMT

CORPORATE PARTICIPANTS

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

Stefano Cao *Saipem SpA - CEO & Director*

Stefano Cavacini *Saipem SpA - CFO*

Stefano Porcari *Saipem SpA - COO of the Offshore Engineering & Construction Division*

CONFERENCE CALL PARTICIPANTS

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

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

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

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

Mark Wilson *Jefferies LLC, Research Division - Oil and Gas Equity Analyst*

Michael James Alsford *Citigroup Inc. Exchange Research - Research Analyst*

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

Vladimir Maximovich Sergievskii *BofA Securities, Research Division - Research Analyst*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to Saipem's Full Year 2020 Results. (Operator Instructions)

I would now like to hand the conference over to your speaker today, the CEO, Stefano Cao. Please go ahead, sir.

Stefano Cao - *Saipem SpA - CEO & Director*

Good morning, and welcome to Saipem's Full Year 2020 results. I'm joined today by Stefano Cavacini, our CFO; and Max Cominelli, our Head of Investor Relations. We have also got on the line our heads of divisions, Stefano Porcari for Offshore E&C, Maurizio Coratella for Onshore E&C, Marco Toninelli for Drilling, Francesco Racheli for XSIGHT; together with our General Counsel, Mario Colombo.

2020 has been a very difficult year, but while uncertainty remains, the rollout of first vaccines does offer some light at the end of the tunnel, albeit the timing is still uncertain. At the end of October, we shared with you our view on near future. We have made significant progress since then, but 2021 is certainly not yet a back-to-normal year.

Our focus has been on navigating 2020 safely, with our top priority the health of our people. The actions we took last year have paid off and also protected our financials. Volumes recovered toward the end of 2020 as we had expected, but margins remain subdued. E&C Onshore margin accelerated while the E&C Offshore saw a deceleration.

We have successfully delivered our 2020 efficiency plan, reducing costs by EUR 190 million, of which EUR 45 million structural, and we have managed to reduce our CapEx by around EUR 280 million versus our former guidance. And our effort is continuing with further actions in 2021, promptly reacting to delayed recovery. We are pleased with our strong performance in terms of net debt, which closed at EUR 1.2 billion.

2020 also saw almost EUR 9 billion of new work won, leading to a book-to-bill ratio of circa 1.2x, and this amount includes the sizable offshore award in Qatar we have announced earlier this week, which had been substantially negotiated during 2020. This contributed to our backlog which now stands at EUR 25 billion. Our sizable backlog along with the expected recovery after pandemic of the commercial activity position us well for midterm recovery post 2021, with an expected substantial improvement of our financials. And we will continue along this path while supporting our clients' energy transition evolution.

And let me be very direct here before handing over to Stefano for the financial as I think we should clear up what I consider a misconception. When it comes to the energy transition, which is more and more our core business, it is not only about renewables, it is also about gas. I do believe that there is no energy transition without gas. We have a leading position in gas. Our renewables infrastructure business has grown in our backlog, and we will do more as the market evolves further.

Finally, the paradigm shift caused by ESG is something we have fully embraced and you will see later, already comes with clear actions and targets. After COVID-19, when the economic recovery will begin, Saipem will be in a privileged position to be a leader in green and infrastructure.

I'll now hand you over to Stefano for the financials before I update you on strategy.

Stefano Cavacini - *Saipem SpA - CFO*

Thank you, Stefano, and good morning, everyone. Our full year 2020 revenue decreased by 19.3%, a slight improvement versus the first 9 months. As expected, Q4 revenue increased on a quarter-quarter basis, mostly driven by E&C Onshore.

Adjusted EBITDA, as you can see, was EUR 614 million, decreasing year-on-year by around 50% due to lower revenues in both E&C and drilling divisions. As a result, full year adjusted EBITDA margin was 8.4%, 70 basis points lower than 9 months. In Q4, we had a sequential margin improvement by E&C Onshore and both drilling divisions, more than offset by a decrease in E&C Offshore. Finally, adjusted net result was negative at EUR 268 million, driven by the decrease in adjusted EBITDA, which was partly offset by some positive dynamics below the line, in particular income from investments, lower financial charges and minorities.

Now looking at divisional performance at Slide #8. E&C Offshore revenues in 2020 decreased by over 28% year-on-year, similar to the first 9 months, reflecting the impact of COVID-19, causing a shift of activities and new awards. Revenue decrease was triggered by reduced activity in North Africa, Middle East, Sub-Saharan Africa, partially compensated by higher volumes in Far East, the Caspian area and Italy.

As you might recall, for Q4, we were expecting a revenue improvement versus Q3, which did not materialize. Despite an evolution of the pandemic worse than expected, several geographies recovered activity in Q4, but at the end, this was more than offset by slow progress on a specific project in North Sea, for which we recorded the full impact on financials for the entire life of the project all in 2020 according with international accounting standards. On the positive note, we had good commercial momentum with the announcement of sizable awards in both gas in Qatar and renewables in France.

Adjusted EBITDA ended the full year at EUR 235 million with a margin of 8.5%. The year-on-year decrease was due to lower revenue; a different segment mix due basically to the phasing out of major high-margin EPCI projects in Africa, which were still flowing through the P&L in 2019; and some slow progress I've just mentioned. Let me remind you that during 2020, the first quarter was broadly unaffected by the pandemic and posted a margin close to 13%, which is far from what we experienced in the following quarters due to revenue trend, mix and some slow progress. We expect 2021 to be a transitional year for the division, as you will see later on. Backlog to be executed this year underpins our expectation for revenue higher than 2020.

Now moving on to E&C Onshore. Revenue decreased in full year by around 7%. This trend reflects lower activity in Caspian and project rephasing which occurred mainly in the Middle East, partly offset by Sub-Saharan. As expected and shared during the previous results call, in Q4, we saw a volume recovery versus Q3, mainly driven by Sub-Saharan Africa and a slight improvement of adjusted EBITDA margin.

Full year adjusted EBITDA closed at EUR 193 million with a margin of 5%. The outcome of certain positive negotiations with clients has contributed to our full year performance. Our margins were resilient in Africa, part of the Middle East and to a certain extent, Europe. As you know, for E&C

Onshore, we have always mentioned the margin in the mid-single-digit area. This ambition is already reflected by our 2020 financials. And I would say that based on current visibility on the backlog to be executed in 2021, we expect for the full year higher volume versus 2020.

