2020 1Q Results

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Presentation

Speaker:

Claudio Descalzi – CEO

Good afternoon and welcome to Eni's 2020 Update and Q1 2020 Results.

We are going through unprecedented times, with the recent collapse in commodity prices caused by the twin factors of the Covid-19 pandemic and supply glut.

In facing this scenario, Eni is stronger than it was in the last downturn in 2014, because in the past six years we have transformed the company into a leaner and more efficient organization, with a robust Upstream, a restructured Mid-Downstream and a solid balance sheet.

Overall, these actions, coupled with cost and capex reductions, have more than halved our all-in cash neutrality, whilst reducing our net debt.

Today, in facing this new challenge, we are taking a number of initiatives that will further strengthen Eni both operationally and financially.

We are assuming the lockdown until the end of May and then a gradual demand recovery towards normality by the start of 2021.

In the coming slides I will detail our action plan for 2020.

In these particular circumstances, all our actions are being based on the following priorities.

People are always at the centre of our strategy, and even more so now. Every decision we make is for the health and safety of all our employees and of all those that work with and around us.

On top of this, we are taking strong actions to reduce our costs across the business and deferring projects without impacting long term value.

In our operations we will focus on preserving the integrity and continuity of our assets, safely. To date we have had no interruptions as a result of Covid-19.

We consider that our low-cost resources and flexibility across all businesses are distinctive competitive advantages, which we will leverage to keep our balance sheet strong, whilst we maintain significant liquidity to pass through the weak scenario.

This year we will fully leverage the flexibility in our portfolio to reduce our capex by 2.3 bln €, equal to around 30% of the total annual Capex originally planned, or 40% over the last three quarters of the year.

Over 80% of the capex reduction is from Upstream, where capex rephasing affects mainly new development projects by 35% and production optimization by 20%.

Also exploration has been reduced, while in the other businesses we have optimized maintenance and logistics capex.

Our portfolio is both resilient and flexible. The production optimization we have postponed can be restarted quickly, as soon as appropriate market conditions appear, and related production will be recovered accordingly with limited loss of value.

In addition to the investment cuts, we are carrying out a strong cost efficiency programme in all our businesses and corporate functions.

We expect an overall benefit of around 600 mln € in 2020, with around 40% of the savings coming from the Upstream, with reductions mainly in opex and g&g costs. And the remainder across all the other businesses and the corporate.

Our production cost notwithstanding the lower production this year is being optimised further, and we expect to keep it just below 6 $ per barrel confirming our competitive position in the sector.

Production in 2020 is expected to be around 1.75 to 1.8 million barrels of oil equivalent per day, before the OPEC+ cuts that are still unknown at field level.

The lower production versus budget is two thirds as a result of capex cuts and Covid-19. And one third for lower gas demand mainly in Egypt, and for force majeure in Libya.

A contingency of 40 kboed is still retained in our projections.

With capex at around 4.3 bln €, we expect to generate free cash flow of 1.5 bln € in a 45 $ a barrel scenario.

The 2020 organic FCF of 1.5 bln € shows a reduction of 2 bln € versus the original budget of 3.5 bln € at 60 $ Brent. The weaker scenario accounts for minus 3 bln €, while the actions we are taking to counteract the turmoil will result, even considering the lower production, in a positive effect of around 1 bln €.

To evaluate different scenarios our free cash flow sensitivity, based on our current outlook, is 180-190 mln € for each dollar move in Brent.

And now let me focus on the mid downstream businesses.

R&M has been the most affected by the virus containment measures, with a contraction in transport fuels consumption of up to 80% in the worst weeks of the pandemic. Oil products demand is expected to gradually recover with the easing of restrictions and the restart of industrial activities.

We have optimised maintenance at our refineries, and we are continuing to run them at reduced operating levels. Overall we expect a yearly utilization rate at around 80%.

In Marketing, despite falling oil products demand, we expect EBIT in 2020 in the range of 300 mln €.

In Gas & Power we expect to record around 400 mln € of EBIT, with almost two thirds coming from the resilient retail business.

In Versalis we expect to reduce losses by around two thirds versus last year, thanks to a supportive scenario for steam cracking, more than offsetting Covid related demand weakness, in particular for elastomers.

Overall mid-downstream is expected to contribute over 600 mln € of EBIT, slightly better than last year, notwithstanding the significant impacts of Covid. This expected result, when excluding Covid effects, will also exceed the original 2020 budget that was around 1.3 bln €.

Moving now to the group's cash position.

Cash flow from operations before working capital is expected to be 7.3 bln € in our revised 45 $ Brent scenario.

The reduction versus the original budget of 11.5 bln € at 60 $ brent is due to 5 bln € of reductions made up of scenario effects, Covid impacts and remodulated production, partially mitigated by 0.8 bln € coming from the combination of cost savings for 0.6 bln € and better performance for 0.2 bln €.

The expected CFFO will more than cover the revised capex budget of around 5.5 bln €.

Turning now to our Q1 results.

In response to the Covid-19 pandemic we immediately put in place safety measures worldwide, to protect our people and all those around us.

