



Q2 2014 Earnings and Strategy Update Conference Call

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Questions and answers

Corporate participants

Claudio Descalzi - Eni S.p.A., CEO

Massimo Mondazzi - Eni S.p.A., CFO & Risk Management Officer

Marco Alverà - Eni S.p.A., Chief Midstream Officer

Luca Bertelli - Eni S.p.A., Chief Exploration Officer

Conference call participants

Michele Della Vigna - Goldman Sachs, Analyst

Irene Himona - Societe Generale, Analyst

Lydia Rainforth - Barclays Capital, Analyst

Theepan Jothilingam - Nomura, Analyst

Oswald Clint - Sanford Bernstein, Analyst

Peter Kemp - Energy Intelligence, Analyst

Thomas Adolff - Credit Suisse, Analyst

Jon Rigby - UBS Securities, Analyst

Neill Morton - Investec Securities, Analyst

Nitin Sharma - JPMorgan, Analyst

Mark Bloomfield - Deutsche Bank, Analyst

Chris Coupland - BofA Merrill Lynch, Analyst

Questions and answers

UNIDENTIFIED COMPANY REPRESENTATIVE: Good afternoon, we are now ready to start with the Q&A sessions. We will start with questions raised from the floor and later we will answer to potential [demands] from the phone. Before asking please stand up and state your name. Thanks.

MICHELE DELLA VIGNA, ANALYST, GOLDMAN SACHS: Michele Della Vigna, Goldman. Claudio, you lay out a very clear plan on how to improve the cash generation in the Company. I was wondering in terms of cash return to shareholders in the form of dividend and buybacks, how do you see them evolving from here, especially at a time when cost of debt is so cheap?

I think you have recently issued a 15-year bond yield at below 3%. And how do you think about opportunities for potentially ramping up the buyback and the outlook for the (inaudible)?

CLAUDIO DESCALZI, CEO, ENI S.P.A.: So what I can say that we are working really hard to recover from this European market that is very depressed. So our main focus now is really to be able to restructure our downstream business, our gas and power business. I think that we succeeded in these first steps to reestablish good cash flow generation.

And I think that we have a, in front of us, in term of cash flow and also earnings a good situation but we have still to work a lot, but I think that is positive. So I think that there is no problem to confirm first our policy at the moment, so we don't have to say anything new about our policy. And also, as you know, also to confirm our dividend.

For the future, as you know, we have to wait next strategy to talk about policy or to talk about a different kind of dividend. At the moment I think that we are working hard, we are in good position to confirm also for the future the policy and the level of dividend. It is clear that our dividend is linked to -- is going to grow as our policy with the earnings and with the strong cash flow.

So that is in substance what we can say at the moment about the dividend. The first step is positive. Now we are in a situation and in a position, a very safe position from that point of view.

IRENE HIMONA, ANALYST, SOCIETE GENERALE: Irene Himona, Societe Generale. I have two questions please.

Claudio, you spoke about disposals. I wonder if you can share with us how you think about Saipem, how does it fit in the plan. Are you looking to sell it and what would be the time frame?

And second, a question on Kashagan. You have told us that the pipelines need replacing. Could you give us an idea of the cost and the timeframe for that? And in your targeted production growth when do you assume Kashagan actually starts?

CLAUDIO DESCALZI: First Saipem. For Saipem we are starting different options. I already said that Saipem is a very good company, it's progressing very well. We like Saipem very much. But as an Oil & Gas company I think that it's not core to have a stake in a contractual company.

We are the only one so we are thinking about different possibility with an advisor. So the process started. We are just at the very beginning of this process. So I cannot tell you about which kind of option or when we are going to do that because we are not in a rush. I show you that we are in a good position from a cash point of view, so is more a strategic move than a need for cash.

But it is clear that we are going to do that at the right time, we are going to keep the market informed and it is clear that what we're going to do is really for Eni and for Saipem. So we want to maximize the value for the shareholders. I think that we will be back on that, but that is the clear position.

For Kashagan, Kashagan is -- what we are doing now I think that all the test and the analysis has been done and we have a clear idea about the reasons, the reason of this problem. We don't have still the time in mind because we wait for the operator that is working on the market investigation for the pipe supplier. We already start to some tender and also some purchase of piping. So we are -- I think we are in a fast track.

