2020 3Q Results

October 28th 2020

Presentation

Speaker:

Francesco Gattei – CFO

Good afternoon and welcome to Eni's results for the first nine months of 2020.

It is a pleasure for me - in my first appointment with the investment community as CFO of Eni - to introduce our new business segmentation.

As you know, we set out our ambitious and detailed decarbonisation strategy, along with a new operational and financial framework at our announcements in February and July.

Today we are reporting for the first time along the lines of the two new business units:

- in Natural Resources we included the upstream oil & gas, CCUS and Forestry, the global gas and LNG and the environmental remediation activities of Eni Rewind;
- in Energy Evolution, we grouped our downstream, renewables, CCGT and Retail Gas&Power.

We are making good progress against the new strategy. It plays to Eni's legacy strengths which give us immediate scale in the new energies side of the business, an environmental reporting record that positions us to attract new ESG investment and finally balance sheet strength for delivering the plan, further enhanced by strong investor appetite for the perpetual bond.

Coming to the results

In the first 9 months we produced 1.74 Mboed. The reduction versus 2019 was mainly driven by the impacts of COVID-19, including OPEC Plus cuts and lower gas demand mainly in Egypt, and the effects of contractual triggers and force majeure in Libya, partially compensated by positive portfolio, price effects in PSA and the ramp ups.

Exploration results continue to confirm Eni leadership with discoveries in Egypt, Angola, Mexico, Vietnam and Sharjah in United Arab Emirates. Since January we've discovered 300 Mboe despite the significant reduction of activity that we implemented since the second quarter.

Global Gas & LNG delivered a resilient performance both in terms of Ebit adj, and in terms of free cash flow generation, at around 0.6 bln euro in the period.

And finally, we are accelerating in the CCS, with a diversified portfolio of projects in Italy and Europe.

Energy Evolution is continuing to grow and deliver strong results even in the current volatile environment, with an overall EBIT of around 320 mln €, almost 25% of Eni overall result. In detail:

Retail G&P proved to be robust with an EBIT of more than 200 mln € driven by commercial actions on the customer base and the contribution from the sale of additional services.

R&M was good thanks to resilient Marketing and the strong Bio-refineries contribution.

The power segment posted positive results and benefitted from asset optimisations and in Renewables we are reaching the target of 300 MW and are positioned to grow further.

Turning to financials, Eni remained free cash flow positive with cash flow pre work capital at 5.1 bln euro. Pro-forma leverage was reduced to 29%, including the 3 bln euro hybrid bond.

Before entering into the industrial performance, I would like to focus on our ESG performance.

Over the past six years, we built a business model that now integrates the 17 Sustainable Development Goals in all our decisions and we designed a clear path for decarbonisation.

This strategy is well rated by the ESG agencies, as MSCI, CDP, Sustainalytics, Bloomberg ES and the Transition Pathways Initiative, that evaluated Eni as a leader in different ratings.

This recognition comes also from specialized research institutes such as Carbon Tracker, which ranked Eni first among peers for the competitiveness of its unsanctioned portfolio, emission reduction targets and for a medium-long term price scenario among the most conservative in the sector.

Moreover we were confirmed in the FTSE4Good Developed markets, and this year in the ESG iTraxx index.

Finally, for the second year in a row, Eni is among the 10 Top Performer companies for sustainability reporting according to the World Business Council for Sustainable Development.

This strong ESG performance not only enhances our license to operate but can open up new sources of sustainability linked funding which we will look at in the future.

Let’s now move to Natural Resources.

Both Upstream and Global Gas & LNG showed a resilient performance in this exceptional 2020.

Upstream production guidance is confirmed and we can narrow the range to around 1.72 to 1.74 million barrels of oil equivalent per day.

Upstream EBIT in the first 9M 2020 was 0.75 billion €. The reduction versus last year is almost entirely explained by the scenario *[that includes Covid],* accounting for 5.1 billion €, while 0.8 billion € is due to volume/mix effects.

Global Gas & LNG EBIT was 0.4 billion €, up by 0.2 billion € Year on Year. The result was driven by the optimizations of GAS and LNG portfolio, which counterbalanced the lower PSV/TTF spread and the weakness in LNG demand related to COVID.

In terms of full year 2020 we expect Global Gas & LNG to deliver an adj EBIT in the range of 0.2 bln euro and FCF of 0.3 bln euro due to lower optimization opportunities in the fourth quarter as they were mainly realised in the first 9 months.

CCS is a key pillar of our strategy of decarbonisation to:

- reduce emissions in “hard-to-abate” industrial segments;
- decarbonize final products; and
- reinforce the role of gas in power generation as the back up partner for renewable energy.

We have already identified two main geographic hubs in Southern and Northern Europe.

