Eni First Quarter 2023 Results

Friday, 28 April 2023, 14:00 CEST

Presentation

Speaker: Francesco Gattei, CFO

Good afternoon and welcome to Eni's 2023 first quarter conference call.

I am sure you have already had the chance to read our press release. It confirms another excellent set of results, recording a quarter where we have made strong operating, strategic and financial progress.

Adjusted net profit was up 17% on 4Q22 to €2.9 Bln despite an 8% fall in the oil price quarter-to-quarter and a much lower gas price. In fact we have also significantly offset the effect of a 20% fall in the crude oil price and near halving of the spot gas price in our year-over-year comparisons, down just 11%. This is clear evidence of how resilient our Upstream and the increasing balance in contributions from across the business segments. Our four-quarter rolling return on capital employed is 21%.

Within Natural Resources, oil and gas production was in the guided range for the full year, an encouraging start given our expectation of rising volumes in the second half of 2023.

1Q was also a solid quarter for exploration with discovered resources of around 200 Million Boe. GGP's outstanding quarter, a record in the last decade, reflects in part its seasonality but also confirms our expectation of another strong full year. It further highlights the improvement to both the quality and scale of profitability in our gas and LNG operations that we have delivered even amid the loss of Russian supply.

In Energy Evolution, Downstream results were partially held back by high levels of planned refinery turnaround in Italy. It is worthwhile to highlight that the underlying performance of the business including the contribution from ADNOC is in line with our expectations for the full year, recording over €300 Million of pro-forma EBIT.

I hope you will also have also picked up our additional disclosure on Sustainable Mobility results. Meanwhile Plenitude continues to perform operationally and financially along the growth trajectory we have mapped out.

Underlying cashflow from operations was notably good in the quarter at €5.3bn, only 6% lower year-on-year and almost 30% up versus Q4 '22. And while we saw seasonal absorption into working capital and other shorter-term obligations and timing difference, we still generated FCF after capex consistent with our FY guidance.

Net debt, flat on 4Q remains at an historically low level.

At our Capital Markets Update in February we emphasised both the financial resilience of the business and its flexibility. The importance of these two features is obvious given the degree of volatility seen in the scenario even in the first 3 to 4 months of 2023. We have a strong and flexible balance sheet with high levels of liquidity and we retain options and flexibility in our investment programme that ensures we can respond to changing conditions as we judge appropriate. The positive news is also that in the first quarter we have outperformed on all of the underlying key metrics we set ourselves, confirming the quality of the business.

The next three slides provide some analysis for you on today's results:

- Breaking down our Q1 on Slide 4 reveals a very resilient level of profitability in E&P as well as record EBIT from GGP. Downstream was a less significant contributor this quarter while Plenitude growth is being delivered even amid challenging markets. We are delivering our Satellite model strategy and the effect can be seen in the more important contribution from associates. Our tax rate of 41% is up slightly year-over-year reflecting the lower oil price and the fact, I remind you, that we take UK windfall taxes into recurring results.

- Slide 5 shows the sequential performance and you can see how volumes and performance improvement more than offset the scenario. GGP delivered record EBIT capturing value from market volatility and our asset and contractual positions. In the Downstream the scenario was a headwind as was the impact of the turnaround activity but other elements of the business including bio, marketing and trading held up well. Associate income, an increasingly important contributor to our results, was softer due to weaker scenario and lower dividend income from smaller affiliates.

- Finally, looking through the lens of cash on Slide 6, our strong underlying earnings combined with dividend income delivered over €5 Bln of CFFO funding working capital and other shorter-term cash commitments, our capex and dividend, net investment in portfolio plus other capital items leading to a leverage of 14%, virtually flat on the previous quarter and well within our 10-20% target range.

I want to now look at the year to date in the context of the key operational, financial and strategic features of our recent February Capital Markets update.

In the current market context it is critical we deliver on both our operational and financial objectives but also make progress along our consistent and clearly stated strategic path.

In terms of operational and financial performance:

- We are expecting to grow Upstream production by 3-4% over 2023-26. In the quarter production was flat y/y but up 2.4% sequentially and in the guided range for 2023. This is an encouraging inflection after the challenges we faced in 2022. Of note in the quarter was the performance of Algeria, and the ramping up to plateau gas production of our operations at Coral South.

- GGP's record quarterly result emphasises how the business, that is increasingly integrated with the upstream, has swiftly reacted to the supply disruptions and taken advantage of the new realities of the gas and LNG markets. Also given the drop in European hub prices in the quarter it is important to reiterate that this is not a business that is solely dependent on the prevailing gas price. Our Q1 result confirms the strong 2023 outlook we have laid out and highlights the material upside potential in the right conditions.
- In R&M 1Q was a quarter with a number of important European refinery units down for scheduled maintenance but Sustainable Mobility, trading and our ADNOC affiliate were robust, however, and this business has also structurally shifted in profitability terms.

