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PRESENTATION

Operator

Good day, and welcome to the Saipem third quarter 2014 results conference call. Today's conference is being recorded. At this time, I would like to turn the conference over to Mr. Umberto Vergine, CEO. Please go ahead, sir.

Umberto Vergine - *Saipem SpA - CEO*

Thank you. And good afternoon and welcome to the third quarter results conference call. I'm here with Alberto Chiarini, Saipem's Chief Financial and Compliance and Vincenzo Maselli Campagna, Saipem's new Head of Investor Relations.

As some of you may already know, Salvatore Colli has recently taken on a new opportunity within Saipem, becoming Head of Finance, following fourteen years in Investor Relations.

Today we will talk you through the financial results, as well as the most relevant operational highlights for the quarter and then we will be happy to take your questions.

As you know, management has been focused this year on two key objectives. The first is to build a new backlog of profitable business and the second is to resolve our legacy contracts while maintaining positive relationships with key clients. This is an area in which management continues to invest a significant amount of time and effort.

I'm pleased to say we had another positive quarter of order intake, with new contract wins building on our exceptional success in the first half. However, the industry has faced significant headwinds in the quarter with the oil price falling sharply to the lowest level since 2011. Regrettably, that deterioration in the market environment is impacting our ongoing negotiations with clients relating to payment on legacy contracts and we are adjusting our full year net debt target to EUR4.7 billion as a result. We are maintaining the rest of our 2014 guidance at the lower end of the range indicated at the beginning of the year.

Overall, Saipem's operational strengths and the work we have done over the course of this year have successfully rebuilt our backlog in line with our strict commercial strategy and this will underpin our path of recovery in the medium term. But the speed of this recovery will also depend on market conditions.

Turning to our financial results on slide 7, as a reminder, please note that all 2014 figures are compliant with new IFRS 10 and 11 accounting principles, governing the consolidation of joint ventures. 2013 figures have therefore been restated for comparability. In addition 2013, numbers are restated in accordance with Consob indications pursuant to IAS 8. Having clarified this, in the first nine months of 2014, revenues have been approximately EUR9.5 billion, on track to meet our year-end target of EUR13 billion, with more than 50% of the total coming from E&C offshore, while E&C onshore accounted for around 30%.

The E&C onshore revenues stand at almost EUR2.9 billion, around 20% lower than the same period in 2013. This is as a result of the more selective approach to new business acquisition we have taken, in line with our strategy of stricter commercial discipline.

The deterioration of the market environment is impacting the stance that some of our clients are taking on negotiations, which is in turn affecting recognition of additional costs incurred by Saipem in the quarter and therefore E&C onshore EBIT performance.

The ramp up of new E&C onshore contracts that we have continued to see throughout this year is not yet able to offset the negative impact of legacy contracts.

In E&C offshore, we experienced a growth in revenues of some 40% compared with the first nine months of 2013. We also saw further confirmation of the recovery in this division with EBIT of EUR293 million in the first nine months of 2014 compared to a loss of EUR9 million in the same period in 2013.

In drilling, the results are in line with the first nine months of 2013, when taking into account the loss of Perro Negro 6 in July 2013 and the prolonged maintenance of Scarabeo 7 during first half 2014.

In a transition year for Saipem, we have delivered a recovery in the offshore E&C business and a continued strong performance in drilling. While we have made good progress in the quality and quantity of the E&C onshore backlog, challenges continue and the timing of the recovery on onshore remains uncertain.

Turning to net debt on slide 8. At the end of September the total stood at EUR5.1 billion, approximately in line with the position at the end of June.

If we look at the evolution of net debt in the third quarter, the cash flow generated broadly offset the investments and the slight increase in working capital.

As we will explain in the following slide working capital suffered from an increase in pending revenues related to legacy contracts and with respect to our receivables, Venezuela remains a critical area, with exposure in the country further increasing in the quarter.

It must be noted that a significant percentage of our pending revenues and receivables are denominated in US dollars, and therefore the appreciation has also impacted working capital.

As anticipated, we are now adjusting the guidance for net debt to EUR4.7 billion. This as result of the increased difficulties faced by the industry that are impacting the timing of resolution of ongoing negotiations on legacy contracts and the relevant payments.

Moving to slide 9, I will now give you an update on the legacy contracts in our backlog. As already said, due to the unstable and worsening market conditions, recently we have seen a progressive change of attitude amongst clients and negotiations have become more challenging. During the quarter, the total pending revenues has increased to EUR1.4 billion from EUR1.2 billion. The increase is mainly due to three factors, a further deterioration in the relationship with Sonatrach, the recent appreciation of the US dollar, as around 60% of the pending revenues are denominated in dollars, and additional costs incurred as contracts move closer to completion.

As we set out in detail at the half-year presentation, the majority of the value of legacy contracts is accounted for by five projects. Of these, work on two projects has now been completed, one of which is in arbitration process.

I would like to stress that we still believe that the value of pending revenues we have accounted for is a fair assessment of what is recoverable on these contracts, but I must recognize that the timetable is now more uncertain due to the more rigid approach clients are taking to negotiations. Our priorities are to maintain strong relationships with clients who continue to award us new contracts or to provide the opportunity to tender for further business, while at the same time robustly keep defending our shareholder interest.

Saipem has made continuous progress in executing its legacy contracts throughout

the year, but as a result of bad weather conditions, we experienced some postponements and now we are expecting to have EUR1.8 billion worth of low margin contracts still to execute during 2015. 2015 is the last year in which these legacy contracts will account for a sizeable portion of our E&C activity, as they are now progressively replaced by new higher margin contracts.

As we said in July, we did not expect the pace of new contract awards to continue at the unprecedented level we saw in the first half of the year. Nevertheless, as we can see on slide 10, in the third quarter we were awarded in excess of EUR1.8 billion of new contracts, mainly in E&C offshore.

At the end of September, the backlog amounted to EUR22.6 billion, with more than 50% represented by E&C offshore. These figures do not include the new contracts announced yesterday, amounting to $2 billion.

I will give you an update on ongoing opportunities we are pursuing later in the presentation.

Looking now at the current backlog by year of execution on slide 11, 40% will be booked in 2015 and some 50% in 2016 and onward. Overall we have already in house EUR9.1 billion for 2015, guaranteeing a comfortable level of workload expected for next year. Of this amount, notwithstanding the slight increase versus June, 23% of current E&C backlog to be executed in 2015 is made up by low margin contracts, confirming the positive trend towards recovery.

The strong level of order intake year to date supports the improvement in visibility and quality across all the businesses beyond 2014. I will now like to give some of the operational details starting with slide 13.

