

## Q2 2018 results

July 27th 2018

### Presentation

#### Speaker:

Claudio Descalzi - CEO

Good morning and welcome to Eni's first half results.

The first half results confirm the strength of our industrial performance.

Upstream Production was more than 5% higher versus 2017 considering the PSA effect.

Growth was sustained by the contribution of major ramp-ups such as Zohr, and Kashagan, and the start-up of Ochigufu in Angola and Bahr Essalam Phase 2 in Libya. Exploration continued to deliver great results. During H1 we drilled 7 successful wells for total resources of 280 mln boe at an exploration cost of 1.4 \$/boe.

Finally we announced a strategic step in our Norwegian activities with the creation of Vår Energy.

Moving to G&P, the structural changes we have implemented in the past 4 years allowed us to achieve a strong performance, increasing EBIT to €430 mln, more than doubling 2017 results.

Downstream businesses, impacted by a weak scenario, confirmed their resilience with an overall EBIT of almost €150 mln.

Moving to financials:

Operating and Free Cash flow growth are the most remarkable achievements.

In summary

In the first half,

- we generated €6.0 billion of operating cash flow, a 22% growth versus 2017
- Capex was reduced by 14% to € 3.7 Bln
- ...so we generated an underlying free cash flow before disposal of 2.3 B€, largely exceeding the 1.5 B€ of interim dividend paid in this period.

Thanks to this strong cash performance we reduced our net debt to below €10 billion, the lowest level reached since 2006.

This corresponds to a leverage of 20% at the end of June and a gearing of 16.4%.

Before detailing the results of each business I would like to give more color on Norway.

We agreed with the private equity HitecVision to merge Point Resources into Eni Norge, creating a new company called Vår Energi AS. We are expecting the completion of the deal by the end of 2018.

The new entity will be a leading Norwegian energy player, with a widely diversified portfolio, spreading from the Barents Sea to the North Sea, and producing around 180,000 boepd this year.

Vår Energi has 17 producing oil and gas fields and more than 500 Mboe of proven reserves.

Building on the existing organizations and leveraging complementary strengths we will grow production, through a pipeline of 10 already existing projects, to 250,000 boepd by 2023.

In total, the company will be focus over the next five years on bringing projects on stream, revitalizing older fields and exploring for new resources.

This is a fundamental step in our strategy to reinforce Eni's presence in OECD countries with strong upstream potential, such as Norway, delivering an immediate impact on financial indicators, with a reduction of around 2\$/bbl in our cash neutrality by 2019.

Also this year we have achieved major exploration successes both in near field discoveries and in new basins.

In Block 15/06 in Angola we discovered Kalimba bearing around 300 Mboe in place of high-quality light oil, with an estimated production rate per well exceeding 5000 bbl/d. This discovery will open new opportunities for oil exploration in the southern part of the block, which has thus far been considered mainly a gas area.

We plan to appraise the discovery and to take the FID within the end of this year. Our expectation is to put on stream the field by the beginning of 2022.

This will be a fast track project maximizing synergies with East hub, which is only about 55km away.

In Egypt we made two oil discoveries in South West Meleiha, in the Western Desert. These discoveries tested the deep geological sequences of the Faghur Basin a new oil exploration play. During the production test, the wells delivered more than 5 kbpd.

These Egyptian discoveries, together with other prospects that will be drilled in this basin in second half 2018, will rely on fast drilling phases, low costs and synergies with existing facilities.

This will accelerate our growth in this new production area, where we are already producing 53 kbpd.

Finally we achieved important results also in new areas:

- in Area 1 in Mexico, with Tecoalli 2 and Amoca deep and
- in Cyprus, with the offshore discovery of Calypso, a lean gas discovery which proved the extension of the Zohr like Play within the Cyprus Exclusive Economic Zone, where the JV is now working to prepare the appraisal plan.

And now a quick look at production results.

Production in H1 reached 1,865 kboe/d, 5% higher than last year.

We had positive performance from ramp ups and start ups, mainly in Egypt, Indonesia, Angola, Ghana, Congo and Kazhastan, contributing 263 kboed.

And a negative contribution coming mainly from:

- a strong maintenance programme in Algeria, and in Libya, where the downtime was higher due to the tie-in of Bahr es-Salam phase 2 wells and
- by the natural depletion in some fields in USA and UK

We confirm a production growth of 4% in 2018, at budget scenario.

In terms of EBIT we achieved €4.83 billion, more than doubling last year's result, due to:

- Scenario effect for € 2.1 bln
- better production performance for around € 500 mln.

Let's now have a look at Zohr, where ramp up is proceeding faster than planned.

After the start up of the 1st train in December 2017, we added 4 new treatment units. Each production unit has an average production capacity of 400 MMScfd.

