Q3 2018 results

October 26th 2018

Presentation

Speaker:

Massimo Mondazzi - Chief Financial Officer

Good afternoon and welcome to the nine months results presentation.

During 2018 we have continued to grow and strengthen our business model, accelerating cash generation.

But let's see more in detail:
In upstream, production was 1.844 million boe per day, up 3% compared to the same period of 2017 or 4% if we take into account PSA price effects. We expect further growth in volumes in the last quarter.
Moreover we will continue to proceed towards the FID that we have planned, in particular for Mexico Area 1 where we have already obtained approval of the development plan, while we will progress also with Nenè phase 2, Cassiopea and Merakes.

In exploration, we continue to expand our portfolio of acreage, in particular with the deals we announced during October in Libya and Mozambique.

Another important driver of our growth is Gas and Power, which in this quarter has maintained a positive result, bringing operating profit from the beginning of the year to over €500 million. In this business we are going to further improve our yearly guidance,
Finally, our refining and chemical results, while lower than last year, confirm that the new industrial structure allows greater resilience to fluctuations in oil prices.

CFFO before working capital in the nine months amounted to 9.4 billion euro, recording a strong acceleration in the last quarter in which we achieved 3.4 billion euro.
In the first nine months, free cash generation before net disposals of the period amounted to 4.3 billion euro, well in excess of the full year dividend.

Our net debt is declining, as well our leverage that is now at 18% and it is expected to contract further by the end of the year.

Upstream is speeding up in terms of economic results and cash generation.

In the first nine months of 2018 we recorded a 4% production growth compared to 2017. This result was achieved notwithstanding the conclusion of the Intisar gas contract at the end of June. The effect of the expiry was about 40,000 boed over the 9 months and was more than offset by the new start ups and ramp ups in Angola, Congo, Ghana, Indonesia, Egypt including the acceleration of Zohr that since early September reached the level of 2 billion cubic feet a day, in advance versus our original schedule.

Our growth would have been even more sustained if it had not been impacted by lower gas demand in three countries:

- in Venezuela and Libya, because of lower domestic consumption
- and in Ghana, because of lower gas nominations from the buyer.

Assuming that these three effects will continue also in the fourth quarter, which is our most likely case, yearly growth will be around 3%, versus the original guidance of 4% at a price level of 60 $/bl.
However, it should be noted that this lost production has only a marginal effect in terms of cash generation, as confirmed by the third quarter results.

The new production contributed to increase our operating result up to €8 billion, €4.6 billion more than last year. This growth was boosted by higher scenario for €3.7 billion and € 900 million by endogenous contributors.

Also in terms of cash generation our upstream confirms its strength.

With an operating cash flow of €8.9 billion, 60% higher than last year, and a capex amount of €4.7 billion, 8% lower, we generated an underlying free cash flow of about €4.2 billion, excluding portfolio actions.

E&P is covering its capex at around 40$/bbl.

It is worthwhile to highlight that E&P FCF in 9 months is also higher than our full year dividend.

Upstream cashflow per barrel grew to $21/bbl in the first 9 months versus $16.7/bbl on average last year.
This was based upon:

- an improved scenario; and
- the increased quality of the portfolio that benefits from accretive new production in Ghana, Egypt, Angola, Congo and Indonesia and the reduction in low value production.

This improvement is driving our cashflow per barrel faster than planned towards our 2021 target of $22/boe.

In G&P we continue to achieve important results by beating for the second time the guidance we had previously set.

With an operating profit of €500 million in the nine months of which €110 mln related to Retail, we can now further upgrade our full year guidance to around €550 million.

This strong result comes from

- the growth of the LNG business where we envisage 9 million tons of contracted LNG at the end of the year, versus 5.2 million tons last year. These 2018 volumes are 56% equity, almost twice the level of last year.
- a solid contribution from power
- the greater competitiveness of the midstream which is combined by the stable contribution of the retail business

The downstream has been penalized by margins that are 25% lower than last year.
Refining was affected by the appreciation of sour crudes due to the U.S. sanctions on Iran and the Euro exchange rate that worsened our breakeven by $1.4/bbl.

At budget scenario, the breakeven margin is at $3.4/bbl in the first 9 months and it is expected to fall to $3.2 on average in 2018 and to 3 $/bbl with the re-start of the EST project during the first half of 2019.

The robust contribution of marketing, however, ensured an R&M result of over € 200 million in the 9 month period.

In our Chemical business, we delivered a positive contribution notwithstanding the rapid increase in the euro price of Virgin Naphtha and the growing supply of ethylene from US plants.

In terms of cash generation, we reached a level of €9.8 billion.

For 2018, assuming an average Brent price of $72, we estimate an operating cash of €13.5 billion.

Our operating cash flow will cover capex estimated at €7.7 billion and generate an organic free cash of almost €6 billion, twice our dividend.

A further benefit derives from portfolio activity that contributes €300 million.
Leverage at 18% and gearing at 15% at the end of September will be further reduced in the fourth quarter.

And now together with Eni's top management we are ready to respond to your questions.