- Despite a lower oil price and lower gas price than plan in Q1, and a stronger Euro, we have made a good start in delivering our EBIT and CFFO guidance for the year.

In terms of our strategy we can also point to continuing progress in line with our key themes:

- Time to market is a significant point of strategic differentiation for Eni. In E&P this is driven by our leading exploration activity integrated into our fast-track development approach. We are targeting the discovery of 700 million boe of resources in 2023 and the year has got off to an encouraging start with 200 Million boe discovered in Q1. This includes contributions from near field discoveries in Egypt, Algeria and Norway and significant new discoveries in Egypt, Cyprus and Mexico. In early April we announced the sail away of the FPSO Firenze from Dubai en-route for the Baleine field offshore Côte d'Ivoire with a scheduled production start-up of June 2023 - less than 2 years from discovery and less than 18 months after FID.

- As you know we are targeting a shift in our production mix to 60% gas by 2030. The successful ramp up of the Coral, the agreement to develop the AE structures, and the new Eastern Mediterranean discoveries, for instance, are all consistent with that objective.

- Our Energy Evolution division is developing a portfolio of solutions to meet the decarbonised needs of our customers. In February we announced the agreement of a 50:50 joint venture with PBF Energy for a 1.1M tonnes/year bio refinery in Louisiana contributing to the raised more than 3 Mn tonne 2025 bio-refining target. Versalis confirmed this morning the acquisition of the remaining 64% of Novamont, a leader in the chemistry of biodegradable and compostable bioplastics.

- M&A activity will remain a feature of Eni's strategy. You should expect us to make investments and acquisitions that further our strategy and deliver upside to shareholders. Our PBF and Novamont transactions demonstrate this as indeed does the Algerian asset purchase from BP we closed in the quarter. At the same time you should also expect us to be rigorous in addressing our tail and reshaping the portfolio to realise value – for example our sale of a minority pipeline stake to Snam completed in January. Overall we expect this activity to be a net €1bn positive over the 4-Year Plan.

- A key feature of our 2023 CMD was the introduction of an enhanced and simplified distribution policy. On 10 May shareholders will be asked to vote to approve a buyback of up to €3.5bn and a proposed €0.94/share 2023 dividend.

So having covered Q1 performance and context let's move to updating guidance for the full year.

In the short-term we can help with some pointers for 2Q:

- We expect that upstream production will be in the range of 1.6 mlnboed, as a result of planned turnaround activity concentrated in the quarter, with production fully recovered and growing from 3Q.
- We expect GGP Q2 Ebit to be much lower than Q1 consistent with the normal seasonality of the business.

- Conversely, in R&M 2Q and 3Q are normally stronger quarters for our marketing business and 2Q will see lower planned turn around at our refineries than either 4Q22 or 1Q23.

- Assuming our Buyback receives approval at the AGM we expect to begin repurchases shortly after.

I would add that we expect to pay our 2023 Windfall Tax in Italy at the end of Q2 amounting to around €500m. We anticipate closing both the PBF and Novamont transactions in the second half of 2023.

In terms of updating our Full Year guidance:

- We are updating our 2023 guidance with a scenario of a Brent price of $85/bbl, unchanged from February, a SERM of $8/bbl versus $7/bbl, a lower PSV of €50MWh and a stronger Euro at $1.08.

- We can confirm our Natural Resources division outlook for production in the range of 1.63-1.67 million boe/day and discovered resources of 700 million boe.

- We now expect GGP adjusted EBIT to be in the upper range of the €1.7-€2.2bn communicated in February, exceeding €2bn.

- We confirm Full Year Downstream pro-forma EBIT of €1.0-€1.1bn, in line with prior guidance at a constant exchange rate scenario which includes the contribution from Sustainable Mobility of >€0.9bn of EBITDA, better than planned.

- With a lower natgas scenario and a stronger Euro under our updated scenario we expect to be able to generate EBIT of €12bn and CFFO of over €16bn - this represents an improvement versus the original guidance at the same scenario.

- Capex is now expected to be around €9.2bn, lower than originally planned incorporating the effect of the Euro:Dollar; and we also retain the potential from continued optimization efforts and flexibility to further reduce spend.

- We confirm our buyback plan of €2.2bn and the dividend increase to 0.94€/share from 0.88€/share that will imply a CFFO distribution in excess of 30% but is maintained by virtue of the considerable flexibility in our capex and balance sheet that we retain.