The first hub is in Italy, in the Ravenna offshore. Adriatic Blue is the first CCS project in the Mediterranean and one of the biggest in the world with a storage capacity between 300 and 500 Mton. We are exploiting a unique opportunity, thanks to the combination of depleted offshore gas fields, operational infrastructure already in place and proximity to our onshore power plants and other industrial sites. This, coupled with the scale of this project, will allow us to keep costs very competitive and have a fast time to market. We plan to have a demo start up already in 2022, followed by a potential industrial start up in 2026.

The second hub is in the UK, with two main projects:

one in Liverpool Bay, where we plan to repurpose our depleted reservoirs and infrastructure to store third parties' CO_2. This month we have been granted a 6 year license to conduct feasibility studies including G&G and FEED. We plan to take the FID by 2023 with a start up planned by 2025.

The other project is Net Zero Teesside, in the North East of England. The initiative was launched in 2017 by the OGCI (Oil and Gas Climate Initiative), of which Eni is a member.

In addition, we are continuing to invest in Forestry REDD+ projects. The main ongoing activities are in Africa, Latin America and the Far East. For 2020 we expect around 1.5 mln ton of CO_2 equivalent sequestration, mainly thanks to our conservation activities in Zambia.

Exploration continues to deliver strong results, even in a difficult year we have successfully discovered oil and gas in different countries. In particular:

In Egypt, we recently announced two new gas discoveries in the Great Nooros Area in the conventional waters of the Nile Delta and about 10 km North of the Nooros field. The recent discoveries performed in the area, indicates that the gas in place estimate for the Great Nooros Area is now in excess of 4 Tcf.

In Mexico, the Saasken-1 well led to an oil discovery which may contain between 200 and 300 Mbbl of oil in place. It was the sixth consecutive successful well drilled by Eni in the Sureste Basin.

In Vietnam, the Ken Bau-2X drilled in Block 114 has confirmed a significant hydrocarbon accumulation. Preliminary estimates of Ken Bau accumulation provide a range between 7 and 9 Tcf of raw gas in place with 400–500 Mbbl of associated condensates.

In Sharjah (UAE), the Mahani-1 was drilled and tested with flow rates up to 50 Mscf/d of lean gas and associated condensate, just one year after the signature of the Concession Agreement. The size of the discovery will be further assessed with additional appraisal. Expected time to market of this discovery is around 1 year, with start up expected in the coming months.

In Angola, thanks to Agogo 3 well in Block 15/06, we increased by more than 50% the size of the discovery, which is now 1 billion barrels of oil in place with further upside to be tested tested in the Northern sector of the Agogo structure.

Thanks to this track record we confirm our 2020 guidance to discover over 300 Mboe at around 2 $/bbl this year.

Let's turn now to Energy Evolution.

This new business group had a positive result, showing an EBIT of more than 320 mln €, representing 25% of the group EBIT result.

In the Eni Gas and Luce, Power and Renewables segment, EBIT, in the first nine months was 333 million €, almost 60% increase YoY. In more detail:

- Eni Gas e Luce delivered an outstanding result of over 200 mln €, an increase of 37% in the period, driven by the growth of the customer base and the higher contribution from non-commodity activities. Customers grew by 120 thousand compared to the end of 2019.
- Power and Renewables result doubled YoY thanks to higher dispatching contributions, optimisations and strong installed capacity growth +60% versus year end 2019.

In R&M and Chemicals, EBIT in the first nine months was substantially at breakeven thanks to the resilience of marketing activities and bio businesses whilst traditional refining and Versalis were strongly impacted by the weak margins and lower demand.

We expect Energy Evolution to contribute over 0.3 bln euro in terms of EBIT in 2020, confirming Retail and Versalis performance whilst reducing R&M from 350 mln euro to 150 mln euro, as a result of the weaker scenario, assuming a SERM of $2,7/bbl in the fourth quarter.

Turning now to one of our Energy Transition levers, Eni has been the first mover to convert a traditional refinery into a bio refinery using the *Ecofining* proprietary technology and the results are now becoming material.

Porto Marghera, in Venice, the first plant conversion in the world, started up in 2014 and has a capacity of 360 KTPA. From end of 2023, a further upgrade to the plant is set to boost capacity to 560 KTPA, with increased feedstock diversification from food-production waste, animal fats and other advanced by-products.

The Gela bio-refinery in Sicily became operational in August 2019 with a capacity up to 750 KTPA able to process a wide variety of feedstocks, after pre-treatment units start-up by the beginning of 2021.

Our bio refining system will become palm oil free in 2023, with 80% of 2nd and 3rd generation feedstock by the end of 2023, versus 20% today.

The bio-refining activity has proved to be profitable with a contribution of €60m in the first nine months of 2020 and is expected to have an IRR of 15%.

In addition to the current bio-refining activities, we are also advancing on other third-generation biofuel technologies.