Q3 2018 Eni Earnings Call
Q&A Session

CORPORATE PARTICIPANTS
Massimo Mondazzi - Chief Financial Officer
Alberto Navarretta – CFO of Versalis
Alessandro Puliti – Chief Development, Operations and Technology Officer
Alessandro Gaeta - R&M planning and Control
Antonio Vella - Chief Upstream Officer
Luca Bertelli – Chief Exploration Officer
Massimo Mantovani - Chief Gas & LNG Marketing and Power Officer

CONFERENCE CALL PARTICIPANTS
Thomas Adolff – Credit Suisse, Analyst
Alastair Syme- Citi, Analyst
Jason Gammel – Jefferies, Analyst
Henry Tarr- Berenberg, Analyst
Rafal Gutaj – Bank of America Merrill Lynch, Analyst
Jason Kenney- Santander, Analyst
Alessandro Pozzi – Mediobanca, Analyst
Jon Rigby - UBS, Analyst
Robert West – Redburn, Analyst
Irene Himona – Sociétè Générale Analyst
Massimo Bonisoli - Equita, Analyst
Lucas Herrmann – Deutsche Bank, Analyst
Thomas Klein- Royal Bank of Canada, Analyst
Lydia Rainforth- Barclays, Analyst
Alwyn Thomas- Exane BNP Paribas, Analyst
Martijn Rats – Morgan Stanley, Analyst
Christyan Malek – JP Morgan, Analyst

OPERATOR: Ladies and gentlemen, let’s begin the question and answer session. The first question comes from Adolff Thomas with Crédit Suisse. Please go ahead.

THOMAS ADOLFF: Good afternoon. I have three question, if I may and congratulations on the strong 3Q results. A lot of good things are happening in Egypt at the moment, so I wanted to focus my questions on Egypt. Firstly, you mentioned you've obtained a 10-year extension of the Great Nooros Area, which is great. But perhaps since production there has often surprised positively on the upside, can you perhaps talk about the profile we should expect for Nooros and the remaining prospectivity of the license area? And secondly, on Zohr, the ramp-up is performing better than expected. I wonder whether you can comment on how the reservoir is behaving so far. And whether the previous or the current plateau target could be raised? And then finally, on Egypt as well, I wanted to know if you've spotted the Noor prospect, and if you are happy to share with us the pre-drill [indiscernible] estimate for this well? Thank you.

MASSIMO MONDAZZI: I will leave the floor to Antonio and Alessandro to answer your questions about Egypt.

ANTONIO VELLA: Okay. Concerning the Nooros, I think, we are...as you know that we are producing stable 1.2 billion scf per day within synergy with Abu Madi facilities. We have already launched a pipeline connecting the Abu Madi facilities with El Gamil in the cost, because we've spare capacity. This will allow us to continue exploring Nooros for the future, possibly expanding the production. But in addition, to the pipeline we're going to connect Baltim West, which left already a lot of exploration to be done. And this is the large prospectivity which implies an extension of 10 years for that part of the development area in Nile delta.

On Zohr, we are progressing our plan in anticipation with the train 5, which is going to be upstream in March. Then we will continue 6 and 7 between June and September to reach the POD value with an upside of additional 1 billion scf, which is going to give us the opportunity to produce 3.2 billion scf per day within next year.

Concerning the reservoir, I leave the floor to Alessandro to tell you exactly how it's producing the reservoir of Zohr. Thank you.

ALESSANDRO PULITI: Okay. Good morning. Reservoir of Zohr is currently delivering extremely good performance. Pressure depression is hardly detectable. And certainly reservoir performance, they will sustain the increase of plateau, just mentioned by Antonio. So we will target to achieve by end of 2019 a target of 3.2 bcf per day of production.

MASSIMO MONDAZZI: Okay. Maybe Luca could answer the Noor question.

LUCA BERTELLI: On Noor, we started drilling the well at the end of September. So we're at an early stage. What I can share is that Noor is a sizable prospect, and this is our expectation for the well.

THOMAS ADOLFF: Perfect, thank you very much.

OPERATOR: The next question comes from Alastair Syme with Citi. Please go ahead.

ALASTAIR SYME: Yes, hi, just a couple of some outlook questions. I think you previously talked about the LNG markets as you look to market at Mozambique. I think you said earlier in this year that you're not looking taking 50% equity and the LNG markets would probably not support more than a 12% slope. I just wonder if you can sort of update us on the current state of the LNG market as you market that gas? And secondly, could you just talk a little bit about the MOU you signed with Pertamina? What's your intention? And what's the returns criteria will you use on investment? Thank you.

MASSIMO MONDAZZI: I will leave Massimo Mantovani answer your question about the LNG market outlook.

MASSIMO MANTOVANI: It was a great year for LNG, and it was an unbelievable very great quarter. If we consider that the JKM reference pricing in August was $10.5, and which is even higher than actually what we expect in November. And on the other hand, for the LNG market, we also have to consider that most of the contracts are oil-based, and in terms of what we buy, which is good for our upstream side. And of course, for us it is a little bit less good. But on the other hand, what is clearly important for us is that Eni makes a profit.