We already said that the third quarter has been another good quarter of order intake, although as we said at the half year, the pace of new contract awards will not continue at the level we saw during the first half. Another important point for me is that the contracts awarded have demonstrated that we are maintaining strong relationships with our key clients, while continuing with the negotiation on the legacy contracts.

The first contract I want to highlight is a deepwater SURF project on the Lakach field in Mexico. This is an important first win for us since it positions Saipem as a pioneer in the new SURF market and in a key region, both of which offer significant growth potential. This award is very important because it also confirms the restored relationship with Pemex following the issues we had last year.

In addition, we have been able to extend the contracts we have for two FPSOs, one in Brazil and one in Angola. And finally, yesterday we have announced the award of the EPC contract for the expansion of the onshore production centers at the Khurais fields in Saudi Arabia, together with new drilling contracts in the Middle East and Latin America, cumulatively valued approximately $2 billion.

Moving to slide 14. As we highlighted previously, our clients are taking a more disciplined approach to CapEx together with the focus on cost control. They are also are looking at the option of contractors to be involved from the inception of the project in order to better de-risk the project, providing end to end solutions that fan minimize cost and time.

In order to respond to these growing needs, Saipem recently entered into a joint venture with Xodus Group and Chiyoda, to establish Xodus Subsea. Headquartered in London, this new standalone Company will enable us to provide full integrated subsea solutions for our E&C and offshore drilling clients, to offer increased certainty on project execution and, also important, to give Saipem an early view of market opportunities.

The subsea market is expected to grow at very attractive rates over the next few years, not only in Mexico, but particularly in the key areas of West and East Africa, in the pre-salt regions in Brazil and Angola and certain remote and isolated areas in which Saipem has an excellent track record.

With slide 15, which you are familiar with, we provide and update on the contract schedule in our drilling business. Looking at this chart, you can see that 85% of our deepwater fleet is contracted until the end of 2016. In shallow water, we are pleased that we have been awarded by Saudi Aramco a three year extension for Perro Negro 7, which sees the vessel fully utilized until the end of 2018, at improved day rates and further strengthens our relationship with this client. Discussions are ongoing for the renewal of contracts on Perro Negro 4, Perro Negro 8 and Scarabeo 3, which could impact utilization in the short term.

As already mentioned, Scarabeo 7 is now returned to service, after a prolonged dry dock maintenance period during the first half. As reported three months ago, Scarabeo 5 will be on stand-by during the Q4 at the lower standby day rate, as requested by Statoil. Full operations are expected to resume in January next year.

Overall, the sharp fall in the oil price has created uncertainty in the market, which will remain for as long as oil prices remain depressed. But the long term commitments we have secured to date should protect us from significant business fluctuations.

In offshore drilling, we achieved fleet utilization in excess of 96% and for the remainder of the year utilization is expected to remain stable. During Q3 we signed new contracts for about one third of the fleet, mainly in Latin

America, with durations ranging from three months to two years. Moreover, as anticipated in our press release yesterday, we signed new contracts for other nine onshore drilling rigs already operating in the Middle East and Latin America with a length ranging from three months to three years.

You will remember also this slide number 16, illustrating the principal E&C projects for which we have tendered and the opportunities in the market in the short term, indicatively up to the middle of next year. The aggregate value of EUR14 billion of new contracts awarded to Saipem during the first nine months of 2014 confirms, as you can see with the green ticks, our strong position in the key business areas of trunk line, FPSO construction, field development and complex onshore projects.

The slide also proves that there is no shortage of opportunities and Saipem is targeting an increasing number of projects around the world. The opportunities shown here are for a broad mix of clients and there is a good balance between onshore and offshore. In particular, we are seeing a growing LNG market in the Americas, alongside legacy projects in Asia Pacific. In the Americas, Saipem this year has applied an increased commercial focus compared to the past, in particular in downstream and major pipelines.

While presently there are a number of contracts out for tender, the more uncertain market environment means it will be more difficult to predict the pace of tenders for future projects while the oil price remains subdued.

I would like to recall that guidance provided in February for 2014 was driven by two uncertainties. The uncertainty around the resolution of legacy contract on the one hand and on the overall operational improvement of the business on the other.

As the year has unfolded, we won an unprecedented level of new business, and we have made strong operational progress. However the original difficulties we anticipated have been exacerbated by challenging market conditions, impacting the pace of resolution of legacy contracts and by a number of oneoff events that negatively impacted the profitability of the Company, such as, in the E&C, the accident occurred on the P55 project, and in drilling the request of standby period for the Scarabeo 5 and the longer than expected maintenance of the Scarabeo 7. With this in mind, I will now take you through our updated 2014 guidance on slide 18.

On revenues, we maintained guidance of EUR13 billion. EBIT will be at the low end of our guidance range, at around EUR600 million. We expect net profit to be around EUR280 million. And additionally, we confirm CapEx for the year of EUR750 million.

Finally, we have revised our previous net debt target of EUR4.2 billion to EUR4.5 billion to EUR4.7 billion. As stated at the half year, our full year net debt guidance was predicated on the timing of legacy contract payments which, as discussed, are now taking longer to resolve than hoped due to current market conditions.

Moving to the conclusion on slide 20. We continue to implement the turnaround plan for Saipem. As we do so, it has been a challenging quarter for the oil service sector and there is no certainty as to how long these conditions will remain.

While our continued success in winning new business highlights our commercial strength and competitive advantages, and as our highly skilled engineers continue to execute complex projects around the world, the market environment has changed. The sharp fall in the oil price is impacting clients' willingness to commit to new CapEx and the stance they are taking on negotiations for ongoing and or completed contracts.

There is a possibility that the more challenging market conditions that have arisen in Q3 will continue into 2015. However, the strong order backlog we have already put in place underpins Saipem's resilience and enables us to execute our recovery strategy with discipline as we manage our legacy backlog and remain selective in new business acquisition.

Thank you very much and we are ready to take your questions

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Fiona Maclean, Merrill Lynch.

Fiona Maclean - *Merrill Lynch - Analyst*

I had a couple of questions, please. Firstly if we can look at slide number 9, I would just like to get a little bit of clarity around the numbers on this page. So your pending revenues number is now at EUR1.4 billion and that's actually gone up from EUR1.2 billion last quarter. So I'd like to understand why that number is going up rather than down.

And then your backlog for execution next year, these older contracts, is now being stated at EUR1.8 billion, whereas over the last couple of quarters that's been at EUR1.5 billion. So I'd like to understand, are those projects getting bigger or are you adding more projects into those categories for the increases there?