After launching in 2018 a waste-to-fuel demonstration plant in Gela, in July Eni Rewind finalized the FEED for our first industrial-scale plant at Porto Marghera, near our Green Refinery in Venice. The plant will treat up to 150 kton/year of organic waste, equivalent to the quantity generated by 1.5 million people and yield bio-oil that can be used directly as low sulphur fuel for shipping or refined to create high-performance biofuels.

Cash generation before working capital was robust at 5.1 bln € in the period. Excluding scenario and Covid, our cash flow would have improved year on year by 1.7 bln €.

9 month cash flow more than covered our capex of 3.8 bln € in the period and generated 1.3 bln € of free cash flow. This is further proof of the capability of our company to react fast and to minimize its financial needs in this difficult period.

For 2020 we confirm cash flow from operations before working capital guidance in the range of 6.5 bln € at 40$/bbl Brent.

Turning now to the successful placement of our first hybrid bond for a total of 3 bln euro.

I would like to highlight that the placement brings a number of strategic benefits, it:

- added a new layer of investors to support our transition plan
- significantly strengthened our balance sheet, with pro forma leverage at the end of September now down at 29%
- supports our strong investment grade rating, and
- further enhanced our liquidity position, which is currently around 20 bln €, almost 5 times our short term debt.

We have achieved a great result with our first hybrid bonds issuance (with demand 7 times higher than our original offer), which demonstrates the capital markets' confidence in Eni's financial robustness and our new energy transition strategy.

And finally the optimization of our portfolio represents an ever present lever to generate growth capital and strengthen the balance sheet.

As part of the transformation we are designing we will:

- dispose of non core upstream assets which no longer fit within our portfolio;
- pursue the optimization of our non-upstream portfolio, including infrastructure and logistic assets
- consider replicating the "Var Energi" model, where we merged our assets with another company to create a dedicated independent entity able to grow and compete nimbly

Thanks to this activity we are working on agreeing gross disposals for around 1 Bln € this year.

To sum up our 2020 guidance.

Notwithstanding the difficult operating scenario and depressed demand, in Natural Resources we confirm our production guidance at 1.72-1.74 mboed and for Exploration to discover over 300 mln boe. In addition, we expect Global Gas & LNG to deliver an adj EBIT in the range of 0.2 bln euro.

Our mid-downstream in the first nine months improved year on year despite the Covid pandemic and for 2020 we see Energy Evolution EBIT at over 0.3 bln euro.

At company level, we confirm an operating cashflow before working capital @ 40$/bbl of 6.5 bln euro vs. net capex confirmed at 5.2 bln euro.

Furthermore we expect to complete on the gross disposal plan of around 1bln euro in the coming quarters and to keep our leverage pre IFRS16 below 30% by year end.

In summary, we have been resilient in the face of the great challenges of 2020. While we expect a recovery in the energy markets in 2021, we are prepared for continued uncertainty. We have a high level of efficiency in our operations, flexibility when it comes to capex, and a strong balance sheet with high levels of liquidity and comfortable levels of leverage.

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

Q3 2020 Q&A Transcript

Eni SpA Earnings Call

CORPORATE PARTECIPANTS

Claudio Descalzi – CEO

Francesco Gattei – CFO

Alessandro Puliti – Chief Operating Officer Natural Resources

Massimo Mondazzi – Chief Operating Officer Energy Evolution

Cristian Signoretto – Deputy of Chief Operating Officer Natural Resources

Alberto Chiarini – CEO Eni Gas & Luce

Luca Bertelli – Deputy of Chief Operating Officer Natural Resources

Guido Brusco – Director Upstream

Stefano Maione – Director Natural Resources Development, Operations & Energy Efficiency (NR-DOE)

Alessandro Della Zoppa – Director Energy Solutions (ESS)

Daniele Ferrari – CEO Versalis

Francesco Giunti – Director Power Generation & Marketing (PWG&M)

Giuseppe Ricci - Deputy of Chief Operating Officer Energy Evolution

Stefano Goberti – Head of Planning and Control

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CONFERENCE CALL PARTICIPANTS

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Oswald Clint – Bernstein

John Rigby – UBS

Irene Himona – Societé Generale

Massimo Bonisoli – Equita

Martin Rats – Morgan Stanely

Alastair Syme – Citigroup

Thomas Adolf – Credit Suisse

Peter Low – Redburn

Biraj Borkhataria – RBC

Bertrand Hodee – Kepler Cheuvreux

Lucas Herrmann – Exane

QUESTIONS AND ANSWER

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

MICHELE DELLA VIGNA, CO-HEAD OF EUROPEAN EQUITY RESEARCH & MD, GOLDMAN SACHS GROUP, INC., RESEARCH DIVISION: Congratulations on the very resilient results. I had two questions for you. The first one is about buyback. At the moment, the share price of Eni is ver depressed, as is, to be fair, the rest of the sector. You have strong leverage, especially after the hybrid bonds. I was wondering why not take advantage of these circumstances to start perhaps earlier than expected the buyback program that would be highly accretive at this level of share prices?