In terms of Mozambique, the discussion which has been taken with our partners is in respect of actually going ahead and taking marketing out of the critical parts for taking the final investment decision, and this is still the status, and we're still all targeting for a final investment decision to be taken in 2019.

And we do believe that gas would be important to be added to our portfolio for LNG. I have to mention that this year, we will sell about 7.5 million tons as compared to 5 million tons of last year. And what is more important and was also mentioned by Massimo before, is that we had an increase on the quarter, which is coming from our own equity, which is more than 50% this year as compared to about 30% last year. And that as we also said in the full year plan is going to grow. We are targeting a portfolio which is sizable enough to take all the opportunity. And in the contract at the end of this year will be already 9 million tons. And so we're more than in line than what we envisaged in the plan, which was about 12 million tons by 2021. So we are increasing more than that.

MASSIMO MONDAZZI: Okay. So about Pertamina, you are referring to the MOU that is being signed about the Chemicals business, this is an MOU aiming at expanding the ratios between the two companies. So the main target for the time being is to explore the wide array of potential opportunity across the entire LNG value chain by targeting mainly, as I said green refinery initiative. You know we are transforming Gela and Venice. We are at the moment the first in doing such a transformation. Pertamina is very well interested in exploring alternatives, such as the one that we're doing in Italy, so that is the main scope of what we signed.

ALASTAIR SYME: And can you just remind us what sort of returns criteria you're using in downstream investment?

MASSIMO MONDAZZI: So this is...really this is a period of studies on this respect, but if I give a look to the expected return from the green refinery right now, what we're doing in Italy, in Gela and Venice, definitely the internal rate of return we expect today is higher than 10%.

ALASTAIR SYME: Okay, higher than 10?

MASSIMO MONDAZZI: Yes.

ALASTAIR SYME: So can I just circle back on the Mozambique. As you market out Mozambique, is it still the intention to put roughly 50% on equity? Is that still the plan?

MASSIMO MONDAZZI: Yes, it is. I mean, I think the key is as I told you that it will be taken by the Partners pro rata to their respective participation in the project, and so that's equity for us.

ALASTAIR SYME: Okay, thank you.

OPERATOR: The next question comes from Thomas Klein with RBC. Please go ahead. Excuse me, the question has been withdrawn. The next question is from Jason Gammel of Jefferies. Please go ahead.

JASON GAMMEL: Do you have any updated thoughts on the potential for the restart of the Damietta facility in the Egypt, any progress that's been made there? And second question on the Chemical business. Can you talk a little bit about how you think about the medium-term competitiveness of the polyethylene business? Just given that one of the factors that you decided for the weakness in the quarter was the surging volumes from the U.S., because that looks to only be increasing over the course of the next several quarters?

MASSIMO MONDAZZI: Okay. Massimo to answer the Damietta question.

MASSIMO MANTOVANI: Damietta has not being working terms of taking out LNG since few years. And now the condition of the market is completely different. Now, we told the production is coming out in Egypt, and not only in Egypt, actually in the future, something can also be aggregated from bordering areas. Do have a look pretty good in respect of restart of Damietta. There are ongoing discussions which are quite advanced. And I think is the interest of all parties that Damietta could start as soon as possible. It takes about…once an overall agreement is reached something like 3, 4 months to start. But I would be surprised if we don't have Damietta on work next year. Nevertheless, this is the object of the discussion which are taking place.

MASSIMO MONDAZZI: So Alberto, the Chemical business CFO will answer your question about the Chemical business.

ALBERTO NAVARRETTA: Thank you, Jason, for your question. Yes, indeed in the third quarter, Versalis recorded a negative effect on the scenario driven by the polyethylene business. But you have to address these negative effects on…as the comprehensive combination of events. The rapid increase in the price of NAFTA, a strengthening dollar, and relativity lower demand for polyethylene in Europe. It is quite difficult to project this volatile market of the quarter in the coming months. For sure, as a general trend, we can say that in Europe, it is growing trend in substituting NAFTA with ethane and there are growing fluxes of ethylene from the U.S.A. But at the same time, Europe is still enjoying a very strong demand growth, definitely it healthier than the…in the last 2 or 3 years. And so, this growth in demand could rebalance the pressure from rising oil based feedstocks.

JASON GAMMEL: Thanks very much.

OPERATOR: The next question comes from Henry Tarr with Berenberg. Please go ahead.

HENRY TARR: Hi, thanks. I just had a couple of questions. One was on higher gas realizations which were a clear driver for the quarter. Were they higher across the board or were there sort of specific regions where you benefited particularly? And then secondly, on the Gas & Power business, you've obviously increased profit target for the year. Is the bulk of that being driven by LNG or, are power generation, midstream, retail also adding to that change in guidance? Thanks.