Q&A Session

Corporate Respondents
Francesco Gattei, CFO
Guido Brusco, Chief Operating Officer Natural Resources
Giuseppe Ricci, Chief Operating Officer Energy Evolution
Cristian Signoretto, Director Global Gas & LNG Portfolio (Natural Resources)
Adriano Alfani, CEO Versalis
Stefano Ballista, CEO Eni Sustainable Mobility
Stefano Goberti, CEO Plenitude
Aldo Napolitano, Director Exploration (Natural Resources)

OPERATOR: (Operator Instructions). The first question comes from Martijn Rats of Morgan Stanley.

MARTIJN RATS, MORGAN STANLEY: Hello. I was hoping you could answer just two questions for me. First of all, I was hoping you could share some of your thoughts on the current state of the European gas markets. Last year Eni did a lot, of course, to alleviate some of the pressures, but perhaps maybe in retrospect, almost too successfully. So I remember back then there was a sort of plan for 20 BCM. I was wondering what the status of the various components of that plan was and also more broadly, where you think we are with supply/demand and the outlook for inventory build over the summer.

The second question that I wanted to ask you is perhaps a little bit more technical, but I noticed there was sort of quite a large special item in GGP of about EUR 1.1 billion related to derivative contracts, but I have to say I found the description slightly difficult to unearth. So hoping you could say a few words about what that is and how that has actually impacted the results that we are looking at.

FRANCESCO GATTEI: Okay. I pass the answer about the first question to Cristian Signoretto, head of GGP.

CRISTIAN SIGNORETTO: When it comes to the European gas market, clearly as you were pointing to the market, this summer is much different from the market of last summer in the sense that we enter into the summer with a much higher storage capacity field. So it is basically 30 BCM more overall than last year. So clearly this will ease a bit of pressure on the flat price because of this situation. And on top of that, we are still seeing this new demand in Asia to materialize. We have seen India and the Middle Eastern countries being back in the market with these prices. But we still see the Chinese a bit shy in entering into the market probably because, I mean, they are waiting also their economy to pick up.

I would say, all-in-all summer, which should be less critical and tight than last year clearly. When it comes to winter, it is a bit more difficult to call because the weather in Europe, but also the weather across the globe could change and could have an effect on the overall situation. So we expect surely more volatility in the winter than this summer. When it comes to our plan, to replace the Russian gas, I think we are on track to deliver the 50% replacement by '22-23 and then 80% starting from '23-24. We are leveraging clearly on our, equity sources. So Algeria is going to take a big part of this substitution, and then LNG will play the other big part. As you have seen, we are developing our projects in Congo, in Egypt, in Indonesia, and we are lining up also our midstream capabilities of shipping regas capacity. So we are getting ready for that to happen.

FRANCESCO GATTEI: About the big special item that you were referring to is related clearly to hedge position that compares with physical position and cannot be qualified for hedge accounting in the reported results. So this is just a typical adjustment that we provide in all quarter related to that specific treatment according with the accounting principle. Eventually I suggest that you enter in contact with our Investor Relations Team for the details that you look for.

OPERATOR: Next question is from Oswald Clint of Bernstein.

OSWALD C. CLINT, BERNSTEIN: Yes, good afternoon. Thank you. Perhaps I could go back to GGP and given Cristian is there, just in the quarter, obviously the record gas result. I wonder if you could perhaps break that into contributions from time spreads or geographical spreads and European-centered profit versus LNG or LNG diversions, it is really the first one. And perhaps, Cristian, if there's - I note to your deal into Slovakia here. Is there something strategically you are thinking about pushing and expanding sales into Eastern Europe now? That is the first question.

Second question, I wanted to ask around, Francesco, you said structural improvement in the profitability of some of the downstream businesses. So refining, I am just looking at all of these new announcements on biofuels to Saipem, to the transportation logistic companies in Italy and thinking PBF is coming. So just thinking about margins or is there some way you can help us think about the margin here for renewable diesel relative to your legacy diesel or some way to think about the profit contribution that might be coming through as you expand the volumes?

FRANCESCO GATTEI: I leave the first question to Cristian and the second one to Pino Ricci who is connected by phone.

CRISTIAN SIGNORETTO: Yes. So to give a bit more color on the Q1 result, I mean, we entered into the first quarter with the most position secured locked in terms of margin. And so we expected already a good first quarter. Clearly what happened during the quarter in which the prices actually came down and the spreads between hubs opened up. This allowed us to basically take advantage of the optionality that we have in our contract because in the end we could substitute cheap gas from the market with maybe more expensive gas from our positions that we had locked and these actually contributed quite a lot to the beat. The second element, clearly, also the geographical spreads. We were still and we are still doing that operation. We are still bringing gas from, for example, Spain to Italy, using shipping LNG logistics, which is actually still paying off because the spreads within the markets are still valuable.

