

# Eni

## 2021 Third Quarter Results

Friday, October 29, 2021, 14:00 CEST

### Presentation

**Speaker:** Francesco Gattei – CFO

Good afternoon and welcome to Eni's nine months 2021 conference call.

The recovery of the global economy and rebound in the demand for energy is continuing and accelerating. However, the pent up demand that is re-emerging after the unprecedented disruption of 2020 is putting strain on the balance of the market.

In 2021 structural features of supply weakness, which are substantially extended along the full range of commodities, have emerged. The slowness of the supply response is not only related to the rapid recovery of the economy but more substantially to nearly seven-years of underinvestment that has affected these markets.

As a consequence, Brent has returned to levels around 85 \$ per barrel while in gas we are witnessing historical records at 30 \$ per million Btu on the European and Asian spot markets.

Eni will remain focused on capital discipline to reduce its cash neutrality, the rapid deployment of new technologies to speed up the execution of our decarbonization plans and, on the acceleration in establishing dedicated business vehicles as a key strategic element to focus our growth and to highlight the full value of our portfolio.

Let's now move on the summary of our results.

In the third quarter of 2021 we accelerated our economical and financial results and provided evidence of consistent operating performance. This trend is expected to continue in the coming months.

Looking at our Natural Resources business:

- In Upstream we produced 1.66 Mboed in the first 9 months and continued delivering Exploration results, with the recent major discovery in Ivory Coast.
- In GGP we were able to capture the extraordinary uplift of gas prices and successfully negotiate of long term contracts to align their terms to current market conditions.
- In terms of portfolio, we are progressing with the business combination in Angola and, as announced few days ago, we have launched the process of ownership structure review for Var Energi that could include a potential IPO in 2022.
- Furthermore, our Hynet CCS project in UK was accepted as a Track 1 project, giving it access to the 1bln pound UK government fund and allowing Eni to proceed in developing one of the first UK industrial clusters to apply CCS and materially reduce CO2 emissions in the country.

With regards to Energy Evolution: in early October we launched the process for an Initial Public Offer for our newly integrated Retail and Renewables business. We'll detail more on this in the next slide.

In Downstream, R&M is now almost at breakeven year-to-date, while on chemical, Versalis reported an excellent performance in the first 9 months.

Turning to Group financials, our Net profit adj of the 9 months settled at 2.6 B€, exceeding 2019 pre-covid levels, driven by the 1.4 B€ of the third quarter among the strongest results of the since 2013

Retail & renewable Initial Public Offering is a strategic milestone for Eni's strategy of decarbonizing our domestic clients, accelerates growth in new green power capacity and additional customers, and creates an independent, self-financed entity to ensure the most efficient capital allocation.

Our unique business that merge Retail, Renewables and EV Charging points, will result in a synergic model that will derisk our growth and will expand the green offer we can provide to our clients.

Listing of the new shares, subject to market conditions, at the Milan stock exchange is expected in 2022. Further updates on this business, including the new company name, will be made on the capital markets day on 22 November.

We are not limiting the portfolio restructuring only to our renewables business.

In the Upstream business we continue to seek opportunities to enhance the value of the portfolio, through business combinations that have proved successful in creating growth-oriented, fully autonomous vehicles

Var Energi in Norway was the first example of how such organization could unlock potential: created in 2018, it is now the largest independent E&P company in Norway with 239 kbopd and it's a reliable source of cash through dividends to the parent companies.

Operational excellence and development of a diversified portfolio allowed to increase average production by more than 30% in three years, while a focused near field exploration enhanced the future potential with resource discoveries in the last 2 years of more than 180 Mboe.

Now we are ready to move to a new step of the Var Energy story: this week we have launched a review of company's structure to further crystallize value either through an IPO or a partial stake sale. We expect to conclude this process, subject to market conditions, in 2022.

At the same time, in Angola we are well progressing with the business combination with BP, with establishing a top-rank player in the country by early next year.

Let's now move to 2021 results.

In Natural Resources, Upstream recorded a solid performance with adj EBIT in the first 9M 2021 at 5.7 B€. The Q3 results at 2.4 B€ are above pre COVID level despite production still ramping up after the maintenance season.

In the quarter, production was sustained by recovery of planned turnaround especially in Norway and the ramp-up in Indonesia, Sharjah in the Emirates and the Angola which more than compensated the PSA effect and disruption of IDA Hurricane. We expect production to further recover in the last quarter at 1.76 Mboed thanks to the ramp-up in Norway and Kazakhstan and production recovery in USA thus confirming our yearly guidance of around 1.7 Mboed.

Focusing on Exploration, Eni confirmed its leading performance with a major discovery in Ivory Coast in September. The first well discovered light oil and associated gas in a new play concept in the deepwater Baleine prospect with preliminary estimates of more than 2 bln barrels of oil equivalent.

Baleine project is designed to target fast track development to meet domestic gas need, and it will be the first example in Africa, reach net-zero emissions scope 1 and 2. Finally, with its 90% w.i. to Eni, the field is a potential candidate for our dual exploration model. Our 9M total discovered resources were more than 600 Mboe worldwide. Thanks to this performance we can raise today our 2021 target by 40% to 700 Mboe.

In GGP we registered a positive Ebit in the last quarter. Capturing the spike in spot prices, we have been capable to optimize our portfolio more than offsetting the negative PSV – TTF spread.

