2011 Third Quarter Results

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Speakers:

Alessandro Bernini – CFO

Good afternoon, ladies and gentlemen, and welcome to Eni SpA 2011 Third Quarter Results Conference Call hosted by Alessandro Bernini, Chief Financial Officer. [Operator Instructions] I'm now handing you over to your host to begin today's conference call. Thank you.

Alessandro Bernini

Good afternoon, ladies and gentlemen, and welcome to our Third Quarter Results Conference Call. The third quarter of '11 was characterized by significant progress on our strategic dollars. In particular the situation in Libya is evolving positively. The Abu-Attifel oil field was restarted, and we have reopened the GreenStream pipeline on October 13. Ourinitial volumes are small, but we expect to ramp this up over the next two months and into the first quarter of '12, along with the restart of the large Bahr Essalam offshore gas field expected before year-end.

Overall, the recovery of our activities in Libya have enabled us to greatly reduce our estimate for the negative impact of the crisis on full-year production. We have also continued to deliver excellent exploration results of which our recent discovery in Mozambique is the standout example, both in terms of size and because it opens up a new frontier for us in East Africa.

We have made good progress on our development projects, in particular taking the FID for the Samburskoye field in the Yamal Peninsula, putting us on track for startup in '12.

Just to give you an update on gas renegotiations, our discussion with Sonatrach has been positive, and we are close to reaching a mutually satisfactory conclusion. Our discussions with Gazprom are progressing, and we have seen evidence of an increasingly constructive dialogue. While it is difficult to be deterministic about the timing of a deal, we remain confident about the outcome.

But now let me give you a detailed overview of our Q3 results. In the third quarter of '11 the macroenvironment was mainly positive. The Brent price average $113 a barrel, up 48% compared to the third quarter of '10. Meanwhile the average European refining margin Brent/Ural was $2.9 per barrel, still weak compared to historical levels, but showing an 18% increase year-on-year. The euro-dollar exchange rate moved unfavorably compared to the corresponding period of last year, with the euro appreciating around 10% versus the dollar.

Moving to our results, adjusted operating profit in the third quarter amounted to €4.6 billion, up 12% year-over-year. This result is due to the improved performances of the Exploration and Production, Engineering and Construction, and the Refining Marketing businesses partially offset by the lower contribution of the Gas & Power division, which doesn't reflect any benefits from gas contract renegotiations, and the negative result of the Petrochemical business.

Adjusted net profit for the third quarter was €1.8 billion, up 7% year-over-year. Notwithstanding a higher adjusted tax rate, up by almost 7 percentage points to 57.6%. The recent upward revision of the so-called Robin Tax decreased net profit by €130 million in the third quarter, of which 80 million pertaining to the first half of '11.

In the third quarter of '11, Eni's Hydrocarbon production amounted to 1,473,000 barrels of oil equivalent per day, a decrease of about 14% compared to Q3 '10. Lower production was mainly due to the ongoing instability in Libya, which reduced production by approximately 200,000 BOE per day. Furthermore, PSA and PSA entitlements were negatively affected by the sharp increase in the oil price, with an estimated impact of 37,000 BOE per day. The increase in the oil price, however, boosted the [indiscernible] (05:26) for adjusted operating profit, which amounted to over €3.9 billion, up 19% compared to the third quarter of last year. This positive result comes in spite of the negative impact of the USD depreciation, amounted to around €200 million in the quarter.

In Gas & Power, overall gas volumes sold, including consolidating and associated companies, totaled at 17.3 bcm, roughly in line with last year. However, adjusted operating profit decreased by 20% compared to the same period of '10 due to the sharply lower results delivered by the Marketing business. It's worth reminding you that the results do not include any benefits from the renegotiation of our long-term supply contracts, although these will be retroactive once agreements are finalized.

Gas & Power adjusted pro forma EBITDA for the third quarter of '11 was €550 million compared to €675 million in the third quarter of last year. International Transportation results showed a 4% decrease while the regulated businesses generated €388 million, up 5% off gross to the corresponding period of last year. The increase is mainly due to higher returns of new investments and efficiency actions, as well as the positive impact on the Distribution business of the new tariff regime settled by the Authority for Electricity and Gas.

Adjusted pro forma [indiscernible] (07:23) the Marketing Power business was negatively impacted by increasing competitive pressure in Italy and Europe, as well as unfavorable climate and the tsunami affects. Furthermore, the ongoing situation in Libya reduced the volumes of [indiscernible] (07:40) and affected margins, owing to the substitution of the recently renegotiated Libyan gas with other sources of supply not yet renegotiated. These negatives were partially offset by the positive outcome of recent gas renegotiation [indiscernible] (08:00), plus a long-term supply contract with the Netherlands.

Turning now to R&M [indiscernible] (08:08) in the third quarter of '11, the division reported an adjusted operating profit of €26 million versus €14 million in the same period of last year. The Refining business has greatly improved the results due to a better ratio of prices of the main distillates to the cost of the crude fuel stock and the widening of spreads of gasoline and gas oil compared to fuel oil. These positives were partially offset by rising oil linked to cost for plant utilities. Marketing activities posted a positive result, although lower than in Q3 of '10 due to the climbing fuel consumption, a different mix of volume sold, and increased expenses related to promotional initiatives.

In the third quarter of '11 the Petrochemical business reported an adjusted operating loss of €80 million compared to a profit of €31 million in the third quarter of last year. The result was negatively impacted by falling profit margins with the cracker margin severely hit by higher supply costs of oil based fuel stock, which were not fully recovered in sales prices on end markets, as well as a substantial decrease in demand. [indiscernible] (09:39) delivered adjusted operating profit of €333 million, up 5% versus Q3 of '10, mainly driven by higher results in onshore construction and offshore drilling operations. Other activities and Corporate showed an aggregate loss of €146 million compared to a loss of €93 million reported in the third quarter of '10.

Cash flow from operations was €11.2 billion in the first nine months of '11. Proceeds from divestments amounted to €334 million, including small non-strategic upstream assets and the sale of gas distribution activities in Brazil. The cash inflows were used to partially fund cash outflows relating to capital expenditure of €9.5 billion and dividend payments of €4.1 billion, which included the payment of the interim dividend of '11 made in the last week of September. Net financial debt as of the end of September amounted to €28.3 billion, and the ratio of net borrowings to total equity stood at 0.49%. The net debt at the end of September doesn't include the cash-in from the [indiscernible] (11:15) the disposal of the international pipelines, nor the investment of the acquisition of Nuon Energy and an additional stake in Elgin/Franklin, which we expect by year-end. Assuming the Netherlands Brent price of $111 per barrel for the full year '11 and the benefit associated with the ongoing renegotiation of gas supply contracts, the debt-to-equity ratio expected
at end of '11 will be lower than in 2010.

Thank you for your attention, and now together with Claudio Descalzi and Domenico Dispenza, I would be happy to answer any question you may have.