MASSIMO MONDAZZI: So as far as the gas realization price, I mean, the gas realizations in the E&P business, is definitely the growth that we recorded in these quarters was driven mainly by the new production, new ramp ups in E&P production, such as definitely Zohr. Zohr, if you remember, we never disclose exactly the formula, but we always said that the formula is partially linked to the oil price. So today with the oil price at $70, $80 per barrel, definitely we are benefiting from the higher range of the price formula. The same for the new gas production that is coming from Jangkrik. So this is another good example of high price gas that we are increasingly producing worldwide. But let me… correctly you have noticed the increase in the gas realization price. Let me also add that the...at the same time, the cost we incurred to produce this additional quantity of gas, is really competitive, because definitely the most important example is Zohr that has been developed in a very low scenario in terms of cost, but even Jangkrik benefiting from a very positive scenario. So what we are harvesting right now is the best margin that is the result of high prices and the low cost sustained to develop this gas fleet. As far as, the composition of the Gas & Power result, maybe I leave the floor to Massimo Mantovani.

MASSIMO MANTOVANI: You know, the key strategy for this year was based on two pillars which was the turnaround of the legacy contract and assets. And the integration with Upstream in respect of LNG. And I think that both worked pretty well this year. And all line of business, which is in Gas & Power work as well, I mean starting from retail business and also I have to mention specifically LNG. LNG was one of the top performers. As I said before, we increased the amount of volumes quite significantly, mostly upstream. Jangkrik was a pretty good source for that also for extra volumes. And considering the price that we had in the market which were quite exceptional. As I mentioned before referring to JKM, but not only also in the European gas market, it was a pretty good moment, particular in this quarter.

HENRY TARR: Okay, thanks.

OPERATOR: The next question comes from Rafael Gutaj with Bank of America Merrill Lynch. Please go ahead.

RAFAEL GUTAJ: Hi, good afternoon. Thank you for taking my questions. Just the first one, turning back to European gas, can you just remind us on your exposure on two spots versus longer-term, term structure in Europe? And then secondly, your production guidance on entitlement is 3% at $60. Just given that we're running at about 72 year-to-date. Can you just remind us on the sensitivities of that if you were to run that at year-to-date numbers? Thanks.

MASSIMO MONDAZZI: Okay, I will give you right now the answer to your second question. So the sensitivity is more or less 10,000 BOE. So dropping from 72 that is the number...the number at which we're running the full quarter to \$60 per barrel that is the level of Brent at which we are giving the guidance. So \$12 per barrel means more or less 10,000 BOE per day. And maybe I'll leave the floor to Massimo to answer the question about…

MASSIMO MONDAZZI: You know, we have a quite complex aggregated portfolio from the European gas base, of course, on the contracts of long term with different source. And in terms of sales, you know, something like about between 25% and 30%, in general terms, is actually sold on the spot market. This is also an issue of optimization which is done constantly. And we also have to consider that in all this, of course, has a way towards all the logistics that we acquired in the past in respect of the gas business.

RAFAEL GUTAJ: Thank you.

OPERATOR: The next question comes from Jason Kenney with Santander. Please go ahead.

JASON KENNEY: Hi, well done on results today. Coming back to same from an earlier question, if I might. The oil and liquids realizations, I'm just trying to take down to see where there were perhaps some regional supports in oil and liquids realizations, particularly looking for Kazakhstan and Italy to see if they were both normal. And then maybe also the general trend, I think, in 2016 the discount versus Brent for ENI was 10%; in 2017 it was 8%. On a year-to-date basis it was 7% discount versus Brent. So I'm just wondering, what I should be thinking about that trend going into 2019, please?

MASSIMO MONDAZZI: The most important reason why we reduced the discount versus Brent is the quality of our production. If you think about the most important contributor of the new production, such as Goliat and Kashagan, for example, so high quality of oil, definitely they are contributing significantly to the net price we are going to get from the market. We do not expect significant changes in this discount overall, as far as, 2019.

JASON KENNEY: Thanks

OPERATOR: The next question comes from Alessandro Pozzi, Mediobanca. Please go ahead.

ALESSANDRO POZZI: Thank you. I have a couple of questions. The first one on Venezuela, you mentioned bit lower production there. I was wondering, if you can maybe give us an update on the situation in Venezuela also in terms of receivables. And going back to the Zohr, previous questions, you mentioned, your target is to increase production to 3.2 bcf, by the end of next year. I was wondering, if that is subject to the restart of Damietta or not? Thank you.

MASSIMO MONDAZZI: Alessandro, so as far as Venezuela the situation remain a critical one, so the reduction in gas taken by PDVSA, as I said before, is expected to remain in place at least by the end of this year. And we will see the reduction we guess is caused by the reduction in domestic market, consumption together with, I would say some technical problem that PDVSA is having in this power plants that now are suffering because maybe they are short of the part to have their plant back in production after maintenance.

And in term of financial exposure, the news are not so bad because the level of exposure we are succeeding to take is quite stable. We are talking about something less than $700 million. We are receiving some payments, anyway notwithstanding the situation. So on this respect we are in line with the projection we made at the end...at the beginning of this year, when we definitely took into consideration the quite difficult situation in country. And maybe, I can answer, because it's quite easy, the question about Zohr, no definitely, the target of 3.2, definitely is not related to the restart of Damietta.

ALESSANDRO POZZI: Thank you.