Thanks to continuing portfolio optimization in this favorable market scenario and assuming the expected one off contribution from the conclusion of contract renegotiations we now expect to exceed 500 M euro of Ebit and 300 M Euro of FCF for 2021. This guidance could be possibly revised upward under sustained volatile and tight market conditions.

Moving to Energy Evolution, all the businesses contributed with positive results in this quarter.

In Retail and Renewables, pro-forma EBITDA at 440 million euro represents a 35% increase YoY, sustained by extra commodity services contribution and customer base management actions. We expect the combined entity to continue its steady growth towards the end of the year for an EBITDA at 600 million euro and Renewable EBITDA at breakeven.

R&M turned positive with an EBIT of 160 million euro in the last quarter. Traditional refining contributed thanks to higher throughputs and assets optimizations, although margin remains slightly negative. On the other hand, Marketing captured upside from the summer driving season and less severe mobility restrictions.

Versalis is progressing the excellent performance with positive results, sequentially lower on this quarter due to petrochemical margins normalization and lower plant utilization due to planned maintenance in Brindisi and Mantova.

While performing positively from the economical point of view in Downstream, we continue to enhance and restructure our portfolio of low-carbon technologies.

In R&M, we started production of Sustainable aviation fuel from waste and residues. SAF growth potential is huge as it can significantly contribute to the decarbonization of aviation in the short to medium term.

In Versalis, we acquired 100% of Finproject, becoming the Italian leader in the production of special polymers and, with the acquisition of Ecoplastic, we are further specializing in the recovery, recycling and transformation chain of styrenic polymers.

In terms of our outlook for 2021 Downstream EBIT will be negatively impacted by feedstock and energy costs increase. We expect a yearly Ebit for downstream at around 0.2 bln. But, this guidance may be further revised downward based on current market conditions.

Eni has an important plan of growth in Biorefinery and Biochemical capacity. But the exceptional growth that is expected in bio-products demand will require a robust and consistent growth of diversified feedstock.

In order to secure the supply of our plants we are developing a network of agro-hubs (in many countries of upstream presence) that will ensure an integrated contribution of biofeedstock to our processes.

Leveraging our long standing relations with African countries, we have recently signed alliances that, together with other key countries such as Kazakhstan, will contribute to our worldwide agro production target of 0.8 MTPA by 2030.

Furthermore, these agricultural initiatives have a direct positive impact on development of new circular economy models.

In Congo as an example we started a pilot project planting castor beans on over 200 hectares of land not in competition with food.

Moving on to our cash flow performance. Our Cash flow from operation before working capital of the 9 months was strong at 8.1 B€, more than covering our capex of 4 B€ in the period.

For 2021 we expect a CFFO before WC to be close to 12 B€ with a Brent price at around 70 \$/bbl and slightly negative SERM. If the current forward prices are confirmed during the IV quarter we expect to reach a CFFO of around 13 B€.

With yearly capex assumed to be 6B€, we are expecting Organic free cash flow at around 6 B€ at 70\$ and 7 B€ at current forward prices. The performance registered in 2021 will allow the company to keep leverage at around 28%.

To conclude, Eni has continued to advance on the strategic path outlined at the Strategy presentation in February.

In Decarbonization:

- We emitted the first Sustainable-linked bond in the O&G sector
- We were promoted to the track 1 phase of negotiation for our CCS project in UK
- With the breakthrough achievement toward plasma confinement in Magnetic Fusion we confirmed that technology remains at the foundation of our transition model
- And, as a material move to target scope 3 reduction we launched the IPO of Retail+Renewables business,

With respect to Capital discipline, we lowered our Upstream capex coverage below 35 \$/bbl. In addition, we increased our shareholder remuneration through dividend now back at pre-COVID level and a 6 months buyback of 400 million €, that we expect to conclude by year end.

Finally, we are deeply reshaping our Company's structure to enhance value creation with the business combination in Angola and the review of the ownership in Var Energi that will reinforce our growth in Norway.

And now, together with Eni top management, we are ready to answer to your questions.

## Q&A Session

### Corporate Respondents

Francesco Gattei, CFO

Alessandro Puliti, Chief Operating Officer Natural Resources

Giuseppe Ricci, Chief Operating Officer Energy Evolution

Adriano Alfani, CEO Versalis (Energy Evolution)

Alberto Chiarini, CEO Eni Gas e Luce (Energy Evolution)

Cristian Signoretto, Director Global Gas & LNG Portfolio (Natural Resources)

OPERATOR: (Operator Instructions) The first question comes from Giacomo Romeo of Jefferies.

**GIACOMO ROMEO, JEFFERIES:** Congratulations on the great results. I have a couple of questions. First one is related to the renegotiation gain that you discussed impacting GGP in Q4. I just wanted to check if -- whether this gain is going to be translating into a cash payment. And related to this, whether you are going to see a reduction in your historical sensitivity towards the TTF - PSV spread going forward.

The second question relates to the R&R business and whether the extreme prices that we're seeing are potentially impacting you in terms of higher and enhanced credit risk and whether this is a concern from your end. I'd like to see -- to hear your thoughts on that.

**FRANCESCO GATTEI:** Okay. I will leave the first answer to Cristian Signoretto, head of GGP; and then the second one to Alberto Chiarini or Alessandro Della Zoppa for retail and renewables.