And then in general, there has been also very a much volatile environment between, if you think about, between Brent and gas pricing. And these movements across the 3 months allowed us to, again, capture value from the movements. I would say, clearly, the beat was driven by the trading environment that allowed us to do that during these swing movements. On the Eastern Europe, clearly, what is happening in Europe is that the flows are changing dramatically. The flows used to come from East to West and now this is changing from south to north, to east, from north to east as well. So there are surely opportunities in those countries to be seized in order to monetize our portfolio. And so I would surely look at the Eastern European market as an opportunity market to monetize our portfolio.

FRANCESCO GATTEI: Okay. Pino?

GIUSEPPE RICCI: Yes, Pino Ricci speaking, about the margin of fuels. Of course, the margin of biodiesel is much higher than the margin of traditional products, and it is expected to grow also in the future because the demand of biofuels is growing and is expected to grow very much in the next few years because of the request of decarbonization in different markets, including the U.S. market where we are entering now and because of the start of the SAF market, the aviation fuel. In our position, the traditional refinery, a part of the period of the war with the margin very high in Europe, in perspective could not be so high because the market is decreasing, the consumption is decreasing. Instead, vice versa, the bio is increasing. For this reason, we are investing in bio, both in Europe and in U.S and in the future also we expect in the far east, mainly for the SAF.

OPERATOR: The next question is from Alessandro Pozzi of Mediobanca.

ALESSANDRO POZZI, MEDIOBANCA: Thank you for taking my questions. I have 3. I am just looking at your CFFO guidance and if we apply the sensitivities, the reduction is smaller than expected. Of course, you had the GGP potentially contributing, but I was wondering if you can maybe give us some color on the maybe improved underlying performance from a cash flow perspective. And if you can confirm what was the sensitivity on gas in terms of CFFO? The second question is on the new discoveries. When I go back to the slide, at the end of February, I do not think there is the Cyprus there. And I was wondering whether maybe there could be new gas opportunity like in Cyprus or potentially Australia as well that could come into play during the '23-26 plan. And the final question is on Livorno, and I was wondering if you can give us an update there as well.

FRANCESCO GATTEI: Okay. Alessandro, I will answer to the first one related to the reconciliation of the guidance that we provided in the Capital Market Day. As you have correctly mentioned, the cash flow from operation is actually on improvement versus the original guidance. If you take into account the revision of 2 major factors that were changed, one is the gas price that was substantially halved from EUR 90 per MWh to EUR 50. And the other one is the foreign exchange rate between euro and dollar that was moved from 1.03 to 1.08. So that has substantially generated in term of cash flow from operation and in part, according with the sensitivity we provided to you, EUR 1.4 billion negative related to the price of the gas and 0.7 related to the exchange rate. So we should have expected a reduction of EUR 2 billion while actually, we have seen just a EUR 1 billion effect.

Therefore, we are substantially improving our original guidance by almost EUR 1 billion. Similarly, same range of changes is also in terms of EBIT. EBIT was planned to be EUR 13 billion. According with this delta, it should have been EUR 11 billion, while we are now announcing a guidance of EUR 12 billion. And now I leave about the Cyprus discovery, the question to Aldo Napolitano, who is the Head of Exploration, and for Livorno, I will return the line to Pino.

ALDO NAPOLITANO: Yes, about the volumes in the first quarter. Thank you for the opportunity to give a clarification. Actually it is just a technicality. The last exploration well we drilled in Cyprus ended operations towards the end of the year, in the Christmas period. So there is, of course, the need for some time in order to assess the actually recoverable volumes from the discovery. So the allocation of the volumes enter into the first quarter. It is always a rolling process. For example, in the discovery this quarter you see, a discovery in Congo, and we are assessing the recoverable resources. And these volumes instead will enter into the second quarter.

ALESSANDRO POZZI: So the volumes in Cyprus have been booked as reserves now.

ALDO NAPOLITANO: No, not as reserves, but as potentially recoverable resources, of course, subject to the definition then of a development plan. And at that point, they will enter into reserves.

ALESSANDRO POZZI: Okay. And any timeline for a potential FID in Cyprus? Maybe '24?

ALDO NAPOLITANO: We are working on this with the joint venture. So likely next year we could have FID.

ALESSANDRO POZZI: Pino, on Livorno.

GIUSEPPE RICCI: Okay. About Livorno. The lubricant refinery of Livorno will be in maintenance in this quarter. This is a short refinery. Our strategy was to anticipate the more complicated maintenance in first quarter to gain the possibility to use the maximum capability during the summer period so Livorno that covers the market of lubricant will be in maintenance this quarter. And we are continuing the project for the transformation in biorefinery and we expect to be ready to take the FID during the summer or early in the autumn, depending to the fact that now also in Italy, the market of HVO, hydrogenated vegetable oil, in pure mode is growing also because it is mandatory and the mandatory quantity will increase year-by-year up to 1 million tonnes per year. So it is a fantastic opportunity to convert another refinery, traditional refinery derisking the traditional refinery in Italy in the mid-long time.