And then my last question is around your net debt position. And I was just hoping you could give a little bit more clarity on how long you're able to run with such a high level of net debt. And are there any reasons why you should be ruling out an equity increase at the moment?

Umberto Vergine - *Saipem SpA - CEO*

Your reference to slide number 9. As we have indicated, basically the point of the pending revenue is linked to the fact that we have now considered an increase to EUR1.4 billion, considering some delay, first of all, of the negotiation. They are basically linked to the 3 points that we have indicated in particular to the deterioration of a relationship with Sonatrach for which I recall we are completing the last phase of the last projects that is their

[dual] LNG. The appreciation of the dollar that have contributed about EUR70 million to their value. And what I indicated as some extra cost that we have incurred in during the quarter on some of the projects that are moving closer to completion.

Alberto Chiarini - *Saipem SpA - Chief Financial and Compliance Officer*

Yes, the second question was about EUR1.8 billion of legacy in 2015. This is due mainly to the delay that we are experiencing in some of these legacy (audio break), particularly I would like to point out to some of -- but where there are issues that we have in Brazil on some of the low margin contacts that we took in Brazil, mainly P55 and Cabiunas. This is sort of a big chunk of the delay, then we also revised some of the schedule on the shore legacy contract.

Of this EUR1.8 billion in 2015, nearly half is onshore and half is [offshore], just to give you more detail.

As far as the EUR4.7 billion, that target year end, yes, we realize that these are an important amount. I cannot answer about some -- your specific question on equity increase because the process of strengthening our balance sheet is also linked to the consolidation process of ENI. So as you know, we need to understand better and we are monitoring this process to make sure that we -- there is a coordination between the potential refinancing exercise and the process of ENI in terms of the consolidation.

Because of that, we are doing, as I said many times, we are doing a lot of homework in how we are ready to be for a potential refinancing of a standalone site in the Company. That is not excluding either equity increase and some other potential means to make sure that we have enough strength in our balance sheet for the future.

Fiona Maclean - *Merrill Lynch - Analyst*

Maybe just a quick follow-up. Would you have any indication of timing on when either Saipem or ENI is maybe able to come to the market and really explain how they see the road map for that relationship and also things like refinancing and potential equity issuances?

Alberto Chiarini - *Saipem SpA - Chief Financial and Compliance Officer*

Yes, it's more equity for ENI I would say. Currently we do not have visibility on the timing, but we know that ENI declared that this process to declare the consolidation target in July this year. So I'm pretty sure they are actioning on this side, but of course, it depends also on the market and on the potential to (inaudible) and how the process is going ahead.

Operator

Haley Silverman, Barclays.

Haley Silverman - *Barclays - Analyst*

Very quick question regarding just one line on your front page. You mention that the market deterioration is impacting legacy contracts, yes, but also the execution of new contracts. I was hoping you could shed some light or elaborate a bit more on that one line.

Umberto Vergine - *Saipem SpA - CEO*

Well, in general a higher rigidity in respect of cost controlling, cost of discipline of our client if of course impacting the negotiation that are related to legacy contracts, as well as any possible need of extra costs or revision of activity on the new contracts. This is a general impact that is certainly going to make much more critical the situation in contracts where it generates -- the contract generates a need of some variation order or change, a technical change.

This is part of a general attitude that we cannot ignore. We see that particularly significant because of the high amount of negotiation on claim and variation orders that we have on the legacy. But certainly we cannot ignore that this is going to be applied in general also to new contracts.

There are no contracts that at start don't require some review, some early assessment. So this is a normal process of discussion and negotiation that we can anticipate in general on all the contracts.

Haley Silverman - *Barclays - Analyst*

And just one other question on your offshore margin. It seems to have come down in Q3 over Q2. And I was just wondering if there as any operational issues for this.

Umberto Vergine - *Saipem SpA - CEO*

No, as Alberto has indicated before, sometimes it is indication on the quarter basis could adjust or represent a picture of events that are very specific. Certainly what we had this quarter has been a combination of two factors. One, I would say both one operation that related to bad weather conditions, particularly in Brazil, that impacted the activity of a number of vessels on two different projects. And another one that is more an exogenous factor, but that goes back straight on the progress of activity that had been like in the case of some of our projects in West Africa.

The impact of the crisis due to Ebola. Ebola is a serious matter that as we mentioned also in the last quarter we have been managing. We have been managing also taking from our leading position together with the World Health Organization, together with our clients as well in Nigeria. That has generated a certain slowdown on the activity because it as impacted specifically on the mobilization of our human resources and on the availability of them to be manning the projects.

The situation is now that Nigeria has been, since a few weeks, declared Ebola free. That of course is still encouraging. We are maintaining all the surveillance and all the systems of control that we had in place. But certainly, this means that some of the revenues expected by certain projects is somehow a little bit shifted.

Operator

Christyan Malek, Nomura.

Christyan Malek - *Nomura - Analyst*

Three questions, please. First of all, on South Stream, given the sort of deteriorating conditions as a result of sanctions, can you quantify the risk on that project, both in terms of timeline and if you can put a sort of number behind sort of profits that could be incurred if there is a delay in that project due to sanctions deteriorating from here?

The second question is regarding you talk about legacy projects still having to be unwound. What sort of order of magnitude are we talking about if you are not successful when you're renegotiating these projects? Is it hundreds of millions and if we can just have some ballpark figure in a worst case scenario.

And then thirdly, on the drilling unit, what day rates are you seeing longer term for the ultra deepwater rigs? And I say that in context to the deterioration day rates in the last 6 to 12 months, missing rigs being contracted between 350 to 400. What are you assuming for your long term day rates?

Umberto Vergine - *Saipem SpA - CEO*

Staring from South Stream, the sanctions. First of all, the interpretation of sanctions against Russia in our opinion is that they are not against South Stream. Because the reason that we make is the sanction of hitting upstream oil projects beneficial for Russia. South Stream is a midstream project, it's a gas project. And is certainly value for Russia, but is also important to preserve the EU energy security. So I would say that it is strategic for both.

We have asked an opinion to the Italian minister that is in charge of monitoring the application of the sanction in Italy to get the formal go ahead and we have made our submission and we have not received so far neither a stop nor a final reply.

In terms of the permitting in the area, there has been a certain delay of permitting in Bulgaria, but this has not impacted on the working schedule of the project. We have the Castoro sale since (inaudible) in Bulgaria, doing preparatory activity. And (inaudible) 7,000 is moving towards the Black Sea where they're scheduled to start the (inaudible) to arrive by the end of November and middle of November and to start activity in January.