We will increase production from the current 1.2 bcf/d to 2 bcf/d by September this year.

The final plateau will be reached in 2019 with the start-up of the last 3 production units.

The valuable contribution of our production translated into a strong operating cash flow growth.

Upstream cash generation was €5.5 bln, 38% higher than last year thanks to the volume growth and the scenario effect.

With upstream Capex at €3.2 bln euro, in the semester E&P generated an underlying free cash flow for €2.3 billion excluding disposals, more than covering our interim dividend needs.

Unitary cash flow grew to \$20/bbl, in line with our plan and well above the level of \$ 13.5/bbl of last year.

Gas and Power's EBIT has doubled versus last year.

With a steady Retail contribution of around €130 mln, the strongest improvement is related to Midstream, where EBIT increased by nearly € 250 mln.

Looking in detail into Midstream growth:

- € 70 mln was related to higher LNG volumes (60% more than 2017) and stronger margins, capturing the good conditions of the Asian market where we sold roughly half the volumes
- € 70 mln was linked to better power results
- and the remaining amount to logistics, efficiency and contract renegotiations

Taking into account the results achieved until now and the seasonality of G&P performance during the second half, we improve our yearly EBIT guidance from € 300 mln euro to around €400 mln.

Downstream was impacted by the challenging scenario of the 1st half of this year.

In R&M, we achieved a positive EBIT result of €80 mln, notwithstanding the lower scenario that impacted refining activities.

We will continue to strengthen our R&M businesses to make it more competitive, targeting a reduction of our breakeven margin towards 3 \$/bbl level.

In particular, we will:

- further optimise logistic and operational costs through integration and efficiency
- complete our bio-fuel plant in Gela by the end of the year and restart the EST plant at Sannazzaro, and
- consolidate our marketing position in Italy.

In the chemical sector the scenario has been characterized by some negative factors:

- high costs of Virgin Naphta occurred in the second quarter, not yet entirely reflected in the products prices, and
- an excess of supply in the European polyethylene market due to higher exports from US.

Notwithstanding these very difficult conditions our result was positive, with an EBIT of €65 mln in the 1st half, showing the resilience of Versalis.

In the second half of the year we expect a further improvement, mainly due to a continuous focus on operational performance and higher products prices.

Considering this re-balance of the market and thanks to the positive contribution of the industrial and marketing actions, we now forecast for downstream an overall EBIT of more than €500 mln, of which €330 mln is from R&M and €180 mln from Versalis.

Looking at our consolidated results..

Thanks to the strong cash generation achieved in the 1H and taking into account the disposal cash-in and the dividend payment, the net debt for the first time since 2006 is below € 10 billion and our leverage is at 20%.

In terms of full year guidance, we will generate a CFFO, including a minor contribution from working capital and the cash in related to 2017 Zohr disposals of more than €13 billion euro.

With capex at around €7.6 billion, underlying free cash flow before disposal is expected to be €6 bln, a 50% growth versus our original plan.

This confirms our capability to more than capture the upsides related to the improvement in the scenario.

And we confirm a cash neutrality of 55 \$/bl.

Now with Massimo and our top management we are ready to answer to your questions.

## **Q2 2018 Eni SpA Earnings Call**

### **Q&A Session**

Friday, July 27, 2018, 12:00 CEST

OPERATOR: Ladies and gentlemen, we will now begin the question and answer session. The first question is from Oswald Clint of Bernstein. Please go ahead, sir.

OSWALD CLINT: Yes, thank you. Good afternoon. I want two questions, please. The first one is on your last few comments there on leverage just almost reaching the 20% level at the end of June. I think that the strategy that you spoke about, balancing strength in excess of that or below the 20%, you would talk about buybacks and the potential for those. So maybe just update us on that number, where it might progress, and ultimately, what that means for that possibility of buybacks, please? And secondly, I was just curious about your recent dealings in Algeria with Sonatrach. The press release earlier in the year spoke about significant cost savings and operational efficiencies, but also seems to be some upside potentially with the gas supply agreement, so maybe upstream and in Gas & Power benefits here from that deal, I just wonder if you could talk about that set of negotiations, please? Thank you.

CLAUDIO DESCALZI: So for the first one, so the buyback, once we reach or we are below the 20% leverage, I can just confirm what we said during our strategy presentation. So we said that we...once we are below the 20%, and considering the scenario, we are steady below in the 20%. We can consider. And I proposed to our

Board a buyback and that is inside our policy, so our remuneration policy, and that is confirmed.

For Algeria, yes, we signed two different agreements. And the agreement is a general agreement that aim to reduce cost because we have several activities in Algeria, so we agreed with Sonatrach to put all these activities, and match all this activity under just one umbrella and create strong synergy and reduce cost, the operating cost. And that is being done. It's in progress and with good results. Then we find agreement on the gas because we have gas in Algeria that produce as associated gas, and we have gas in...underneath level where we produce oil.