**CRISTIAN SIGNORETTO:** Thanks for the question. So on the spread PSV-TTF, you are right. And in fact, one of the aim of the renegotiation was to clearly change the exposure of our portfolio, reducing substantially the exposure to the spread PSV-TTF. This will clearly then change starting from basically the Q4 of this year.

In terms of cash, the agreement is set for receiving part of the benefit, cash benefit I'm saying next year, and while most of the EBIT is going to be accrued this year.

**ALBERTO CHIARINI:** Okay. For the second question, in terms of the impact of high prices, so far, we haven't suffered any drawbacks from high prices. And the reason is that we were fully covered for our deliveries. So it is clear that the volume risk can be higher, but we are managing it quite well.

In terms of credit risk, credit risk so far, we haven't seen any real impact. And this is also thanks to the measures of the government that have helped families that could have some difficulties in paying gas and power prices.

OPERATOR: The next question is from Michele Della Vigna of Goldman Sachs.

**MICHELE DELLA VIGNA, GOLDMAN SACHS:** Francesco, I really had one main question about your cash distribution to shareholders. The flexible dividend strategy has worked very well in this recovery, and it has provided visibility on where the dividend would go at different level of oil prices. Now we are pretty much \$20 per barrel and above the higher end of that range, which was set at 65. And I'm wondering, as you start to think about this further upside case, does it make sense to think more of a continued dividend increase? Or because the dividend yield is already the highest in the sector, it could make sense to shift more towards buyback and you start to consider further upside to your cash distribution going into next year?

And then if I can throw in a second question, I really want to talk about biofuels. You have been an early mover there, and it has substantially improved the profitability of the refineries. You've shifted into bio refineries in Italy. But we are now seeing a lot of competitors starting to also follow through, especially for sustainable aviation fuel. Do you feel that there could be a few years when actually sustainable aviation fuels may be oversupplied on the European market?

**FRANCESCO GATTEI:** Thank you, Michele. I will answer to the question about distribution and then I will leave to Pino Ricci to answer to biofuel, in particular the aviation fuel.

In terms of distribution, you are right in saying that clearly, we are, let's say, well above our pricing deck for the distribution. But I would say also that it's too early. You know that once we prepare a distribution policy, we decide a distribution policy, we look generally speaking, in a long-term way with a 4-year plan with the strategic plan in our hands.

We are working on that. Clearly, we have idea. I think that, as you said, this flexible mechanism as a value as merit, we have also to understand how this could work in an upper scenario case that clearly 1 year ago was completely out of sight. So I think that it's a good comment from your point of view, but we can answer more properly in the coming months, in particular in the next strategy presentation. Then I leave to Pino.

**GIUSEPPE RICCI:** Thanks, Francesco. About the biofuel in particular, the SAF, the bio-jet, of course, the competition is growing because there are many announcements of new bio-refineries, or conversion of existing refinery in bio refinery. One of these is Shell in Holland with a project that has the same capacity of what we have in Gela started up 2 years ago.

And what we gain is the advantage of technology, Ecofining technology developed together with Honeywell UOP is very, very strong, very flexible in terms of feedstock and product. In fact, we have a robust plan to grow the production of SAF for aviation. And we expect also an increase of the market because the pressure to the aviation sector to use the SAF as the only way today to decarbonize the aviation transport, is a very important point.

And waiting for the official ruling by Europe, not only Europe, for the minimum content of SAF in the jet fuel, we are seeing an increase in the interest in both aviation companies and airport structures to start to use the SAF. This is very important if you consider that in the world, there is a market of, apart COVID, more than 350 million tonnes per year of jet fuel and a trend of growth in the year.

In the same time, it's under definition, the new rules -- European rules for the biofuel in the road transport, we expect an increase also in this way because the target of 50 or 55 is so strong that -- in fact, the role of biofuel to meet this target is mandatory, and we expect an increase in the obligation for the next decade. So finally, we will have an increase in the production available, but we will have a strong increase also in the demand.

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

**MASSIMO BONISOLI, EQUITA SIM:** Francesco, 2 questions. One, regarding Var Energi. Just to understand better the rationale behind the strategic option on Var Energi. You mentioned IPO or partial divestment in

order to crystallize value. And also, if you can remember us the dividend distribution on Var Energi, and if you -- what you expect for next year in terms of dividend from Var Energi.

And the second question is on Mozambique. And if you can refresh us when, do you expect Coral to start up production? And any thoughts on the onshore LNG following the news from Exxon?

**FRANCESCO GATTEI:** Okay, thank you. About the rationale, clearly, Var Energi is a success story. And being the second player, the second operator in Norway, I think, is a value that is not properly recognized internally in terms of market appreciation, in particular, inside Eni. But I think also that by having this kind of, let's say, market or value unlock, there will be an opportunity to free more funds, more cash availability for future growth, for more opportunity to expand the business of Var. Var has a quite, let's say, successful management team. And I think this -- the market appetite for this kind of entity is compelling, is interesting. And I think that from both parties, there is the willingness to disclose the real value inside the company.

In terms of distribution, Var was an excellent distributor of dividend in the past years. We have collected, including this year, I'm speaking about 100%, almost \$3 billion. This year, the expectation is to have around \$950 million, 100% again, and to have a last tranche in the last quarter in the range of \$260 million.

In terms of Mozambique, I leave to Alessandro Puliti.

**ALESSANDRO PULITI:** So regarding Coral, we confirm that Coral floating LNG will start up in the second half of next year, 2022. And I will say there will be 3.4 million tonnes per year of LNG that will enter in the market really at the right time.