And then secondly, going back to your slide on the carbon capture project. You clearly have a wealth of opportunities here. I was wondering, do you think that the existing regulation in carbon pricing is supportive of good returns on those projects? And what kind of dollar per ton do you expect would be required for good returns as these projects go into full scale?

FRANCESCO GATTEI: Okay. Thank you, Michele. I will leave the second question about CCS to Alessandro Puliti. On the first one about buyback, you know that we prepared the company for this phase. This phase is an uncertain phase. We adapted our distribution policy to a variable element related to scenario, and we consider the buyback above a certain level of pricing. So what we are working is working within this framework.

We are working substantially to enlarge the optionality within the company to ensure that we are able to pay the fixed component of our dividend at a lower price as much as possible. So to work further in optimizing the company performance, the company perimeter, the company efficiency. We work also in additional optimization related to portfolio. We announced today this, let's say, advanced stage of disposal plan. And we reinforced the balance sheet, as we mentioned before.

So we were working on creating a company that is stronger to manage the complexity and the flexibility. All these factors are a part of what, let's say, are the management judgment in terms of dividend and distribution policy. For the timing, I continue to refer to the original plan and to the original remuneration model that we presented to the investment community last summer. And now I leave the reply to Alessandro Puliti for the CCS.

ALESSANDRO PULITI, CHIEF UPSTREAM OFFICER, ENI S.P.A.: Clearly, the economics in this area are all about comparing the cost of the emission and the cost of the carbon capture and storage facilities. Regarding the current situation, we can say that with our projects that are leveraging on existing reservoirs, depleted reservoirs and utilizing at least partially existing facilities, the cost of the storage can be considered compared with the current value of the carbon certificate.

To this, we need to add the cost of the capture. And, clearly, this is subject to an additional cost that can be covered with the future increase of the cost of the carbon certificates or a cost that can be incentivized by the different governments that are interested in putting in place carbon capture and storage policies.

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

OSWALD C. CLINT, SENIOR RESEARCH ANALYST, SANFORD C. BERNSTEIN & CO., LLC., RESEARCH DIVISION: First question, Francesco. Just coming back to biorefineries and strong performance in the quarter. And you talked about in the release about satisfying strong demand. Could you quantify the sort of demand growth you're seeing for those biofuels, just math -- or at least numerically? And is that -- that's being sold into transportation or kind of into fuels marketed blended with transportation fuels. Is that correct?

And then even in your retail marketing, I note your sales were back up to 2019 levels. Is there anything going on there in retail marketing in terms of incentives? Or, it's just the lack of lockdown in the summer and then people driving again?

And then, my second question is just on Mozambique. It seems like the consortium is going back again for some lower costs on Mamba and ultimately delaying that FID. How much more do you think you can get off the CAPEX of this project? And when can we expect an FID? Most likely 2022 at this stage. Is that right?

FRANCESCO GATTEI: Okay. Thank you. I forward your message or your question, the first one to Ricci and the second one to Puliti.

GIUSEPPE RICCI, CHIEF REFINING & MARKETING OFFICER, ENI S.P.A.: Hello. About the increase of the biofuel demand, we say that the strong demand is driven by the ambitious decarbonization mandate over Europe due to the rule of RED II. That foreseen in the year, the increase of the renewable in the transportation. 100% of the bio-products are used in the transportations.

And we expect the further growing the demand in the next future because of the recent announcement by the European Commission, confirmed by the Parliament, to increase the GHG saving targets to 2030. That, in part, will be attributed to the transport renewable components. Just to do an example, we see that in the last year, the HVO, the Hydrogenated Vegetable Oil, demand in Germany, only in Germany, increased ten times.

FRANCESCO GATTEI: Alessandro for the Mozambique.

ALESSANDRO PULITI: Okay. Regarding Mozambique, in this new environment, the operators are optimizing the development plan, maximizing synergies with Area 1 and exploiting other opportunity, including the potential cost reduction related to the current lower cost market situation.

Therefore, the FID that originally was expected in 2020 is postponed. And an updated project and the new FID date will be defined based on the results of this cost optimization phase. And probably in the next strategy, we can be more precise when this exercise will be concluded.

OPERATOR: The next question comes from Jon Rigby of UBS.

JONATHON RIGBY, MD, HEAD OF OIL RESEARCH AND LEAD ANALYST, UBS INVESTMENT BANK, RESEARCH DIVISION: A couple of questions please. The first is on what the old gas and power segment - I realized it's being broken down now - But, I think you're retaining the legacy guidance, but it seems to me is that in the first three quarters, you've hit that guidance. So implicitly, you are saying no money to be made in that business in aggregate in the fourth quarter. Just to confirm that's correct.

And just then to sort of follow-on to say, well, if LNG markets, as they look to be doing, are improving, and historically, seasonally, 4Q is typically better, could you just walk me through what changes into the fourth quarter that would generate the worst quarter for EBIT from those businesses for 2020, which would look quite unusual.