So we signed an agreement to export this gas that we produced in the south to our facility where we treat gas in [indiscernible] from the BRN fields, where we produce this gas, and that is...will be an additional improvement in terms of efficiency, in terms of reserves, in terms of quantity of gas that we can deliver. And another former decision in Algeria is that we are replacing in our activities and also in the future in Sonatech the gas that we use for internal consumption with renewables, in this case with solar or photovoltaic, and that is...make an additional gas free for export or for domestic consumption.

OSWALD CLINT: Very clear, thank you.

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

THOMAS ADOLFF: Two questions for me please as well. Firstly, congrats on the deal in Norway. Hopefully, life gets a bit easier and better now. You've mentioned that near-term cash flow breakeven will improve by \$2 in 2019. And I wondered whether you can provide a bit more color how this breakeven or the contribution will look like in maybe 2021? I understand that your portfolio, ex-Point Resources, contributes a bit more growth a bit later than Point Resources. Second question has more to do with the IMO, but a bit less to do with what upside you may see on refining. But I'm just more interested in the type of crude that you have that you produce in the upstream, so the overall crude gravity and sulfur level. So in an IMO world, would Eni's price realization improve or worsen versus what you see today? Thank you.

CLAUDIO DESCALZI: Thank you. So the first question will be answered by Massimo and the other from...

MASSIMO MONDAZZI: So Thomas, the effect is due to the different timing in terms of the short-term operation versus CAPEX, and so that's the reason why we recorded an improvement in our cash neutrality by 2019 of around \$2. And then we expect, thanks to the investment you know, production growing to 250 [ph] that would be the final

result. All these based on existing projects already clear, and very well identified in our portfolio.

CLAUDIO DESCALZI: Thank you, Thomas, for your question. As we already mentioned in several other occasions, Eni will be able to satisfy the requirements of the IMO to resume production, capable of achieving a zero production of fuel oil. And this is due to the fact that we are a highly conversion system. We exploit the EST that as you know, is on the phase of rebuilding in Sannazzaro, their RHU that is a residue at the treating unit in Taranto and [indiscernible] plus system integration. On this aspect, let me also emphasize that we just restarted the Taranto refinery that was offset...planning to allow the work to make the plant able to refine also the temperatures [ph] of crude that is 10- to 22-degree gravity. In general, we don't expect our slate to lighten in the coming years, and on average, we have a slate that is about 30 degrees RP in density.

THOMAS ADOLFF: Yes, I was just more interested in your actual upstream production, not the...what crude you process in the refineries. Because the other side of the equation is, clearly, if I'm producing medium gravity, very low sulfur volumes in upstream, let's say, Lula in Brazil, I'm going to see an improvement in price realization. So I wondered what dynamics we should see in Eni's upstream price realization.

CLAUDIO DESCALZI: One second. We are checking the few data. But I can start giving a qualitative answer, and then we talk about the figures. So our average crude production in the upstream is light, so it's light oil with a very low sulfur content. So I think that from generally speaking, not just talking about our refineries, but all different refineries that we use, we are going to have an improvement from this point of view considering our kind of crude. Honestly, I cannot give you now, but we can give you...we can let you have the differential and of a match that can be listed.

THOMAS ADOLFF: Well, this is great. I just wanted to know that you will benefit from it.

CLAUDIO DESCALZI: Yes. Yes, sure.

THOMAS ADOLFF: Thank you.

OPERATOR: The next question is from Irene Himona of Societe Generale. Please go ahead, madam.

IRENE HIMONA: Thank you. Good morning. I had two questions, please. First of all, on Gas & Power. Obviously, very strong results and you're increasing your guidance for this year. Back in March, in the start of your presentation, you presented the retail gas business as, let's say, the growth engine in that division's Four-Year Plan. I wonder if you can talk a little bit about the performance of retail in the first half and second

quarter results. My second question, again, you mentioned, Claudia, the continued strong exploration results in the first half of the year. Oil prices, obviously, are above plan, above expectations. My question is, at what point would Eni or should Eni, given your track record as a top-class exploration company, at what point should you treat \$75 oil as a market signal that actually, the industry has under-invested, the market needs more supplies, and therefore, given how good you are at it, that you should actually contemplate increasing your capital expenditure above the €32 billion you budget for the next four years? Thank you.

CLAUDIO DESCALZI: So Alberto, can give you some color about retail gas or Eni gas e Luce, and the trend and the result in the future.

ALBERTO CHIARINI: Yes. Thank you. In terms of results of the first half of Eni gas e Luce, the results were quite strong. We reached €130 million of EBIT overall. And in terms of clients, we increased our customer base from 8.5 million to 8.8 million. This is making us confident that we should be reaching our target in terms of forecast of 9.1 million customers and around €200 million of EBIT, so that...