In addition, Eni has launched a series of initiatives to help local stakeholders in the areas in which it operates, and has also made its supercomputer HPC5 available for Coronavirus research.

Turning to the business:

Exploration continued to have success.

In Angola Block 15/06, the Agogo discovery's oil in place was upgraded to 1 billion barrels, as a result of the second successful appraisal well.

In Mexico, the first well drilled in the Block 10 resulted in an oil discovery containing up to 300 million barrels of oil in place. Several prospects have been identified nearby, and in case of success, they can be clusterized in a common development project.

In Sharjah Area B we drilled the first well, discovering gas and condensates in just one year from signing the block. The well has been tested with excellent flow rates that already proved the commercial viability of the discovery.

Upstream production was 1.77 Mboed, -4% Year on Year, impacted by lower gas demand, together with the effects of contractual triggers, and force majeure in Libya. These effects more than offset the increased production in Norway.

G&P performance proved to be robust, notwithstanding the weakness of the LNG market.

In R&M the improvement was due to both Marketing and Refining, which in particular benefitted from an enhanced industrial configuration and the higher contribution of the bio business.

In the renewable business, in March we started the 50 MW Badamsha wind farm in Kazakhstan, and we have completed the acquisition of 49% of the Falck portfolio in the US (57 MW Eni share).

In the first 3 months of 2020, we generated 2.0 bln € of cash flow from operations before working capital, in reduction versus last year mainly due to the lower oil and gas scenario, but matching our Capex requirements.

Our balance sheet is strong, and we can rely on 16 bln € of liquidity to face the slowdown of activities related to the pandemic.

In terms of economic results, Upstream EBIT in Q1 was 1 bln €, impacted for 1.1 bln € by the lower oil and gas prices.

On a comparable scenario basis, upstream EBIT was resilient notwithstanding the lower production volumes.

Moving to Mid-Downstream, the overall results improved by 40%, or 85% excluding the Covid impact.

G&P EBIT was robust at 430 mln €, up almost 30% Year on Year. This result was driven by the GLP business unit, with 270 mln € of contribution, thanks to contract optimization and a scenario of positive spreads between the European hubs. This positive performance was only partially offset by the lower contribution of the LNG business, related to the weakness in the Asian markets.

In retail, Eni Gas e Luce delivered a result of almost 160 mln €, driven by the addition of almost 250 thousands customers and the higher contribution from non-commodity activities which offset the sales reduction linked to the virus, milder weather conditions and increased expected default by clients.

Refining and marketing was at 80 mln € despite the challenging scenario. In particular, the refining business benefited from the optimization of industrial assets, lower operating costs, and from the positive contribution of the bio business thanks to the Gela plant ramp-up. The marketing result helped counterbalance the demand reduction related to the lockdown measures.

Finally, the Versalis result was impacted by depressed demand, in particular in the automotive, building and construction sectors and by competition from US producers.

Turning now to the cash position, in Q1, adjusted cash flow from operations before working capital was 2 bln €, matching our capex requirements.

Excluding the scenario, Covid and non-cash derivative effects, cashflow would have improved year on year by 200 million €.

The balance sheet remained robust with leverage at 28%.

To sum up:

We have taken actions in terms of capex, cost savings and remuneration, through the suspension of the Buyback, to recover 3.3 bln € versus our original plan this year.

In this new environment affected by the pandemic, with the consequent revised plan, we expect to produce between 1.75 and 1.8 million boe/d with the flexibility to reactivate production as the scenario improves.

Our mid-downstream will continue to improve year on year despite the Covid pandemic.

We will maintain sizeable reserves of liquidity which are currently around 16 bln €, three and a half times our short term debt.

Together, these actions will allow us to navigate the challenging scenario, whilst we maintain the highest standards of safety at work.

We are now ready to answer your questions.

Q1 2020 Q&A Transcript

Eni SpA Earnings Call

CORPORATE PARTICIPANTS

Claudio Descalzi – CEO

Massimo Mondazzi – CFO

Alessandro Puliti – Chief Upstream Officier

Giuseppe Ricci – Chief Refininig & Marketing Officier

Cristian Signoretto – Chief Gas & LNG Marketing & Power Officier

Andrea Quaggia – VP Investor Relations

CONFERENCE CALL PARTICIPANTS

Oswald Clint – Bernstein

Michele Della Vigna – Goldman Sachs

Alessandro Pozzi – Mediobanca

Thomas Adolf – Credit Suisse

Lydia Rainforth - Barclays

Jason Kenney – Santander

Irene Himona – Societé Generale

Martin Rats – Morgan Stanely

John Rigby – UBS

Cristian Malek – JP Morgan

Biraj Borkhataria – RBC

Peter Low – Redburn

QUESTIONS AND ANSWERS

OPERATOR: The first question comes from Oswald Clint of Bernstein.

