First Quarter Results

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Speaker:

Massimo Mondazzi – CFO

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Good afternoon ladies and gentlemen,

Welcome to our first quarter results conference call.

Before I take you through the financial results, let me give you a summary of the main highlights of the quarter.

In E&P, production was impacted by a number of temporary issues, mainly in Libya and Nigeria. In Libya, while the situation remains challenging, production has been restored after the shut-in of Mellitah, and we are now back in the region of 260kboe/d. In Nigeria we have repaired pipelines damaged in last year's floods, although force majeure in the swamp area remains in place.

With Q1 disruptions now largely resolved, and assuming no further shut ins, we confirm full-year production guidance. Growth will be driven by our expected start-ups and ramp-ups, which are broadly on track.

At the same time, we have continued to consolidate our long-term growth prospects; exploration discoveries amounted to around 600m boe of resources, and we have secured promising new opportunities including our shale gas block in China.

In G&P, Q1 results reflect the deteriorating competitive environment. In Italy, demand has continued to fall, by -5% in the quarter, driving hub prices lower than those in Northern Europe. Meanwhile, our supply costs do not yet include the expected benefits of renegotiations.

On the positive side, we are performing well in resilient segments such as LNG, retail and new structured products, and supply-side negotiations are progressing constructively. We continue to expect to close a significant part of them in 2013. On this basis we confirm our previous guidance of full-year ebit in line with underlying 2012 - which as you will recall was not a positive number.

The downstream businesses have shown improved results from a combination of cost efficiencies, margin enhancement initiatives and slightly better benchmark margins, although demand for refined products and chemicals remains weak.

And now on to our results.

In the first quarter of 2013, the market environment was mixed.

The average Brent price was 112,6 dollars a barrel, slightly up versus last quarter but down 5% year-on-year.

Refining margins remained volatile. The Brent/Ural margin rebounded to $4.3 dollars a barrel, over 50% higher than last quarter and 32% higher year-on-year, but still below break-even levels.

The euro appreciated versus the US dollar and was at $1.32 for Q1.

In the first quarter of 2013 Eni reported adjusted operating profit of €3.79 billion, down 36% compared to Q1 2012 excluding Snam's contribution.

The decline was mainly due to E&P, which delivered lower production volumes in a weaker pricing environment, and G&P, where year-on-year comparison was affected by falling sale prices and a one-off gain recorded in Q1 12.

Adjusted net profit of the first quarter 2013 amounted to €1.43 billion, down by 39% excluding Snam's contribution, driven by a weaker operating performance and the expected increase in the consolidated tax rate (up by 5 percentage points) mainly reflecting the higher contribution of E&P to group results.

Turning to E&P, in the first quarter of 2013, Eni's liquids and gas production was down by 4.9% year on year, to 1.6 million boe/d.

As well as the temporary disruptions in Libya and Nigeria, the year-on-year comparison is affected by the shutdown at the Elgin/Franklin field in the UK which restarted in March 2013, the impact of the Karachaganak and Galp disposals and unplanned facility downtime.

These decreases were partly offset by continuing production start-ups and ramp-ups, particularly in Russia, Egypt and Angola. In Q1 we also saw the start-up of fields in Algeria and Venezuela, providing a small contribution in the quarter but paving the way for future ramp ups.

As well as lower production volumes, E&P operating profit was affected by lower average realisations, down by 7.7% in dollar terms. Unit operating costs were higher, also reflecting the temporary shortfall in volumes, leading to an adjusted operating profit of €4bn for the quarter.

And now G&P.

In the first quarter of 2013, despite the contraction in European demand, Eni's gas sales of 29.5 bcm were in line with the first quarter of 2012 excluding the impact of the Galp disposal.

Sales volumes in the Italian market amounted to 12.5 bcm, an increase of 3% from the same quarter a year ago, with higher volumes sold to wholesalers and at the hub more than compensating lower consumption by industrial and retail clients, hit by the economic downturn.

Sales in Europe fell by 7% net of the disposal of Galp, while sales outside of Europe were strong, driven by LNG sales in the Far East.

In the context of broadly stable volumes, marketing results declined significantly owing to the increased competitive pressure, and the retroactive portion of the Gazprom renegotiation included in Q1 2012.

Turning now to international transport, operating profit was down by 15% reflecting lower transported volumes.

Overall, G&P reported an operating loss of €148 million, compared to a profit of around €1bn in the first quarter of 2012.

As you may recall, a number of our G&P activities are not consolidated in ebit. Income from these associates in the first quarter amounted to €30m, compared to €106 in the first quarter of 2012. This reduction reflects reduced Union Fenosa Gas profitability, owing to the shortage of feed gas for the Damietta LNG plant in Egypt, and the impact of the Galp disposal.

In the first quarter of 2013 the Refining & Marketing business reported an adjusted operating loss of €152 million, an improvement of €72 million on the first quarter of 2012.

In refining, throughputs continued to be low, driven by the partial temporary closure of the Gela refinery as part of our strategy to contain overcapacity. Improved results reflected a recovery in refining margins in the Mediterranean area and continuing progress on our efficiency targets.

With regards to marketing, volumes were impacted by the continuing decline in oil products demand (-6% vs IQ 2012). In this context, results benefited from an increased focus on margins in our retail and wholesale segments.

Versalis reduced its adjusted operating losses to €63 million in the first quarter, a significant improvement from the €169 million it lost in the same quarter last year, benefiting from higher cracking margins and early benefits from the restructuring plan.

The Engineering & Construction segment reported a lower adjusted operating profit, which was down by 46% to €204 million.

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