Now turning to our drilling performance in Slide 9. In offshore, our top line decreased by 47%, mainly driven by deepwater drillship Saipem 10000, along with Scarabeo 7, 8 and 9. As commented in the previous call, activity shifting, blended and extended, for the 2 flagship deepwater vessels is being remunerated with standby rates. As anticipated, Q4 saw a quarter-on-quarter increase of revenue with Pioneer and Scarabeo 8, in which activity restart is partly offset by some standby in Middle East.

Adjusted EBITDA was back in black in Q4, so good news, albeit with a full year decrease versus 2019 at EUR 73 million with Q4 margin at 20%. This margin level was achieved through higher revenues in Q4 versus Q3 alongside cost efficiency offsetting costs associated with vessel idleness. As of today and as you will see later in the fleet utilization chart in the appendix, we see 2021 still, once again, as a year of transition. While 2020 was characterized by Q1 COVID-free, 2021 level of activity will be fully affected by the pandemic, and this should weigh on EBITDA margin. For these reasons, we don't foresee a recovery in 2021.

In drilling onshore, revenues decreased by around 22% year-on-year. Key drivers were lower activity in LatAm and in Middle East due to the effect of temporary suspensions of rigs, as communicated in previous quarters. Adjusted EBITDA consequently decreased by 11.5%, mainly due to the reduction of volumes in Latin America, partly offset by some European activity. The Middle East at the end was overall stable. Adjusted EBITDA margin improved by 330 basis points year-on-year, up to 27% due to our resilient performance, cost efficiencies and the contribution also of European operations.

Still on a positive side, our LatAm operations are gradually restarting. Q4, as anticipated, saw a volume decrease whilst margin was very resilient and stable versus Q3. In full year 2021, we expect broadly stable top line and slightly lower EBITDA caused by rig suspensions which will continue in particular in the first half. From the second half, most of the suspended rigs are expected to restart operations.

Slide #10. Here, we show the bridge from adjusted to reported net result. Our adjusted net result was negative, as I've already commented on before, by EUR 268 million. As you might recall, since Q2, we've identified the special items, the cost incurred to preserve the health and safety of our people and operations during the COVID-19 pandemic. The amount in full year 2020 was around EUR 110 million, of which EUR 11 million in Q4, a much lower amount compared to Q3. This amount includes costs directly attributable to COVID-19, summarized in the slide. Currently, we expect a significantly lower impact from these costs in 2021.

The remaining elements in the chart are noncash impairments we made in the first half of the year related to a review of the assumption on the drilling offshore business. Finally, you can see in the chart approximately EUR 160 million, the majority of which was presented in the first 9 months and includes write-downs associated with the efficiency plan and other items. The increase in Q4 versus Q3 is mostly due to provisions for redundancy of around EUR 30 million. After these special items, we closed the 9 months with a reported net loss of around EUR 1.1 billion, I would say not far from what we saw in the first 9 months of 2020.

Moving on to Slide 11. As our CEO mentioned earlier, in a certain 2020, we moved in -- sorry, in an uncertain 2020, we moved quickly to preserve our financials. Last year, we succeeded in delivering OpEx efficiencies of EUR 190 million, of which approximately EUR 45 million structural. We've also managed to significantly reduce our CapEx by around EUR 280 million versus our former guidance of EUR 600 million. And in 2021, we launched actions which will bring further structural efficiencies in the region of EUR 30 million related to this year particularly. This new effort adds to the achievement of 2020. And I would like to point out that in case of delayed recovery, we will promptly launch new actions to preserve value whilst keeping up capacity to operate and execute our sizable backlog.

Looking now at net debt evolution, Slide 12. On the right and left of the chart, we reconcile the impact of IFRS 16 on the net debt. The light blue shaded area shows the variation of net debt during the year on a pre-IFRS 16 basis of EUR 400 million. Key drivers were: firstly, cash flow, which was positive, as you can see. Secondly, we posted around EUR 320 million of capital expenditures. Our full year target was below EUR 400 million, but we closed much lower than EUR 400 million due to positive phasing in Q4.

Others, including delta working capital, increased by EUR 260 million, which is a much better result compared to the first 9 months. Working capital was kept under control. In fact, it's worth noting that EUR 260 million includes EUR 110 million of COVID-19 costs and over EUR 100 million of other items, among which dividends paid and purchasing of treasury shares. And net of this, the pure working capital was broadly flat in 2020.

One of the key drivers of working capital during Q4 was the collection of major overdue receivables that we were planning to cash in from 2021 onwards. Our commercial effort paid back earlier than expected, honestly. And after lease liabilities shy of EUR 400 million, we closed with a net debt post IFRS 16 around EUR 1.2 billion, which I would definitely call an outstanding result.

Summarizing 2020, I must say that we had no issue at all on rephasing CapEx and keeping working capital fully under control. The real drag of our cash flow was the significant reduction of operating cash flow from EBITDA. That, at the end, was EUR 0.5 billion lower than our former initial guidance beginning of 2020.

Let's now move to my final slide, #13. In this chart, we show in gray the portion of net debt from IFRS 16 lease liabilities. Looking at the shaded area in the chart. A year ago, we issued the guidance on pre-IFRS 16 basis of net debt below EUR 700 million, which after IFRS 16 impact would have landed to below EUR 1.3 billion for the full year.

As you recall, we withdrew the guidance in April. And during 9-month conference, I provided a directional indication for the full year 2020. If you remember, I said close to but not lower than Bloomberg consensus, which meant a net debt post IFRS 16 just above EUR 1.6 billion. At the end, we closed full year 2020 at around EUR 1.2 billion post IFRS 16, I must say, broadly in line with our original guidance pre COVID-19, which honestly has been impressive. This means that we reduced almost EUR 0.5 billion net debt on a post IFRS 16 basis or shy of EUR 300 million pre IFRS 16 in only 2 years from 2018, notwithstanding the COVID situation.

We are very pleased with this result obviously, but for the sake of transparency, we have to say that approximately half of Q4 positive dynamics were triggered by favorable phasing of 2 elements circled in the chart: one -- sorry, firstly, I can say CapEx, so a further rephasing at year-end and lower than expected by roughly EUR 50 million. Secondly, some projects brought cash in upon delivery. Finally, as I mentioned and as you can see in the chart, the single largest item, working capital benefited from a major collection of overdue receivable in Q4.