OSWALD C. CLINT, BERNSTEIN: Thank you very much Claudio, thank you for getting onto the call in these tough times. So my first question, please. Thank you for the updated guidance here on 2020 cash flow. You're obviously using $45 for the year. It looks like the market has really gone to $35 for the year. So you've given the sensitivities quite clearly today, and obviously, your cash flow would just cover CAPEX, therefore, for 2020. So obvious question, but could you just talk about how you think about sustaining other distribution -- kind of other distributions like the dividend at such a price level if it was to happen?
Secondly, just on the downstream, pretty impressive Q1, with the operational improvements coming through offsetting some of the COVID demand impacts. But could you just talk about 2Q so far in terms of gasoline, diesel, jet fuel? And just whether you think some of those operational improvements might also come through to offset some of that demand weakness once again in the second quarter, please? Thank you.

CLAUDIO DESCALZI.: Thank you. So about the first question, I think that to talk about dividend, and what we are going to do with the dividend is not time now because the pandemic and the glut started just one and half months ago. So I think that we have to continue working, first of all, on the optimization of our CAPEX, OPEX, G&A, all the possible optimization that we can do in our structure. We act very rapidly. We started immediately the first week of March. We have the first revision in March 19 and then, less than 10 days ago, we finalized the revision that we presented today, and we are continuing to fine tuning and also execute this revision in our subsidiaries. So we will see in the next couple of months how the COVID-19 will evolve in our assumptions also in terms of price and in terms of COVID-19 within that -- by the end of May, the critical phase is finished, so we start gradually to recover the consumption and go through a possible new normal situation by the end of the year. So we will see what is going to happen in May and June and July. And in July, we can update on the dividend.
We run different scenario, clearly. We don't -- we didn't just run $45, we run $40, we run $35. We still have flexibility, clearly, flexibility in the cost reductions. And it's something that we can apply if this scenario remains less attractive than what we thought at the beginning, $45. And then we will -- can think about the dividend, but not now because we -- it just happened. We don't want to react immediately before having a clear idea of what we can do in terms of efficiency inside our company.
For the question about refinery, it’s true refinery worked very well. We can say that the bio refineries were very positive both in Venice and Gela. From an R&M point of view, we worked a lot of cost efficiency on the logistics, on the stocks, and we can have some additional improvement on that. Also if now the situation in March was, I think, the most critical in terms of transportation and consumption because during the week, we had an average of 70% reduction and about 80% during the weekend. Now it's improving. So the good news that is improving, some percentage point, but is improving. So we are following up, and we'll see what is going to happen in May.
We think that in May, the situation in terms of transportation and consumption will be better, especially for gasoline. Diesel consumption was, I can say, good also during this period because the heavy truck continued to work for transport materials and food, so that was less impacted. But I think that we can recover also on gasoline.

OSWALD CLINT: That's very helpful. Thank you.

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

MICHELE DELLA VIGNA, GOLDMAN SACHS: Thank you very much for taking my question and Claudio, congratulations and best of luck for your new mandate. I had two questions, if I may. The first one is around the CAPEX and OPEX cuts. I was wondering if -- how much in your mind is cyclical and just belongs to this really difficult time in the market? And how much do you think could be sticky even at the time of a recovery? We've seen before how the industry in difficult times manages to put through cost cuts, which actually then can become quite sticky even after the price recovers?

And then my second question is about price dislocations. We are seeing a lot of dislocation in the physical crude markets. And I was wondering, through your business, where perhaps you see realizations really starting to diverge versus Brent? Thank you

CLAUDIO DESCALZI: So I answer about the -- maybe with the help of Sandro, but what you asked is right that the cyclicality -- if this kind of situation is cyclical or how we can manage this kind of up and down in our upstream business in terms of prices. And then maybe about prices in diverging between Brent, I don't know, if Massimo or Pino can answer. I give them time to think about, and I'll answer to the first question. So Michele, in the last 6 years, we had a very low price. We were up and down. But for that reason we started already before, but we changed also our way of developing fields and all of our way how to select the field that we want to develop, I try to explain better this -- what I mean. First of all, as you know very well, we put a lot of focus on the exploration to be very resilient in term of cost because our exploration cost is less than $1 per barrel. So, we start from a very strong basis. Then we started working on short cycle. What I mean for short cycle? Also for big projects, we start working on Phase 1, Phase 2, Phase 3, to be able to capture with a very good time to market the cash flow return, the return on the project. So, we don't do any more the giant, supergiant projects, where we put all the investment upfront, and then we start recovering. Because of that reason, because today we can have $60, tomorrow $80 and then we can jump down to $30. So you must be very, very fast in your development.

Clearly, the world need energy. Until December, the […] consumption was at [100 million], [120 million] barrel per day on yearly average. So we need oil, we need gas, we need energy. So we have to adapt ourselves, and we must have the flexibility to be able to be inside this short cycle. For that, you must have the right asset and also the right strategy in terms of development and the geography where you are to exploit, at the maximum level, your position and the position of your consumers -- so your customers, we can say. So that is my answer to your question. Now I give the floor to Pino to talk about the diverging price between Brent and other crude.