We don't think that is in our [budget], we didn't put any production in 2015 and some production 2016. I think that as soon as the marketing investigation will be finalized in September/October we will talk where the operator talks to us and then to the market about timing and cost. But it is clear that our expectation to have some time production in 2016.

LYDIA RAINFORTH, ANALYST, BARCLAYS CAPITAL: Lydia Rainforth, Barclays. Two questions if I could. The first one on OpEx and the cost-cutting that you set out this afternoon. Can you just walk us through what sort of areas you are expecting to save that money in and just examples of what that looks like? And if there are any difficulties around that or if you think that is a very achievable level and is it easy to do or is there more to come later?

And then secondly, just on the -- you set those 2014-2015 targets. Can you just talk about how you'd expect 2016-2017 cash flow to evolve relative to the previous (inaudible) as well? Thanks.

CLAUDIO DESCALZI: I say a few things about our -- the cost efficiency program that is not really related to OpEx, then Roberto can say something about OpEx and Massimo can say something about the evolution of the cash flow.

The efficiency program is coming from, we restructured the Company so we don't have any more big corporate. We centralized all the services. So we have different area where we already not only plan but we already studied a very aggressive efficiency program and I talk about a target of EUR1.7 billion in the full-year plan. So EUR500 million each year. And that is something that we are doing you can say at the corporate level. For OpEx you want to say something, Roberto, about OpEx?

UNIDENTIFIED COMPANY REPRESENTATIVE: I will talk about OpEx. We are at the level of \$8.7 per barrel in second quarter, which is showing a slight increase mainly due to ramp up in new projects that are bringing more fixed cost.

MASSIMO MONDAZZI, CFO & RISK MANAGEMENT OFFICER, ENI S.P.A.: Okay, and in term of cash flow, as far as 2016 and 2017, we -- at the moment we don't have any significant reason to change the estimation we made -- we presented during our last four-year presentation.

THEEPAN JOTHILINGAM, ANALYST, NOMURA: Theepan Jothilingam, Nomura. I just wanted to come back to your revised sort of cash flow trend. Could you just walk us through the moving parts particularly on the contribution from E&P near field production and also working cap? What are the revised assumptions there? Thank you.

MASSIMO MONDAZZI: In term of cash flow, as far as the production I would say that nothing happened in the short time. The most significant info we can provide to you is that, as said, some of the brand new exploration successes could be brought into early production contributing something in the range of 25,000 boe per day in the very early times. So, this could be something that could help us to sustain the free cash flow in the short term. And the second question was about --.

UNIDENTIFIED COMPANY REPRESENTATIVE: Working capital.

MASSIMO MONDAZZI: Working capital. Definitely working capital, we expect a significant contribution from especially the Gas & Power, the mid-gas thanks to the renegotiation of the contract we just had in the last

month. That is being reported by Claudio, will give us the opportunity to recover majority of the EUR1.9 billion we had in prepaid gas at the end of 2013 in the next two years.

CLAUDIO DESCALZI: If I can add something. Because from a corporate point of view I said that we have all the other companies, so Gas & Power or the reduction of capacity in them so that is a contribution. For E&P we have also a production, we have new projects, we had an increase of 3% last year expected this year. But we have also what I mentioned before, what I call dual exploration.

So we have some blocks, a lot of blocks where we are in excess of 80% working interest. So there is a clear plan and we found interest around in the market to step in to firm in. So that is for us also from a balance sheet point of view we don't -- is a (inaudible), but we consider really in bringing forward our cash and bringing forward our production in the exploration, reducing our stake.

So that is another step to compensate, especially for the next couple of years, some lack of cash coming -- with cash flow coming from especially from Kashagan. All these actions, considering also the other actions, are going to create a cash flow that is in excess of what is not present because of Kashagan especially.

OSWALD CLINT, ANALYST, SANFORD BERNSTEIN: Oswald Clint, Sanford Bernstein. First question just on Gas & Power. I guess you were surprised by the deal you did with Gazprom this year, it has allowed you to revise your guidance --.

CLAUDIO DESCALZI: We are surprised?

OSWALD CLINT: Yes. [Hence] the Russians.

CLAUDIO DESCALZI: You are surprised, we are not surprised.

OSWALD CLINT: But, so that has helped you revise that the guidance and you have 60% on Hub at the moment and you hope to get that 100% by 2016. So could you be surprised again or what changed -- why are these renegotiations being easier and could they become easier and you could get to 100% Hub exposure faster than 2016?