Now finally, let me say just a few words about 2021, about net debt evolution. This year, we expect higher CapEx after the rephasing we had in 2020. EBITDA is expected at the level similar to 2020. And for that reason, it's not -- EBITDA is not able to, I would say, fully finance a natural slight increase of working capital, not material, honestly, which is normal in our business as projects progress further in the procurement and construction phase. Under this assumption, and to be clear, it's not a firm guidance, we currently expect net debt to increase in 2021 compared to year-end 2020 but at the level not lower than the current market expectation, which is around EUR 1.5 billion post IFRS 16 and will have an increase especially in the first half of 2021.

Now with this, I reached the end, and I hand the floor back to our CEO, Stefano Cao.

Stefano Cao - *Saipem SpA - CEO & Director*

Thank you, Stefano. Looking at E&C Offshore. In the offshore, the expected recovery of both revenue and margins in Q4 versus Q3 did not materialize for the division. However, as you all well know, a quarter is not a proxy for business performance. I do recall that exactly a year ago, I was commenting a performance of -- in excess of 18% for the offshore E&C business and I was explaining that, that was largely the result of the unwinding of a number of profitable projects, which unfortunately come to the end, to completion while, at the same time, they've not been substituted by the new awards. So the slow progress in the North Sea has offset the the positive evolution elsewhere.

Indeed, some projects with slow progress in the third quarter, for example, in Africa, have recovered in Q4. Some of our assets in the E&C Offshore restarted operation with progress in the Americas, Asia Pacific, Caspian, Middle East and Mediterranean. Our clients are moving ahead, but it will take longer than anticipated just a few months ago to achieve a substantial recovery.

Turning now to E&C Onshore key activities. The projects listed in Slide 18 represent around 75% of E&C Onshore backlog. I will just spend a few words here on 2 projects.

First, Mozambique area 1 LNG, top left of the slide. The project is on schedule, but the situation in the country is still unsettled. We are managing security at the site in full coordination with our client, and we had to delay plans to bring more people to site. We are also evaluating with clients a modular approach. We arranging the activity flow in order to deliver first activities that do not require too much physical presence on site.

Second, Tangguh in Indonesia, bottom right of the slide. At the end of last year, we experienced a COVID-19 outbreak and had to significantly reduce the number of people on site again. The situation has been well managed, and we are now remanning the site. These were the key situations we had to manage in Q4, and we can still say the bulk of our onshore backlog is substantially derisked, thanks also to our positive cooperation with clients.

Commercial development in Slide 17. Despite the tough year, we had positive commercial development in Q4. We announced 2 downstream non-oil projects onshore, the Burrup Urea in Australia and the ammonia plant for Haifa in Israel. In offshore, we signed a contract with the Italian Navy for the utilization of our ROV technology for submarine rescue activity. We have also counted in Q4 the major offshore contract in Qatar announced a few days ago and I will comment on my next slide. This project acquisition is part of the total backlog at the end of 2020. As I said, the year ended with a book-to-bill at around 1.2x, with Q4 being a strong quarter with book-to-bill at 1.7x.

In Q4, we have also signed new agreements, first, with Eni but also with Danieli and Leonardo a few days ago to work together on decarbonization opportunities in Italy and internationally. Our commercial developments in 2020 mirrored the steps we are undertaking in the energy transition. Circa 90% of last year's award were non-oil, including a nice cast of renewables, infrastructure and, of course, gas.

Slide 18 shows the major announcements 2021 year-to-date, starting with the Courseulles offshore wind farm in France for the design, construction and installation of 64 foundations bearing turbines. This sizable contract worth around EUR 460 million adds to our E&C Offshore backlog for renewables.

The second contract was announced a few days ago. It is a large contract with Qatargas for the development of the North Field Production Sustainability offshore. We will take care of the EPCI of offshore fixed facility, intra-field pipeline, subsea cables in addition to some brownfield modification at existing facility. This is a strategic offer project for Qatar, aiming at expanding the capacity of the field. Through this project, we will further consolidate our presence in the country after the Barzan successful project. In addition to the letter of award, we have also received a letter of intent for the export pipeline project, which is only subject to contract finalization.

Let's move on to backlog. Group backlog including nonconsolidated projects stands above EUR 25 billion. We confirm that we have not experienced major cancellation in the backlog. Around 75% of E&C backlog is non-oil related. The majority or 66% is gas, keys to energy transition. This portion also includes midstream, downstream and fertilizers. Renewables and green technologies represent 4% of the E&C backlog and are mostly wind farms while infrastructure and other non-oil are around 6%.

Coming to the backlog distribution by year. First, a caveat. The chart is based on current visibility in what is still a changing and challenging environment. Derisking measure and adoption of new schedule in E&C Onshore are factored into this chart. E&C Offshore includes the recently announced awards in renewables and gas. The split by year of nonconsolidated portion of backlog is shown in the lower part of the slide. In conclusion, as you can see, 2021 and '22 are certainly very well covered.

In terms of commercial opportunities, for the E&C division, we still see a very sizable pipeline of circa EUR 23 billion of projects. The figure is slightly lower than last quarter, reflecting a number of new contract wins in Q4. In Middle East, in particular in Qatar, activity moved down. We are awarded a good portion of the offshore work.

The pie chart at the top right of the slide shows how the energy transition workload is set to continue growing, especially on renewables, which represent 11% of E&C opportunity as opposed to 4% in our backlog. The mix of opportunities for the upcoming quarters is evolving fast towards new energies, having totally reviewed the outcome of a really challenging year to say the least.

I will now move to the strategy part of today's presentation. Let me start by reminding what Saipem is. We are a business integrator and a solution provider in energy and infrastructure. Our contractor DNA is at the center of our strategy. I've overseen this strategy since 2015, and in the last couple of years, we have accelerated our role as a pivotal player shaping the low-carbon world.

Diversification is key. We have been operating for over 60 years, and we have been at the frontier of technological developments in our traditional sector. It comes naturally to us to apply our skills to new segments.

We are partner of choice for the decarbonization agenda of our historical and new clients. We master CO2 management and hydrogen as well as operating a fleet which is developing fixed and in future, floating wind farms. With XSIGHT, we position ourselves as an innovation engine through early client engagement. Whenever we can complement our portfolio, we partner or we even look for bolt-on acquisition. Digitalization brings cost-effective and efficient solutions.

In terms of effective organization within divisions, these are customer-oriented and led by a leadership team with recognized experience. In this respect, I'd like to share that we have recently reshuffled our leadership team in order to promote internal cross-fertilization. As you can see, we are also now actively looking for strategic option for drilling. And both our drilling divisions are now headed by 1 executive, Marco Toninelli.

