Neptune Acquisition

Friday, 23 June 2023, 13:00 CEST

Presentation

Speaker: Claudio Descalzi, CEO

Good afternoon and welcome to our conference call to discuss today’s announcement concerning the agreement of Eni and Var to acquire Neptune Energy.

I am sure you will have had chance by now to read our press release published this morning, and see related information published by Var Energi. Together we have agreed to purchase Neptune Energy with Var acquiring the Norwegian assets, and Eni acquiring the remaining portfolio with the exception of the German operations.

Between us we are paying $4.9 bln to acquire Neptune, including debt, with Eni paying $2.6 bln for the International business. That equates to an attractive 2P acquisition price of $10.1/boe for a business expected to produce around 130 kboed in 2023. On an Eni portfolio basis, and therefore including our 63% stake in VAR, Neptune will contribute over 100 kboed on average over 2024-26. The deal, with an effective date 1st January 2023, is subject to customary conditions and approvals and is anticipated to close in the first quarter of 2024.

The transaction represents a unique fit for Eni.

We are acquiring a portfolio of high-quality, low-emission resources with significant geographic overlap that both reduces risk and enhances the value opportunity.

We are already an important producer in each of Neptune’s countries of operation with the exception of the Netherlands which even so is still aligned with our broader North Sea footprint and, of course, our European Midstream activities.

Indeed, in that context, the acquired portfolio currently supplies around 4 BCM of gas to Europe where Eni is arguably the leading integrated player in delivering this important source of low carbon energy to customers. It is also worth saying that the share in output at Snohvit and production through Bontang in Indonesia feed through into our global LNG system.

Focussing now a little further on the portfolio:

- In Norway the addition of around 65kboed of production with 3 operated fields reinforces Var as the second largest and fastest growing independent E&P in the country, active across the full value chain. Var’s role in this transaction further validates Eni’s creation of the Upstream satellite structure.

- In the UK, Eni will add around 25 kboed to the current 44 kboed, continuing to have an important presence in both production and also, importantly, in CCS where Eni’s Hynet is one of only two Track 1 projects, and where we are continuing to advance the Hewett project on the North Sea coast.
• Of course, the addition of further gas production in Algeria consolidates our leadership position in the country and supports our continuing actions to boost gas exports with Algeria playing a critical role in supply to Europe in the aftermath of the invasion of Ukraine.

• Neptune is a partner in Eni’s operated assets in Indonesia while in addition there is considerable potential upside in aligning the proposed Neptune Petrel development in the Bonaparte Basin, offshore Australia, with our existing Blacktip asset.

• Neptune is also progressing a number of CCS projects with the Dutch L10 project the most advanced among them.

This transaction will increase the stake of our equity contribution to GGP sales by 4%, up to 33% of the overall sale of our midstream business. And furthermore, Neptune’s gas weighting not only adds to the integrated midstream financial proposition, but it also helps advances us towards our decarbonisation objectives by adding low operating emissions production and supporting our target to shift the share of gas production to 60% by 2030.

In the Upstream Neptune brings high quality production and low operational emissions and it offers potential for industrial upside. This intrinsic quality, the competitive price, plus the available G&A and industrial synergies drives the attractive accretion which in turn supports our distribution commitments. We estimate synergies delivering in excess of $500 mln of value over the operating period. Furthermore, there is scope for additional cost synergies and exploration and development opportunities, including more CCS, which when added to financial and Midstream upsides could double that value.

Importantly, this is all consistent with our stated 4-Year Plan, set out in February, in terms of net portfolio activity, production growth, capex and financial returns.

So to summarise:

• This is a compelling deal – a strong operating and strategic fit for Eni, transacted at a competitive price.

• It aligns with both our E&P and GGP operations and reinforces our position in Norway, highlighting the Var satellite structure.

• By virtue of its strong underlying cost performance and expected synergies it delivers immediate value and earnings and cashflow accretion which further underpins our shareholder distribution commitment.

• It complements our organic-oriented strategy for growth and is consistent with all of the financial framework of the 2023-2026 Plan including the expectation that we will generate a positive €1 bln in from M&A activity over the 4-Year period.

• And finally the additional gas production into our portfolio and the low emissions profile of the assets themselves, at around 6kg of CO2/boe, is consistent with advancing our emissions objectives as part of us addressing the Energy Trilemma – in the way we discussed in February.

We are very proud to bring into Eni this high performing business which will contribute to our cashflow growth, our lower emissions profile and our shareholder value delivery and we look forward to closing the transaction.