What happens if they took the project doesn't go ahead? Besides that, we don't want to comment on specific projects. What I can say, and that is particularly valid for this project, all our contracts contain termination clauses that protect the business. And this covers all activities that are carried out so far. In addition, the majority of our contract, including South Stream, includes a termination fee that is normally a percentage of the value of the contract. So in terms of the potential impact of what we consider a very unexpected termination of this contract, we have a good element of protection.

We know that one of the suppliers, actually one of the European companies that supplied pipelines for the project, that had already applied to the German authority in terms of clarifying applicability of the sanction or non applicability, has got a go ahead from the German authority. So we are hoping that that is a good indication that we could reply on our involvement.

How much is at risk of our legacy contract? Okay, we don't consider that what we have booked that is a component of our request to our clients is at risk. The risk that we are indicating today is the fact that the negotiation could take longer than we wanted, that we expected, that we needed in many respects, to accelerate the recovery of Saipem.

But not that we are losing the ground that is based on technical evidence or commercial evidence, forgetting this money paid to Saipem.

And I can say that so far we have -- luckily we have not been pushed to start arbitration, particularly with clients with whom we have a very good relationship today. And we judge it from the fact that we are continuously receiving new contracts from them. We have started arbitration on a case with Sonatrach with whom relationships are obviously still not good at all.

And we are considering another case for a client that is, I would say, a oneoff contract client. If you're required in order not to put any amount of our pending revenues at risk to start arbitration also, with some of our historical clients, I think that with the support of the board I will be more than determined to go ahead on arbitration. In some cases, arbitration is also a good negotiation tool.

On the training, which is the day rate that we expect, I mean luckily, in the offshore, as we have indicated, we don't have this problem for a number of months and in many cases for a number of years. So really, we don't make plans beyond the 2016 or 2017 to evaluate or to speculate on this.

What is clear is that we are coming from a period of high oil price and therefore we come from a period of high regrades. If their price will decrease, the rate will decrease. But how much they will be impacted depends on the evolution of the sector I will say during the full 2015 and for Saipem part of 2016. So it's quite a long shot.

Christyan Malek - *Nomura - Analyst*

So just two follow-ups if I may. First of all, what are the size of contracts -- the total size of contracts that are vulnerable to arbitration?

And the second question is you said you wouldn't rule out potential equity issuance. Clearly it's very complicated, although I don't see a split out of your net debt between gross. So what's cash and what's debt? So I don't know what the prepayments are on your balance sheet. But could you guide us to an upper limit of what that would be if there was an equity issuance? What is the size that would be acceptable to the board given if that is one of the many scenarios you're looking at.

Umberto Vergine - *Saipem SpA - CEO*

On the first question, how many contracts are eligible for arbitration? How many contracts under with pending revenues? All of them. Because on all of them we have ground to submit request that if not negotiated could be brought to the decision of an arbiter.

We are not looking at anything like that. We have only one, possibly two cases. One is what we announced already last year that is related to some Sonatrach contracts. And we are looking at another case in which we are preparing of course all the external support, all the external implementation to submit our request.

On all the others, we are continuing on the negotiation that nevertheless there is a kind of deferment in the completion of them are still moving on. And they all give positive indication on the fact that we should be able to reach an amicable agreement with the clients.

Hoping to have answer to this question, I'll let Alberto to tell you about (multiple speakers).

Alberto Chiarini - *Saipem SpA - Chief Financial and Compliance Officer*

Yes, about the rights issue, it is something that I cannot answer really because currently our debt is EUR4.7 billion. If we talk about the gross debt, it's around EUR6 billion, just to give you the figure.

Christyan Malek - *Nomura - Analyst*

EUR6 billion, thanks.

Alberto Chiarini - *Saipem SpA - Chief Financial and Compliance Officer*

EUR6 billion. There are many potential ways to think on about the refinancing. There are convertible bonds, there are bonds even in sub investment grade bonds that are right issues. And we need to find the right bonds, which as I say, it will very much depend also on the process of the consolidation because the timing is also very important because we still maintain the target of EUR2 billion net debt at the end of 2017, which means that depending on the timing we will need to undergo the exercise of refinancing. We could be in either with more needs or either in a better shape to make it in a smoother way.

Christyan Malek - *Nomura - Analyst*

And sorry, just to be clear, Alberto, on the arbitration point, I was actually asking about the contracts that you mentioned will go through potentially to arbitration as two contracts. What are the size of those two contracts? Sorry, I should have been clearer.

Alberto Chiarini - *Saipem SpA - Chief Financial and Compliance Officer*

The contract that -- we are in arbitration in one contract, as you know, MLE, which is part of our pending revenues. It is clear that the potential second contract that could undergo through arbitration if we are not able to sort out the issues on the negotiation is the contract that in the slide is the closer to the end. Because eventually when a contract is completed, either you are paid or you need it to go under -- to go through a dispute resolution.

Umberto Vergine - *Saipem SpA - CEO*

I will add something in order to help you to understand. We have indicated that about 80% to 85% of our pending revenues are related to these five [counts]. So you can appreciate that the amount associated with each of them has a value that is proportionally the component that makes our EUR1.4 billion today. So this is certainly an amount that on arbitration has an importance in order to not be lost if negotiation is not sufficient.

Operator

David Thomas, Credit Suisse.

David Thomas - *Credit Suisse - Analyst*

A couple of questions, please. I'm just casting back to the first quarter, Alberto, when you talked around your guidance for full-year 2014. And at the time, you said you could maintain guidance, notwithstanding the issue around P55. And yet today you're raising P55 as a reason for why you're bringing down guidance. So I know it seems churlish, but it seems that actually P55 and the drilling activities, whereas drilling is actually doing quite well at the moment, are not the issues. It also is to be in E&C onshore. So what has really deteriorated since even the second quarter? So that's the first question.

And secondly, on working capital, seems to me that you must be predicting around a EUR400 million reversal of working capital in the fourth quarter if you're going to get your net debt down to EUR4.7 billion. That seems quite a stretch, if I can say that. Where do you think you're going to get that from, these five contracts and the EUR1.4 billion of receivables?

Umberto Vergine - *Saipem SpA - CEO*

I recap what was the principal under which we issue our guidance at the beginning of the year. And certainly we identified a number of components that made difficult for us to come up with a single figure.

Certainly we recognize the fact that the current condition of Saipem made it difficult to account for unexpected operational problems. When at first quarter we reported P55, we still believed it would have a certain float to accommodate that loss. But today if we compare the results that we are projecting with the guidance at the beginning of the year, certainly P55 is about EUR40 million part of the reduction that we are presenting. This in order to confirm a linear logic in what we have presented. I'll let Alberto now to comment --

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Alberto Chiarini - *Saipem SpA - Chief Financial and Compliance Officer*

Comment on the working capital. Okay, on the working capital, you are absolutely right. We need to recover around EUR400 million of working capital in the fourth quarter. This is not based on our simple assumption, but is based on some actions that are specifically targeting some areas. The first one is to recover some of the receivables and the payment on Wasit project. The second one is to make sure that we finalize all the contracts that were captured in Brazil on the new projects and to make sure that we can cash in a sizable amount of money.