ALESSANDRO POZZI: What will be the throughput of the HVO from Livorno?

GIUSEPPE RICCI: On the market of the Italian and European market, the capacity is 0.5 million tonnes per year. This is the overall capacity. And the plant will be designed to be revamped in the next future also to produce biojet, the SAF. But we wait to invest in this production because we are waiting the growing on the market. Recently European Union decided for the mandatory SAF by 2025, so the direction is confirmed.

OPERATOR: The next question is from Biraj Borkhataria of Royal Bank of Canada.

BIRAJ BORKHATARIA, RBC: Thank you for taking my questions. Three questions please. The first one is just on Azule. Obviously as an associate now. I was wondering if you could give any information on the timing of the dividends from that associate to the parent just so we can model the cash flow?

And then the second question is on Egypt and LNG. Just looking at some of the data on Damietta, it looks like it's producing or exporting consistently close to or closer to full capacity than it had in the past. I know in the summers, sometimes the energy exports from Egypt get curtailed. Do you expect that to be the case this year? Or do you think the domestic gas market is well-supplied enough that you can continue to export close to capacity?

FRANCESCO GATTEI: On Azule, it is a quarterly dividend, and I will leave then to Guido Brusco that is the Chief Operating Officer of Natural Resources for the answer about Damietta.

GUIDO BRUSCO: Yes, indeed on Damietta, this winter, we ran almost flat out, so it was a very good year. And we do not expect changes compared to the last summer trend in terms of production curtailment foreseen.

BIRAJ BORKHATARIA: Last summer there was some curtailment, are you saying you expect same thing again or are you expecting not to be curtailed?

GUIDO BRUSCO: No, we expect the same trend of last year.

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

IRENE HIMONA, SOCIETE GENERALE: I have 2 questions. So Francesco, as you said, you adjusted down your '23 assumptions on gas and FX and the corresponding cash flow guidance. But of course, you retain unchanged your distribution. Distribution out of CFFO is obviously procyclical. Can you help us understand how we should think about those distributions on the way down for the commodity cycle? So how high would you feel comfortable to re-leverage the balance sheet to sustain those distributions?

And then my second question is on Kazakhstan, if I may. There is a lot of press of demands by the state asking for compensation. Can you help us understand the potential liability for Eni?

FRANCESCO GATTEI: Yes. I will answer on the first, then I will leave the Kazakhstan question to Guido. In terms of distribution, you know that we presented distribution policies simplified versus the previous years that is based on distributing between 25% to 30% of the cash flow from operation in the form of dividend and in buyback, in case of improvement versus the scenario improvement of the performance. We also gave the opportunity to distribute an additional 35% on top. In case of lower scenario, if there is a drop in the prices. First of all, we have to say that this is a policy that has an automatic mechanism of self-protection. It means that you will have a distribution that will continue to be in that range.

And clearly, we will use other leverage as much as we can. Clearly there is a possibility to rephase CAPEX, to optimize CAPEX. There is a balance sheet that is highly deleveraged that automatically is giving a parachute in terms of protection for bridging these trends on the typical cycle. You have seen also in the past that we can see very big swings, but in a matter of a year and a year and half, there is a strong rebound. So in many cases, it is just a matter of managing this time. Eventually in the case of we will have a very long and prolonged reduction in terms of prices, clearly you will continue to distribute that 30% or 25%, but the buyback will be the last flexible tool that we'll use.

In any case, in our policy, you have seen that we put distribution on top of our capital allocation. So I think that is the last element that will be impacted.

And now Guido for the question related to Kazakhstan:

GUIDO BRUSCO: Yes, we have seen a number of publications in the local and international media alleging certain environmental concerns and fines that would have been imposed on the operator by different bodies of the Republic. And we were also informed by the operator that a number of inspections have been conducted in the facilities. But at the moment, we are not aware of any fine. And there is no outcome for this inspection so far. We have also been assured by the operator that is conducting the operations responsibly and in line and in compliance with the applicable laws and standards and best practices.

On the other hand, there are also some disputes between the Republic and the contracting companies on the application of certain contractual provision related to the cost recoverability. But again, also in this case, we have been assured by the operator that is acting in accordance with the underlying contracts, PSAs and applicable laws.

OPERATOR: The next question is from Giacomo Romeo of Jefferies.