Finally, we have to be financially savvy. First and foremost, we have to ensure we are deploying resources in the best place for the efficient operation of the business while continuing to manage our working capital carefully and maintaining a sound financial structure. Among our peer group, we have one of the most future-proof technology portfolio, which is illustrated in the slide by key application. Some of them are being marketed. Others will underpin future development.

We introduced a similar slide a year ago. Well, 12 months later, I must say that the picture is developing fast. We are a truly diversified group with a combination of secular and cyclical exposure for long-term growth. Among new energy, there are, for instance, offshore fixed and floating wind, floating solar, hybrid solution for onshore and downstream and offshore field.

In the longer run, we see ourselves developing more towards CO2 management; hydrogen, blue first and green afterwards; all the way down to advanced biofuels, waste to products and emerging renewables such as marine current and altitude win. In a nutshell, we are not going after a few verticals, but we cover a broader spectrum of potential development. Finally, our portfolio technology and expertise is so heterogeneous that it allows us to explore adjacent segments, such as floating tunnel, offshore geothermal and deep sea mining.

You can see what we have achieved so far in our energy transition journey on Slide 25, and this journey started a few years ago. Leveraging on our key enablers, first and foremost, people, but also project management, asset and technology, we were able to transform ourselves. Our backlog went from high carbon to lower carbon in 2020 with oil representing less than 25% compared with 50% at the end of 2016. Gas is the natural enabler of the energy transition. Going forward, we aim to do more renewables, green, including decommissioning, and infrastructure.

Sustainability is at the core of our business strategy, overseen directly by me and by the Board. The way we think and report about sustainability starts from our stakeholders who are involved in our annual materiality assessment through which we set priorities. Top management's performance and remuneration is also measured with a substantial percentage against the ESG targets such as GHG emissions, safety and diversity. Saipem is top ranked among peers and often mentioned as a champion of ESG within its sector. We are included in key sustainability indices like Dow Jones and FTSE4Good.

We truly believe that a sustainable strategy is fundamental to win in the energy transition space and is central to future value creation, and we are driving ESG performance ahead with a target to significantly decrease GHG emissions. We have committed ourselves to reduce Scope 1 and Scope 2 emissions by 50% by 2035, with Scope 2 already net 0 by 2025. Clearly, there is more to come, but this is a major step forward, a less environmentally impactful Saipem. With our offer to clients through renewables and solutions such as CO2 sequestration for high-impacting industry, we will go even further, [leading the broader GHG reduction journey.

In E&C Offshore, low carbon is already a reality. We are executing 3 EPCI projects for fixed wind farms in addition to fabrication activities at Karimun yard, another heavy lift by Saipem 7000. Wind farms already account for 20% of E&C Offshore backlog.

We focus on EPCI, and we operate a variety of vessels suited for the activity: Saipem 7000, as you know; but also Saipem 3000, which will take on the Courseulles project in France we recently won. And this is not it in terms of assets. Our fabrication yard in Karimun provides us competitive edge. In a nutshell, we do not need in the foreseeable future major investment to remain a competitive player.

Floating wind farm will be the natural evolution, dramatically expanding the possibility for installation. For both fixed and floating, we will be looking at an average addressable market of circa EUR 4 billion per year until 2023. But the low-carbon future for the division is not only wind. We target many other streams ranging from CO2 transport and storage to the decarbonization of subsea by electrification, subsea processing and use of drones.

When it comes to innovating XSIGHT is center. Let's see some example in the next slide. XSIGHT is involved in many innovative projects to shape the low-carbon world. In the field of hydrogen production, we developed a modular electrolyzer concept for repurposing of this huge offshore platform, called Suiso, to be powered by floating wind farms or floating solar parks for the production of green hydrogen. We are starting a practical application of this concept of offshore Ravenna in Italy.

Slide 30 focuses on fields that are by nature closer to E&C Onshore business. We master the entire CO2 value chain. Over the years, we have designed and built over 70 CO2 removal plants. We have acquired a promising post-combustion capture technology in 2020, and we have entered into agreements with primary partners. We see a market for engineering services and EPC linked to CO2 of between EUR 3 billion and EUR 5 billion annually for the next 5 years, which is definitely short term for this segment.

Similarly, for hydrogen, we have the experience, the skills and the positioning as technology integrator. Along the entire value chain, we are ready for blue and preparing for green.

To conclude this section, I want to focus your attention on infrastructure. We have a strong track record in high-speed railways, and we can leverage our competencies for the development of smart infrastructure for growing market in sustainable mobility and smart cities. We estimate an addressable market of circa $20 billion per annum to 2024.

Our expertise also allow us to look at nonconventional opportunities like the crossing of Messina Strait via a subsea channel. Finally, on infrastructure, next-generation EU program may represent a substantial opportunity for new projects in Italy. We really look forward to take a part in the recovery of our home country.

We are almost in March. We can say that 2021 business scenario still remains heavily impacted by the pandemic, particularly at least the first half. For this reason, we took the decision, in continuity with what we have done in the past quarters, to provide a business scenario rather than a firm financial guidance.

Our backlog provides support to revenue in 2021, and as projects progress according to current visibility, we expect an EBITDA adjusted at least similar to full year 2020. In order to support the business, we expect CapEx at around EUR 450 million in 2021. Beyond 2021, as vaccination campaign evolves, backlog unwinds and supported by execution efficiencies and further recovery of commercial activity, we expect to be back to EBITDA adjusted growth and to restart the deleveraging path.

Let me close the presentation with a few final comments. There is no question that 2020 has been one of the most challenging years the world has faced. And like many others, our industry was badly affected, but we have safely navigated the year, emerging with a solid balance sheet and ample liquidity. This is in large part thanks to the huge efforts of our employees, contractors, partners and suppliers who kept our operations running safely and efficiently.

It is also though a reflection of Saipem's resilience and the significant progress we have made in transforming the business in the years before the pandemic. This transformation put the business on a firm financial footing but also saw us diversify our services into renewables and infrastructure, which now account for a larger portion of our revenue and backlog than they did in 2016. This was possible by leveraging our mindset on innovation and new energy technology. And when we look ahead, it is clear the transition away from fossil fuels is continuing at pace despite the pandemic. Indeed, we may have actually accelerated over the last year.

While we don't know what exactly the pace of recovery will be in 2021, we do know that Saipem is well placed for it. Our high-quality and diversified backlog, efficient operating model and strong financial base combined with the expertise and track record of our people position Saipem as a capable technology integrator for midterm growth, helping to shape the new low-carbon world. We are certainly ready for the future.