Regarding Area 4, the updated project and a new FID date will be defined on the -- based on the results of the ongoing optimization phase and also taking into account the evolution of the security situation in the offshore northeast part of Cabo Delgado province in Mozambique.

OPERATOR: The next question is from Bertrand Hodee of Kepler Cheuvreux.

**BERTRAND HODEE, KEPLER CHEUVREUX:** Yes. Two, if I may. So first on fusion energy. Commonwealth Fusion Systems, CFS, announced a major breakthrough in September. They have doubled the possible magnetic field using revolutionary magnets. This could pave the way for fusion to become commercially viable by early '30s. I've made some extensive research on the subject, and I'm really excited by what CFS achieved.

So first, congratulations for Eni outside-the-box thinking and vision for taking a stake in CFS back in 2018. However, even if yesterday, there was an article in the Financial Times about fusion energy, the press coverage has been quite muted while the sell-side coverage has been quite inexistent. How do you explain that?

And secondly, did you have some discussion since this major breakthrough, either with the Italian government or the Italian Nuclear Agency or other regulatory bodies on the topic? That's the first question.

And the second question is more, I would say, bread and butter. It's -- can you guide us about what could be the tax rate at Eni in \$70-plus world, knowing that the tax rate this quarter in Q3 was significantly below expectations?

**FRANCESCO GATTEI:** Yes. Thank you for the question, particularly the question about the CFS. So the magnetic fusion, that is clearly a potential breakthrough technology. I agree with you that the -- from the point of view of the market, in particular from the analysts of the sector, there is still relatively interest. You capture this news and you make, let's say, a deep analysis on the potential of this technology.

I think it's a matter of being quick with this kind of technology, new technology and having, let's say, the progress towards the evolution of the technology coming and becoming a reality.

You know that we have completed the first phase; that is the test of the magnet. Now we are entering the second phase that will bring in 2025 the first -- the creation of the pilot of the first reactor in order to prove the continuity and the value of the energy reaction. So having the amount of energy in excess of the amount of energy used - and it is called Spark. And this, if it will be successful, will open the door for the first commercial reactor that is called the ARC and will be available if everything is fine within early next decade. So there is a quiet, let's say, short time to market for a breakthrough technology.

What I can say that out of the reaction inside the analyst group, there is a quite strong interest from investors in taking or participating to the fund rising that the group -- the team, the management team of CFS is now performing. So I will say that the interest is strong. Clearly, it's not completely visible around all the tables.

About the tax rate, it is true that the tax rate in the current environment is extremely low. What we can say is clearly, it is low because it is not just a matter of having the \$70 world, but it's a matter of having a gas pricing at the level that you know.

This -- what is generating? What is causing? It's causing that all the businesses and geographies in E&P, etc in countries which have lower tax rate are becoming more relevant in results contribution. I'm referring to Italy. I'm referring to U.K. And therefore, I'm referring to all the countries, in U.S., that generated that have, let's say, less than average in terms of tax rate. And clearly, the gas pricing is one of the factors that is determining this rate. So if we will be in a \$70 world with the current market environment of pricing, we will have a similar, so below 50% tax rate. Otherwise, in a more normalized gas price environment, we will be something between 50% to 55%.

OPERATOR: The next question is from Jason Kenney of Santander.

**JASON KENNEY, BANCO SANTANDER:** So just looking at the guidance for the global gas portfolio, EUR 500 million EBIT for 2021. And I know you mentioned earlier that the renegotiation process, most of the EBIT will come in Q4 and the cash may come through next year. I'm just trying to think through cycle what you were budgeting for GGP EBIT, say, on average annually through to the period 2025. Kind of get a sense of where it might normalize back to in '22, '23, '24. That's my only question.

**FRANCESCO GATTEI:** Okay. I leave it to Cristian to answer.

**CRISTIAN SIGNORETTO:** So thanks for the question. So look, clearly, as we said, the renegotiations, and I would also add the fact that the extreme volatility and level of prices of gas clearly, has had an effect on the 2021 results. And this will clearly also change our expectation for the future plan because if you remember, we were targeting EUR 800 million free cash flow over the cumulative over the 4years. But clearly, we didn't take into account such evolution of the portfolio of the market. So clearly, we will have an upside in the plan that we will disclose and analyze better in our next 4-year plan.

**JASON KENNEY:** Maybe just a follow-up because obviously, the 9 months set at about \$44 million so you got over \$450 million coming in the last quarter. What kind of run rate should we be expecting quarter-on-quarter in the '22 period?

**CRISTIAN SIGNORETTO:** So you're asking for a guidance on quarter-by-quarter in 2022?

**JASON KENNEY:** Or an annual. That may be good too.

**CRISTIAN SIGNORETTO:** Because I mean, look, as we said, clearly, the fourth quarter result is compounding also some retroactive effect because as I think we probably explained these agreements will have some



retroactive effect that we clearly manifest the results in Q4. So those elements will not clearly reappear in 2022.

What is going to change instead, as I told you before, is that the exposure to the PSV-TTF spread will not be there starting from Q4. And I mean, as you can imagine, this year, that spread has had strong headwinds against our business because, I mean, we -- just to give you a couple of numbers, we -- last year, in the first 9 months, we were having EUR 15 per thousand cubic meter, positive spread. And this year in the first, let's say, 9 months, we had a negative EUR 2 per thousand cubic meter. So that has a very negative effect on our accounts, and this will not be there next year just because, I mean we changed the exposure of the portfolio, so I think that will drive the profitability of the next quarters.