Then we are targeting also the solution in Venezuela of one outstanding issue linked to the (inaudible) of (inaudible). And we are expecting some money from there, as well as we are really doing the maximum effort to make sure that we also can reduce receivables on that Venezuela (inaudible).

All these actions overall would account for something around EUR500 million to EUR600 million, so we made -- we expect at least -- that's really a big chunk of that to be sorted out by year end. And these are the specific actions.

Umberto Vergine - *Saipem SpA - CEO*

But the nationalization was of the Fertinitro plant, not on (inaudible). Just because probably you have heard before of the Fertinitro issue.

David Thomas - *Credit Suisse - Analyst*

Can I just follow up with one other question? You haven't restated with your third quarter presentation your medium term guidance you gave at the second quarter. But can you just say that that still remains in place?

Alberto Chiarini - *Saipem SpA - Chief Financial and Compliance Officer*

The guidance that we have restated now?

David Thomas - *Credit Suisse - Analyst*

You gave medium term guidance, which I think was really from 2016 onwards.

Alberto Chiarini - *Saipem SpA - Chief Financial and Compliance Officer*

Yes, you are right. No, we are not changing medium term guidance because medium term guidance are based on the targets on the marginality of offshore, onshore floaters in the medium term and that currently our backlog can still sustain those marginality. Of course, as Umberto said, the only thing that we can see is a part of deterioration of the contest in the environment. Being that the federation of the contest of the environment are more challenging for all of us in the business because of potentially less flexibility of the clients and the more rigid and more [catholic] approach in managing the relationship with the on services company.

Umberto Vergine - *Saipem SpA - CEO*

And on the new contract, themselves, the wins during the year or even the last one are confirmed in the target of marginality that we had indicated before. Notwithstanding the fact that for the future the game could change slightly or more than slightly. But this is something that we are monitoring, as everybody's doing.

Operator

Rob Pulleyn, Morgan Stanley.

Rob Pulleyn - *Morgan Stanley - Analyst*

Just a few questions if I may. First of all, regarding Wasit, which you mentioned, there was an article in trade press suggesting that may not reach full production until about a year later after target. Is that something that's a concern for yourselves? Is that part of the additional costs that you alluded to in legacy projects? And if not, maybe if you could be a little bit more specific about which project's seen additional costs.

The second question, again a follow up South Stream regarding the next two pipelines, which I know you guys were obviously quite keen to win. Given the financing problems regarding that project, are we likely to see the third and fourth lines are watered in the near term? Or is that something which is probably going to take a bit longer?

And finally, just on the net debt, I know you've given a medium term guidance on that, but would you be willing to give an idea of where net debt could be at the end of 2015?

Umberto Vergine - *Saipem SpA - CEO*

On Wasit, Alberto was referring to the expected payments that we have for ERN that are mainly related to the fact that we have a contractual structure where milestones are very far apart. And therefore, it's not an issue of claim or extra cost, but is basically to be able to get the milestone fixed, accepted and paid because very far apart, they can really become a huge amount.

So if we would be able to get acceptance of 100% achievement over certain milestones before 31st of December, we will be able to sustain our target. If we will be paid, I don't know, maybe by 15th of January, of course that would have quite a negative impact. But I cannot relate to your comment about the one year delay of the project. We don't have specific new issue that I know about Wasit.

On the South Stream line 3 and 4, I can confirm that we have already started discussion with the client. So in other words, the client is still very determined in going ahead with a program that foresee laying of the two lines, one in 2016 and one in 2017 respectively.

What are we doing? We have very fine the visibility of our vessels in line with this request and with all the other contracts that we have won and with certain tenders that we expect to participate. If this window will be confirmed on South Stream we will be in a position to offer our vessel for the time being. If this decision is postponed, maybe by that time we will have our vessel already busy on other projects.

What the client is indicating is a potential award in early 2015. This is what I have even recently confirmed to us because since we have to get clear which availability of vessels we have also for other contracts, we keep asking them if they are maintaining the program and this is what they say to us.

Alberto Chiarini - *Saipem SpA - Chief Financial and Compliance Officer*

And then medium term guidance on the debt, I will not give you the figure because we will issue the figure in February 2015 of net debt year end 2015. But what I can tell you that we are determined to maintain the target around EUR2 billion end of 2017 and this will be achieved in a ramp-up way because of course in 2015 we still have legacy contracts and we will be in that record rate more advanced than 2014, but still have recovery and not yet a normalized situation.

Rob Pulleyn - *Morgan Stanley - Analyst*

And sorry, just one quick follow-up if I may, regarding the legacy contracts. I take your point, i.e. the milestones and also about Wasit. Could you then be a little bit specific as to the additional costs you mentioned on -- that you had experienced, which exact project that was on?

Umberto Vergine - *Saipem SpA - CEO*

No, I think that we cannot give this specific. It is also there is no one specific project for which this adds up. And I would say that on some of the onshore accounts that are under execution during the quarter, we have incurred some extra costs related to an activity that is still quite complex and for which there are always elements that can come to surface. That we have considered not to add to our claim.

So basically not to introduce more expected pending revenues, particularly considering the ground that we had and also the attitude that we started to see on our clients that we have made not probably a fair assessment as we have done on all the remainder of our pending revenues if we had included also this amount in the pending revenues.

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Operator

Henry Tarr, Goldman Sachs.

Henry Tarr - *Goldman Sachs - Analyst*

Just a couple of quick questions, if I can. Firstly, you said (inaudible) gross debt was about EUR6 billion. Could you confirm the prepayments that you have roughly on your balance sheet?

Umberto Vergine - *Saipem SpA - CEO*

Yes, I have this number and the prepayments are around EUR700 million.

Henry Tarr - *Goldman Sachs - Analyst*

Then secondly, just looking at onshore E&C, backlog for execution in 2015 appears to have sort of come down through 3Q. I guess this is potentially phasing, but could you talk a bit about what's happened there, please?

Alberto Chiarini - *Saipem SpA - Chief Financial and Compliance Officer*

What are you referring, sorry?

Henry Tarr - *Goldman Sachs - Analyst*

So E&C onshore I think at the half year you were expecting about EUR2.7 billion of revenues to come through in 2015 from the existing backlog. That's fallen to about EUR2.3 billion by September 30th.