GIUSEPPE RICCI: The volatility of the -- the financial volatility of the crude, of course, we are in a period where in only 1 week, we changed completely the spread between Brent and Ural or Brent and Middle East crudes. And the question is to try to take the maximum advantage of this volatility. Of course, in the last month, we took advantage to buy crude for our refining system with a very good discount on OSP, on the official pricing. And about the equity production, we tried also to maximize the use of our equity production in our refining system in order to avoid to be damaged from the sale of our crude on the market.

MASSIMO MONDAZZI: Okay. If I may add something on this, Michele. So talking about the average price we got in the first quarter, the average has been versus Brent minus 5% versus minus 2.6% that was in the first quarter of 2019. But I would say that the minus 5% is more normal than the minus 2.6% we had last year. You remember last year, the heavier oil had, I would say, a very high quotation on the market because of the first OPEC cuts, Venezuela and so and so forth. Now the minus 5% is more in line with what we have seen in the past, giving some advantage to our refinery system that you remember is quite complex.
In terms of sales, I would like to add that all the forward sales in May has been already placed as far as our equity production. So everything has been sold.

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

ALESSANDRO POZZI, MEDIOBANCA: Good morning all. I wanted to go back to the comment about the flexibility in costs. And I was wondering where are the areas where you can take a bit more decisive actions in the event the oil price remain depressed. I'm asking that because I mean, compared to the last downturn, I think oil majors are much leaner. So potentially, the room for cutting cost may be on the OPEX side may not be that great, and therefore, you have to lean on the CAPEX side.

And maybe a follow-on from that. Can you give us a bit more color on what projects you put brakes on because I think you reduced the CapEx by 30%, and which other projects are still going ahead?

CLAUDIO DESCALZI: Thank you. So I give the floor to Sandro Puliti to answer your question.

ALESSANDRO PULITI, CHIEF UPSTREAM OFFICER, ENI S.P.A.: Okay. Goodmorning. So the reduction in CAPEX was basically allocated for EUR 400 million to production optimization activity, that means on the short cycle, and EUR 1.2 billion that is allocated on the long cycle, the main projects. The main projects that have been postponed are the Rovuma LNG, in Angola our activities in the Cabaça Norte, Agogo, Merakes in Indonesia, expenditure in Iraq in Zubair, some reduction in Egypt, and in the UAE. Those are the main areas where we postponed projects to achieve cost reduction this year.

On top of that, there are EUR 300 million reduction on the exploration activity. So definitely, how we can do more, clearly going -- doing more, we can do even further rationalization in our operation, especially on the operating cost side.

CLAUDIO DESCALZI: Sorry, just to complete, just to give you more color on this, how we can be resilient if the price is lower or what we can do more. You have to think that this exercise of revision of our CAPEX, OPEX and cost generally has been performed practically in 1 month. So we reacted immediately. I said, we started the first week of March, but we can do much more working on with each single subsidiary inside the inner costs. We are a big company. So it's something that we can perform further, and we can optimize and the exercise now finished. We run fast to give immediately, you know, to be immediately in the right side and clearly to impact positively the year. But this optimization is going to continue. But that's the reason we run sensitivity at $35 or $40, and we continue to understand how to optimize it.

So it's something that the budget we prepare, we presented the strategy. We've been working for 5, 6, 7 months. And now in practically 1.5 months, working with all the people starting from top down and then bottom up, we revised. We make an aggression, we have been very aggressive and determinate to do that. And now we continue to finalize. So not just in the upstream. We have several other component where we are looking inside corporate cost and the G&A. So in a broad range of cost that we can optimize and we have optimized also changing organizational structure to be even more flexible and resilient in the future.

ALESSANDRO POZZI: Okay. Just maybe a second one on the tax rate. It's been fairly high in Q1 in upstream, but I guess that's mainly a reflection of the lower oil price. Can you give us a guidance for the tax rate for the rest of the year?

MASSIMO MONDAZZI: So the tax rate targeting $45 per barrel for average this year means a lower oil price for the remaining 9 months. It means that we expect an increase in the E&P tax rate that is correlated to the oil price. So we expect, for this reason, tax rate adjusted for the full year, that would be more or less same level, around 100%, as you have seen in the first quarter.

A different story as far as the cash tax rate, because of the different composition in this environment between deferred taxes and cash taxes, we will project a reduction in cash taxes to be paid. That's the reason why we expect a decrease in the cash tax rate from the 33% we had in 2019 to around 25% in 2020.

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

THOMAS YOICHI ADOLFF, CREDIT SUISSE: I've got a few questions, please. Just firstly, on cash flow. Obviously, cash flow is one thing and working capital is another thing. If you can't sell what you produce, you don't get paid what you sell, then obviously the cash flow would look worse than your base case. So I wondered if you can give some guidance for working capital and how that evolves over the balance of the year?

Secondly, I wondered if you can also give a comment on the supply chain. Obviously, we're seeing major disruptions there. Are you seeing any major issues there that could impact your operations?
And then finally, if I may, just on global gas, you've announced obviously force majeure in Libya. What does that mean in terms of production? You probably have some issues in Indonesia. You've highlighted issues in Egypt. What is Zohr producing there? And what generally is happening to your LNG portfolio? Is your share of spot LNG higher than in 2019?