And then secondly, just on the refining plans, you mentioned, Claudio, you presented these plans to all of the relevant stakeholders and hoping for cash breakeven by next year. So what is the necessary plans or steps we have to watch out for to see that being executed? Thank you.

CLAUDIO DESCALZI: Marco.

MARCO ALVERA, CHIEF MIDSTREAM OFFICER, ENI S.P.A.: So on Gas & Power thanks for the question, Oswald. Really I think surprised is not the right word. I think when we gave the guidance you remember we had an ongoing arbitration with Statoil which was very significant and we had a very concrete risk of an arbitration with Gazprom as well. And I think both have been solved commercially which is always preferable. And both have been solved at a level which aligns them essentially to the Hub.

Now there's going to be ongoing revisions of these contracts, you remember they all look back and the Hub has deteriorated since and there's a lot of logistics implications. So it is not done. But I think having settled both in a positive way, plus the good performance of what we call the high-value segments that Claudio

referred to which are LNG trading and commercial, that together has enabled us to revise the guidance on EBIT.

On the cash flow the guidance is even greater because of what Claudio said and the take or pay reduction which is really a factor of all these things together.

Looking forward the effort is going to be to bring all the contracts to Hub level, so it is not Hub indexation, it is Hub level. The two outstanding ones of course being the North African, Algerian and Libyan ones which have to be done in the coming months. So that is really what is between us and the target of getting to 100%.

CLAUDIO DESCALZI: So, downstream refinery and marketing, that now we are referring to the -- what we are doing on refinery. I think that you follow the Italian newspaper, I don't know if you had the opportunity, yes.

I followed -- very closely.

I think that we -- for the first time we really start strong and determined action to change something. We don't want to run away or leave the site. We want to do something different and we don't want to lose money and hopefully we would like to make money.

So we start with Gela, we have a plan for all different refinery. There is a very important plan that is a transformational plan. We start -- we already done something in Venice and that is doing positively. We want to do the same in Gela with the transformation. And what we are doing is linking the downstream restructuring with the upstream opportunity.

We have a big important or big or less big opportunities in Sicily or in other countries. And we -- and that helps us to shift people after the right training. But in the downstream, we're already using a lot of people from the downstream in the plan who are very knowledgeable and capable and very effective.

So we are moving so we don't impact the level. And we transformed the [Orin Green] refinery, or in (inaudible) storage facility where we can import and we can export. And that is a part of the strong action. It is clear that abroad we have some refinery, there is more refinery, we are still two refinery, we have a plan to sell out these refineries.

So we really want to reduce our exposure that is not very big but we are losing a lot of money. So we really we are really determined to go ahead. We today just one hour ago I think after two days of discussion with the Minister of Development and with the unions we signed an agreement -- very important agreement in Rome.

And that is -- I think that is a very important agreement because all the parties accepted to sit down and discuss our new plan that we start with Sicily. It's very positive for the region. It's very positive for the workers, for the labor. And especially because we are going to invest in something that -- through which we can make money. And that is good because we have development also in the region.

That is a first step, it was not very easy to reach it and now we start negotiation of each single project. And then we are going to continue. When we talk about the breakeven it is a combination of breakeven or refining where we are reducing capacity. So reducing losses and marketing where we are optimizing also the marketing, also the retail, oil. So that is a combination. But we are really very focused, every day.

PETER KEMP, ANALYST, ENERGY INTELLIGENCE: Peter Kemp, Energy Intelligence. I had a question about Mozambique. You just mentioned farming down licenses to increase cash flow. You still have 50% of area 4. I was wondering what your eventual and optimum stake in that block -- what it is you are targeting? In your strategy briefing earlier this year you outlined various FLNG projects for Mozambique, there was no clarity on your proposals for a land cited LNG train. I was just wondering what's your planning on the land sites at the moment and what the LNG, FLNG picture is at this stage.

And finally on indexation, you had indexation with Anadarko in the early --.

CLAUDIO DESCALZI: Sorry?

PETER KEMP: You had indexation with Anadarko on the [Prosperidad y] [Mamba] discoveries. I was wondering if there's further indexation to do further south on the block?

CLAUDIO DESCALZI: Okay, so I answered you about the first question about the M&A part. So our position is to be operator with a 30%-35%. So we have the possibility to firm out between 15% and 20%. That was the plan for this year, but because we don't need cash at the moment we always need cash, but I think that we tried to optimize the value of our assets.