Umberto Vergine - *Saipem SpA - CEO*

Okay, clear now. Sorry. This is a result of a re-phasing of some project schedule. Basically this is just an impact of over the period not on the overall value of the contract.

Henry Tarr - *Goldman Sachs - Analyst*

Could you --

Umberto Vergine - *Saipem SpA - CEO*

(Multiple speakers) this offset particularly some of the contracts that are still in the initial phase that haven't yet reached a kind of a steady pace of execution.

Henry Tarr - *Goldman Sachs - Analyst*

So it's not related to any one specific project or anything like that. It's a broad range?

Umberto Vergine - *Saipem SpA - CEO*

(Technical difficulty)

Henry Tarr - *Goldman Sachs - Analyst*

Okay. And then just the last point is a bit of a broader one I guess. You talk about the lower oil price impacting relationship and sort of ongoing negotiations. I would expect this sort of lower oil prices impact timing of future awards and negotiations around the future awards. But on sort of ongoing projects, it seems strange to some extent that it's impacting negotiations around those projects. Do you get the sense that clients are already sort of trying to protect cash flows or how do you see that the sort of near-term weaker oil prices made those negotiations more challenging?

Umberto Vergine - *Saipem SpA - CEO*

Well, I mean certainly on the time when their cash flow is potentially decreasing because of a lower oil price, their indication that in all oil company comes from the management is certainly to minimize expenditures. And of course, many expenditures is operating costs, capital expenditures and in the capital expenditures there are certainly payments of claims. So to a certain extent, even though the principle under which we were negotiating and the fact that the majority of our claims have been in principle affected and we were discussing the quantification of them, we have seen a certain rigidity in progressing with the discussions that were in place.

I guess that this is quite normal and that I don't understand why it should surprise that this is happening also on the contract or under execution.

Certainly this is attention that would be given also on new contracts, but for the time being that has not stopped the number of tenders as we have indicated and probably we will have to look at managing these projects with even more discipline in order to minimize the risk of having growing situations of a variation order in claims.

To a certain extent, I can say that we are doing really much stronger due diligence on the new contract in order to be in a position to even anticipate to the client, even before we start execution, if we notice that there are weakness that eventually will show up and will require evaluation. In order to clarify with them that discussing this is a need and we are not intended to enter into commitments already very much into execution without adding present to the case as happened to use for the legacy contract.

Operator

Andrew Dobbing, SEB.

Andrew Dobbing - *SEB - Analyst*

Can you please provide an update on how you're seeing vessel utilization in 2015 and 2016? I think you said that 2015 South Stream should be in stores, so that I guess that's helping 2015. But looking into 2016, if you could give a little bit of an update or flavor for how you're seeing utilization.

I guess a little bit related to that, your medium term guidance for offshore, 10% to 20%, is kind of governed by the share of revenues you're getting from kind of lower margin fabrication contracts, like FDS new builds, et cetera. Based on your backlog in the bid pipeline how -- can you just give us an update on where you think we might be ending up in that range of 10% to 20%?

Umberto Vergine - *Saipem SpA - CEO*

About the asset utilization, if we look at our main eight vessels for the E&C offshore, we have so far a good level of optimization. They are committed up to the end of 2015 and in some cases with a good visibility also beyond. Certainly the activity on part of 2016 and for the year after will depend on the new contracts that either we are tendering or that we expect to be put on the market.

Certainly as I always presented, we have certainly a track record of strength of some geographic areas and on some longstanding relationships with certain clients. And we hope that that will continue to play a significant role, particularly at the time when the market could see a slight slowdown. On the second question --

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Alberto Chiarini - *Saipem SpA - Chief Financial and Compliance Officer*

On the margin on the offshore, in the medium term guidance we state that offshore E&C should be around mid teens. But we also have floaters that are in the single high digit, so the margins will depend very much on the mix of floaters and also the mix of other segments in the offshore because the margins are slightly different, depending on if it's (inaudible), if it's trunk lines, if it's for T&I or SURF.

And sometimes also geographically because if it's clear, that is there's a different competition if you work in the (inaudible) where you have the assets or if you work in some areas where you are traditionally very well established also in terms of local content. So the margins will depend on this mix.

Having said that, 2015 we will still have around EUR900 million, EUR800 million legacy. We have one point something in the region of EUR1.2 billion, EUR1.5 billion of floaters. The remaining should be E&C offshore in, how do we say it, in the mid teens. The year where we believe that this progress on the offshore margins should become close to the midterm guidance should be 2016.

Andrew Dobbing - *SEB - Analyst*

I guess what I'm trying to get a sense of is I guess your outlook for each of the different parts of the offshore must be evolving at different rates. I mean if you're getting more bearish about SURF or more bearish about heavy lift or more bearish about fabrication work. I mean is there anything to suggest that there are parts that are deteriorating more quickly than you had anticipated? And then could that have an impact on the likely margins in 2016?

Umberto Vergine - *Saipem SpA - CEO*

We have a good record of new contracts that cover, I will say, almost all the four main components of the offshore business. Not last, Lakach that is SURF, not last the fact that we want a SURF in Brazil, we are looking at some other options in West Africa. So even the more important part or higher margin component of our offshore is for the time being well supported. And that will get in execution during next year, towards the end of next year in some cases.

There are, as Alberto was saying, already onboard the part value about EUR1.5 billion of floaters that we are not -- I mean I'm more than happy to have won this. This part of the offshore certainly, as we always said, is preventing a lower margin because it's presenting in many respects a lower risk. So but we are happy also for this part. Like the listing projects, like the [sea line] project, all of them are exactly in line with the kind of fleet that we have with our competencies, with our organization. So we are always trying to move, keeping all of them moving in parallel.

Operator

Asad Farid, Berenberg.

Asad Farid - *Berenberg - Analyst*

I have two questions. One is with regards to the onshore division and the other with regards to the offshore division. In your results you mentioned that on the onshore engineering and construction division Saipem is currently not able to cover its fixed costs. Is it possible for you to elaborate on any cost reduction measures you are considering or carry out, such as head count reduction or asset divestments?

Secondly, in Mexico you had the Lakach win. I just wanted to ask can you give some color on the margins on the contracts you're bidding in Mexico? Should we expect the same experience you had in Brazil where you compromised on margins to gain market share in a new market?

Alberto Chiarini - *Saipem SpA - Chief Financial and Compliance Officer*

On the onshore, I wouldn't take your question only of on the onshore. Of course we are realizing that in this very difficult environment and this was something we started already last year, we needed to reduce costs to make sure that our asset base and our fixed cost base is reduced to make us more efficient.