The second question. I wonder whether you could sort of pick apart or give a bit more guidance on the one billion EUR of disposals that you're now looking at. I think you seemed to say in the presentation that you link that to some sort of green growth agenda partnership, etcetera, if I heard correctly. Is that right?

FRANCESCO GATTEI: About the gas and power results and LNG, everything is clear. I just would like to understand better your last question. I missed what you were referring to.

JONATHON RIGBY: Yes. I mean, if you're able to just go back in a little bit more detail on the one billion EUR that you've identified for disposal, just to clarify that in a little bit more detail. You did talk about it, but I just wondered whether you are able to give a shine a little bit more light on what's happening there and where that's likely to come from.

FRANCESCO GATTEI: I answer to the disposal question. Then about the gas and power, I can confirm that we kept the same guidance. And you are correct in saying that we have achieved already in this nine months the results that we are planning for the year. Then I will leave to Cristian to answer to the last quarter performance we are expecting and also which is potentially the upside eventually that could be linked to the LNG evolution.

Now coming back to the disposal. Clearly, we were referring to a one billion EUR, let's say, plan of disposal. It's actually a negotiation activity or a tender activity that is in a very advanced stage. You have already probably seen in the news something related to Australia, but also there are other assets that are under discussion. And therefore, we are deciding to disclose this plan.

Clearly, disposal optimization and focusing of our portfolio will be a material part of future plan of Eni. We have to, let's say, to move our positioning from certain area, noncore areas, to growing opportunities to the transition businesses. And therefore, this is the kind of activity we are targeting, various upstream assets, and that is part of the future plan.

About the LNG and the gas for the fourth quarter, now I'll leave the floor to Cristian.

CRISTIAN SIGNORETTO, CHIEF GAS & LNG MARKETING & POWER OFFICER, ENI S.P.A.: Thank you for your question. So on the fourth quarter, I think the most relevant issue that we have to face is the fact that in the first nine months, we have been able to capture most of the value out of our optionality. So we front-loaded our, let's say, options capturing. And so in the last quarter of this year, we have actually less opportunity to be capturing to the market.

And if you add on top of that the fact that the spread, PSV-TTF, which is an important element in our, let's say, capturing opportunities is fairly depressed and is expected to be depressed in the fourth quarter, this actually adds to my explanation.

On the upside side, it's true that the LNG prices have been increasing the last actually days. And yes, we are capturing part of that upside. But also, you have to understand that most of our, let's say, sales already, let's say, locked into long-term agreements. So we have some spare opportunities, but there are not yet many. And if you sum up, let's say, all these elements, we think that the guidance of around 0.2 billion EUR should be, let's say, confirmed.

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

IRENE HIMONA, EQUITY ANALYST, SOCIETE GENERALE CROSS ASSET RESEARCH: I had 2 questions, please. So firstly, thinking about working capital movements in the fourth quarter. I wonder if you can give us some guidance on that.

And secondly, in the downstream, your new guidance includes ADNOC pro forma. I wonder if you can let us know what is included in that guidance for ADNOC. So we have the, let's say, EBIT as reported on a like-on-like basis. And also, in the downstream, can you tell us what EBIT your marketing business generated in Q3, please?

FRANCESCO GATTEI: Okay. About the working capital movement, you remember that last quarter in the second half, we announced a change and expected, let's say, absorption of working capital in the range of 600 – 700 millions EUR. Actually, we are now assuming a lower performance. The lower result is mainly related to the downstream business. The downstreams mainly are referring to refining and chemicals. Clearly, a suffering of, let's say, lower pricing and therefore, lower value on what you are planning and lower demand. And therefore, your capability to absorb working capital will be lowered.

You made a question about ADNOC. The performance of ADNOC in the third quarter is minus seventy million EUR. This is including both the refining and trading. About the contribution instead of marketing in the retail market on the ninth month, you can consider something just a bit above 400 million EUR in terms of EBIT.

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

MASSIMO BONISOLI, ANALYST, EQUITA SIM S.P.A., RESEARCH DIVISION: Welcome back, Francesco. I have two questions. One regarding Libya. If you can give us an update on that country. What are the operating conditions of the facilities there? And how much of the Libyan production is included in your volume guidance for 2020?

The second question is related to the CCS projects in UK. If you could elaborate on the CAPEX related to those projects? And if they were included in your CAPEX plan presented in summer?

FRANCESCO GATTEI: Thank you. Thank you, Massimo. I leave the answer, both to Alessandro Puliti.

ALESSANDRO PULITI: Okay. Situation in Libya. I will first give you the numbers. So Libyan production, it accounts for around 170,000 barrels of oil per day equivalent in our 2020 guidance. And regarding the operational situation, we are operating, I would say, in a normal manner, all our gas fields. And the situation on the oil fields that were subject to the blockade is certainly improving.