CLAUDIO DESCALZI: So I think for the cash flow, working capital, Massimo. And then supply chain, Sandro Puliti. And then for the LNG and the gas issue and the force majeure between Cristian and Sandro Puliti, they can answer.

MASSIMO MONDAZZI: Okay. So as far as the working capital, you have seen that we absorbed in the first quarter, EUR 640 million because of the seasonality, but much better than in the first quarter 2019, that contains some, you probably remember, some special item, we paid around EUR 300 million for an arbitration. And definitely, we are taking advantage from the decrease in the prices environment that is giving us an advantage. So we are cashing in bills that we issue in '19 when the oil price and the gas prices were higher, and we are releasing new bills with lower scenario. Projecting what you expect for the full year is a bit complex because all the reasons that you mentioned. So, the market is really volatile. But can I say that taking into consideration what we expect in term of, I would say, an higher probability of default from our clients, mainly in gas and power retail specifically, we can project a cash absorption for the full year, that would be, I would say, in the range of EUR 100 million to EUR 300 million. So let's say, an average EUR 200 million cash absorption for the full 2020.

THOMAS YOICHI ADOLFF: Can I just quickly just follow-up on the working capital. Obviously, the comment you made just now, the release that the LIFO, FIFO effect, right, inventory losses and inventory gains, or the offset in the cash flow. So I was just wondering about the underlying working capital effect, not the LIFO, FIFO.

MASSIMO MONDAZZI: The underlying is more or less stable. So we do not expect a significant change in respect to what we have seen last year, so remaining more or less flat. So out of the -- for the full year, out of the EUR 100, EUR 300 million, so EUR 200 million, I would say, the most important deterioration is linked to the reduced level of cash in from our clients. So if you take this out, we'll be in the range of between 0 and minus 100.

OPERATOR: The next question is from...

CLAUDIO DESCALZI: It is not finished. Now we have other 2 questions to answer. Sandro and then Cristian.

ALESSANDRO PULITI: Okay. Regarding supply chain and disruption due to the pandemic. The pandemic is mostly affecting those activities that requires international support and mobilization, and therefore, we are suspending or we are re-phasing most of our drilling most of our drilling and especially deepwater drilling activities. While on production operation, always with the aim to protect our people, while granting production continuity, we have been able to maintain production level, thanks to the fact that we have a prevalence of local workforce in our producing countries so we are not affected by the blockage of traveling between countries.
And then we also reinforced our - a quarter support where possible, and we have identified critical manpower and optimized HR management. And then we have also improved our supply chain monitoring regarding spare parts to ensure their availability and advanced booking and delivery. Now I'll leave the floor to Cristian

CRISTIAN SIGNORETTO: Yes. Hello, everybody. So when it comes to, let's say, the global gas environment, clearly, we enter in 2020, in which already the fundamentals very weak in terms of supply balance and demand. Just to remind in the first quarter of 2020, there has been 15 million tonnes of more LNG floating around due to the start-up of U.S. LNG trains vis-à-vis last year quarter. Clearly, the lockdown linked to the pandemic has increased, let's say, the weakness of the market due to demand. The reduction we have seen firstly, in China in February, but I have to say that now we see China picking up in terms of demand and actually recovering from that slump. But clearly, Europe has been affected.

So let's say, all in all, this weak market environment has affected also, let's say, our results. But as you can see from the result of the first quarter, our exposure to LNG spot prices are fairly limited. In fact, we are growing our portfolio of LNG and we tried to balance and to manage the exposure to that balance and so our, let's say, exposure to spot prices are not that high. So that's why, you don't see a huge impact on the results.

OPERATOR: The next question is from Lydia Rainforth of Barclays.

LYDIA RAINFORTH, BARCLAYS BANK PLC: Two questions, if I could. The first one was on the strategy presentation. And I appreciate it was only a month ago, and that a lot has changed since then. But does the current crisis that we go through and depending on the duration, change how you think that might evolve? So does it mean that you accelerate some of your energy transition ambitions? Or is it really just too early to think about that?

And then the second one was more of a social question. So can you talk about some of the initiatives that Eni has been deploying in terms of response to the pandemic, giving an examples of the help that Eni has been giving to the wider society. But what initiatives are you seeing making the most difference, say, for example, the supercomputer being used for the virus modeling?

CLAUDIO DESCALZI: I'll take the first questions, and allow know Massimo for the second questions. First of all, the long term don't change at all because I think looking at what is happening, I think more to accelerate the long term. It means that the action to go to a different kind of retail products, so green or blue or bio that are working well now, and they are really resilient and give a good balance with the traditional business. I think that to counterbalance then this possible volatility that we'll see in the future. What we presented in the long term has to be improved and maybe accelerated.

Clearly, we have to understand how and also find the means, the money to accelerate it. We have also, as I said, during the strategy, we are working through a different organization that will be useful to accelerate and also to reduce our overall structural cost, but for sure, that remains our main target to continue and to go to really to work on the scope 1, 2 and also the scope 3. And that is our plan, and we go ahead with determination. The second question, Massimo?