That concludes my comments and together Eni top management team I’d be pleased to take your questions.
Q&A Session

Corporate respondents:
Claudio Descalzi, CEO
Francesco Gattei, CFO
Guido Brusco, Chief Operating Officer Natural Resources
Cristian Signoretto, Director Global Gas & LNG Portfolio (Natural Resources)

OPERATOR: (Operator Instructions). Ladies and gentlemen, we will now begin the question and answer session. The first question comes from Alessandro Pozzi of Mediobanca.

ALESSANDRO POZZI, MEDIOBANCA: Hi there. Thank you for taking my questions, and congratulations for the acquisitions. I think, it's a good geographical fit also for the GGP. And, talking about the division, I was wondering, if you can maybe give us a bit more of colour on how you can extract synergies for the midstream out of the Neptune Energy? And if you can talk about gas sales agreement that Neptune has, and how they can be, let's say, migrated into the GGP that would be very useful. That's the first question.

And the second question, I think, there's quite a lot of exploration appraisal upside of 200 Mboe. There is another 500 MMboe of contingent resources. And I was wondering, if you can give us, maybe your thoughts on how fast the appraisal and contingent resources can be moved into reserves? Thank you.

CLAUDIO DESCALZI: Thank you for the questions. Before giving the floor to Cristian and Guido, I just want to say that clearly the gas...that the additional gas gives more flexibility to GGP. That is already one of the first player in Europe. Clearly, the gas is not just Europe, but we have more flexibility, not just through pipes, that is a very important point, but also we increase the flexibility through LNG, because we have access for the first time to Norway, and we double our capacity in thermal supply to Bontang. And then, we are going to increase and we are going to start production or restart production in Algeria by the end of this year, with a very important rate. And Algeria is critical for our supply for Italy, but also for Europe. So, overall, that is a...the critical and fundamental point. Then, you talk about already the commitment that Neptune has in Europe that clearly remains, but that in any case, in terms of your volume, create more flexibility. So, ...I don't know if Cristian want to add something about that.

CRI-STIAN SIGNORETTO: Thank you Yes. So thanks for the question. In terms of gas portfolio contracts, apart from few exceptions, Neptune Energy has a contract, which is expiring in the next, let's say, 12 months. So, we will be able to step-in, in those contracts and you know, increase the materiality of the flows for GGP out of these transaction, especially in Europe. On top of that, the fields of production are located in areas in which we have already our commercial presence. We have our, let's say, customer areas in the countries...in which Neptune operates.

And then clearly, another actual element of interesting presence for us is also Indonesia, where you know, we...as Claudio was saying, we will complement the supply to the Bontang terminal, and we expect to be able to off-take more LNG out of that terminal, in order for us to bring it to the high value market in Asia.

CLAUDIO DESCALZI: Thank you, Cristian. Now, Guido, if you can comment on possible upside in our upstream acquisition?

GUIDO BRUSCO: Yes. Our preliminary evaluation of the exploration portfolio can be valued between $50 and $150 mln, and is mainly located in Australia, but we do also have prospects in Indonesia and in the Netherlands. We also know that there are synergies in Norway where there is a significant potential on the Vår assets. Equally, around the field of Algeria, the Touat field, there are
interesting opportunities to exploit once we have taken the ownership of the field.

ALESSANDRO POZZI, MEDIOBANCA: Okay. Thank you. Just on GGP, could you - maybe is it too early - quantify the potential synergies that could be additive to the EBIT of GGP from this deal? Would it be fair to assume maybe a few hundred million in the long run?

FRANCESCO GATTEI: Alessandro, just to clarify, GGP upside were not included in our evaluation. We would like just to give you this reference. So far, we have included around $500 mln. This $500 mln takes into account of the potential that we mentioned before, the one related to potential exploration results and industrial synergies in the main assets that we were let’s say speaking about. So in particularly related to Algeria, Indonesia and few smaller in UK. Where we have a potential upside, as we said, it is GGP not yet accounted for. Additional potential upside relates to better performance and exploration results in excess of what we are figuring out, clearly also the typical synergies that you can see in the asset. And we estimate this amount of all that activity could double the $500 mln that we have so far accounted for. So, the potential is up to $1 bln and while we speak about this, $1 bln is NPV and limited to our Eni portfolio. So limited to the $2.6 bln of investment that is related to the other geography out of Norway.

ALESSANDRO POZZI, MEDIOBANCA: Okay. Very clear. I'll turn it back. Thank you very much.

Operator: The next question is from Oswald Clint of Bernstein.

OSWALD CLINT, BERNSTEIN: Yes, thank you very much. Just on the topic of attractive accretion, just on the earnings per share accretion, I’m getting 3% to 4%, and I wanted to see if that sounded reasonable and perhaps you could say that the $500 mln of synergy you just discussed. What's the time period that you expect to capture that opportunity?