With that, let me now hand you over for questions. Thank you very much for listening.

QUESTIONS AND ANSWERS

Operator

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

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

I have 2. The first one is on margins. I think there are 2 areas where margins have been below probably expectations in Q4 and also for the guidance for 2021. In Q4, I suspect, based on what you said in the opening remarks is the North Sea project. So I was wondering whether you can give us maybe more color on that and whether that project would still below margin in 2021. I -- can still affect negatively margins in the division in 2021.

And the second one is on the green opportunities. Can you talk about what you see in terms of green opportunities in 2021? I think in the slide, you mentioned EUR 4 billion of addressable market. I suspect there could be some upside to that. And I was wondering, yes, if you can maybe say maybe a few words on potential opportunities this year in terms of green opportunities and renewable offshore wind.

Stefano Cao - *Saipem SpA - CEO & Director*

Okay. Thank you for the question. Margin, I think I had the opportunity to comment already on the margin of a quarter not to be considered as a proxy for the margin of the business going forward.

You made reference to the North Sea. You know that, by the way, we account projects -- whenever we encounter difficulties, obviously, we have to account all of them at the moment you realize that there is a difficulty. So to give you a straight answer and according to the present visibility, we do not expect to have a further impact coming from the specific project. However, I think it is worth confirming the fact that it's not as much as a blip in a project. It is the fact that, obviously, there was not a counterbalance from better project elsewhere due naturally to the situation.

In terms of future opportunity on the -- on clean, I think that we -- the large portion of it, they can be identified in the onshore E&C. And I mean just to give you a little bit of color, there is an opportunity which we are pursuing, for instance, just to put a few examples, around the world in gas, for a gas treatment plant in Angola. Then we have a number of opportunities for floaters related to gas production in particular in Brazil.

Certainly, we look at infrastructure opportunities like the Italian infrastructure, for instance, the building of motorways in north of Italy. There is a petrochemical plant, gas driven, in Poland. There are a number of opportunities in the area of the fertilizer in various countries in the world. And in particular, I would say that Qatar has accounted for a significant number of this opportunity. These are things on which we are putting forward bids, we are negotiating contracts.

Then if you look at the more -- I wouldn't say futuristic but things which will take longer, and these are things -- projects which are related to the CO2 sequestration and hydrogen. You are certainly aware that we are proposing the build of a combination of wind farm and floating solar offshore Italy, which -- whose electricity produced will then be utilized for the green hydrogen production. We are proposing ourselves as well for a number of decarbonization opportunities within the next-generation EU in various area of Italy. So this is a little bit to give you a flavor of what is going on in our portfolio.

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

And just going back to the guidance for 2021. You mentioned flat EBITDA margin year-on-year. I appreciate the divisional color that you provided before. I was wondering, what do you think is the main reason for margins not recovering faster in 2021?

Stefano Cao - *Saipem SpA - CEO & Director*

I think the premise of my presentation was that we are almost at the end of the second month of the year, and quite frankly, we don't see substantial sign of the situation improving. So I think we have done what we always do. I mean we make the best assessment and evaluation based on the present visibility. So the present visibility is that we do not expect improvement in the scenario before the second half of this year. So this is the reason why we have decided to put forward the expectation of an EBITDA level flat for the rest of the year.

Totally different situation is the -- for the subsequent year. There is no doubt that if we do not have sufficient visibility for 2021, we can certainly expect that 2022 will definitely be better. So in terms of expectation, based on the strength of the backlog which we have based on the opportunity which we are dealing with at the commercial level, we certainly expect to go back to the level of EBITDA which were familiar with us in a not-too-distant future, just look at 2019, which was the last undisturbed year.

Operator

We have the next question from the line of Kevin Roger from Kepler Cheuvreux.

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

I'm really sorry but I will go back on the E&C Offshore margin performance and outlook for 2021. I was just, let's say, wondering if you can, in a way, reassure us that there is no major delay, over cost, et cetera, on specific projects and that you have some risk for 2021 on those ones. I appreciate that you say that for the one in the North Sea, you said that you do not expect, let's say, any additional over cost on this one. But to have, let's say, an EBITDA margin at 1 point -- less than 2% in Q4, it's really something that surprised me on the negative side this quarter, so sorry for that.

And then when we think about the outlook for 2021, I understand that the Q1 benefited -- Q1 2020 benefited from a pre-COVID environment. But considering the poor performance in Q4, why should not the margin improve in 2021 if you do not expect to have, let's say, similar quarter with over cost, et cetera, that you faced in Q4? That's the first question.

And the second question is maybe, in a way, to help us. When you announced the recent contract for North Field east, the EUR 1.7 billion, you say that basically, you had also a letter of intent for another scope of work. Could you help us to quantify the potential value of this contract -- of the letter of intent, please?

Stefano Cao - *Saipem SpA - CEO & Director*

Okay. Margin of the E&C, certainly, I said very transparently and openly that the margin for the fourth quarter was disappointing for us, first of anybody else. Having said that, I had also the opportunity to recall that you cannot take a quarter as a proxy. I referred to the fact that -- if you remember the discussion we were having in the fourth quarter of last year, we were talking of a sort of a positive blip in excess of 18%, and we were very transparent in saying don't take it as a proxy. So that was not a proxy. And the margin of the fourth quarter is definitely not a proxy.

In terms of the specific -- for the way we account projects, and I think this is quite important, the moment we realize that there is a loss, we have to account a loss altogether. So that is the reason for the substantial impact in the quarter.

Having said that, E&C was, is and is bound to remain the core business of Saipem, is the stronghold of our future. As I -- as we continue to say all along, certainly, we are experiencing difficulties. We have seen the unwinding of very profitable project of the recent past, the Egina of this world, the Zohr of this world. They were expected to be substituted by similar projects originally that did not occur for the reason we all know.

We have a pipeline which is awarded in Australia, Scarborough, to us, but which is not -- obviously, the final investment decision has been postponed. We have a major opportunity in Mozambique for Eni, which, again, the final investment decision has been postponed and we don't know when it will happen. We expect in the second half of this year, but certainly, we do not have the visibility. So I think my comment overall is that, obviously, the results are closely tied to the combination of the contribution coming from all the projects. In such an instance, due to the specific COVID situation, we could not start and undertake new projects substituting those which were getting to an end, particularly those which have been very fruitful and positive for the division.