On the 22nd of September, NOC announced the lifting of the force majeure. And the production of Bu-Attifel field were started on the 19th of October, and the El Feel field restarted on October 26th. So now all the fields in which we have an interest in Libya are in production.

Regarding the CCUS in the UK, we have been recently awarded by the license. And for the time being, we are carrying basically capital only for studies. As long as the project will be defined, then will be defined the capital amount necessary for the transformation of our Liverpool Bay assets and depleted reservoir into CO_2 storage reservoirs.

OPERATOR: Our next question is from Martijn Rats of Morgan Stanley.

MARTIJN RATS, MD AND HEAD OF OIL RESEARCH, MORGAN STANLEY, RESEARCH DIVISION: Yes. I only have one left. And I'd recognize this might be a little bit of a tricky one, to be honest. Last quarter, we spoke, of course, a lot about the dividend. And I do remember at the time, the indication was very clear that the floor dividend was sort of contingent on sort of 45$ Brent. And I wouldn't expect to see a major revision already sort of so soon after the previous major revision, but we're not at 45$, and frankly, we may not be there for another couple of months or a couple of quarters to come.

So I was wondering how you would suggest we sort of think about that comment that the floor dividend is dependent on 45$. And over what time would actual oil prices need to sort of divert from that before you would start to think about the dividend again?

FRANCESCO GATTEI: Martijn, I think this is a very good question. I think that what is important for us, we are now in the center of a crisis that, let's say, has various runs. And we cover the first runs. Now we're entering in the second runs, etc. But what is important for us is to exit each runs faster and stronger.

So, what we did in the past months was substantially to equilibrate the company. So the cash needs was rebalanced. To reinforce the balance sheet with the hybrid bonds, we add a dilution layers. So we kept the leverage under control. And we are opening now additional flexibility. We have portfolio opportunities. We have additional CAPEX flexibility. We have cost opportunities, reducing and slimming the company in certain segments and certain activity, also taking into account of the new opportunity of working that is related to the smart working. So there are various segments that we are working on that.

So from what we consider is that the 45$ reference. This 45$ can be lowered. Is in our, let's say, plan in our efforts to lower this level even further. We have an additional capability or flexibility to reduce eventually, if necessary, CAPEX postponing FID, and we have a larger flexibility in terms of liquidity. We have 20 billion EUR of liquidity. So I think that in the current situation, even if our crisis is longer, we have a lot of tools in our arch that could be used to defend the 0.36 EUR and to bring this rate of 0.36 EUR sustainable even at lower price.

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

ALASTAIR RODERICK SYME, MD & GLOBAL HEAD OF OIL AND GAS RESEARCH, CITIGROUP INC., RESEARCH DIVISION: This is not really a third quarter question, but it's just more of strategy. You know, Eni has been pretty bold in the last couple of years on the energy transition. And one of the things that's happened in recent months is the markets got very excited by hydrogen. And it's not something you guys have really set a huge amount other than perhaps what you're doing in the refining system.

So I guess, the question to you, do you think the market is getting ahead of themselves? Or how do you think about this business opportunity and how you can compete?

FRANCESCO GATTEI: I think that I will pass this answer to Massimo, who is clearly in charge of all the activity related to energy transition. And thus, as I say, the right information about the hydrogen trends and expectation.

MASSIMO MONDAZZI: Hydrogen for sure would be a quite important new product in our future, mainly thanks to the CCS opportunity that we have that has been already commented by Alessandro because today, throughout the CCS, definitely, we could generate hydrogen, decarbonized hydrogen, at a very, very competitive price versus the green one. And we see such an application potentially in Italy. We see the application in UK, and that's where in the world looking forward in which we could replicate the same scheme that we are applying in Italy and the UK. So maybe production of gas, gas to hydrogen with CCS for sale of totally decarbonized hydrogen.

This is really important also in terms of timing because we see certainly, and we are working on the green hydrogen, thanks to our significant expansion in the renewable. But definitely, we see the blue one coming first opening up the marketing. And so the green hydrogen, when it comes, definitely could benefit from the work that has been done on the regulation, on the demand creation in the different markets.

ALASTAIR RODERICK SYME: And last, can I ask when you speak to regulators and politicians in Italy and the UK and in Europe, do they understand that sort of blue hydrogen has to come first and there's green hydrogen is longer down the road?

MASSIMO MONDAZZI: But discussions are taking place because, as you noticed, it's a brand-new item on the table. So we are passing some information to them based on our own experience as the others are doing. But I'm really confident that we can get there because like on like, it would be a quite similar process that took place when the renewables took place.

So the necessity is some way to create a new market, to create a new regulation, in this case, could be a bit more complicated because electricity could be transported throughout the existing grid, while on hydrogen, maybe you would need a specific transportation asset. Unless as it could be the first stage, the first companies taking benefit from the blue hydrogen would be close to the production itself of this hydrogen. So I'm thinking about the act to abate sectors that definitely would be the first beneficial counterparty of this new product.