We are close to taking the FID, so the FID for (inaudible) is impacted in December 2014 -- this year, 2014. So we will move again on the firm out after the FID. So now Roberto can give you some detail about the project and about the unitization of the rest.

UNIDENTIFIED COMPANY REPRESENTATIVE: Let's talk first about Coral, the non-straddling reserves. But we are running a competitive fleet exercise for the floating LNG, we have three major consortia. We have already submitted to the authorities the plan of development. In terms of contracts this development would be under the petroleum agreement, so there will be no need for special regime and, as Claudio said, we are targeting December for FID.

About the onshore part. The onshore part actually is for the (inaudible) reservoir. I the reserves that we are sharing with Area One, in Area One the name is [Prosperidad y], an area for, as you said, is Mamba. We agreed with Area One, a drift unitization agreement. We have agreed the master depletion plan. We have also agreed with the authorities, the draft of an (inaudible) [legislation] and (inaudible) because of the straddling reserves will be developed under a special regime.

And about the project itself, just yesterday we had issued the main tender for the EPC contract. So for the construction of two trains plus 5 million tonnes per year with results expected in second quarter 2015. So for the straddling reservoir we are targeting an FID basically in the second half of 2015. Thank you.

PETER KEMP: (Inaudible - microphone inaccessible)?

UNIDENTIFIED COMPANY REPRESENTATIVE: Right, right, we have also agreed with Anadarko, [De La Alta] and the [Fungi Bay] to locate our two trains.

THOMAS ADOLFF, ANALYST, CREDIT SUISSE: Thomas Adolff, Credit Suisse. I have got three questions, please. Firstly on your production guidance for next year. I was just wondering what sort of contingencies you have in place or whether they're any different to your prior plan.

The second question I guess, just sticking with Mozambique, I'm just wondering what progress you are making on the MOUs for the offtakes if any. and related to your potential partial monetization I guess it will have to be at the ENI East Africa level since I guess CNPC has a stake in the subsidiary, right, a direct stake and almost certainly CNPC doesn't want to be diluted.

And the last question I have is on Iraq and I guess I asked you on the first quarter call what your view is on Iraq. And you said I will give you a decision a year from now. Has that changed? Thanks.

CLAUDIO DESCALZI: So production, you want to talk production for next year or shall I talk?

UNIDENTIFIED COMPANY REPRESENTATIVE: First of all, we confirm the guidance next year we will have significant projects coming on stream accounting for 150,000 barrels a day. So we confirm, as I said, the guidance we already gave you. And about 2014, as you know, we have almost flat production within 2013 and 2014. So this is the scenario or production with a further contribution from new projects -- from the pipeline of new projects.

THOMAS ADOLFF: The question was on (inaudible).

UNIDENTIFIED COMPANY REPRESENTATIVE: Libya and Nigeria, we are considering Libya/Nigeria basically at the same level we have this year. Considered that Nigeria is producing around 120,000 to 130,000 barrels, clearly affected by [bunkering] sabotage, but we are focusing on offshore, particularly in the deepwater where we are getting really good results from our Abu field.

And about Libya, our present level of production is in the range of [2,030], [250,000] barrels a day mainly on the Western region because our (inaudible) field is still shut in. And we consider that this situation will stay also for next year. This is the assumption we have for next year.

CLAUDIO DESCALZI: Mozambique (multiple speakers).

UNIDENTIFIED COMPANY REPRESENTATIVE: Mozambique, well Mozambique we are working with Marco talking to the buyers in particular and for Easter we have clearly a priority for Coral because of an FID late in 2014. Marco, maybe you can say more about the (inaudible) on the market?

MARCO ALVERA: I think there is a lot of interest and excitement in the area for LNG in general, but this project in particular. So we can from the previous target of having binding agreements in place at least for Coral by the end of the year.

MASSIMO MONDAZZI: As far as the disposition of our additional stake in our Mamba Project, I will say that the disposition of shares in East Africa will be the -- I would say the easier solution in front of us. But I would say that potentially there are other solutions in place. So I cannot say anything specific on this aspect.

CLAUDIO DESCALZI: So the last point about Iraq. We are about our project in Iraq, we are not really happy about what -- how it's gone on. So we didn't take any decision yet. So it is a pullout from this project. But it is clear that it is becoming more and more difficult and the main problem is not security, is the problem that we are not really proceeding as we scheduled.