OPERATOR: The next question is from John Rigby of UBS.

**JONATHON RIGBY, UBS:** So, 2 questions. One is just a follow-up to the last question. So if it is not the exposure to TTF-PSV margin that's driving the underlying earnings from the gas business? What is the input into the calculation that drives that number just so that we can understand sort of variability going forward?

The second question, you talked about the Cote d'Ivoire development being net zero development. Can you just sort of run me through the difference between what you're going to be doing there versus, let's say, conventional offshore project to move it to being net zero? What are the measures that you are taking so that it can be net zero? Because on the face of it, getting a net zero offshore development in West Africa is like a remarkable achievement.

**FRANCESCO GATTEI:** Again, Cristian and Sandro Puliti for the 2 questions.

**CRISTIAN SIGNORETTO:** Well, I mean what's driving the profitability of the business going forward? So basically, the global gas and LNG portfolio takes care of the final part of the value chain of the gas and LNG business, so basically bringing to the market and monetizing on the one hand, the equity gas and LNG. And on the other hand, clear also the third-party gas and LNG in our portfolio.

So in the future, I mean, also today, I would say that in the future, especially, this will be driven by 2 major elements. On the one hand, we have what we call the intrinsic value of the portfolio. So basically, we buy and we sell. And we capture the margin between, say, supply cost and sales cost. And that's one element of the business.

The second element, which is becoming more and more important, as we speak because of the volatility of the market, is that we have an array of options in our contracts, logistic, time spread options, that we try to optimize every day with the movement of the market, being it in the gas and being it in the LNG. And this will clearly be another relevant part of the profitability, which clearly depends on how far is the range of volatility and how fast this will change.

And we can say that in the last, I would say, few months, this has been extreme. I think this is under the eyes of everybody. In the future, it's difficult to say, but there are signs that this volatility is probably here to stay given the strong, let's say, tight balance between demand and supply in gas and LNG, at least until the next big wave of LNG production will come on stream with Qatar.

**JONATHON RIGBY:** So just to follow-up, sorry. So can I think of this as just a change in the contract structure to remove TTF as a proxy for your cost of gas, effectively, is that it's not proving to be a good input into calculating the cost of gas to get you the appropriate margin for the work that you do in distributing gas to your customers. Is that a fair way of thinking about it?

**CRISTIAN SIGNORETTO:** It is.

**JONATHON RIGBY:** Yes, thank you.

**ALESSANDRO PULITI:** Okay. Regarding Ivory Coast development, and what we meant is that we will have a Scope 1 and 2 net zero development in Ivory Coast, and this is based by implementing a number of decarbonization initiatives such as REDD+ initiatives, so forestry initiatives in the country with the programs for the protection of primary forest and also including development of renewable energy in the country to supplement the gas production and to offset the emissions of the offshore development.

**JONATHON RIGBY:** Is there anything intrinsic to the actual development that you're doing? Sort of, I don't know, the way that you're running the generators or supplying the power or whatever?

**ALESSANDRO PULITI:** Clearly, the development will account the state-of-the-art and the best available technologies to reduce actual emission and increase efficiency of the energy utilization of the offshore facilities.

**OPERATOR:** Next question is from Ellis Skinner of JPMorgan.

**ELLIS F. SKINNER, JP MORGAN:** This is Ellis from JPMorgan energy team. Two questions, if I may. The first to shift tack and look at Versalis. Obviously, the 9-month result has been good but 3Q, sequentially lower quarter-on-quarter. And in addition to sort of the lower utilization, you reported tighter margins. To what extent have you seen sort of lower project sales prices versus higher costs? Or put another way, are you seeing an impact from higher gas and energy prices in new operations? And how should we expect the business to perform next year?

And then secondly, so focusing on EGL, Eni I think is pretty well positioned with the integrated business model at the moment. Can you talk more about the potential for customer numbers to increase sort of operating the business in the tough current environment becomes more and more competitive with prices growing so high. In another way, do you expect the growth here to come from organic or inorganic growth?

**FRANCESCO GATTEI:** Okay. Adriano Alfani for the chemicals and then...

**ADRIANO ALFANI:** Yes, thanks for your question. As you said, the first 9 months of Versalis performance were extremely positive, although we have been negatively impacted by lower asset utilization. The low asset utilization that you described for Q3 were driven by 2 major effects. One, some plant turnaround that we had in the biggest cracking plant in Brindisi, and also some upgrades that we made in the styrenics unit in Mantova in order to change the mix of product and to go in one of the direction, we want to move that portfolio in terms of specialization. So we spend a lot of money in order to upgrade the plant and to invest and diversify the mix. This explains why you have seen for Q3 a lower asset utilization.

The second driver of the low asset utilization was also the fact that we experienced at the end of August some unplanned events, especially in the Sicily area. And all, we lost a couple of weeks of production that impacted the production.

Going to the second part of your question about how gas, or let's say, the energy could impact the performance of the business. Clearly, we already see some impact in the Q4 because the cost impact of electricity and gas in the chemical sector is almost double. So it is in Q4. So we see a double cost compared to the Q3. And this is having some impact, not in terms of volume that we can sell, but of course, in terms of profitability.