In the onshore is probably the area where this is, let's say less meaningful, not because it's meaningful to reduce costs, it's always meaningful to reduce costs. But because we do not have a high capital investment. We do not have item, basically we have a lot of engineers and what is happening when you reduce engineering activities are located to projects you normally divert this activity to tendering.

So having said that, we are trying to optimize the (inaudible) of the location of this engineering activity because we have engineering centers spread out in the world and sometimes more following the logic of local content rather than a pure logic of cost optimization.

On the other part, on the offshore, we are working very hard to make sure that we have an efficient logic of coastal location (inaudible) yards, especially as you know we have a big number of yards in Angola, in the Congo, in Brazil, in Kazakhstan, in Indonesia, (inaudible). And we are trying to look at the cost of this yard as an opportunity in terms not only of presence of (inaudible) accounted, but in terms of making a fabrication where it costs less. So we can leverage on the possibility to make sure that we fabricate where the cost is lower.

So these are some examples of some of the initiatives. Of course we are also making sure that we are not spending money on overhead, on IT costs and all these initiatives are ongoing at the moment.

Umberto Vergine - *Saipem SpA - CEO*

I will add that some of the examples that Alberto gave are actually already being implemented. Others are more of a starting phase, but the most relevant are likely one of fabrication and like some also on effectiveness of operating costs on drilling are already being implemented by the business unit. So we hope to see the result quite soon. Other (multiple speakers) need a little bit more of time to become really a cost control project.

For what relate to Lakach. Well, in general although we say we don't like to comment single projects, but your question is quite specific. So I will just say that compared to the anomaly of some of the first contracts we were awarded in Brazil, we won in Brazil, Lakach is certainly in line with current market situation.

Operator

Mukhtar Garadaghi, Citigroup.

Mukhtar Garadaghi - *Citigroup - Analyst*

Just two quick questions. What are the risks that some of the legacy contract carrying to 2016? Is that a material risk? I mean if yes, what sort of amount work would we be talking about?

And my second question relates to your comments around incremental cost of debt if you were to sort of cut the cord with ENI. And you previously said we've got the money comment of EUR40 million to EUR50 million. So has that changed? Have you changed on that in the line of the oil price movement in general the situation you find yourself in? And if yes, could you just comment on your discussions with the potential debtors?

Umberto Vergine - *Saipem SpA - CEO*

On your first question you referred to which risk for the legacy in 2015?

Mukhtar Garadaghi - *Citigroup - Analyst*

Sorry, I referred to the risk that some of that work actually carries into 2016.

Umberto Vergine - *Saipem SpA - CEO*

Well, on the more than the execution, so more than the work, is the amount related to the negotiation. I will say that today we are moving quite well operationally, so therefore in progressing with these projects. And this is of course an important aspect to support the strength of our negotiation with the clients. And certainly what we see is the component of a longer than expected time of negotiation. And in fact we have indicated already some movement to 2015.

On the legacy contract itself, there are some activities that incurred some delay, like some that Alberto presented before that of course will make more revenue shifting to 2015 that is in the range of the EUR300 million that we have indicated before.

Alberto Chiarini - *Saipem SpA - Chief Financial and Compliance Officer*

About the cost of the debt, well, the only thing I can tell you is that there's still conditions and the environment for financing is still very favorable in terms of rates. So I don't see a huge change of that estimate we made. What I can tell you is that of course we have many banks knocking at our doors telling us that they could refinance us at a very favorable rate in the current condition. And in a way, they are trying to [incentivize] us to get the window. So I don't see today a higher impact.

In terms of rating, roughly we would we would be in the rating range of double B now. So we would pay the money, have a double B rated company more or less.

Mukhtar Garadaghi - *Citigroup - Analyst*

Umberto, just a quick follow-up. I mean in those discussions do all of them or some of them assume an equity rate or are you comfortable you can do it with assets as well?

Umberto Vergine - *Saipem SpA - CEO*

It's one of the options. Again, to tell you honestly, there are quite a few banks that would be really willing to finance the whole of our debt simply on a financing from banks. But of course, this is probably more commercial than real.

Operator

Amy Wong, UBS.

Amy Wong - *UBS - Analyst*

Just one question from me. I'd like to reconcile the existing lower margin contracts from the second quarter, which was 2.7 for 2014 and 1.5 for 2015. So is it just correct to say you guys worked off 1.7 in the third quarter? Or has there actually been some push out from 2014 into 2015?

Alberto Chiarini - *Saipem SpA - Chief Financial and Compliance Officer*

Yes, I think there has been a shift from 2014 to 2015, yes. Because as I said, mainly because of bad weather and some of the contracts and some delays in (inaudible).

Amy Wong - *UBS - Analyst*

So can you give us the number of low margin contract that was worked off in the third quarter and split that between offshore and onshore, please?

Umberto Vergine - *Saipem SpA - CEO*

No, we don't have this detail at the moment. I'm sorry. Maybe we can provide it maybe later. We will get you the figure.

Operator

Peter Testa, One Investments.

Peter Testa - *One Investments - Analyst*

A couple of questions, please. Just to clarify your earlier answer on South Stream where the Bulgarian permits were outstanding, where do you stand on those -- where does the contract stand on those permits? And to what extent if those permits are not in place will line one and two be able to fully go ahead?

The second question was just you mentioned in the realm of talking about different financing options, the purchaser option. And I was wondering if you had any -- whether there were any due diligence conversations going on or anything to the Rosneft rumors that have been in the Italian press?

Then on the near term, your order backlog outstanding for Q4 is quite a long way below the implied sales for Q4. It's EUR900 million or something like that. And I was wondering if you could give some sort of sense as to how that gap will be filled up in sales versus your guidance, please.

Umberto Vergine - *Saipem SpA - CEO*

Going in the order. On South Stream, as I said, the delays of permitting in Bulgaria, they haven't so far any impact on the activities because as you imagine, we're working from two ends. We're working from the Bulgarian cost and from the Russian cost. And the permits that we needed to start the work were the one on the Russian side that will be from where the shallow part of the pipeline will be built. And therefore on the short term, that is not giving any operational impact.

The logistic permit that we needed on the Bulgarian cost in order to receive the pipes and to start with the Castoro 6 to make the quadruple joint fabrication has been received, so that activity is ongoing. Then the pipe will be moved across the Black Sea to the Russian side to be start used for the laying. So the picture is clear that for the time being the permits in Bulgaria are not critical and what we needed to do on that side has been done.