GIACOMO ROMEO, JEFFERIES: I have 2 questions left. One is around Plenitude. You have signed a cooperation agreement with Copenhagen Infrastructure Partners regarding floating wind in Italy. Now historically there have been some difficulties obtaining permissions for oil and gas, offshore oil and gas development. Just wanting to understand what is the regulatory environment in Italy for offshore wind and whether you see similar type of issues or whether it should be relatively straightforward?

Second question, it's around the strategic partnership that you signed with ADNOC related to transition projects. Just trying to get a little bit more color here. Does this relate to projects in the UAE specifically only? And do you have any project that is being considered at the moment? If you can give a bit more color here would be great.

FRANCESCO GATTEI: Yes. The first question about Plenitude to Stefano Goberti and the second one of ADNOC to Guido Brusco.

STEFANO GOBERTI: Thank you for the question. We have applied and obtained a concession for the future development, possible development of floating wind offshore in various region in Italy. Talking about offshore Sicily, Sardinia and Lazio and Puglia as well. Altogether we are talking about possible plant adding up to 3 GW of installed capacity, but this is on a timeframe towards the end of this decade, so 2030. We started our round of application with a different authority, and we are obtaining so far good progress out of the Sicily and then Sardinia. The remaining 3 concessions are more recent. So we have to start now to the normal process of the application. These are planned far from the cost of more than 30 kilometers, so not very visible from the coast, so we think we should have a normal process of obtaining the authorization, but this is a process still underway.

GUIDO BRUSCO: The strategic agreement we signed with ADNOC is an agreement to join forces towards the objective of the net zero in 2050, and to cope also with the ambition and the objective of the COP28. In the agreement, we will explore with ADNOC opportunities to reduce GHG, to reduce flaring gas, to reduce emissions, to reduce methane fugitives to comply with the Methane Pledge and also to identify and assess and develop opportunities in the carbon capture utilization and storage in UAE, but also internationally.

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

HENRI PATRICOT, UBS: Yes, I want to thank you for the presentation. Two questions around the guidance for '23. And the first one is some increase in sustainable mobility seen potentially above EUR 900 million. Can you expand on the drivers of the improvement here? And then secondly, GGP, we see strong results in the first quarter, and you raised the bottom end of the range, but no change to the upper end of the range for the year. Why isn't there more upside potential over the rest of the year?

FRANCESCO GATTEI: I will leave the first answer to Stefano Ballista who is connected to explain the confidence on what we provide in terms of first results in the first quarter, but also in the guidance related to sustainable mobility and Cristian about the GGP.

STEFANO BALLISTA: Yes. About sustainable mobility, 2 key drivers for the improvement. The first one is the very good results coming from the biorefinery, both in terms of market condition and in terms of output. This is coming, also thanks to the effort we are putting in place in order to maximize flexibility in terms of feedstock we can process and product diversification. On top of that, there is a good result also on marketing and sales, both retail and wholesale, and it is strictly linked into a change of strategy, focused on the optimal trade-off between volume and unitary margin that is paying significantly off. So we are confident actually to keep overtaking that target.

CRISTIAN SIGNORETTO: So with respect to the GGP, the guidance that we are now anchoring our result, which is the upper range of the € 2-2.2 Bn, is foreseeing a market which is in line with the one that we have seen in this first quarter. Clearly there are some uncertainties on the business in the sense that there are some negotiations ongoing that could have surprises in the results. But for the time being, we like to stick to that guidance depending then on the next months. If we see that some of the negotiations will go to the right direction, maybe we can adjust the guidance as well.

OPERATOR: Next question is from Roberto Ranieri of Stifel.

ROBERTO RANIERI, STIFEL: Two questions, please, basically on energy transition. The first one is related to the Versalis acquisition. And so the question is how this acquisition is and if this acquisition is improving the product mix towards sustainable chemicals? And at the end of the day, what is your target in terms of sustainable chemical component out of the total of chemicals in 2 years, 3 years' time?

My second question is on biofuels. You were talking about strong demand and the fuel's disruptive in this demand increase. So I am wondering how your plan of converting the refineries is going on? And what are the components of the refined products out of the total refined products will be in the same timeline?

FRANCESCO GATTEI: On the first question, I leave the floor to Adriano Alfani, CEO of Versalis and then to Pino Ricci for the second question related to biofuel.

ADRIANO ALFANI: Sure. Thanks, Roberto, for the question. Concerning the acquisition of Novamont, this acquisition is going to fit with the strategy that we put in place for Versalis portfolio that consists of 3 main drivers. One is the diversification of portfolio, that means in all the different markets. The second one is the circularity. And the third one is shifting some of the portfolio into green chemistry. So of course, the Novamont, it fits clearly in the green chemistry pillar of our strategy.