The market today is not paying for cost of utilities. It's something that all industry is looking around, and this is something that also in terms of the negotiation for next year that we are starting just in these weeks like every year. We are looking to reflect some of the utilities costs or at least the change volatility of utility costs

as gas and energy in the price formula and other formula in order to mitigate the impact on profitability for 2022.

Clearly, as you can imagine, it's not an easy conversation. You're going to have strain in the value chain, but it's something that we start to work on. If the volatility remains as -- or let's say, the trajectory remains as we see now, we might see some volatility in terms of profitability in the chemicals sector for 2022 that we'll have to manage.

**ALBERTO CHIARINI:** Okay. In terms of growth for the retail customers, we have to differentiate Italy and abroad. In Italy, we are almost -- we are incumbent in the gas, and we are growing in power more than what we are decreasing the customers in gas, and this is the way we are trying to grow. So we are really targeting power customers.

In terms of abroad, we have -- we are an attacker in a way. So we have very lean organizations. And just to give you an example, in France, we have almost doubled our customer base in the last 4 years, and we are now almost 1.4 million customers. In Greece, we recently entered into the power market. And in Spain with Aldro, it's a new acquisition, and we are confident that we can grow.

The impact of high prices, of course, is a reduction of new customers prospects. But in reality, this is for all the players, which basically means that today, the churn rate is lower because every customer that has a fixed price offer has no any convenience to switch to a new price with the current high price base. So -- but this is, as I say, this is for all the competitors. And so the trend for us is pretty much the same. Less churn, less acquisition, but overall, a positive balance.

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

**IRENE HIMONA, SOCIETE GENERALE:** Two questions, please. The first one, back to the topic of cost inflation. Aside of the pressure on downstream and tempered margins, can you talk, Francesco, perhaps about Eni cost inflation pressures in your upstream, please? So what are you experiencing? Are you perhaps protected for the period by your contracts with the suppliers? How should we think about the topic basically?

And my second question is on capital allocation. You're looking at 2 potential IPOs now. And with those, Eni will raise quite a bit of capital. How should we think about the potential uses of that capital, please? What are your priorities for that cash?

**FRANCESCO GATTEI:** I will leave the first question to Alessandro then I come back about the capital allocation.

**ALESSANDRO PULITI:** So regarding cost, possible cost increase, certainly, the pressure on raw material is something that we are starting to see on the market, especially for production facilities, clearly, where iron prices and metal and steel are more important.

On the other hand, we have to say that our upstream currently ongoing projects are sanctioned and are under EPC contracts with basically prices that are fixed and -- fixed and already awarded. So we do not expect in the projects going on this year and next year basically a relevant impact due to the raw material price fluctuations. For the future, certainly, we are gearing up with the appropriate procurement strategy, trying to limit to the bare minimum the impact of those possible prices increase.

**FRANCESCO GATTEI:** About the allocation. Clearly, you're right, that next year with the different IPO, the business combination, the valoritazion of Var, clearly there will be quite a material contribution of cash.

What we did this year, I think that is the best way to measure how we will act next year. This year, we were substantially able to delever the company, to increase the distribution policy to the level that we had before COVID, not only in terms of dividends, but also with the buyback that we are actually executing in almost 4

months. And we will -- we had also speeded up in the transition in the transformation of the company, transformation of the business.

So the answer is we will continue next year to pursue these 3 different directions. We will reorganize the company, improve all the portfolio as much as we can, as fast as we can to capture the evolution of the market. On the other side, we will continue to keep an attractive distribution policy, and we will deleverage in order to further reinforce our balance sheet.

OPERATOR: The next question is from Biraj Borkhataria of RBC.

**BIRAJ BORKHATARIA, RBC CAPITAL MARKETS:** Two please. First of all, I was just wondering if you could bridge from the prior cash flow guidance for 2021 to the updated guidance because I had -- earlier in the call, you mentioned that the cash for renegotiation was a 2022 event. So I was wondering what's changed for this year or the fourth quarter of this year.

And then the second question is just the clarification on the renewables IPO here. I just wanted to be clear, are you looking to sell down your stake and receive cash or are you looking to raise equity within that business in as part of the IPO?

**FRANCESCO GATTEI:** About the -- the bridge or the calculation for the CFFO guidance. You know that we presented a guidance that was above EUR 11 billion is actually was close to EUR 12 billion in a \$70 world. The difference clearly is the gas. The gas is the main source of the change. Then there are a lot of moving parts. There are the SERM, negative SERM that is prolonged, etc. But the major contributor in this jump of almost EUR 1 billion, at the same level of oil price or almost same level of oil price, is substantially the gas pricing.

And similarly, the next step, the next change in the guidance until the end of the year is based on the assumption of a higher oil price, is at the end of the day, almost \$3 on average per year. That is equivalent of \$400 million - \$500 million. But there is also, again, quite a material step-up in gas pricing that explain this additional contribution.

Sorry, the other question about the renewables, the IPO -- okay. It is about the -- clearly, what we are working on that really, and I would recommend to postpone all these questions in the next Capital Market Day. But as a general comment, we target to go in the market with a company that is substantially free of debt, able to raise its debt according with its balance sheet in the company because an EBITDA that is quite material. And therefore, we'll have according with our information, for preliminary information that we collect from the banks, the capability to raise from 3 to 4x the EBITDA. So we are speaking about EUR 3-4 billion along the period, eventually EUR 5 billion at the end of the 4 year plan. So that is the scope of the logic of -- and therefore, about the issuing of share, et cetera, is something we decide, but you understand that there is no need to have a strong capitalization of the new company.