IRENE HIMONA: Thank you.

CLAUDIO DESCALZI: So considering the second question that is related to when we can think to increase our CAPEX because we have so many resources, and within that, the price now is stable or it can grow, and we need the additional production. So if you look what we have done in the last 4 years, we never reduced our growth on our investment. We try to have a different kind of attitude and approach to be able to increase our production, reducing our CAPEX, and without leaving behind us any kind of project of opportunities. So we develop everything. And Zohr has been developed with a very...so in a price scenario that we were, in average of \$40 per barrel, we then committed [ph] €12 billion. But at the end, what happened that through our exploration, dual exploration, we are able to reduce our [indiscernible] capital. We reduced our exposure, we can continue to develop. So for one side, we have an organic growth starting from exploration low cost. So in upstream, that's a very low cost, where we don't need a lot of investment. We don't have a complex, super complex and mad projects that oblige us to put a lot of money. We learned.

We know everything about that. So in the last area, we changed. Low CAPEX because our costs, our breakeven is low. Secondly, we use another tool, the dual exploration, to reduce our exposure without really...without leaving underground the opportunity in the oil and the gas. So I don't think that also, with the higher, we can say, higher price, with the kind of asset we have, we are obliged to invest more. I told you that this 55 cash neutrality, 50 cash neutrality, so this area of cash neutrality for us is a must. It's a must because it's the only way to be able to face any kind of environment. But it's a must also because we use a model, a use of a philosophical approach that allow us to invest because our costs are low, and we have the dual exploration to spread...reduce our investment risk. So the answer is, we're going to continue to grow. We are at



3.5%. This year, it's 4%. We'll be 3.5%, maybe more in the future. But we want to be really strict and disciplined, and use the strong discipline in terms of cost and capital allocation.

IRENE HIMONA: Thank you very much. Very clear.

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

ALESSANDRO POZZI: Thank you for my questions. The first one is on Mexico. I was wondering if you can give us an update on the development plans there. The second question I have is on the exploration opportunities. I was wondering if you can perhaps highlight key exploration wells for the second half of the year. And finally, gas realizations on Zohr, I believe the Egyptian government is looking to raise domestic prices, gas prices. Just wondering if that has an impact on Zohr as well? Thank you.

CLAUDIO DESCALZI: Sorry, for Mexico, Antonio can say something about the future development in exploration. Luca and then can say something about Zohr and gas prices.

ANTONIO VELLA: Okay. So as you know that the...we've been working with the authority in the last couple of months to finalize the POD. So everything has been completed. And in a weeks' time, we expect to get the approval. And then immediately on the third quarter, we will have FID. This is all on Mexico.

LUCA BERTELLI: On exploration, second half, we will add wells in...one well in Indonesia, targeting additional resources nearby our Jangkrik hub. We will also continue drilling in Egypt in the Faghur basin additional wells to explore the potential of this new play, and also we will start the drilling of an offshore well in Egypt, a deep well that is named Noor. Finally, we will have a couple of wells in Norway, and we will restart our exploration campaign in Angola with the prize of Kalimba and some prospects, so

CLAUDIO DESCALZI: So for gas, so you're right...correctly that they are going to lose some subsidies on the end customer. For us, it's completely different. We have a contract, a long-term contract for our gas sales, and we have prices that are contractual prices, on which we recover our cost, and as you know as...oil but with the floor and the ceiling, so we cannot go down more than some prices, and we can roll following the oil price. We have an area. We respect that. That is also represented a securitization for us for the future. So this kind of increase of price are not touching the upstream side.

ALESSANDRO POZZI: Thank you very much.

OPERATOR: The next question is from Bertrand Hodee of Kepler Cheuvreux. Please go ahead, sir.

BERTRAND HODEE: Yes, hello, thank you for taking my questions. I have two, if I may. The first one on your new discovery on Block 15/06, you mentioned that it was close to existing infrastructure, but it's like 55 kilometers away and you intend to make a fast track. So I imagine it's going to be a tieback as probably one of the longest tieback. Is it feasible? That's my first question. And the second question is about the other FID [ph] contemplated this year. So you...we've already talked about Mexico how we run. And...but can you give us an update on Congo Nené Marine Phase 2b, where do we stand? And also on Egypt Baltim South West. Thank you.

CLAUDIO DESCALZI: Antonio Vella is going to answer the two questions.

ANTONIO VELLA: Okay. Concerning the Kalimba tieback, we will call a tieback because we are patented already our technology concerning the long extension tieback in the water, and will be implemented in Kalimba, which will allow us to go above 65 kilometers for the time being. So this is going to be a development of between 5 to 7 wells.