OPERATOR: The next question comes from Jon Rigby with UBS. Please go ahead.

JON RIGBY: Yes, hello. I think both these questions are for Massimo. The first is, when we met in March, you had a slide that talked about leverage target and share buybacks for excess cash distribution. So I guess, given where your performance has been, where the macro has been in that scenario, it is now starting to come into view. I think it feels to me that the industry is thinking hard about where it should exit a high cycle conditions in terms of gearing, and sort of balancing gearing versus buyback? So I wondered whether you could just share with us some initial thoughts about that, obviously early days, but…and I guess, you will talk about in 2019. But some sort of thought process around where you want to be with respect to your leverage targets and what you would then leave over for buybacks? The second question is, just on tax rates, we seem to now be leveling out in the upstream at about 55% or so tax rate. Is that a good number to you going forward at these kind of oil price conditions? And then also sort of secondly, your downstream businesses actually seem to take quite a high tax charge, but I think, about where corporate tax charges are globally. So I just wonder whether may be you can shine a little bit light on that. Thank you?

MASSIMO MONDAZZI: So in term of leverage and cash distribution and buyback. Jon, as you said, may be the good timing to talk about any decision is…would be March...February, March 2019, where we are going to present our new strategy. But definitely, what I could say that, up to now, nothing change in term of aspiration and strategy. So what we said in term of aspiration to maintain progressive dividend together with a buyback, while we perceive leverage below 20% steadily remain in place. And on this respect, I would say that what is going on, what we are doing in term of performance, in term of implementation of our strategy is running very well. So the cash we are producing is significant. You have seen that the leverage dropped below 20% for the first time in the third quarter. As I said, we expect the leverage be even lower benefiting from the cash we are going to generate in the fourth quarter. So March will be the right time to tell you when and how much, but we are really on the right way to implement what we said on this respect.

In terms of tax rate, yes, assuming a \$70-\$75 Brent scenario that you know is impacting significantly our tax rate on the upstream business that diffidently is the most important tax contributor in our group, something in the range of less than 60%…something in the range of 55%-58%, would be the right guidance for this year…the full year and as well as in 2019. While the cash tax rate is expected to remain in the range of 30% as it is in for the first nine months.

And in term of tax rate on downstream, let me see the…detail I see as 40% tax rate that is a bit higher than the Italian tax rate. I don't have a specific answer in detail. So maybe I'll let you know, Jon. So the tax rate is 40%, why it's higher than 30%, 27%, I'll let you know.

JON RIGBY: Okay, thank you Massimo.

OPERATOR: The next question comes from Rob West with Redburn. Please go ahead.

ROB WEST: Hi, thank you very much. First of all, I'd like to ask you is about your long run guidance for the Gas & Power business. I think back in March that was targeting €800 million by 2021, and this year, you are effectively coming in at double what you are targeting. You spoke a little bit earlier about having more volumes coming through the gas business, particularly on LNG. And so my question is, would it be right to assume that, that long run target is moving up with as will or should be when you come to revisit it in March? The second question I have is about the, just the evolution of upstream OPEX. It is not a number that we see in the disclosure? And so, I was wondering if you could comment on whether you are managing to keep costs where you wanted to be or seeing anything in that requires to sort of focus and to address inflation coming back? Thank you.

MASSIMO MONDAZZI: Okay. In term of Gas & Power, long run, so as Massimo said, definitely mainly in mid-gas the result we are achieving in 2019 has been definitely positively affected by the scenario, scenario that has been really positive on all the sub-businesses included in midstream. So the clean spark [ph] spreading power, the gas price, the LNG price in Far East and elsewhere. So we have been surprised, that's the reason why we adjusted twice the guidance because the scenario that we are testifying is definitely higher. So on this respect, we believe that the adjustment, the scenario we are assuming…we are going to assume to re-project our full year plans would be lower than this, based on normal condition. But at the same time, the result we are achieving justify that the industrial activities…the progress in term of lower cost, higher margin in term of clients talking about retail is progressing, even a bit faster than expected. So no reason to change the guide today and, as far as, 2019, definitely, we will touch base more precisely in March. But definitely, what we could say right now that we are going to project something that would be globally in the range of €400 million to €500 million in terms of EBIT...expected EBIT.

In term of upstream OPEX, now we are...the actual number is in the range of $7 per barrel, and $7 is something that is...that we are confident and we believe we can take, also because we are not testifying any significant inflation increase in the market right now. So no sign that the $7 could be higher, for example, in 2019.

ROB WEST: Very clear. Thank you very much.

OPERATOR: The next question comes from Irene Himona with SG. Please go ahead.

IRENE HIMONA: Thank you, good afternoon, Massimo. I had three questions, please. Firstly, you mentioned how robust marketing was. I wonder if you can split for us for the third quarter and the nine months, the refining versus marketing EBIT, please. Secondly, working capital, you have been releasing cash for the last couple of quarters. I wonder if you can give us any sort of guidance, any indication for the fourth quarter, expected working capital. And then finally, back to Gas & Power which obviously surprised positively with the profit. And I think I am right in saying that you say the results...the adjusted result includes €40 million from derivatives. I just wonder if that is correct, if you can share with us the rational for not stripping out the €40 million from adjusted profit. Thank you.