OPERATOR: The next question is from Thomas Adolff of Credit Suisse.

THOMAS YOICHI ADOLFF, HEAD OF EUROPEAN OIL & GAS EQUITY RESEARCH AND DIRECTOR, CREDIT SUISSE AG, RESEARCH DIVISION: I have three questions, if that's okay. Just firstly, on the refining business. When you presented your strategy at the start of the year, you've mentioned that your refineries in Europe, your plans are to convert them into green sites over time. Now obviously, the refining cycle has turned, and refining margins are in this depressed territory and probably going to stay there for some time to come. Are there any plans for you to perhaps accelerate that process of converting refineries into bio sites? Maybe selectively one may be earlier?

And just kind of linked to refining still. Obviously, you made a very big investment one year and half ago in the UAE buying a stake in ADNOC, and you've generated another loss this quarter, a very big one, minus 77 million EUR. I'm not sure if your views have changed on refining more recently. We've seen some of your competitors lower the refining margin estimates and taking a big impairment charge. Is this still an asset where you say you paid a fair value?

And then my final question is just on the disposal plan, the 1 billion EUR that has emerged out of the blue. If you kind of compare to what you've said in the past. What do you first mean by gross disposal thing? What is this meaning of gross?

And then secondly, is there anything else in the [hop] a bit that you're looking to monetize maybe in 2021, so we can expect additional disposals?

FRANCESCO GATTEI: Thank you, Thomas. I will leave the question about the refining to Massimo. I will answer to the disposal. In terms of gross, we think before taxes, mainly before taxes. So substantially, that is the value of the asset that we are selling and that each one could have a different fiscal component.

On 2021 disposal and future plan, clearly, we are preparing. We are working on the future plans. And therefore, we are not yet ready to announce, to disclose, also because it's part of a more wider strategic, let's say, program and sure there will be many, many opportunity to dispose. You know very well that M&A portfolio, sometimes works with, let's say, a trial and error approach, you have various assets, various opportunities, some are, let's say, achieving the results within the time frame. So, that is the plan for the disposal.

About the refining business, the conversion to biorefining and the EAU investment, I will pass the word to Massimo.

MASSIMO MONDAZZI: Talking to the biorefinery, the answer would be yes. So, we announced a 5 million tons of target capacity by 2050 without specifying any interim result. But considering the very good results that we are achieving plus the significant market that we see is going to be opened up, including the bio-jet opportunity that could come in the very next years, certainly the idea of the transformation could be accelerated. On this regard, I would say, next strategy presentation, we definitely will give you an updated vision on this.

Talking about ADNOC, I would say, the negative result this year has been driven by two main results. First of all, you may remember that ADNOC suffered an accident at the FCC plant in 2019 that keep on recording negative effect in 2020. So the first cause of the negative result is this one. And second, that definitely is the deep significant downturn that is touching the worldwide refining system. Having said that, we remain convinced that the other refinery is a very strong, healthy facility with the capability to resist in a normal ongoing condition better than other assets.

So definitely, we are making the difference between the European capacity. And so the conversion to the bio-refinery versus such an international, I would say, Far East investment that is benefiting from a more positive situation. So we are convinced and we see the possibility, the high probability to recover very, very soon and to resist to this negative wave to be in the condition to turn to a positive result as soon as the demand will return to a more normal situation.

THOMAS YOICHI ADOLFF: Massimo, obviously, 3Q was a quarter where the FCC was operating normally. And it was just industry refining margins being weak in the quarter. In that context, did ADNOC actually lose more money in absolute terms than your European refining business, which is obviously, has a lot more capacity than your equity stake in ADNOC?

MASSIMO MONDAZZI: On this, maybe we can give you additional detail. But the third quarter has been absolutely the worst. So this is, I would say -- I wouldn't say that this is a source for changing our mind on this. I confirm what I just said in terms of potential prospectivity forward.

OPERATOR: The next question is from Peter Low of Redburn.

PETER JAMES LOW, RESEARCH ANALYST, REDBURN (EUROPE) LIMITED, RESEARCH DIVISION: Firstly, just on the 2020 CAPEX guidance. You seem to be annualizing well below thE 5.2 billion EUR guidance, especially looking at the run rate over the last 2 quarters. Is there any reason why CAPEX should step up meaningfully in 4Q? Or is there a good prospect to come in below that level?

And then the second was just another follow-up on the bio-refineries. You've talked about the strong performance, but utilization is still quite low. It's just 53% in the quarter. Is there any reason why they're not running at higher utilization levels?

FRANCESCO GATTEI: About the CAPEX, I think that you could not extrapolate a linear model. I think that it's part of the activity, FID's postponed an activity here to consider that the second and third quarter were extremely light in terms of activity because of the COVID.