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

**ALASTAIR SYME, CITIGROUP:** Francesco, S&P still have a negative outlook on the debt, and they have done for quite a while. So just -- I'm sure it doesn't impact where you price bonds, but at the same time, I'm sure you don't want to be downgraded. So maybe just talk about what you think you need to get that changed.

And then secondly, do you have any observations on the strength of the upstream M&A market as you look towards crystallizing this value in Var and potentially also Angola? We seem to have seen some recent deals that have gone through quite cheaply. So I'm just wondering if you're seeing anything different down there.

**FRANCESCO GATTEI:** Thank you. About the Standard & Poor rating, actually, today, there was a positive rating. The negative outlook was raised to let's say, neutral outlook. So the company is recognizing that the

action taken in these years, the financial flexibility, the reinforcement of the balance sheet were successful. So I think this is a positive sign for us, and this will help also to reduce in the future of the cost of debt.

On the other side, you said that about the environment in terms of M&A, we are very active in M&A. Particularly, we're working on, again, in M&A that is trying to extract value from our portfolio. We have different, let's say, processes ongoing. And I think that the market reaction clearly is subject to the quality of the asset that you are presenting to the market.

So there is a positive market. There is probably not the same actors or players that you are used to have in this kind of market. But in terms of player, independent player, infrastructure funds and private equity player, there is an active market.

OPERATOR: The next question is from Lucas Herrmann of Exane.

**LUCAS OLIVER HERRMANN, EXANE BNP PARIBAS:** Can I just go back to Angola, and there have obviously been some comments on the level of debt that you're looking to raise, which I think indicated something of the order of \$2 billion. I wonder if you can make any comments on that and what kind of rates of interest debt in that market on oil assets might attract?

And beyond that, just thinking about going back to the LNG business, forgive my confusion, the improvement, how much of the improvement you're talking about through the final quarter of this year is a consequence of renegotiation? And how much of it is reflective of what actually should be a much better market for your opportunities as you put it or arbitrage of the LNG volumes that are coming out of your business?

**FRANCESCO GATTEI:** And yes, about the business combination in Angola, you know that there was there are this comment related to potential interest in terms of bank capability in the range between EUR 2 billion to EUR 2.5 billion. And the interest, clearly, it's something that have to be defined at the time you do the raising of the debt. I would say it is too early now to know what is the cost of capital for this debt. So I think this is what we can give you is the appetite and the size of the financing system.

In terms of the other question, I will pass the ball to Cristian.

**CRISTIAN SIGNORETTO:** So thanks for the question. So I think I'd say that most of the improved results are linked to the one-off upside deriving from the contract renegotiations. And I would say also the extreme condition of the gas and LNG markets that as you can see, starting from September, experienced record price levels across the globe, which if you want, triggered the opportunity for us to use options that were deeply out of the money before, and that became in the money with this level of prices.

So I mean to -- if I have to say, to give you an idea, I would say that around probably 30% would be structural that is linked to the fact that we have renegotiated the contracts. So we have shy away from risks that we had before and probably 60%-70% instead is linked to one-off opportunities that we grab, linked to the renegotiation, as I said, or linked to this extreme level of prices that allowed us to trigger such out-of-the-money options.

**LUCAS HERRMANN:** And sorry, Francesco, just going back to Angola. Can you say anything about progress and potential timing over and above what you have?

**FRANCESCO GATTEI:** I would say that, substantially, the teams are working hard. I think there is a quite positive view, and we are very close in the discussion. You know that as we mentioned also during the presentation, is something that is expected to be completed when speaking about completed. I'm also referring to the fact that you have to collect therefore the authority approval, etc. So early next year. It means that we are targeting for a significant completion of the shareholder agreement within the 2 companies within the end of the year.

**LUCAS HERRMANN:** And would we expect any dividend payout at around that time or subsequent to that event, much the same way it was the case of Var?

**FRANCESCO GATTEI:** Yes. I think that we have to -- first of all, to have the company established, it will clearly, as I mentioned happen next year. Once it will be established, there will be also the capability to raise funds. And they will also -- the company will decide its financial plans, including its distribution policy.

OPERATOR: The next question is from Mehdi Ennebati of Bank of America.

**MEHDI ENNEBATI, BOFA SECURITIES:** Congratulations for those quite impressive figures. Two questions, please, on my side. First one, on your cash flow from operations, which was pretty strong. So if I look at, let's say, the differential between -- or the spread between the tax that you paid and the tax that you announced. I can see that the spread has been decreasing. In fact, the tax payment did not really increase in Q3 compared to Q2 despite the much higher profitability.

So my question is, is there -- should I expect the time of catch-up in the coming quarter, meaning that your tax payment will accelerate faster than the tax you declared in the plan, meaning that there would be a negative impact on the cash flow from operation or not?

And you also highlighted on your reports that we benefited from a relatively high amount of trade receivables this quarter. So I don't think to know that did this impact your working capital or did this impact your cash flow from operation, excluding the working capital.

And the second question is about the current LNG price environment. When Damietta LNG started, you told us that you will be able to sell the LNG where they involve spot prices? And I was expecting Damietta to take advantage of the currently strong LNG price environment. So can you tell us why first, if you benefited from Damietta exporting LNG or no? And can you also tell us if you expect Damietta profitability to increase given that the LNG prices are currently higher than that in the first quarter?