In terms of the letter of intent in Qatar, the letter of intent obviously will be duly announced and formalized. We are in the process of finalizing the contract document, but I can say that we are talking of something well in excess of EUR 1 billion.

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*

A couple of questions from me. Could you talk about -- elaborate on your floating wind work as you're tendering for it? Could you talk a bit more about the tendering environment, how competitive they are? Help us understand how that competitive environment for that type of work compares to, say, the competitive environment for offshore oil and gas work. So I'll start with that question, please.

Stefano Cao - *Saipem SpA - CEO & Director*

Thank you. Floating wind, obviously, is one of the technology which we have largely referred to, floating. I think as part of the portfolio, we have -- I think it is, first of all, a technology, which we have developed over the years. You know that we have patented the XSIGHT float technology. That is something which is specific to us, and we shall rely on particularly.

We have a list -- on timing, I cannot commit on timing, but we have a list of 300 megawatts of floating by 2022 and 7 giga by 2030. We expect this to develop the floating wind market in Europe in particular but also in Asia and U.S. And obviously, what we consider our strengths in this field is the fact that we have a proprietary technology which we are offering.

Last but not least, within the frame of the next-generation EU, we are already discussing an initial development for floating in -- applied to the Mediterranean Sea, so a process which, first of all, we need to measure and probably identify the proper sites. So we have put forward an offer to identify the area. These are, in particular, in the southern Adriatic Sea and in Tyrrhenian Sea, southern of Sardinia where there seems to be the conditions. So those are the areas within the Italy where we would certainly pursue such an opportunity.

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

Great. That's very helpful insights on certainly longer term. Just want to go back to the near term. Just -- and back to the offshore E&C margin. Perhaps I'm going to ask the question in a slightly different way just to understand like how this North Sea project ended up in this position where you had to do what appears to be a quite large provision.

We understand that Saipem did a fairly comprehensive risk management program, and then over the last few years, projects are supposed to have very good contingency. So just wanted to understand what happened in this particular project that resulted in going down this route of having quite a bit of cost overruns that couldn't be covered by the contract value.

And so just to understand a bit more about that. And then secondly, maybe just to -- excluding that -- provisions that you had to take on this project, what were your offshore margins on an underlying basis?

Stefano Cao - *Saipem SpA - CEO & Director*

Okay. Let me say, first of all, that as you may expect, there is a commercial negotiation ongoing, so I cannot be very specific in the explanation. However, I can tell you that the bulk of discussion are related to the so-called to-rely-upon information, which are related to the soil generally. That is the bulk of the discussion.

Obviously, there is a discrepancy which we see between what we have been provided with at the time of tender and what actually have been provided at a later stage. So I think that should give you a flavor of what are the discussed ongoing at the moment. Then for commercial reason, I find it difficult to comment.

In terms of underlying, I think, again, this is a bit difficult question to address, but we would be pretty much in line with the margins of the division, more or less. Then I don't like to put the blame all on one situation because this is not the way we work. We have almost 30 ongoing projects in parallel. In normal circumstances, and in particular, that has been the rule of the game for the offshore E&C business, if there were some issues in one project, there were some provisions being released on other projects. Due to the present circumstances, there has been an issue in one project which could not be offset by provision on others. So that's the way you should look at it.

Operator

We have the next question from the line of Nick Konstantakis from Exane.

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

A few, if I may, please. I'll stick briefly with the Offshore E&C theme. I just want to ask about the mix actually going to 2021. I mean I understand that the project -- understand that you've taken the provision and this is done. Excluding that, when you think about your mix in 2021 versus 2020, can you make any comments on how that evolves? And I guess to understand -- or to get back to, say, double digits, do we need kind of higher volumes? Or what kind of revenue can we achieve in that given the current mix that you have?

Then secondly, on the CapEx, if I may, please. Can you please explain the year-on-year increase? I guess part of it is really phasing, but it just seems like a stubbornly high number. When can we go into a lower number and kind of see more free cash flow into the business?

And lastly, if I may squeeze that in, XSIGHT has been pretty important for the strategy in recent years, you've been obviously quite successful there, and becomes more important given the new awards. Can you give us an idea of the pull-through you have managed to achieve, i.e., orders which have done the early engineering to XSIGHT and you managed to convert it into a full EPC scope?

Stefano Cao - *Saipem SpA - CEO & Director*

Okay. I think the first question was again on the offshore margin. We shall indeed go back to double-digit margin for the offshore. Personally, I have no doubt whatsoever. The issue is timing. I mean we have seen the history of the business. We have the know-how. We have the technology. We are working on the innovation to develop new technology.

You heard the reference I made to the utilization of the ROV technology, which is even beyond state of the art for the building of this rescue vehicle for a submarine. So I mean I said it already, but I'd like to repeat it. Offshore E&C was, it is and is bound to remain the core business of the company. So you should not have any doubt that the situation will recover. The issue is timing.

In terms of CapEx, the issue of CapEx is something which is quite important and something which we debate extensively in the organization. According to what I said, we do believe that there is a recovery. We do believe that we'll be party to this recovery. Then it is consequent that we should prepare ourselves, and certainly, the CapEx expenditures are the natural support for the preparation to the future scenario.

So at some stage -- we have delayed and delayed and we have reduced the CapEx, and you have seen how much in 2020. But going forward, certainly, we do know that we cannot continue. Being such a strong believer in the future, we need to increase the expenditure.

Unfortunately, I could not take your third question. I could not understand that one. If you could repeat it, please.

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

Yes, absolutely. I'm talking about the early engineering piece that you had and how much this has managed to pull through orders on the EPC side through your early engagement and early discussions with clients essentially.

Stefano Cao - *Saipem SpA - CEO & Director*

Okay. Sorry, I did not understand. I think the XSIGHT -- the recent announcement about Qatar is the leading proof of the concept which have always been presented as the fundamental basis for setting up XSIGHT. The FEED engineering had been carried out by XSIGHT. So in a way, we were adding a sort of natural hedge in knowing the future of the project in advance and being particularly effective.

This is something which I've seen in my career very often happen to competition. Now we have a strong pull ourselves. And Qatar was the first example, and we see many other opportunities similar in the forthcoming future.

Operator

We have the next question from the line of Vlad Sergievskii from Bank of America.

Vladimir Maximovich Sergievskii - *BofA Securities, Research Division - Research Analyst*

I will ask them one by one, if you don't mind. First one is on this offshore E&C, and apologies for going back to that. But would you be able to provide us the rough level of completion on these troubled projects, what percentage of completion roughly we are on this one?