Depending on the target that you are referring on, if it is 2, 3 years, first of all this acquisition, as Francesco was saying before, will happen in the second half of 2023, so far is our estimate. So it means pretty much by beginning of 2024 because this acquisition subject to anti-trust approval from European point of view. So once this acquisition is going to materialize and we are going to integrate the portfolio, we expect that together with the circularity portfolio because both circularity and the green chemistry are going to shift the portfolio to a sustainable portfolio, Versalis. We target at least 20% of our portfolio in 2-3 years' timeframe in terms of shifting. Of course, this is not the endpoint, is just because this journey should continue. At the end, what we said also in the Capital Market Day is that we want to shift all the portfolio to sustainable portfolio, but it is a journey that is a little longer than 2 years.

FRANCESCO GATTEI: Pino?

GIUSEPPE RICCI: Okay. About the biofuel, we responded to the expected demand growing, increasing the capacity, the flexibility of our plant. Today our capacity is slightly more than 1 million tonnes per year of HVO. Our project is to revamp the existing refineries, Venice and Gela, to increase the capacity of Venice, increase the flexibility of feedstock and produce alternative HVO and biojet with the flexibility to decide how to produce in both products, depending to the market profitability in Europe.

We have the project of Livorno for 500,000 tonnes per year. We have both the 50% of PBF that is under commissioning in these days with another capacity of 1.1 million tonnes per year fully capacity, our is 50%. And we are evaluating or we are studying the possibility to build a further refinery for biojet in Malaysia. With all of these projects that are included in the plan, we will reach 3 million tonnes per year of capacity. But it is very important the fact that in this way, we will be present in all the markets with all the products. And so we are very flexible to keep the opportunity of the market depending to the evolution of the regulations and the market request.

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

MASSIMO BONISOLI, EQUITA: I have 2 questions left. I am curious to hear your thoughts on the SERM refining margin. You increased your assumption by $1 for 2023, while margins weakened in April. Does the improvement in assumption reflects the lower natural gas costs? If yes, what is the underlying assumption on margins? And the second question just for our models, if you can provide the amount of acquisition spending left for the remainder of the year, including PLT Energia, Novamont and PBF?

FRANCESCO GATTEI: About the SERM. First of all, you have to consider that clearly the market has a seasonality, and therefore, looking at the margin of today is relatively relevant because clearly you were passing from a quarter, the first quarter, where you had $11, now to a quarter where so far you are moving around $3 to $4. There is a margin that will be driven by the demand of gasoline by the jet fuel demand that is starting to pick up in Asia, particularly. And therefore our estimate of growth is related to the fact that we were moving from the 7 to the -- in the first quarter very high, that there is a benefit, as you mentioned, related to the utility cost, but also on a trend on demand, mainly in gasoline and in jet fuel that will be higher.

On diesel, clearly, the trend on diesel is suffering of 2 main headwinds. One is lower gas price. It means there is less opportunity to switch from gas to diesel. And the second one is related to the accumulation of stocks of diesel that were done in advance of the ban that were implemented in the past months. And therefore there is now a long position on diesel in the market. So these are the rationales behind the increase of the SERM.

Related to the overall impact of M&A, you have seen that there is acquisition on clearly that will impact the cash out once all these authorizations or anti-trust will occur, and therefore, it is difficult to be precise on the overall net effect in 2023. As we mentioned, we want to continue to balance our acquisition and disposal. Actually in the 4-year plan, we have a slightly positive EUR 1 billion net impact in terms of cash from the disposal versus the acquisition. I could say that probably 2023 will be negative in terms of absorption of cash. But this is clearly an assumption on the basis on certain conclusion and closing on the deal, both from the sale and from the acquisition point of view.

OPERATOR: The next question comes from Amy Wong of Credit Suisse.

AMY WONG, CREDIT SUISSE: Thanks for taking my questions. I have 2, please. The first one relates to your production guidance for the year. Firstly, first quarter, very strong production number. 2Q, I understand that you have got some seasonal maintenance. And then just thinking about the second half numbers, if you can just give a bit of color on some of the moving parts there, ramp-ups versus production coming back from turnaround, that would be very helpful.

And then the second question I have is unrelated. It's in UK CCS. I want to take this opportunity to maybe pick your brains on what is happening on HyNet, very encouraging developments in the UK there. But from your perspective, let us know some of the milestones we should be looking out for and many kind of additional news, what we should be expecting from HyNet to see that project come ultimately to fruition?

FRANCESCO GATTEI: Guido for both answers.

GUIDO BRUSCO: Yes. On the production, clearly, the result of the first quarter supports the robustness of our production guidance. And as you mentioned, in the second quarter, we have a number of planned turnaround activities, which are mostly concentrated in this quarter. In the third and fourth quarter, of course, we will recover from the turnaround, and we will have a ramp-up in Mexico and Mozambique, and we will have also the startup of our flagship project in Ivory Coast and this will give the boost to be well within the guidance we gave during the Capital Market Day.