And secondly, the Touat field in Algeria, I think that’s the largest volume piece here. I think is Neptune’s first in the region. There have been those issues. Have you had, I mean, have you had a good look under the hood to comfortable getting this up to the 70 kboed gross? Is it as simple as the mercury removal unit? And that’s really what we should be expecting towards the end of this year? Thank you.

FRANCESCO GATTEI: Yes, about the growth related to earning per share and the distribution along the years. About the performance, this is an accretive deal. As we said, it’s a deal that we estimate in the range of $900 mln of additional cash flow from operation. And in terms of EBIT, it is something in the range of $1 bln at our scenario. That is a scenario with an $80/bbl for Brent, and €50/MWh for gas. If you discount this value to $60/bbl, and something in the range of €35-40/MWh, you have let’s say a reduction in the range of $200 mln versus this number. So, the EBIT will be probably €800 mln and the cash flow from operation will be $700 mln. So, it is still quite material, and it proves the capability and the resilience of these assets that ...have also the benefit of being light in terms of CAPEX. So, this is a portfolio that doesn't require a high level of CAPEX, something in the range of $200-250 mln per year.

In terms of distribution of that synergy, that $500 mln clearly is split along the plan. There are also some additional benefits just after the plan, in particular related to potential synergy in Australia, but all the rest are - Algeria, etcetera - are within the 4-year plan, and therefore is a short-term opportunity.

CLAUDIO DESCALZI: Just one point that is always related to the financial. We have to consider that the break-even or the cash neutrality of these assets is well below $50. So it’s really very resilient. So, they...I think that the price, at this point in time, is not really an issue, and the synergies are the big upside that we have in our hands.

GIOVANNI BRUSCO: As far as the Algerian asset is concerned, the issue of the mercury has been addressed, the solution is being implemented and we expect a restart by the end of the year.
OSWALD CLINT, BERNSTEIN: Fantastic. Thank you very much everyone.

Operator: The next question is from Irene Himona of Societe Generale.

IRENE HIMONA, SOCIÉTÉ GÉNÉRALE: Thank you. Good afternoon and congratulations. First question, you've maintained your longer-term guidance for €1 bln of net disposal process over the plan. Given today's deal, it implies perhaps €3 to €4 bln of asset disposals. I just wonder what will be the key...your key strategic themes or criteria that would drive the choice of €3 to €4 bln of assets to be disposed?

And then the second question. The deal is effective 1st of January this year. It will close a year later. So, you're receiving a full year of Neptune cash. By the time the deal closes, what price do you expect to pay and what happens to gearing before any future disposals? Thank you.

FRANCESCO GATTEI: Okay. Yes, correctly Irene you have recapped what is our policy or our - let's say - plan related to portfolio. This is clearly just one of the elements of a broader portfolio activity that, let's say, considers both acquisition and sale and at the end is resulting in a positive €1 bln over the 4-year plan.

In terms of which kind of asset will be, let's say, targeted for the disposal, these are substantially different kind of asset with let's say the opportunity to now rise our business related to the transition in particular as we know Plenitude is in the most advanced one from this point of view, but in the future we are also thinking on something similar to Sustainable Mobility. So, that is one of the models, one of the typical assets will be partially let's say diluted in particularly to allow to cash in more and more cash and reinforce the transition of Eni and our strategic execution. On the other side, we also continue to improve our upstream portfolio by selling down and diluting our position in tail assets and mature areas where we think other operators could have more interest, while we will focus on different geographies or different assets.

In terms of what will be the impact, as you have seen, the enterprise value is $2.6 bln and this is including around $500 mln of net debt. So the equity value is $2.1 bln. We expect that after 1 year, we will be able to cash in around $500 mln, that is the estimate of free cash flow of this year, from the assets of Neptune. So, therefore the cash-out will be $1.6 bln, something in that range, and then clearly the net debt in part will include also the $500 mln that is inside the current Neptune balance sheet. The overall impact therefore is in the range of $2 bln, gross of net debt. At the time of the closing, we would expect to have an additional, let's say, cash in, and therefore I would say that the impact in terms of leverage is something between 1% to 2%.

IRENE HIMONA, SOCIÉTÉ GÉNÉRALE: Thank you very much.

Operator: The next question is from Henri Patricot of UBS.

HENRI PATRICOT, UBS: Yes, I want to thank you, a very good presentation. Two questions, please. The first one is following up on your comment just now on the CAPEX is what like around $400 mln for the year. How is that looking over the next few years?