MASSIMO MONDAZZI: So second question about what we are doing. So we are doing something in Italy and abroad. So in Italy, mainly, we are helping hospitals to deal with, to cope with this critical moment. So we provide them breathing systems. We help them to setup additional beds to assist the more critical people. We did it everywhere in Italy from south to north. And maybe I'll leave the floor to Alessandro to give you some detail about what we are doing abroad.

ALESSANDRO PULITI: Okay. Abroad, basically, we are adopting same strategy. In each of our subsidiaries, we are in contact with local health authorities. And according to their needs, we are helping in their response to the COVID by providing slider beds, ventilators or personal protective equipment when required and always in accordance with the local health authorities.

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

JASON S. KENNEY, GRUPO SANTANDER: And wishing everyone at Eni and on this call, good health and sanity at this time, crazy as it is. I've got a couple of questions, if I may. The first on going back to CAPEX. Out of the EUR 5.5 billion, how much of that is absolute minimum maintenance CAPEX do you think in 2020?

And then the second question, I think you commented that the 1.75 million to 1.8 million barrel a day volume guidance for this year is pre-OPEC cuts. I'm just wondering if any of the OPEC nations or indeed any country that is going to support production cuts later in the year has contacted you about field restrictions. I know you've mentioned a 40,000 barrel a day contingency. Is that purely for possible OPEC cuts or is it contingency on operational procedures? Just a bit more color around where volumes might be impacted if OPEC were to contact you.

CLAUDIO DESCALZI: Okay. Sandro, you can start talking about, I think, both because the first question is about the minimum CAPEX for maintenance, and the second, if somebody's already contacted us, and if there is a contingency in the contingency for OPEC cut.

ALESSANDRO PULITI: Okay. So we always divide our CAPEX in CAPEX that are related to development projects, production optimization and also what we call it as mandatory CAPEX that are the ones that are related to our asset, basically our asset integrity. So, the level of that CAPEX is around EUR 2 billions per year. So, this is our minimum CAPEX level that we have to maintain to ensure full asset integrity of our operation. And the other question?

CLAUDIO DESCALZI: Firstly, the countries that are contacting us, and we have contingency in our plan.

ALESSANDRO PULITI: Okay. In our plan, we have a contingency of 40,000 barrels of oil equivalent per day that to cover also -- that is covering also possibility of some OPEC cut. Although to date, we don't have any request recorded to date of OPEC cut from our producing countries.

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

IRENE HIMONA, EQUITY ANALYST, SOCIETE GENERALE CROSS ASSET RESEARCH: I had two questions, please. Firstly, thinking about the two affiliates now, ADNOC and Vår Energi, can you tell us what they contributed to the first quarter results either in terms of profit or dividend? And then what you expect from them for the full year, please?

And my second question, Claudio, as you mentioned, you worked hard over the last few years to strengthen the balance sheet. And all your actions in response to this crisis is indeed to protect the integrity of the balance sheet. What would be the maximum -- the ceiling level of leverage that in this environment you would be prepared to tolerate?

CLAUDIO DESCALZI: Okay. Thank you. I think that for the first question also the second question can -- Massimo can answer, please?

MASSIMO MONDAZZI: Okay. So as far as ADNOC and Vår, in terms of cash, we -- talking about Vår, we already cashed in our share of US$ 150 million of dividend, that is the first quarter dividend. So because of the situation, definitely, we distributed what was available to be distributed in the first quarter. And then we are waiting for, say, more clear information ahead in order to decide what to do in the remaining three quarters. So last year, we distributed something in the range of US$ 850 millions, 100%, and I would say more clear decision on this respect would be taken probably in June, July, talking about the second quarter and the remaining quarters. Maybe Pino could give you some additional detail as far as ADNOC, and then I'll be back talking about the leverage.

GIUSEPPE RICCI: ADNOC, in the first quarter of this year, added a general turnaround of Ruwais East and West. The general turnaround is already finished and opened just in the same time of the development of crisis in China for COVID. So this is a good news. Now the units are already in operation and the refinery is quite empty because the turnaround. So it's ready to supply the Far East where the crisis is finishing and the consumption is increasing. So we consider to be in a good situation to cover the market after the crisis from Ruwais. Notwithstanding this, we consider it in the second quarter a conservative throughput of the refinery around 60% considering the end in April of the turnaround and the ramp-up slowly in parallel with the growth of the consumption and the full utilization in the second half of the year.

MASSIMO MONDAZZI: And Irene, in terms of leverage, so it's a bit difficult to make such a projection this year due to the very high volatility. For sure, we will be more precise in July, presenting the first semester. The first attempt should be this year, notwithstanding all this volatility to try to stay below 0.4 in terms of maximum leverage.

OPERATOR: The next question comes from Mr. Martijn Rats of Morgan Stanley.