You remember the operation, we stopped the drilling, we stopped exploration in the fourth quarter. You could have a partial, let's say, recovery of activity at the end of the year. So it cannot be considered, let's say, on a quarterly basis. The second question, sorry?

PETER JAMES LOW: Yes. It was just -- you've talked about the strong financial performance in the bio-refineries, but the utilization level has been quite low, just 53% in the quarter. I was wondering why you weren't running them at a higher utilization level if the demand was that.

FRANCESCO GATTEI: This is -- I will leave to Pino Ricci, mainly related to the ramp-up of Gela and Venice maintenance, but I will give to him to answer the detail -- the detailed answer.

GIUSEPPE RICCI: Many thanks, Francesco. In fact, in the third quarter, we had the the planned maintenance in both the bio-refineries. And this is the reason because the service factor has been so low. In the fourth quarter, we expect to increase the service factor up to 80%. We have to consider that Gela refinery is still in ramp-up, and the overall production done in the nine months is, in fact, more than 0.5 million tons per year. That is 60% more than last year. And we expect to have a continuous increase in the ramp-up, up to the maximum capacity.

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

BIRAJ BORKHATARIA, DIRECTOR, CO-HEAD OF EUROPEAN ENERGY RESEARCH TEAM & LEAD ANALYST, RBC CAPITAL MARKETS, RESEARCH DIVISION: I just have a follow-up on the bio-refinery. I recalled the cost of the Gela conversion was about 300 million EUR for, I think, 750,000 tons. And as you look forward to the next wave of conversions and the expansion you're talking about, can you say anything about how you're expecting costs to come down relative to the initial conversions? Or are those sensible figures to use for the expansions going forward?

FRANCESCO GATTEI: Pino, sorry, you have to reply again.

GIUSEPPE RICCI: The cost of conversion of refinery is very low because what we have done in Venice in Gela is in the range of 400$, 500$ per tons of capacity of investment, just because we have transformed existing refining, reusing existing assets. In case of a further investment, it depends of the type of investment that we will do. We expect to follow both solutions, brownfield or greenfield, depending to the condition and the area where we will realize the new bio-refineries.

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

BERTRAND HODEE, HEAD OF OIL AND GAS SECTOR RESEARCH, KEPLER CHEUVREUX, RESEARCH DIVISION: I have one left. Can you give us a feel of how your unit OPEX in upstream are trending so far in 2020? If I go to the 2019 level, it was around 6.1$ per barrel. And wondering if you can disclose what level you are over nine months or in Q3. And could you expect some further decrease? Or on the contrary, because of portfolio mix or COVID events, it is a bit different?

FRANCESCO GATTEI: Yes. Thank you, Bertrand. In terms of unitary OPEX, you have to consider that the portfolio mix with the acquisition, with the contribution of Norway as a bit improved in terms of increase. In terms of OPEX, the current level of OPEX is in the range of 6.5$ – 6.6$ per barrel.

You have to consider that also the reduction of production has, let's say, a negative impact because it is adding a fixed component that is worse in the unitary element, the unitary value. The trend was to increase to 6.8$ due to the COVID so to the lower production, but we were able to contain in the 6.5$ to 6.6$ range.

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

LUCAS OLIVER HERRMANN, HEAD OF OIL AND GAS RESEARCH, EXANE BNP PARIBAS, RESEARCH DIVISION: Question on Zohr and Egypt, if you don't mind. Can you just remind us where production is at Zohr now? How it's profiled to date? And what your expectations are as we go into next year, assuming that export markets for LNG look or continue to, let's say they continue to appear more robust than might have been the case nine months ago.

FRANCESCO GATTEI: Thank you, Lucas. I leave now the answer to Alessandro Puliti.

ALESSANDRO PULITI: Okay. So Zohr will average in 2020 at the level of 2 Bcf per day in terms of production, while in the third quarter, the average is 2.2 Bcf per day increasing. We see an increasing demand from the export side in Egypt. Clearly, this is linked to the winter time. So we expect production in the near term for Zohr to further increase.

LUCAS OLIVER HERRMANN: And where is capacity at the moment now? Are we up north of 3 or?

ALESSANDRO PULITI: The price? The price of -- the gas price for Zohr, you mean?

LUCAS OLIVER HERRMANN: No, no, no. I'm sorry. I meant, what's the production capacity?

ALESSANDRO PULITI: The production capacity, a full production in Zohr can produce 3.2 Bcf per day.

LUCAS OLIVER HERRMANN: Okay. And do you want to make any comment on when you think you might be running at capacity?

ALESSANDRO PULITI: Running at capacity, we required a full recovery of the demand in Egypt and also an improvement of the export capacity. So we can see it in a couple of years ahead of us.

FRANCESCO GATTEI: Okay. I think that we are finished. I don't know if this is the last question. Otherwise, thank you very much, and let's see what's happening in the near future. All the best to all of you.

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