And then secondly, given you have not changed the production guidance and the CAPEX guidance, is the accommodation of these new assets just done through disposals or are you looking to slow down investments in some of your existing projects? Thank you.

FRANCESCO GATTEI: First of all, we said that the average CAPEX is in the range of $200-250 mln per year, and this is already included because this deal was assumed in the 4-year plan and so the CAPEX figure that you have seen in our Strategy presentation had already implicitly included this CAPEX contribution and clearly also the other disposals impact that in the four-year plan as impacting
investment.

Operator: The next question is from Alastair Syme of Citi.

ALASTAIR SYME, CITI: Thank you. Claudio, a couple of questions on sort of the upstream part of this transaction, I think, from a strategy standpoint. The first is, do you see this deal as being accretive or dilutive to the company’s upstream reserve or resource life? Could you just sort of frame that?

And then secondly, you know, I even think back of the last couple of years, you cut CAPEX very heavily in 2020 and 2021, I think in the upstream more than any other European IOC. You know, it feels as there is a sort of a lot of recovery and that’s spending probably more than anybody else in Europe. Can you just sort of provide some thoughts on your ambitions in the upstream versus how you think the rest of industry is acting? Thank you.

GUIDO BRUSCO: Okay. I mean, we see it in terms of reserves very accretive for a number of reasons. We are expanding on high-quality reserves which are mainly gas, which is absolutely aligned with our strategy. I just would like to remind that 75% of the reserves we are acquiring are gas reserves and so we see it very accretive for the nature of the resources, for the geographical location of the resources which fits with our footprint - operational footprint - where I mean we’ve elaborated a lot today on the synergies we can leverage, the proximity of our facilities, and I would say this is absolutely in line with our strategy where we see the gas as a long-term hydrocarbon destination.

CLAUDIO DESCALZI: Thank you, Guido. I would say, just to complete, clearly, it is very accretive for what Guido just said. As I said the breakeven is very low, the technical breakeven is really low and there are a lot of synergies and exploration potential and 2C reserves. And so, I think that increases the value of our overall package. I don’t think that we are spending more CAPEX, as you said. Clearly we increased because after the shock of the reduction of the last couple of years because of COVID, we had to reactivate all our machine system, but I think that our average investment is absolutely in the range of what we had to invest to fight our depletion and assure our growth but we are very efficient because we still range in average of $50/bbl cash neutrality, that means that we are always in the same area that can assure a good margin.

And when we talk about increased CAPEX we are, through our satellite model, able to invest in the transition so in the transformation of our industry and business, of our energy, but also in increasing what we need now that is gas, because the demand of gas is increasing, and we have scarcity due to the Russian war, but scarcity also because of very low investments in the past and the demand is always there.

So clearly, through our model, we are able to invest in the right way for both, without sacrificing one investment in respect to the other. We want to grow on both lines, on the two lines, clearly with profit and being efficient from a balance sheet point of view, but we are growing in circular economy, CCS, renewables, biochemical, but we are growing now - and you see - in gas and that is our main target in what we are doing, clearly in the most efficient way to assure everybody, the company but clearly our shareholders.

ALASTAIR SYME, CITI: Okay. Thank you very much.

Operator: The next question comes from James Hosie of Barclays.

JAMES HOSIE, BARCLAYS: Hi, good afternoon. Just quickly following up on Algeria – mostly Touat - let’s say 20% of the reserve base you are acquiring but you mentioned earlier should be producing by year end. But I am just wondering are there any particular milestones ahead of that to get the production we still looking for? And also when do you expect it be at plateau?
GUIDO BRUSCO: Well, as I said, the issue is being addressed. The solution has been implemented at the moment, we expect the restart by the end of the year and the plateau in Q1 2024. The plateau is around 70 kboed.

JAMES HOSIE, BARCLAYS: Okay. Thank you. Just a second question. Just on the German portfolio and I’m just wondering why you didn’t want that part of Neptune? Are there any particular factors you just meant it didn’t fit with Eni?

FRANCESCO GATTEI: When we started to have the discussion with the seller, the German portfolio was already subject to a potential transaction. So we focused all our activity and due diligence on the remaining part.

JAMES HOSIE, BARCLAYS: Very clear. Thank you.

Operator: One moment for the next question, please. The next question is from Matt Lofting of JP Morgan.

MATT LOFTING, JP MORGAN: Hi, gents. Thanks for taking the questions. Two, if I could, please. First, just coming back to the intended divestments and the strategy around there seems this will be disposal approach is quite important as a second order in terms of the high grading of the value of the transaction, given the sort of the reference you made earlier to looking to divest with the more tail-related assets against it. Could you just expand on the confidence that you have as a company on being able to execute on tail asset type disposals particularly in the upstream and prevailing macro conditions and the potential duration over which that program is carried out to get back to the sort of the net €1 bln of M&A under your 4-year plan?