Stefano Cao - *Saipem SpA - CEO & Director*

One by one, okay. The -- we are still in fairly early stages. And I think from the explanation I was giving to Amy earlier on, you could understand that the discussion comes when the -- you confront yourself with the issue of the data provided by the client. So basically, we are still early, but that is the sort of -- that is the issue.

Then, there is no other complexity. I mean we are talking on conventional structure and conventional offshore operations. So the bulk of the discussion and the bulk of the issue is related to the soil provided information.

Vladimir Maximovich Sergievskii - *BofA Securities, Research Division - Research Analyst*

That's great. And if I can ask on Onshore E&C now. I mean profitability of this business has been strong in the second half of 2020, which is slightly counterintuitive to operating environment; obviously, lockdown, travel challenges, supply challenges, et cetera. What would you say drove this above-average profitability over the past 2 quarters?

Stefano Cao - *Saipem SpA - CEO & Director*

Yes. Maybe I would ask Maurizio. If you are on the line, if you could give a little bit of flavor on the margin and what is your view on the situation going forward.

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

Yes, sure. Thank you. Well, the second half of 2020 has shown the resilience of E&C Onshore portfolio of projects. We succeeded on getting very transparently aligned with the clients on finding solutions that would meet the level of difficulties and uncertainties we were facing in the projects.

So many examples that have been already listed by Stefano are showing our ability to react. This has transferred into protection of the margins. And we were capable of closing the year with single -- mid-single-digit margin that was anticipated. And with the coverage for 2021 of almost 90% of the revenue to our backlog, so we have a good visibility and I can say that all the measures we put in place against the pandemic to support supply chain and undertake a number of actions to mitigate schedule impacts and derisking of the project by engaging in a very transparent risk sharing mechanism, I would say, with the clients in this specific windows of time. That's to be -- I don't know if that answers your question.

Vladimir Maximovich Sergievskii - *BofA Securities, Research Division - Research Analyst*

That's helpful. And if I may squeeze in the last one, please. You're making the case for material improvement in profitability in 2022. May I ask what are the key drivers behind this assumption? Is it better project execution, better backlog mix, higher revenues, lower cost? What would drive this step-change improvement in profitability you are pointing towards?

Stefano Cao - *Saipem SpA - CEO & Director*

I think in simple terms, let me summarize them. First of all, as I said all along, the strength of the backlog. I mean we have a size -- an unprecedented size of backlog. So the moment that backlog starts unwinding, in particular, in a situation where there are no constraints for the backlog to become progress of our project, by the definition, you get an improvement also in terms of the EBITDA level. If you put on top the efforts which we are putting on the efficiency of the organization, the efficiency of the processes, I think you get a good flavor on what is actually basing our confidence that you will see a much higher EBITDA.

Operator

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

Michael James Alsford - *Citigroup Inc. Exchange Research - Research Analyst*

I've got a couple, please. Firstly, on the balance sheet. I don't know if Stefano could come back and just talk a little bit more about the profile on net debt for 2021, where you see it peaking and I guess, where you'd see it sort of getting to by the end of the year. I missed a couple of his earlier comments.

And then just secondly, not to labor the point, but just on Offshore E&C, I think the market is struggling to get a view as to where mid-cycle E&C Offshore margins will be, I think a combination of clearly the mix effects of maybe more renewables coming into the business, but clearly, where you see an operating environment beyond COVID. I was wondering whether you could help quantify or help give us some calibration as to where you see that offshore E&C margin being mid-cycle?

Stefano Cavacini - *Saipem SpA - CFO*

Yes. This is Stefano Cavacini, and I'll try to answer to your question about net debt to give you more color about 2021. So as I mentioned during my speech, we are forecasting an increase this year basically for one reason which is really, really simple, the lower operating profitability which is not enough to sustain the capital expenditures and other costs. For example, we said that we reviewed the COVID cost for 2021. They will be lower than this year materially, but they are going to absorb another part of our cash.

From a net working capital point of view, we are not seeing any issue because we'll have a really small absorption but which is natural considering that in 2021, we have some projects that they are going to continue in the construction and procurement phase. I would like to underline, speaking about net working capital, if you look at our financial statements, you'll see that also this year, in 2020, the level reached finally in net working capital is, over the past 10 years, the second best performance. We reached an amount of EUR 267 million. The best performance was last year at EUR 162 million. But if you go back in the past, you'll see that working capital of the group has been always above EUR 300 million, EUR 400 million, EUR 500 million, EUR 700 million. So in terms of net working capital, we reached a very good level.

Our big challenge is to keep continuing in maintaining this level. And for today, we feel comfortable with the level that we reached. But honestly, we have to increase as soon as we can the operating profitability which is -- because at the end, it's the key driver of the cash generation of the group.

Stefano Cao - *Saipem SpA - CEO & Director*

The second question, here, again -- I mean you asked calibration. I like the word calibration. I mean let me put it bluntly. I have no doubt whatsoever and none of us at the management team has no doubt whatsoever that the Offshore E&C will go back to the double-digit margin. Let's put it this way, in very simple terms.

The issue is timing. But then I'd like to hear who's in a position to make projection at the moment. So 2021, we have given certain indication. We do believe that 2022 onwards is the year when we'll be in a position to take advantage of all the actions we have taken -- we have put in place, all the addition to the backlog which we have put together in the course of 2021 and see the margin of the offshore go back to a level which are more standard for the business.

Operator

We have the next question from the line of Luigi De Bellis from Equita SIM.

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

Two questions for me. The first one is on the drilling. Can you elaborate on your strategy outlook and strategic options for drilling businesses, both offshore and onshore? And can you give us more visibility on the margin trend for drilling offshore during 2021?

And the second question on the Mozambique project LNG. Can you give us more color on the evolution of the project's milestone as of today in terms of execution?

Stefano Cao - *Saipem SpA - CEO & Director*

Okay. Drilling. I believe that you are familiar with our presentation, and you have noticed that there was almost a section missing, which has been added after the presentation. And this is the development of the drilling business. So you also heard that we have decided to combine and put both offshore and onshore under the leadership of the same manager, Marco Toninelli.

So we maintain and we are currently working on the assessment of opportunities to combine the business with other partners. I think all along, we know that this is not going to be easy and this is not going to be immediate for the simple reason that we have no counterpart who may be at this stage is sitting at the negotiating table. However, the strategy remains the same. We are currently and continuously looking for opportunity to combine the business for -- with other operators.