**FRANCESCO GATTEI:** Okay. About the tax rate or, let's say, fluctuation within the third and the next quarter, as I mentioned, the tax rate is impacted by the mix of our results and particularly by the fact that now there is a significant material contribution of value coming from certain countries or certain business with low tax rate. So there is no shift or factor related to postponement of payment that will impact cash flow next quarter. So everything is substantially based on traditional tax payment. It will depend clearly on the capability of this business component to continue to generate value as in the in the third quarter.

About the working capital, clearly, it is -- that the working capital is also affected -- mainly affected by the value of stocks and receivables. Clearly, the environment of prices that is growing, you would expect -- you would see at similar quantity level an increase of your working capital. This clearly will impact your cash flow from operation post working capital.

About Damietta, I leave again to Cristian for the answer.

**CRISTIAN SIGNORETTO:** So thanks for the question. Let me start from maybe a portfolio type of consideration. So in 2021, the vast majority of our LNG cargoes are either sold under term agreements, which are substantially not affected by the current level of spot prices, or are directly hedged with our customer base in Europe.

We have some major leverage though on the optimization of the portfolio, especially by rerouting our FOB cargoes to capture the arbitrage between the markets. And Damietta clearly is part of this portfolio because, I mean, being an FOB contract, we can divert the cargoes where the market is asking them to pay higher

price. From 2022 onwards, we have a growing exposure to the spot market that clearly we will take into account in our, let's say, marketing strategy, including also from Damietta.

OPERATOR: The next question is from Henry Tarr from Berenberg.

**HENRY TARR, BERENBERG:** Two, please. One, just on Capex looking into 2022. So with commodity prices where they are, is there a temptation to start looking at a slightly higher Capex in some of the E&P areas? And do you have sort of short cycle options that you're looking at there? So would you expect to see Capex start to increase a little bit in 2022?

And then just secondly, I think you talked about the feedstock for the sustainable aviation fuel in Africa. I maybe missed it. Were you saying castor oil in the Congo? Is that right? And are you hoping to source all of your sort of raw materials in that way? And perhaps just a little bit more color around how that's not in the land, there isn't being used for food growth, that would be great.

**FRANCESCO GATTEI:** Okay. About Capex, you know that we have a plan. Actually, we' were quite disciplined in all the period that we pass through since 2014. Remember, we kept Capex flat. So we will not follow the price volatility. We have a plan in our plan, we are assuming to have a Capex of around EUR 5 billion last year, EUR 6 billion this year. That is a rebound clearly and EUR 7 billion as a, let's say, steady level in all our business to perform the transformation clearly. So that is substantially the level that we are targeting, and we are not clearly, let's say, changing the guidance. We will continue to be disciplined on investment and in terms of aviation fuel...

**GIUSEPPE RICCI:** About the feedstock for the SAF, for the fuel -- the sustainable aviation fuel, you have to take into account that we are considering also waste & residue as feedstock for this particular fuel. And in fact, our early production is coming from UCO, used cooking oil. The development of feedstock that we are foreseeing in Africa and the other countries thanks to our knowledge and presence in these countries is based on both agriculture but not in competition on food, and Waste & residue collections.

OPERATOR: The last question is from Oswald Clint of Bernstein.

**OSWALD C. CLINT, BERNSTEIN:** Yes. So perhaps just another one on the upstream. Natural gas realizations in the upstream. They seem particularly strong, I think, at least relative to what I was expected. So I was just wondering, anything helping those? I mean do you let any of the global gas business price strength accrue back into the upstream through transfer pricing and anything that explains that if I am correct there?

And then secondly, I just wanted to ask, I mean, you all your metrics around ESG are pretty impressive MSCI, Euronext Sustainability. And I wanted to ask if you could tell us, are you seeing an increase in ESG investors into your shareholder base? I mean, down in Spain, Repsol would say 32% in the shareholder base today, and the industry is around 15%. So I'm just curious if you have good knowledge or seeing increases in that type of investor into your shareholder base.

**FRANCESCO GATTEI:** I think that about the gas realization, the gas increase, I would say that is mainly to the fact that the spot pricing increased, PSV and clearly NBP price are the main reason for this jump. So there is no other explanation. The component of oil-linked reference within the spot formula is existing, but it's not the major factor that explains the change.

About ESG, actually, I think that it's difficult to say what is ESG. Once you have many large funds, you can consider this fund ESG because all -- practically almost all the investors have ESG component. So we haven't done this kind of split. I think that the company will do the split, will go in different metrics. There is no benchmark including a different degree of flexibility, the ESG component within the investor group.

So I would say that what we can see is that Eni is top ranked in all various ESG metrics, has a solid decarbonization plan, and we were the first oil and gas company to issue a sustainable linked bond. So this means that in terms of ESG, analysts from outside and bondholders are buying Eni tools. So that is, for me, the most important driver of KPI I am following.

OPERATOR: Mr. Gattei, do you have any closing remarks, sir?

**FRANCESCO GATTEI:** No, Thank you. Thank you to all. We have completed the conference call. And if you have any additional questions, we are available with our Investor Relations team. Thank you.

OPERATOR: Ladies and gentlemen, thank you for joining. The conference is now over, and you may disconnect your telephones.