And then secondly, on the cash flows, I think you mentioned $900 mln CFFO and $1 bln EBIT at your scenario assumptions earlier. Could you just clarify? Is that inclusive or excluding additional dividends that would come to Eni from Vår given that Vår is associate-accounted in your numbers? Thank you.

CLAUDIO DESCALZI: I’ll take the first question and then Francesco the second one. So, in E&P - as Francesco talked about mature assets and tail assets - we have different opportunities, and I can say that a couple that are very mature and are very close, so our expectation is to close in the next 10 months, and maybe also this year, then we have the other opportunities on which we are working that we spread out in the 4-year plan. But they are real – it is not just an assumption that something is mature – and close to be finalized.

FRANCESCO GATTEI: About the figures that I described, this does not include any contribution from the Vår Norwegian assets and therefore this will be an additional upside that will come through this deal.

MATT LOFTING, JP MORGAN: Super. Thank you very much.

Operator: The next question is from Massimo Bonisoli of Equita.

MASSIMO BONISOLI, EQUITA: Good afternoon and congrats for the deal. I have just one clarification left in its first quarter results presentation, Neptune Energy guided for a net cash tax payable for $2 bln. If I got correctly, you were referring before of $500 mln free cash flow for 2023. So just to put everything into perspective just to understand the tax position of Neptune Energy in 2023.

FRANCESCO GATTEI: Well, clearly, Neptune has probably provided the overall picture, the overall picture clearly taking into account Germany and, once we speak about the cash position and the tax position, you should include also some tax - let’s say legacy - that are to pay Norway related to last
year result. So, the net debt that we describe clearly is a net position. There is also working capital or a fiscal position that brings, let's say, the value close to the level that you are referring to.

MASSIMO BONISOLI, EQUITA: Great, very clear. Thank you.

Operator: The next question is from Paul Redman of BNP Paribas.

PAUL REDMAN, EXANE BNP: Hi, guys, and thank you very much for your time. I just had two quick questions. One, just on Australia. My thoughts were that I think previously around 2021, you had potentially said you were selling out Australia. Kind of wanted to ask what kind of changes you picked up, some more assets in that region?

And secondly, just when we talk about oil at $60 per barrel, kind of what gas price you are implying there? Thank you.

FRANCESCO GATTEI: About the $60, I am referring to - once we speak about $700 mln - to value of around €11.7/mmbtu, it means $12/mmbtu. So, something in the range, as we said before, of €35-40/MWh.

About Australia, I think that - okay, sorry if you want I can complete, yes - clearly I remember that once we launched that potential sale, it was at the end of 2020. I would say that after end of 2020 a lot of things have changed. The offer that we received was considered at the time not in line with our expectations, so we kept, and now clearly Australia yes is a component of a larger deal. We think this is an opportunity in this deal, but clearly is not the main driver because we are doing this deal. This is an upside that we’ll benefit on, but clearly all the value is mainly related to the other assets, Australia is an opportunity to implement and to increase even the value of our portfolio there.

Operator: The last question is from Kim Fustier of HSBC.

KIM FUSTIER, HSBC: Hi, good afternoon and thank you for taking my questions. Two please. Firstly, could you give an indication of how much of Neptune’s gas production is exposed to hub or LNG prices versus how much are domestic gas prices?

And secondly, are you able to quantify the uplift to your LNG production and LNG sales or off-take from this acquisition? Thank you.

CRISTIAN SIGNORETTO: Well, the gas portfolio in Europe is completely exposed to the hub price, and instead the portfolio of Neptune - in the let's say producing countries - is mostly exposed to the Brent pricing.

When it comes to the LNG production as we said, I mean, acquiring especially the position of Neptune in Indonesia - given that the one in Norway will be acquired by Vår - will increase our feed gas to the Bontang plant from which we are already exporting LNG and we sell it into the Asian market. Clearly, with the increase of feed gas position into the Bontang plant, we’ll be able to, let’s say, negotiate better terms with the stakeholders involved into the plant. And have an opportunity to off-take even more LNG from our portfolio going forward. Clearly, this also will be linked to the new projects which will be available in due time. So, I am talking about the new development in the East Kalimantan basin. But, this is going to happen already in the 4-year plan.

KIM FUSTIER, HSBC: Thank you.

Operator: Mr. Descalzi that was the final question sir.

CLAUDIO DESCALZI: So, thank you. Thank you very much for attending the call.