Concerning the...so the delivery of the oil so long distance, we have a multiphase pump under water, which will allow to produce all the volume directly to 1 of the 2 FD, so actually, in production. Reference to the other question of the FID of Kalimba, we'll have an FID in by the end of the year. And the next...the other question was the FID of Nené 2b, it's planned for this year, and we are completing all the marketing bids, and it's expected to make it by the fourth quarter of 2018.

So the other issue is of Baltim South West tieback. So Baltim South West is already...the FID has been made, and it's under construction, and will be in production next years. The production...the increase between great Noroos and Baltim will rise up the actual 2 billion or 200 scrap per day to 1.9 billion scrap per day. I think concerning the other development and FID of Merakes in Indonesia, we are going to finalize the FID within the fourth quarter of 2018. It's going to be a tieback also in Jangkrik FPSO.

BERTRAND HODEE: Many thanks.

OPERATOR: The next question is from Massimo Bonisoli of Equita. Please go ahead, sir.

MASSIMO BONISOLI: Thank you for taking my two questions, the first is on Gas & Power. Considering the strong results in the first half, the new outlook for the division implies some decline of operating profit in second half compared to second half last year. Could you give us some color on the evolution of EBIT in second half, and do you have some contingencies in the outlook? And the second question is if you can give us some indication on the working capital evolution expected in second half just for our models?

CLAUDIO DESCALZI: Okay, Massimo Mondazzi will answer.

MASSIMO MONDAZZI: The first half benefit of...in respect of LNG, was very high price on the Asian markets. And thanks to the integration with upstream, we managed also to increase and to sell more of the production of Jangkrik, in particular. It was an extra production, which is expected this year of 1 million, more than what actually what we were envisaging. And most of the LNG activity, of course, has been locked in already in the first semester in respect of the second half to be sure that we were taking the benefit of the market scenario.

In respect...and there is one thing which may be of interest that please also consider, which is not a regular question, that we had an increase of the equity marketed by us of 54% of the marketing was actually equity LNG as compared to only 25% of last year.

In respect of power, we also benefit in the first semester of a very good outlook in respect of the clean spark spread, which is expected a little bit lower in the second half. In the first half, we also benefit of the [indiscernible] which as you know has been sold at the end of June, and will not in the second half. Therefore for the time being, we are setting the guidance overall for the Gas & Power sector at €400 million. However, of course, we will be looking for further increase

COMPANY REPRESENTATIVE: Okay, Massimo, in terms of working capital trend, in the second quarter, we released more or less €250 million out of the €900 million absorbed, you remember, in the first quarter. The expectation would be to release the rest, so to recover the remaining €700-plus million, we still expect a positive contribution of working capital by the end of this year.

MASSIMO BONISOLI: Very clear, thank you.

OPERATOR: The next question is from Mr. Theepan Jothilingam of Exane BNP Paribas. Please go ahead.

THEEPAN JOTHILINGAM: Yes, hi, good afternoon, gentlemen. I had a few questions, actually. Firstly, could you talk a little bit about how much contingency you have left into the upstream volume forecast for 2018? I'm trying to understand how de-risk [ph]

sort of underlying cash flows are for the second half of this year. The second question I wanted to ask was just how do you put the leverage ratio and the appetite of buybacks vis-à-vis aspirations to broaden a downstream footprint? Thank you.

CLAUDIO DESCALZI: Antonio can talk about contingency and the...that we have up to the end of the year.

ANTONIO VELLA: So we have 20,000 barrels BOE of contingency for the next 6 months. And as you have seen, our 1,865,000, this moment, we will have just a few shut down during the next 6 months, and hopefully, we can recover part of this contingency.

CLAUDIO DESCALZI: Okay. Thank you. So the question is what I understood, the output against the buyback, against a possible downstream acquisition or organic growth in the downstream. So the answer is very clear. There's no...they are not in competition. So we have space for both and there's no competition between a possible buyback if we have the right condition, and a possible increase in our refinery capacity on the right conditions at the right place with the right margin, so the two things can stay together.

THEEPAN JOTHILINGAM: Thank you. Very helpful.

OPERATOR: The next question is from Mr. Jason Gammel of Jefferies. Please go ahead.

JASON GAMMEL: Thanks very much, gentlemen. I just want to come back to the Vår Energi transaction which looks very interesting. I was hoping to ask more about Corporate Governance and will the entity act essentially fairly autonomously with you having Board members? Or will you have a little more direct oversight into their operations? And then also, will this be essentially a self-funding entity? Or it will require ongoing capital injections from the parent? And then I guess the flip side of that was when would you expect to be able to receive dividends from Vår?