You mentioned, you have, the margins going forward of the offshore drilling. I think based on the current visibility, so without accounting for a recovery of the business, which is something -- I mean, we all know that drilling is very, very fast in reacting to increase -- actually, it's the first to react in the increase in the CapEx allocated by the oil company. So if we don't consider that to happen in the immediate future, we expect the margin for the offshore to reduce; and while the -- for the onshore drilling, more or less, to remain the same -- similar level.

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

And on the Mozambique project, just an update on the...

Stefano Cao - *Saipem SpA - CEO & Director*

On the?

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

Yes, Mozambique LNG.

Stefano Cao - *Saipem SpA - CEO & Director*

Oh, Mozambique. Again, Maurizio, you are the master of Mozambique.

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

Yes. So Mozambique LNG execution has been little impacted by the COVID, I would say, not materially impacted as we had a small number of people at site during the explosion of the pandemic and we were capable of setting up all the measures in coordination with the client to run sort of COVID-free site. Then in -- recently, we have been challenged by some security concerns in the area that has reduced the pace of manning of the site. So we slowed down the manning process as a precautionary measure, of course, in full coordination with the client that has the responsibility of the security at site.

And we have undertaken some other mitigation action as increasing the modularization, so the activities which are carried out in controlled environments as yards and in increment, the [disaggregation] activities also of civil works, something that can be done into 2 areas in Mozambique in order not to reduce the level of local content in the country. So that's something we are setting up in a secure area, where we would precast foundation. So as of today, we are not anticipating delay impact. We think that recovery action will be needed at site, yet the critical path has been secured by implementing this kind of mitigant -- mitigation actions outside of the concerned area.

Operator

We have another question from the line of Alessandro Pozzi from Mediobanca.

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

Just a clarification on my questions on renewables, specifically offshore wind. You mentioned addressable market of EUR 4 billion per annum. Can you maybe give us how you managed to work out that number?

And also, when I look at your award in offshore wind, I think it works out at about 1 million megawatts, where you do the engineering, construction and design as well. Is that a right metric to use?

Stefano Cao - *Saipem SpA - CEO & Director*

Wind -- certainly, in terms of renewables, wind, is something -- it's a business which we have been pursuing and will continue pursuing. I mean the overall volume comes from the analysis our commercial people make of the -- in terms of the opportunities.

Probably, the comment is that obviously, the opportunities deriving from the wind -- offshore wind market, they have different size and shape. They can be turnkey EPCI opportunity like Courseulles or an LNG. They may be opportunities for fabrication and installation, like we do in the North Sea or maybe fabrication only.

So for us, as I said several times, it's a natural complement to our offshore E&C capabilities, not in particular requiring the addition of new capacity to the market and to our fleet, so attracting major CapEx program. It still remains, that for us, the wind is a business like a conventional/traditional market. We target margins which are in the same level of the conventional/traditional offshore E&C project, like those which we developed in Middle East, for instance.

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

Okay. And I've seen that in the last contract, you used the Saipem 3000. Can you use interchangeably the 3000 and the 7000, given that the 7000 is a higher spec? So I was wondering whether you've used the 7000 before and -- yes, and whether you can use the 3000 with most of the offshore wind projects.

Stefano Cao - *Saipem SpA - CEO & Director*

Yes. Stefano Porcari this time. So Stefano, would you like to give a little bit of flavor, 7000 versus 3000 for offshore wind?

Stefano Porcari - *Saipem SpA - COO of the Offshore Engineering & Construction Division*

Yes. Thank you. I think that, first of all, are 2 different vessels. I mean the capability of Saipem 7000 are much important on this business. So I think it depends on the project. Also, the cost of Saipem 7000 is higher in respect to Saipem 3000. So it depends on the project, the water depth, the weather, the location and different parameters. In particular, I think that our fleet is not limited to the Saipem 7000 or the Saipem 3000. But also, we have other vessel with the cranage facilities that can be used -- utilized in this market.

I mean -- so that depends on the project. If we have a larger EPCI, let's say, a conventional project with a big, large platform, when that happens, 7000 becomes the enabler. Of course, Saipem 7000 will be utilized in the typical oil and gas projects, not only in the wind farm projects. And the same is applicable for Saipem 3000.

So it's a matter of opportunity. But what we want to say is that our capabilities from engineering to fabrication and installation can be utilized in both this market segment in the same way.

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

Okay. And is there any technical constraint on the 3000 when it comes to offshore wind farm? And can you execute most of the wind farm projects for the 3000?

Stefano Porcari - *Saipem SpA - COO of the Offshore Engineering & Construction Division*

As I said, it depends on the project. If -- we are talking about -- not only about the weight of the structures but also the height of the equipment or the pieces of the structure that will be installed. For example, for the installation of the turbines on a structure already installed or a foundation already installed, probably the best equipment is the Saipem 7000 because of the reach of the boom, of the crane, for example.

Operator

We have the next question from the line of Mark Wilson from Jefferies.

Mark Wilson - *Jefferies LLC, Research Division - Oil and Gas Equity Analyst*

Can I ask -- this North Sea project, could you confirm to us whether that is a renewable offshore wind project or a conventional oil and gas one?

Stefano Cao - *Saipem SpA - CEO & Director*

It is renewable. Yes, it is a renewable project. And the issue is related to foundations, as I said before.

Mark Wilson - *Jefferies LLC, Research Division - Oil and Gas Equity Analyst*

Okay. And you also said that it's quite an early stage of that project. Would there be a contractual sharing of the issues or the costs with the contractor in that case?

Stefano Cao - *Saipem SpA - CEO & Director*

Again, as I said all along, there is obviously a commercial negotiation which is ongoing. You know that for accounting purposes, we have to account all the costs incurred by the project on the basis of the full life and you have to account at the moment you realize. So there is a sort of delay between the assessment of costs and the recognition of changes, extras by the client.

As I said all along, this is the way we do the accounting of our projects. In normal circumstances, there is a balance between positive contribution and negative contribution. This quarter, that has not been the case. That's the reason why we are incurring in the margins which we have seen for the quarter, which, I'd like to repeat it once again, is certainly not a proxy for the business going forward.

Operator

There are no further questions. I will hand back the conference to the CEO, Mr. Cao.

Stefano Cao - *Saipem SpA - CEO & Director*

Okay. Thank you very much. Thank you for your participation. Look forward to next opportunity to disclose our strategy going forward. Thank you.