Q1 2016 results

April 29th 2016

Presentation

Speakers:

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Good afternoon, and welcome to our **first quarter results presentation**.

Economic results and cash flow are presented, as we did at the end of 2015, on a stand-alone basis.

This means that:

- **Versalis** is excluded both in 2015 and 2016 and
- **Saipem** is excluded in 2015 and equity accounted in 1st quarter 2016

In this quarter, we continued to perform in line with our strategy, **progressing in all our businesses and delivering positive operating results in each of them.** In particular:

In **E&P** we achieved, as planned, the start-up of Goliat in Norway, Heidelberg in US, Mpungi in block **15/06** in Angola and Meleiha Deep in Egypt. These, together with the contribution from ramp-ups, contributed to a volume growth of **3.4% vs 1Q 2015, or 1.3% net of PSA effects.**

  - Development activities are progressing well: we confirm all the start-ups we planned this year including Kashagan, which is expected on stream within the last quarter of this year.
  - Talking about **Zohr**, after the final investment decision taken in February, we are preparing the fourth well, whilst speeding up the award of the main construction contracts, both on- and offshore.
  - **As for Exploration, we drilled three** successful wells and other positive results are expected in the second quarter. In terms of guidance, we are very well on track to exceed the yearly guidance of **400** Mboe of additional resources at a cost of around **900** Meuro or less.

In Mid-downstream, all segments were profitable, achieving **around 350 million euro of EBIT thanks to:**

- In **G&P, a good quarter in a weak scenario, that confirms the turnaround pace of this business that was driven by** the improved competitiveness of our gas contracts and a good result in retail;
- In **R&M**, good performances in both refining and marketing, the former confirming the expected **2016** breakeven at the margin of **4,5 $** per barrel .
- Overall, the **company generated an operating cash flow of 1.3 billion euro, at a very depressed scenario of 34 $ Brent**, and kept the leverage almost flat to **23%.**

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And now a few comments on the quarter’s economic and financial results

Q1’s adjusted operating profit amounted to **472 million euro,** around **1 billion** euro lower than last year. This drop was driven by the negative scenario which accounted for around **1.6 billion** euro, mainly referred to upstream, but partially compensated by our stronger industrial performance that improved by **0.6 billion** euro.

All our businesses recorded **positive adjusted operating profits**, reflecting the progress of our turnaround programs.

In E&P, **Hydrocarbon production** was **1,754 kboe/d**, **3.4%** higher compared to the first quarter of **2015**.

Excluding PSA and other minor effects, production increased by **1.3%** mainly thanks to:

- The start-up of Goliat and
- production ramp-ups in Angola, Congo, Egypt and Venezuela

Operating profit was affected by the decline in oil and gas prices, which accounted for **1.5** billion euro vs **1Q 2015,** but partially counterbalanced by **0.5 bln** euro deriving from **lower** exploration, **DD&A** and **operating** costs.

2016 production guidance is **substantially confirmed,** even if we assume a Val d'Agri shut down, due to the **current legal investigation, lasting for the full year.**

The negative impact in this hypothesis would be in the range of **50** kboed but it could be **substantially absorbed** by the **production contingency** and by expected better performance in other fields worldwide.

The timing of the legal procedure in Val d'Agri cannot be predicted today.

The **adjusted net loss** amounted to **77** million euro and was penalized by the **already anticipated higher tax rate** paid on positive results in PSAs mixed with some negative results in concessions, which are subject to lower taxation.

In G&P, the scenario was depressed:

- **TTF and PSV** were down both versus **Q4 and Q1** of last year, and the spread between the two hubs narrowed to **50 dollar cents per Mbtu.**
- **Gas demand in Europe** was lower than **Q1 2015** due to a mild winter and high output of renewables in the power sector, particularly in Germany and Spain.

In this scenario, the **adjusted operating profit** amounted to **285 million** euro, almost in line with **Q1 2015** despite the warmer weather and the lower positive non-recurring items for around **110 million** euro, inclusive of the effect of the Edison arbitration currently under **further** renegotiation.

This improvement has been achieved thanks to the upgrade of our gas portfolio renegotiated so far, lowered logistic costs and trading activities.

In terms of **guidance**, we **confirm** a **positive adjusted ebit** in **2016** thanks also to the retroactive contribution of **GasTerra arbitration**, forecasted by the second quarter this year, **as well as** the structural breakeven from **2017.**

Turning now **to R&M**

This business, excluding the effects a the significant decrease of the refining margin from **7.6 $/bbl** (**6.6** after hedging) to **4.2 $/bbl**, showed an improvement year on year, with an adjusted operating profit of **66** million euro.

In particular:

- **Refining** has benefitted from the ongoing progress on site turnaround, with an adjusted operating result substantially at breakeven. This is notwithstanding a capacity utilization rate which was down **9** percentage points versus first quarter **2015** at **87%.** This was due to higher maintenance activities triggered by the weak scenario, while…
- **…Marketing** has been better than in **1Q 2015,** benefitting from higher retail margins in Italy.

We confirm our **target** for a **2016** refinery breakeven margin at around **4.5 $/bl**, on track with our program of lowering it to **3 $/bl** by **2018.**

Finally, our **financial position.**

Net debt at the end of March was **12.2 bln €** , implying an **almost flat leverage** at **23%.**

The **500 mln €** increase in debt versus year end **2015** is attributable **mainly** to a capital expenditure of **2.5 billion €,** significantly counterbalanced by:

- cash flow from operations of **1.3 billion €**
- a **cash-in** of **0.34 billion €,** mainly from the conversion of the latest Snam shares, and…
- …the **effect of euro appreciation** on the **US$ denominated debt** of around **250** million **€.**

All businesses, **apart from E&P,** contributed a positive free cash flow in this quarter.

For the full year, we confirm our guidance to cover capex at **50 $/bbl** with our cash flow from operations.

And now let's start the Q&A session.