MASSIMO MONDAZZI: Okay, Irene. So in term of split between refining and marketing, as far as the fourth quarter, we are talking about full result of €140 million, so marketing is €143 million, while refining is more or less at breakeven, considering that we had a slight recovery in the refining margin in the third quarter.

Talking about the nine months, marketing recorded €372 million, while refining was negative €154 million, so for a total result of more or less €220 million. We expect marketing performing well even in the fourth quarter, even if the fourth quarter is not the strongest in all along the year, as far as marketing. While looking at the margin, we are experiencing, as far as, refining in October, we expect a slight loss in the refinery in the fourth quarter.

In term of working capital, so we are doing what we promised. So as far as...now the nine months actual, we have said we fully recovered the €900 million that is being absorbed in the first quarter. And we expect a positive contribution from working capital in the fourth quarter in the range of very few hundreds of millions of euros.

In term of derivatives, I can't give you an answer, because maybe it requires a bit of time. So Irene, I will get back to you explaining the rational of what you are asking for.

IRENE HIMONA: Thank you, very much. Thank you, Massimo.

OPERATOR: The next question comes from Massimo Bonisoli with Equita. Please go ahead.

MASSIMO BONISOLI: Good afternoon and two quick questions left. Could you give us some color on the start of exploration and production activities in Libya from the assets recently acquired from BP. And the second, do you have any progress in the formal process of the Area 1 in Mexico?

MASSIMO MONDAZZI: So Antonio will give you the answer about the BP exploration activity in Libya.

ANTONIO VELLA: Okay. As you know, the farm-in including three blocks, A, B and C, which A and B are in close to Wafa. So that is the main synergy we have seen jointly with BP and NOC. And this is the objective since we have enough spare capacity in the area of Wafa, and this can be one of the area which we can kickoff quite quickly. And the rest will be offshore; definitely we should work a little bit more on that.

MASSIMO MONDAZZI: Okay, Massimo. As far as the farm out, in Area 1 in Mexico, we are proceeding, we are in negotiation phase. We do not expect to cash in any dollar by year-end. I guess, we will let you know while we are completing the deal.

MASSIMO BONISOLI: Thank you very much.

OPERATOR: The next question comes from Lucas Herrmann with Deutsche Bank. Please go ahead.

LUCAS HERRMANN: Yes, thanks very much. Good afternoon, gentlemen. Couple if I may. First, just a point of clarification, Massimo, your statement or the slide on strong cash generation, which shows you've delivered CFFO of €9.8 billion in the first nine months. Does that include the sum that you've received to Zohr, I presume it does, but just to make sure? Secondly, I just wanted to ask if you could expand a little bit on the litigation in the U.S. around regas. What the actual cash outflow on that litigation might be to you, and what the benefit to P&L and cash flow longer term, may be as the regas obligation isn't there any longer? And thirdly, I would like to just...on Jangkrik and LNG volumes, to what extend are you overproducing if I can use that phrase at the present time in Indonesia. And driving more gas through Bontang than perhaps had been planned? Thank you.

MASSIMO MONDAZZI: As far as, the cash flow, yes. As we wrote in the chart, we presented a few minutes ago, chart #8. The €9.8 million, as well as, the €13.5 million does include the more or less $450 million, we cashed in as later payment relating to the disposal to Rosneft and to BP of shares in Zohr. And, as far as, the Bontang and Indonesia, I'll let Antonio maybe answering your question.

ANTONIO VELLA: Yes. So as has been mentioned in the previous call, the spare capacity of our FPU in Jangkrik allow us to produce more because also the reservoir is performing much, much better. Initially, the plateau expected from the reservoir was 450 [mmscfd], but since the start-up the higher performance allow us to utilize the additional capacity of the FPU. And today, we are ranging production between 690 million-700 million scf per day.

LUCAS HERRMANN: And Antonio, was that due to the reserves basically, obviously it draws it down more rapidly, but are you upping reserve effectively at the same time or are we just seeing the more rapid producing out?

ANTONIO VELLA: We have recently made all this build-up on the reservoir. And we have seen, we have much more reserves. But the expectation is also that Merakes has been designed also to come in on a decline of Jangkrik which up to now is not coming up. We are making additional development on Jangkrik and work over which will keep the plateau longer than the expectation.

LUCAS HERRMANN: Thank you. And then on U.S., regas, Massimo?

MASSIMO MONDAZZI: Okay. And as far as the Pascagoula regas arbitration outcome, what we have to pay is written even in our financial statement. The amount is €286 million, the amount that we have to pay is a result of the arbitration. We believe is a good as a result, taking into consideration the obligation we signed few years ago, when the prospective in terms of the worldwide LNG market mainly the U.S., was completely different. And this amount has to be paid, I would say, shortly.

LUCAS HERRMANN: And what's the future saving and benefit to Gas & Power that we should expect to see?

MASSIMO MONDAZZI: No, for the group, than Gas & Power, I would say, significant savings.