Alberto Chiarini - *Saipem SpA - Chief Financial and Compliance Officer*

On the financing and the process of the consolidation, if I got your question right, I can tell you there is no due diligence process at the moment with anybody whatsoever. So at the moment, we are not in any exercise of due diligence or negotiations or something like that. So as I said, we are only doing our homework to make sure that we are ready whenever there is more visibility.

In terms of Q4 backlog, probably I can also answer to the previous question, which is that we still have a EUR2.2 billion around of contracts to be executed in the E&C. EUR1 billion around is legacy and EUR1.2 billion is new contracts.

Peter Testa - *One Investments - Analyst*

My question though is you have EUR2.6 billion of order backlog due to be realized in 2014 and your guidance implies about EUR3.5 billion of revenue. And I was just trying to understand how you make up the difference, please.

Alberto Chiarini - *Saipem SpA - Chief Financial and Compliance Officer*

Yes, we have the drilling and plus we also normally don't include in the backlog revenues coming from change orders variation, because these are not included in the backlog. So we expect those have a normal amount of --

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Umberto Vergine - *Saipem SpA - CEO*

But in general, we are in line with our coverage ratio and also from previous year. So we don't expect -- I mean quite comfortable situation so far.

Peter Testa - *One Investments - Analyst*

And so just to go back on the South Stream answer, the Bulgarian permits to get the Castoro 6 in place and operating, they're still to be -- still to arrive? Is there any European influence on that process?

Umberto Vergine - *Saipem SpA - CEO*

No, I just said the Castoro 6 is in Bulgaria and is doing the preparatory activity, including preparing the quadruple joint. And this takes the pipes and to make a section of four pipes in order to be used then for the laying. What is normally or I've seen a few times reported in the media about permitting, relates more to the onshore part of the project that is outside our scope. But for what relates, I understand. So there is a little bit of implication also for the offshore, but not critical at the moment.

Operator

Andrea Scauri, Mediobanca.

Andrea Scauri - *Mediobanca - Analyst*

I have a couple of questions. The first one is on Kashagan. Do you expect any involvement of Saipem in the substitution of pipes for the well-known problems of leaks of the pipes of the project?

And second question, could you please give us an update on the investigations related to Algeria? Did you receive any documents or any other kind of questions from the DOJ or Italian prosecutors?

Umberto Vergine - *Saipem SpA - CEO*

On Kashagan, I can confirm that we are already in discussion with the consortium for analysis of the pinnacle and operational options for laying the two new pipelines that had problems originally. We have of course not only the presence in the country in terms of our joint venture there, we have the fleet, the vessels, the equipment and the competencies to run this project, so at this moment in time we are supporting the consortium to finalize the engineering and the schedule details that should bring the consortium to issue a contract hopefully to us by the end of the year in order to have a contract or capital to mobilize as the ice will melt in March, April next year in order not to lose any more time.

About the investigation --

Andrea Scauri - *Mediobanca - Analyst*

Sorry, Mr. Vergine, if I may, could you give or take quantify what might be the size of this work for in Kashagan?

Umberto Vergine - *Saipem SpA - CEO*

Well, this would be a significant contract. It depends also of some issues that are still under not a discussion, but evaluation. The visibility of certain options of course considering the urgency of completing this project and completing it in the minimum time possible, could have an impact on the cost that the consortium is keen to offset. Until we have help then to quantify exactly these costs, and therefore (inaudible) we'll be able to understand if these costs are justifiable, there is an element of uncertainty on the overall value of the project.

As I said, we are involved in this discussion because of our competence on the matter and we will understand this better I think at the very beginning of next year.

Alberto Chiarini - *Saipem SpA - Chief Financial and Compliance Officer*

On the investigation in Algeria, the situation is not changed from our previous discussion on that. In Algeria everything is silent. We do not have any specific news.

In Milan, Milan prosecutor has to issue the result of the investigation at least by -- maximum by next February and we have right on the (inaudible) that recently after what is an Italian incident at (inaudible). So basically he wants to put interview (inaudible) and (inaudible), two former employees of Saipem to get the paper of, and the result of this interrogation in the investigation. It's a very technical issue in terms of initial procedures, but actually doesn't change anything. So the investigation will end by end of February.

On the DOJ side, we are most likely going to renew the (inaudible) agreement that will be expiring in November. And for the first time, and we are cooperating with them whenever they ask some information on the investigation in Algeria, even though it is, let's say, fair to believe that DOJ will wait for the conclusion of the investigation of Milan prosecutor.

Operator

David Farrell, Macquarie.

David Farrell - *Macquarie - Analyst*

One question for me, please. In the state of the net debt not falling as quickly as you expected and a number of comments earlier regarding the potential equity risk, I'm just wondering whether or not you could say anything around the likelihood of Saipem's board of directors approving a dividend for 2014?

Umberto Vergine - *Saipem SpA - CEO*

Well, you know that in the past the policy has always been to use one-third of the net result for dividend. And I think that the board will look at the beginning of next year when we'll be trying to take a decision about this continuing applying the same policy or evaluating other elements. For the time being, we have not even started talking with our board about this issue. So I cannot anticipate which could be the decision that we will have at the time.

Operator

Luigi de Bellis, Equita.

Luigi de Bellis - *Equita - Analyst*

Two quick questions for me. The first one is on the E&C onshore division. Could you give us an indication of profitability before fixed costs for the legacy project in this division for 2014? In particular I would like to know if the legacy has a negative gross margin or they are at breakeven.

And the second question, how much are the total amount of legacy in 2014 only for the onshore E&C division?

Alberto Chiarini - *Saipem SpA - Chief Financial and Compliance Officer*

About the margins, okay the legacy contracts are by definition zero margin because anytime you have a negative margin full life estimated according to the IAS 11, you have to write it off. So all the negative contracts are zero margin.

Having said that, the reason for the negative margin that we are showing at the EBIT level in the onshore comes from mainly two reasons. One reason is that the zero margin on the legacy plus the margin on the other contracts is not enough to repay the fixed costs of the business unit onshore.

And the second reason is that on the onshore contract we incurred during the year, we have incurred some extra costs that we didn't believe was possible to be recovered by the client. And at the time, we have incurred these costs, we have written them off. So there has been also these aspects, this impact of extra costs not recognizable by (inaudible) the client.

Umberto Vergine - *Saipem SpA - CEO*

On the legacy contracts, for sure in 2015 -- in 2014 their amount is approximately EUR2 billion.

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Luigi de Bellis - *Equita - Analyst*

Thank you very much.

Umberto Vergine - *Saipem SpA - CEO*

Okay, thank you. I thank you all for attending our conference call and I wish you good night.

Operator

That will conclude today's conference call. Thank you for your participation, ladies and gentlemen. You may now disconnect.