COMPANY REPRESENTATIVE: So definitely, we'll try to answer all your questions. So no capital contribution expected, so the company is so strong that they definitely they can go ahead funding the capital...the CAPEX plan without any kind of contribution. Anyway, the company should... definitely should finance by itself, the future CAPEX.

In terms of governance, the governance is very well-balanced, take into consideration the 30%, 70% in terms of shareholding. So definitely, we will have the majority in the Board, but the exceptional decision, definitely, they require the unanimous decision because, definitely, the 30%, 70% participation...participating

interest. Definitely, about the dividend, yes, I already said that the capital structure is really strong, and there is already production. So the cash flow could be distributed to the shareholders since the beginning of this new venture.

JASON GAMMEL: Very helpful, thank you.

OPERATOR: The next question is from Mr. Biraj Borkhataria of Royal Bank of Canada. Please go ahead.

BIRAJ BORKHATARIA: Hi, thanks for taking my questions. Just two quick follow-ups, please. The FID in Mexico, I believe, that was originally expected in the first half of '18. Could you just confirm that production...first production is still on track for early 2019? And then second question is on the Noor Prospect. Earlier in Q2, there were some conflicting reports on whether you completed the well or not, and it sounds like it's still ongoing. But could you talk about...just give a bit more color on the prospect side and the potential there Thank you

CLAUDIO DESCALZI: Okay. As you know that our prediction on the POD approval was a little bit optimistic. But unfortunately, today, the POD approval of Mexico is going to be in a week from now. So the first production is confirmed within first half of 2019.

LUCA BERTELLI: Regarding Noor, as you see, we didn't comment on all the noise that come out on the press. Noor prospect is still a prospect. We didn't start drilling. We will start drilling most likely in September, October this year.

OPERATOR: The next question is from Rob West of Redburn. Please go ahead, sir.

ROBERT WEST: Hello, I've got a couple. First, I'd like to go back to Gas & Power. So you phrased the guidance for 2018. I was wondering how the change there impacts the guidance towards the end of the plan, so that the ramp to €0.8 billion. Just what you're saying, it's just giving me more confidence? Or what has to happen to translate through some upside to that numbers as well? The second question I wanted to ask is about restarting the LNG assets in Egypt, so Damietta. Could we have an update on what's the hold up there in terms of what do you still need to agree? I think last quarter, you said it was...something that could happen quite soon. So I was wondering if there was any update as Zohr continues ramping quite nicely. Thank you.

COMPANY REPRESENTATIVE: In respect of the plan, I think that we will revert to this when we have the strategy at the beginning of the year. However, of course, the situation of the Gas & Power is something which puts us more confident in respect of

what we are doing. In respect of the mid-term, and you know that in respect of the mid-term, Union Fenosa Gas, there are ongoing arbitration between the Egyptian side and the Union Fenosa Gas. However, has been going on commercial discussions, and I do believe that not only it's in the interest of all parties involved, to reach an agreement, but from my perception, all parties are working hard on the possibility to reach an agreement on this. Of course, the discussions are ongoing.

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

JON RIGBY: Thank you. So I have a few, actually. The first is, obviously, cash flow benefited from some deferred consideration now starting to come through, which actually came in about a quarter ahead of where I've been modeling. But I guess that prompts the question, is there any more deferred consideration still to flow through on announced transactions, please, just so I get that right? The second question is just on Kazakhstan. I'm just looking at the liquids production in Kazakhstan, it seems to be flat year-over-year and sequentially, and I thought with cash again ramping up, I was a little puzzled about this. So can you just explain the moving parts on that, I guess, maybe something to do with Karachaganak? And the third is, I'm still like a little puzzled on the Gas & Power number. I know you sort of talked to this, but can you just go through 1H to 1H, the moving parts sort of decomposed by the various contributors [indiscernible] operators differentiated, just so I could understand how we've got to where we've got to in 1H '18 over 1H '17, if that's possible, please. Thank you.

COMPANY REPRESENTATIVE: So Jon, in terms of part of cash-in from disposal already done, the answer is, yes. There will be...the last one, first half of '19, but would be, I will say, minor, minor value.

JON RIGBY: Right. Kazakhstan?

COMPANY REPRESENTATIVE: Yes, okay. So Kashagan, we have reached the production of 424, which is 380...338 oil in last June. So the EPC, as you know, has been commissioned in the beginning of the year, and now it's contributing with additional 7 wells. The average equity in 2018 will be 61 barrel oil equivalent with a clear contribution on the ramp up, which we expect by the end of the year, the 350,000 barrels of oil.

JON RIGBY: So is Karachaganak running below or is there some [multiple speakers].]

COMPANY REPRESENTATIVE: No, Karachaganak is running very well. We keep stable the 250,000 barrels liquids. And we are progressing for FID of the remaining project to keep longer, the extension of 250,000. We got a record last year, as you remember.