LUCAS HERRMANN: Sorry, what does significant mean?

MASSIMO MONDAZZI: I cannot release exactly the number that is based on our internal valuation, but significant means basically not some tens of millions but hundreds of millions.

LUCAS HERRMANN: Right, but that's not...sorry, to go on, and that benefit will be seen in which division?

MASSIMO MONDAZZI: The installment up to the arbitration outcome in term of cost where the installment was written in the E&P profit or loss.

LUCAS HERRMANN: Right. Okay. Thank you very much.

OPERATOR: The next question comes from Thomas Klein with RBC. Please go ahead.

THOMAS KLEIN: Hi, apologize for earlier. Thank you for taking my question. Just following up on the one about your MOU at Pertamina…at Gela. Can you talk a bit more about the pilot waste, the fuel plant that's being built by Syndial, I believe? Any more detail on what you are trying to do there would be helpful? For instant, how big a scale it could potentially become? Thank you.

ALESSANDRO GAETA: Yes, on the waste of fuel technology, we have to say that, Eni has protected this technology with six registered patents, and that bio oil obtained with this technology can be used to produce an ultra-low sulfur bunker oil, which is compliant with the new IMO regulation. By the end of 2018, the new Gela pilot will be started up and we are engineering so far a semi industrial scale plant in Ravenna. We are also starting other plants at a larger scale, which we expect to have a significant return.

THOMAS KLEIN: And these larger plants, they would presumably be at existing the Eni refineries sites or would you be considering new ones elsewhere?

MASSIMO MONDAZZI: It is something that we have to decide. So we can't give you an answer right now about this.

THOMAS KLEIN: Okay. Well, thank you.

OPERATOR: The next question comes from Lydia Rainforth with Barclays. Please go ahead.

LYDIA RAINFORTH: Hello, and thank you for taking the questions. I have two, please. The first one was on Union Fenosa Gas. Are you happy with the current

Union Fenosa Gas shareholding or would you look at taking that to the 400%? And then secondly, on cash flow per barrel in the upstream, is that better at this oil pricing you thought it would be? Thank you.

MASSIMO MONDAZZI: Well, in term of relationship with Naturgy, maybe I'll leave the floor to Massimo, and I will give you the answer about the…

MASSIMO MANTOVANI: Yes, we are happy, we are happy with the current situation. And we are not looking to change it in the moment. And of course, every project has always a life, but for the time being we are with them, and we are working well. We are trying to have the plant restarted, we are talking with the Egyptian side, we are actually also somehow in the Damietta, because 20% is on EGAS. And you know, we just have to conclude this discussion with all the parties involved to have plant restated as soon as possible and this is what is going on.

MASSIMO MONDAZZI: And about the unit cash flow and E&P, yes, Lydia, what we are getting is something slightly better than expected on top of the advantage we are taking from the oil price, so the scenario. So that's the reason why, I said that we are progressing ahead of schedule in getting the $22 per barrel result that we projected in 2021. And to give you more color on this. What I can do is to give you maybe the breakdown of what we are getting after this first nine months in term of cash flow from operations in E&P. So you have seen that the cash flow from operation grew by €3.4 billion in the first nine months versus 2017. And the overall growth is related, as far as, 70% to the scenario that is definitely being positive, as far as, the price is slightly negative in terms of exchange rate. And as far as 30%, it means €1 billion is due to endogenous factor. So an increasing value of our production, increasing volumes, reduced cost, so that performance slightly better than what we expected when we performed the budget.

LYDIA RAINFORTH: That’s clear. Thank you very much.

OPERATOR: The next question comes from Alwyn Thomas with Exane. Please go ahead.

ALWYN THOMAS: Hi, good afternoon, gentlemen. Just a couple of quick ones for me. Firstly, can you give an update on the list of FID you were looking to achieve by year-end? And the second one is just on Libya. Can you just give us an update on the current operations and lifting you were able to achieve there? Thank you. And may be what your outlook is into year-end? Thank you.

MASSIMO MONDAZZI: Maybe I'll leave the floor to Alessandro, as far as the FIDs are concerned and Libya, I'll leave the floor to Antonio.

ALESSANDRO PULITI: Okay, the planned FID from now to the end of the year are, Cassiopeia in Italy, Mexico Area 1, and Nene Phase 2b in Congo. And then we are working to bring also FID of Merakes in Indonesia across the end of the year.

ANTONIO VELLA: Okay, concerning the operation, all plants are running quite well. Unfortunately, we have been suffering some reduction on local markets requirements due to power plant failure in country. There is a little improvement in those days, but definitely the production of gas is available from our side. Anyway, we are monitoring the situation of the power plant and hopefully, we are going to gear up again, as previously. Thank you.

ALWYN THOMAS: Can I ask what volume you are at currently?

ANTONIO VELLA: The volume for local market is moving between 19 million to 21 million cube meter per day, this is the range; normally they are receiving from the gas producer between Wafa and Mellitah with Sabratha platform.

ALWYN THOMAS: Okay, thank you.