MARTIJN RATS, MORGAN STANLEY: Frankly, a lot of them have already been asked. So I only have one. So clearly, 1Q saw a significant sort of decline in earnings, but it doesn't look like 2Q is going to look any better. And it's a little difficult to gauge how much -- what the incremental impact is from here on 2Q results? Now the closer we get to second quarter results, the more difficult it is, I would imagine for you to brief the market on it. So this might be an opportune time. Could you talk us through generally what your observations are when it comes to the second quarter and the factors that could impact earnings from here on?

CLAUDIO DESCALZI: So sorry -- from what I understood, you want to understand some color about the second Q and how it can be for us because I didn't catch your question..

MARTIJN RATS: Yes.

CLAUDIO DESCALZI: Yes. Okay, okay. So as I told you, we analyze from different point of view because the COVID-19 is not -- is really propagating in different parts of the world with different timing. What I can say that from a downstream point of view, from a retail or marketing point of view, we see that we have some recoveries and is recovering. Also, you see that refining in the first quarter, in any case, the marketing worked quite well in a very quite difficult condition. So I hope that we can see some recovery in the second quarter in terms of consumption. That means consumption means also that will be easier also for our productions. I cannot give you from a quantitative point of view because I will be able just to give you at the end quarter. But I see the progression positively in respect to the last 1.5 months.

From a production point of view, that means that our production in Middle East, Far East, is, as Massimo or Pino said before, for May and June, we already sell our production; that is a good point. And we see a recovery in China and generally in East Asia. So if that happens completely and we can have a recovery as expected, about 70%, 80% on the consumption, that means that gives space for our production in the area.

Then we have Africa. Africa is linked in terms of our production to the European market. And the European market is, as I said before for Italy, it is improving also in other country. And Germany is already improving. It's better than in Italy. If it's improving also for the other country, could be good also for our production in Africa.

We have another point, that is not just COVID19, is how the OPEC Plus will be -- program will be implemented because that is clearly going to impact on the price. And as soon they start implementing, I think that we can have an improvement in the price. So, should be positive from that point of view in terms of recovery for the reason I said. Clearly, we have to analyze and understand the impact of COVID. And so the impact in terms of time of COVID and the implementation of the OPEC+ resolutions.

So, if the 2 things are working in the positive way, I think that we can have some recovery in the second quarter. But, as we said, this morning, the situation is very volatile, and we have to understand now end of April and May, what is really going to happen for these 2 points.

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

JONATHON RIGBY, UBS: Can you just -- given we are on the call, just give a bit more color detail around the 2 areas where you're producing below capacity. So Libya with the force majeure. Egypt, I think you referenced demand. Just sort of if you can give me a little bit more details about the -- around that and also perhaps some indication of what -- how far below theoretical capacity that you're running in both those countries?

CLAUDIO DESCALZI: [Sandro] Can you answer, please?

ALESSANDRO PULITI: Okay. So you know, situation of force majeure in Libya is dictated now by two main events. One is the lock of all the ports in the East side of the country, that is blocking basically the oil production of Libya. And recently, we registered also an illegal closure of a valve on the coastal line for gas distribution. So currently, we have these two events that are reducing production for Libya. Our expectations are that by end of June, situation should be back to normal. And this will allow us to recover around 30,000-40,000 barrels of oil equivalent of production from -- equity production from Libya.
Regarding Egypt, situation is still recording low gas demand, low internal gas demand due to the COVID situation, especially nowadays, but we do expect a recovery of the demand with the summer increase of temperature and so more consumption for power generation. So, we expect a recovery of the demand in Egypt in the second half of the year.

OPERATOR: The next question comes from Christyan Malek of JPMorgan. Please go ahead.

CHRISTYAN MALEK, JP MORGAN: Hi, thanks for taking my question. And I do hope you're keeping healthy and safe, and the same to my esteemed counterpart. Just -- sorry to come back on the dividend. But it seems to me that on the critical path of the dividend decision is whether we see an end to lockdowns next month. Appreciate it, certainly not binary in there, many variables. But would it be fair to say that if nothing has changed three months from now, you would actively cut the dividend to protect the gearing and your future CAPEX? Because the way it currently stands, the capital…does appear already constrained. You seem to be working very hard to protect it with gearing moving higher. And I just want to understand what the industrial logic is to keep the dividend at these levels through-cycle and not just in 2020?

Secondly, and I guess, linked the gearing, is there a threshold for yourselves and the Board like a red line you wouldn't cross before prices remain low and gearing continues to rise?

CLAUDIO DESCALZI: Massimo, please?

MASSIMO MONDAZZI: On both questions, Claudio?

CLAUDIO DESCALZI: Understood the first one there, I didn't understand the second one.

MASSIMO MONDAZZI: The first one is about the dividend and the rationale to judge about the future decision on dividend. So may I try to answer, and you can definitely complement, Claudio?

So Christyan, what you said is not completely right. So we are not going to take the decision about the dividend looking at the lockdown only. And we are not taking the decision looking at what's going on in 2020 only. So, what we are going to evaluate mid-year is a more complex environment, including, by definition, what we expect in 2021. So definitely, if we see a recovery and the overall situation, including prices, during 2020, in order not to, we say, compromise our balance sheet equilibrium, and we see a price in 2021 that is close to our cash neutrality, I would say that the decision would be in some direction. If situation would be different, then I just figure out the decision would be probably the opposite.