As far as the CCS project in UK, we confirm that we are running on schedule to have a start-up by the quarter 4 of 2025. The HyNet project was 1 of the 2 projects that has been elected in the Track 1. And we have also received expression of interest from more than 18, 19 emitters for capacity, which is far beyond the capacity of the project itself. So a lot of interest from the emitters and from the government to run on schedule this project.

AMY WONG: Just a quick follow-up on the [..] and thanks for giving some color on the number of emitters who would like to contribute their CO2 for your project. Can you give some color on the selection process, how that is going to work in terms of pricing? Or what are some of the criteria we should be looking out for?

GUIDO BRUSCO: It is still work in progress. We are working with the regulatory bodies and the government of U.K., but very likely will be a RAB model for the T&S and contract for difference for the emitters. However, as I said, it is still work in progress.

OPERATOR: The next question is from Kim Fustier of HSBC.

KIM FUSTIER, HSBC: Good afternoon and thank you for taking my questions. I had 2 left, please. The first one is, I just wanted to go back to the Cyprus and East Med region. You have made a number of gas discoveries in the region, Egypt and Cyprus, but there is also several big oil companies present in the region. There is Exxon, Chevron, Shell, possibly now BP as well, boosting its presence. And, I guess, the more companies there are, the more difficult it is to get full partner alignment. So what are your latest thoughts on monetization for gas in the region and whether your preferred route is a tieback to Egyptian infrastructure or floating LNG?

And the second question, to stay in Egypt, is that we have heard that Egypt receivables have been increasing substantially in the last couple of months. Are you able to comment on this?

GUIDO BRUSCO: Yes. Indeed a lot of interest in the East Med, and we are assessing a number of development concept and opportunities to monetize the gas discovered in the East Med region. However, the most promising and attractive option seems to be the tie into Egypt, and we are actively working with partners and with the government to pursue this opportunity.

FRANCESCO GATTEI: About the receivable in Egypt, we don't see any issue from our point of view.

GUIDO BRUSCO: Yes.

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

BERTRAND HODEE, KEPLER CHEUVREUX: Yes. And again, congratulations for the very strong performance of the GGP division. And when I look at your guidance for the strategic plan on that division, you are guiding for above EUR 4 billion EBIT knowing that you are going to do above EUR 2 billion this year. So meaning that you are assuming quite a sharp decrease in the GGP performance starting in 2024 at around EUR 600 million to EUR 700 million EBIT. Have you revisited your thinking about the way forward in GGP in the years after 2023? And fundamentally, Francesco in your earlier remark, you pointed to gas market in Europe that had fundamentally changed, especially with the absence of gas from there. And so my question is, when do you believe you will be able to raise this outlook for GGP beyond 2023? And do you think that with now less Russian supply, you are fundamentally in a better position to deliver on a recurring basis, a more profitable trading wholesale gas business.

FRANCESCO GATTEI: Okay. First of all, a very general answer. Eni has changed this model of GGP because of substantially moving from a role where is an integrated equity supplier of European gas. And this is notwithstanding what happened with the Russian gas, so with the substitution of Russian gas. So that clearly has accelerated a process that was ongoing and has the advantage of creating more flexibility, different sources, different opportunity and faster opportunity to capture volatility in the market and also building a model that is more exposed to the market, less hedged. Once you buy from third-party, you are clearly exposed to the risk of your cost of supply that clearly if you produce is a sort of a natural balance.

About the expectation for the next years, I leave the answer to Cristian.

CRISTIAN SIGNORETTO: Yes. So there are a number of things that are actually changing the gas market, especially in Europe. So as you pointed out, the loss of Russian gas is creating more volatility in the market. On the one hand, clearly, we have seen it in the level of prices because, I mean, a substantial amount of gas was missing, and so this was clear. But there is another effect, which is the fact that the flexibility of the Russian gas is missing in the market. And so this is actually creating a lot of volatility in general.

On top of that, as we said before, the more integration with the upstream is giving us more chances to get more value out of the value chain. So I would say this year is promised to be another very strong year for GGP and clearly we will not leave any penny on the table. And for the guidance of the full year plan, I would say, we will surely revisit it and relook at it in order to make more in line and more relevant vis-a-vis this new market environment, which is actually becoming every day more a reality.

OPERATOR: That was the final question. Thank you for participating in the Eni conference.

FRANCESCO GATTEI: Thank you. Yes. So thank you for all the attendees. If you have any further follow-up, please contact our Investor Relations Team, and have a good weekend.