OPERATOR: The next question…

MASSIMO MONDAZZI: In this respect it is worth to mention that definitely we believe that the domestic consumption is going to recover, because we are talking about a few thousand BOE equivalents per day in term of lack of demand. But it's worth to take into consideration that we always have the possibility to export gas to apply for the export of gas, in case the situation would be worst or last longer than expected today. So that's the reason why we are not particularly worry about potential economic impact in the longer term.

OPERATOR: The next question comes from Christyan Malek with JP Morgan. Please go…sorry, with Martin Rats with Morgan Stanley. Please go ahead.

MARTIN RATS: Yes, thanks. Alright, with some introduction. I had two that I wanted to ask you. On the last conference call you made some comments about buybacks depending on the trajectory of the balance sheet. I think this sort of builds a little bit on the question that Jon asked earlier as well? Given that the balance sheet de geared a fair bit during the quarter. Can you update us on your thoughts on buybacks? And secondly, I wanted to briefly ask you about the credit rating downgrade. My suspicion is, does this not have a big impact, I mean, it largely an effect of sovereign. But I was wondering, if you could make some comments about it in terms of, if there was anything you can do to address this how important this is et cetera…?

MASSIMO MONDAZZI: In terms of buyback and leverage, I've already said that the trajectory, as you said, is positive. So 18% expected to drop further by year-end projecting a price that will be in the range of $70-75 in 2019, means to have a longer good trajectory on this respect. So the execution of our strategy is going ahead very well. But as I said, final decision and announcement about even quantities in case of a buyback is postponed to March 2019, Martin.

And in terms of downgrade, I really believe that we did not deserve this downgrade that you know is due to the strict rule applied by Moody's of the two notches of maximum difference between government related entities and the sovereign rating. Even Moody's recognized in this report that we are performing even better than expected. So really this decision is going to penalize at least in term of info that has been circulated more than we deserve. Anyway, I do not believe that this decision will negatively impact on our financial capability.

Our balance sheet is stronger and stronger. So definitely, I am not to worry about this. But anyway, I believe that definitely has been a wrong decision and we didn't deserve it. And we are going to talk with them, explaining may be better and better our financial situation, how strong is our portfolio and with our perspectives, and see if there is possibility to apply the exception that, I believe, could be applied in term of this two notches strange rule.

MARTIN RATS: Okay, wonderful. I appreciate that. Thank you very much.

OPERATOR: The last question comes from Christyan Malek with JP Morgan. Please go ahead.

CHRISTYAN MALEK: Yes, thank you for taking my questions. And just as a follow-on from, I guess, my colleague from the house of Morgan. The question around buyback, I think, just to sort of…break it up and do follow-up. To what extent are you getting, is it more involved discussions from the Italian government in terms of how you think about your capital frame? Are you seeing sort of a change in how they interact and sort of try to micromanage or is that just my imagination? And in terms of the philosophy around buyback, just to be clear around your priorities, can I…is it safe to assume that this, you know, the trigger is the trigger, but in terms of M&A or areas or sort of opportunities you look…you would like to sort of take advantage of. Would that take priority over any potential buyback as you start to dig or continue to dig into Q1 next year? And then the second question, in Egypt, with the new gas law and easing up in terms of this fiscal regime, as they sort of talk about…looking to allow you to basically secure full production or full share production, and now, you…basically companies are bearing the high cost of exploration production, and with that being able to sell you know, in terms of not being able to sell it at a preset price since the Ministry of Electricity. Does that new laws of regime shifts apply to all new contracts? And how does that influence, how you think about you know, allocating CAPEX to Egypt going forward? I presume, it's not retroactive so it's going to be forward-looking on new projects. So I would like to see how that's all evolved and how you would think about that, in terms of allocating more or perhaps less CAPEX into Egypt? Thank you.

MASSIMO MONDAZZI: No, effect of this law about our prices and our contracts.

CHRISTYAN MALEK: Yes.

MASSIMO MONDAZZI: As far as, buybacks...buyback is a priority. So we said that our remuneration policy is based on the two legs, the progressive dividend and the buyback. Buyback is linked to the condition...linked to the leverage. As far as, this condition will be respected we will go ahead and performing in the strategy in the remuneration policy that we announced.

We also said sometimes, Claudio also mentioned that, any M&A activity that could happen talking about asset and so on will not jeopardize the performance on this respect. So in case both of them would be accommodated. And definitely, no relationship with what is going on in Italy together with the buyback. Buyback is a decision we are taking, we will take looking at our numbers, our business prospective scenario and so on.

CHRISTYAN MALEK: Okay. And on Egypt?

MASSIMO MONDAZZI: Okay. Egypt, I said that, we don't have any impact on this new rule. So the gas price is fixed. And so, I do not see any direct effect on our decision, on our current asset or any future decision about the capital allocation. The situation remain as it is, and the parameters we take into consideration to evaluate the project will remain the same. So no impact from this new legislation, Christyan.

CHRISTYAN MALEK: Okay, thank you very much.

MASSIMO MONDAZZI: Okay. So thank you very much, all. See you next time. Bye-bye.