CLAUDIO DESCALZI: Sorry, Jon. But your impression is that...what happened there, there is no...in spite of the growing production in Kashagan, you see a steady production in [indiscernible] in Kazakhstan that is your question?

JON RIGBY: Yes.

CLAUDIO DESCALZI: Yes. So we have Karachaganak steady, but we have also maintenance. So during the year, you saw sometimes that the Kashagan production was down and the increasing in Kashagan rebalance this, and at the end, it seems it looks that steady, but Karachaganak is steady and Kashagan is ramping up. Then there is the game, the game of the maintenance that can maybe confuse if you look at the figure. But in the long term, the situation is that.

JON RIGBY: Okay.

COMPANY REPRESENTATIVE: For Gas & Power, if I look at the first half of last year and the half of this year, where are the area where we are more pleased about how things went, well, the first one is actually LNG. Also, if you take into account that if we do not consider a retroactive effect on LNG that we had last year, the improvement this year was quite significant. As I say, there was also a significant increase on the volume and the integration, in particular, with our equity production in Jangkrik was extremely important in this respect.

A second area of key difference is also power. That is mostly because the clean spark spread view of this year, the scenario was better...significantly better than the other year. And the third area where we can look at the difference between the two half is actually in the area of logistic of gas and gas supply cost overall which had a significant improvement. And so those are the 3 elements, which probably made the difference in respect of this year.

JON RIGBY: Right. Are you able to sort of decompose that into numbers or something?

COMPANY REPRESENTATIVE: Not really. But the weight of the three elements were quite significant. Please consider that, substantially, also, the retail business was in line during the two halves. So the increase is mostly on this area of LNG and the power and gas logistic.

JON RIGBY: Okay, thank you.

OPERATOR: The next question is from Martijn Rats of Morgan Stanley. Please go ahead, sir.

MARTIJN RATS: Yes, good morning. Thanks for taking my questions. I have two. They are slightly more generic in nature. First of all, I wanted to ask if you are seeing any signs of cost inflation throughout your upstream businesses. It's one that on the whole, we'd be sort of quite interested in. And secondly, given your position in Venezuela, I was wondering if you had any sort of thoughts on the country, any observations from the ground, so to say?

CLAUDIO DESCALZI: Good morning, in terms of cost inflation, what we can say is that we see some increase of steel raw material that is mainly affecting the cost of line pipes. Regarding the rest of the activity for upstream, we don't see particularly changing the offshore drilling unit market with very...no significant increase in rates. What we can see instead is the increase of the utilization of the drilling units that offshore has reached 65%, as we can see in the last quarter, but without a direct increase in terms of daily rate. For the rest of the agreement for subsidy development, the global demand is still lower than the capacity of supply. So we don't see in the short term change in terms of cost for development.

CLAUDIO DESCALZI: So Venezuela, we can just say from our position, and from an operating point of view, we have some...we got some very...some good positive signs because we...after our discussion, we're getting some money back. So they are paying the gas that we are producing for the first time in the last month. So for the first 6 months has been, we can say, positive because they paid. So our securitization, again, that we have in place are restarting, are working again. So that is what I can say.

MARTIJN RATS: Thank you.

OPERATOR: The next question is from Lucas Herrmann of Deutsche Bank. Please go ahead.

LUCAS HERRMANN: Thanks very much. Claudio, I wonder if I could push you a little more on the comments you've made on downstream assets, and certainly seems to have made your institutional clients around the desire to expand or potentially expand your downstream presence, not least in the Middle East. I mean, just to push into sort of the strategic rationale of a move in that position and how much capital, perhaps you're willing to put at risk, I mean, the strategy and the thrust is very much been upstream. I appreciate observations around balance. But if you could just give us a better sense of what you're trying to achieve and how much you're willing to put at risk to achieve it? Thank you.

CLAUDIO DESCALZI: Thank you for the questions. Clearly, what we want to achieve is to have a...to be along the value chain. So when we have upstream, we'd like to have some downstream to really to call the value chain, and also to be...to have some...to be



able to counterbalance the price situation that happened sometimes in the last...that was a...3/ 4 years. So we talk about growing, growing at which conditions.

First of all, we want to be able also, growing in the downstream to be able to reduce as a target, our cash neutrality because the...as you saw, as we experienced during the low price, when you have a downstream that is a good one. So with good margin, that can increase, can really increase your profitability and can reduce your cash neutrality, and that is my target. But on the contrary, it's going to give me the freedom to invest more in downstream, and that is what I want to achieve.

Clearly, I like to have integrated project, so I don't...we are not looking for downstream for the sake to have more downstream. But where we have production, we'd like to have some stake in the downstream. And with the aim, and that is one of the two, that we want to use, to reduce our cash neutrality. As I said before, in terms of investment, the investment will be really in line with our capability to have a strong balance sheet, a low leverage, the possibility to as...we have as a priority, the capital allocation to pay our dividend and in the future, the buyback. But we'll also be able to invest to increase a good downstream to reduce our cash neutrality.