Now, as I answered to Irene, we try to fix the maximum level of leverage, not the gearing, but I would say, you can calculate the difference easily, that is the maximum 0.4, we would like not to cross in 2020. But even on this, we will be more precise when we elaborate a bit more in July based on additional information that we have as far as what's going on in 2020 and what we can more grounded, we can judge about what's going on in 2021.

CLAUDIO DESCALZI: So if I can complement what Massimo said, first of all, we're working in a quarter it's just one and half months, clearly. We, as a company -- as an energy company and the oil and gas company, we work on long cycle. So make a projection and talking about details with a statistic of one and half months is absolutely incorrect. It's not only [not] possible, but it's not reasonable. Clearly, when you talk about gearing, Massimo said, and I agree, the gearing is based on the gearing that I can have, is based on the medium term. So what I can do this year and next year in the 3 years, how we can recover, how I can recover my debt, so it's something that is made by different variables. At the moment, we have really a few elements.

Clearly, we showed from the beginning in the last 6 years that the debt, so the gearing and the leverage is very important for us. It's a priority. It's one of also the basis of our remuneration policies. But, in this case, we have to understand if what happened in 2020 can be recovered in 2021. I want to -- I cannot and it's wrong to react after one and half months and change everything drastically also for my shareholders. I cannot be schizophrenic without having the right parameters to take a decision, share with my shareholders and explaining why. The range of hypothesis and guesses are too many now to take this kind of decision. We said very clearly, and we demonstrated that is a priority, the capital allocation, the gearing, the dividend, but I cannot be -- reacting like if I run a small motorcycle, I'm running a big truck, running the life for a lot of people and my shareholders, I have to be reasonable in each step I take, that is my answer.

CHRISTYAN MALEK: Thank you.

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

BIRAJ BORKHATARIA, RBC CAPITAL MARKETS: Hi, thanks for taking my questions. Just a couple of quick ones. First one is on your R&M guidance, this year is EUR 300 million. That would suggest earnings up year-on-year. And given the current environment, at least heading into Q2, looks quite challenging. So could you just run through the assumptions behind that?

And then the second question, another easy one is your -- for Egypt, that's one of the country you've highlighted for the year-on-year declines in volume. Could you just highlight what the contribution you expect to your 2020 production budget is for that?

CLAUDIO DESCALZI: I understand the second question, that is for Sandro. I didn't understand anything about the first question. Honestly, if Massimo, from there because I didn't catch what you said, sorry.

MASSIMO MONDAZZI: So the question about the assumption underlying our guidance in R&M full year result, about EUR 300 million. I guess that Pino would be in the position to answer.

GIUSEPPE RICCI, CHIEF REFINING & MARKETING OFFICER, ENI S.P.A.: No. About this is very simple. Our cash program to improve the efficiency, and again to the good result of the ramp-up of Gela bio refinery, and some optimization in the marketing cover in part the effect of scenario and COVID. That we have evaluated in more than EUR 800 million. So with this improvement in this area, together with a strong cost-cutting and re-optimization of the maintenance in the refineries allow us to confirm a guidance of EUR 300 million for the year.

CLAUDIO DESCALZI: Sandro?

ALESSANDRO PULITI: Okay. Regarding Egypt production and the contribution to the overall Eni production in 2020, it is around 300,000 barrels of oil equivalent as an average of the year.

OPERATOR: The next question comes from Mr. Peter Low of Redburn.

PETER JAMES LOW, REDBURN: Just one last. In your scenario, you see a recovery to $55 per barrel in 2021, but you still intend to cut CAPEX even further in that year. Can you perhaps just explain what's the driver of that? And then as a follow-up, would investment at that level be enough to maintain your production flat? Or should we then assume it's kind of declining at that level of spending? Thank you.

CLAUDIO DESCALZI: Massimo?

MASSIMO MONDAZZI: The answer right now would be, yes. So even if the scenario will be $55, we will intend to reduce CAPEX, as we said, nothing new versus what we said 1 month ago when we revised our scenario. So $45 this year and $55 next year. It means that we are giving some priority to recover what we are losing in 2020, thanks to the cuts, reducing a little bit our production expectation, but giving priority to the cash in order to increase the cash to be generated that year. So we said that thanks to this action, we expect that all in all, our cash neutrality will drop to around $50, $52 per barrel, giving us the possibility to live with some comfort in a world of $55. So the decision would be to keep the CAPEX cuts in order to increase the cash generation, keeping production same level as expected in 2020.

ANDREA QUAGGIA: If there are no questions, please, let's close the call here. Thank you.

OPERATOR: There are no questions registered, sir.

MASSIMO MONDAZZI: Thank you very much, everyone.

CLAUDIO DESCALZI: Thank you very much. Thank you. Bye-bye.

CRISTIAN SIGNORETTO: Bye-bye.