LUCAS HERRMANN: So if I think of scale, given, I guess, we're talking about the UAE or Abu Dhabi, where you'll be producing from recollection, 80,000-odd barrels a day, is that the level of integration you want, i.e., top bridge of what comes up?

CLAUDIO DESCALZI: [Multiple speakers] integration is related to the value. So it's not just the volume that...we don't have a target in volume, but we have the target in value and in terms of cash neutrality. So it's a balance. It's a material balance that we have to do every time. So it's linked to the economics and to the value that we are going to create. Based on the last studies and feasibility we made, we were discussing our target, was to have about 200,000 and 400,000 barrels per day additional in the Four-Year Plan. So that is something that we are working on and this is...some things organically and other is not organically.

LUCAS HERRMANN: Sorry, just to be clear, that's 200,000 to 400,000 incremental barrels of refining capacity, both organic and inorganic?

CLAUDIO DESCALZI: Yes. In the Four-Year Plan, that's what we said during the...our strategy. And that is clearly linked to the value that we're going to create and the impact on our cash neutrality.

LUCAS HERRMANN: Okay, thank you very much.

OPERATOR: The final question is from Kim Fustier of HSBC. Please go ahead, madam.

KIM FUSTIER: Hi, everyone. I had a couple of questions, please. Firstly, I wondered if you could offer any color on that deepwater Black Sea dry well [ph] that's part of your Rosneft JV. I think you own one-third of that JV, and the write-down for that dry well was €200 million. So could you perhaps confirm what was the gross cost of that well? And also what your intentions for that Rosneft JV are going forward? Secondly, I think you and your partner, Exxon, made some comments recently at a gas conference in the US about progress on marketing of the Mamba LNG volume. So I wondered if you could share some of that color with us and also if you're still aiming for FID in late 2019 or early 2020. Thank you.

CLAUDIO DESCALZI: So on the first question about Russia and the joint venture; you know that these activities, deep water activities, Barents Sea, Black Sea are under secondary sanction, US secondary sanction. So clearly, there's no space for us to go ahead with this joint venture. And for the Gas & Power?

COMPANY REPRESENTATIVE: For Gas & Power, in respect of our Mozambique LNG future production, you're right. There was actually, a marketing meeting, which we had in Washington, D.C. with all the partners involved in the project, and not only Exxon, but also the others. And we all agreed that basically, marketing will not be a critical element, so that everybody's ready to off take the production and to ensure that the final investing decision is taken, irrespective of the fact that all the LNG has been sold to third parties. Some of these LNG will go in the portfolio. Some will be sold, but nevertheless, pro rata, all the partners are ready to take it up.

KIM FUSTIER: Okay, thank you.

OPERATOR: Excuse me, I am sorry, there's another question from Ian Mitchell of JP Morgan. Please go ahead.

IAN MITCHELL: Hi, guys, yes, it's Ian from JPMorgan. Just two quick ones, hopefully. You've talked quite a lot on Gas & Power, and we've heard about the improvements you've had in equity volumes of LNG, and then spark spreads in power. Are either of those sustainable structural changes? Would we expect better spark spreads next year versus what you're expecting earlier on this year, and if so, why? And then the same in terms of the LNG volumes. Should we be considering that there's some longevity to this improvement? And the second one is on Mexico. You've given us some details on the POD. Has there been any change at all in terms of tone or your discussion since the election? And given that you're on the ground, have you got any additional information

as to how the new government might look at the oil and gas sector relative to what you're dealing with prior to the election?

COMPANY REPRESENTATIVE: Yes. On the Gas & Power, just two elements in respect of what you asked. The first one is that, of course, on the power, it does depend a lot on how we see and where it will bode a clean spark spread in respect for future, and...but please do consider also that one key element is the flexibility element of the power production, where we think that there will be some value to gain at.

In respect of LNG, also, here, the market scenario was extremely significant in the first half, which allows us to lock in the volumes we had. But as you underlined, it was interesting, the increase of production, which we...our upstream part managed to have on the Jangkrik field, and we do believe that the volumes, which we are allowed to put in our portfolio, as I see said, it's extremely important to increase that volume, which is working very well this year. And we are working on that in conjunction with our upstream colleagues. And this is something, which we will be looking at, in particular, when we present a new strategy.

COMPANY REPRESENTATIVE: Okay. Concerning Mexico, we've been working, as I told you, that very, very well with the authority, and we identify the plan of development jointly. And as far as election, we didn't notice any changes and the cooperation is still going. And as I mentioned, in a week's time, we expect to have the approval of the FID.

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