So we reduced our people for security reasons, but I think that is really we are thinking about the future. The production level is good, is about 340,000 barrel per day. But we need water injection. If we are not able to have water injection in place we cannot keep this kind of production level. We have to reduce the production level. And that means that we cannot invest anymore.

So the main reason is that we need all the different situations in place correctly to go ahead. We are not excited about our project in Iraq.

JON RIGBY, ANALYST, UBS SECURITIES: Jon Rigby, UBS. Three questions, two on gas. The first is would you, as you approach FID, consider taking any gas LNG yourselves into a portfolio as part of your growing trading business that you have talked about? I think that is been common practice among the major LNG traders.

The second is, Marco, could you talk a little bit about how you would see the shape of the earnings from your business as it sort of matures over the next two to three years, so the various contributions of the different activities that you are doing.

And the third question is just one thing I don't think has been discussed, unless I missed it, is CapEx and the perimeter around CapEx. I think you talked in the release about lower CapEx or targeting lower CapEx for this year. But some of the majors you are talking about seem to me to be either deferrals or complete removals of activities you were envisaging in February. So perhaps if you could talk about where you think the trajectory of CapEx versus your previous plan is? Thanks.

MARCO ALVERA: So, on the LNG, I think our preferred option at this point is to go and sell the gas, but we always retain the opportunity to preserve some of the gas, particularly the Coral guess, it is 2.5 million tonnes so part of that could nicely fit into our portfolio without significantly changing the risk profile.

Regarding the shape of our earnings, we don't disclose specific lines, but in a ballpark, as we say, we target to have gas take or pay contracts in line with the market. So put that as zero. We do have, as we disclosed in February, some logistics costs. As the volumes decline and the ship or pay commitments remain in place you have some costs associated with that unused capacity, which is a negative.

And on the positive side the way we look at the business is retail, trading, LNG and B2B. And so, those are the high-value segments that Claudio referred to. So as we target to have the contracts at zero by the end of next year then we will have a negative on the logistics and positives that overcompensate that on the highvalue segments.

CLAUDIO DESCALZI: So CapEx has been -- what we've done at the very first, and you are right, we postponed some projects. But really the we are doing on CapEx is quite -- is more sophisticated, more analytical work because we are restructuring some projects in term of [modernization]. We are phasing some projects so we are practically starting with the early production, creating cash flow and then developing.

We started doing that with more we can say risky projects like (inaudible) or like Perla and (inaudible) where we treat these projects in different packages with the early production. So we are doing the same also in the big oil field that we discovered in West Africa. We did this in the Block 1506 but we are doing that also in Eni where we have a three-phase project with a modernization project -- modularization project. And that is going to have an impact on the final results.

So less CapEx anticipation of cash flow and the next phase of CapEx we are going to do with already existing production to utilize the cost recovery. so we try -- we try to avoid any upfront -- weak upfront investment.

And that is what we are really doing in strong details in our projects. It is clear that we are really attempting to avoiding any impact on the production on the full-year plan.

The other point that is always linked to the exploration, big stake, we sell, we cash in, but also we are going to reduce our exposure. So in the new plan we are considering the farm out of some projects that we tried to accelerate but with a lower amount of CapEx because we are reducing our stake at the very beginning is very high.

So that is the different situations and reasons why we can reduce our CapEx plan. Downstream, we are downstream in chemicals absolutely, yes. We made some efficiency in downstream, that is clear. And also in chemicals we already reduced over EUR350 million in the full-year plan for chemicals. And I try to do better but (inaudible) is fighting a lot.

UNIDENTIFIED COMPANY REPRESENTATIVE: Any questions?

NEILL MORTON, ANALYST, INVESTEC SECURITIES: Neill Morton, Investec. I have two questions. You announced the reorganization of ENI remarkably quickly after you took over as CEO. Was this just of interest (inaudible) decision or had it been in train for some time?

Indeed will it be, if you like, the final step in ENI's evolution since its IPO in the middle of the 1990s? And just secondly, on Kashagan and the replacement of the two pipelines, who will end up footing the bill for that work? Thank you.

CLAUDIO DESCALZI: The first point, the organization is clear that has been my decision because I did it. So it is clear, is not my wife, isn't anybody else. And -- but it is clear that is something that grow up in the sense that the E&P business is 95% of our revenues and [115%] of our EBIT. So is clear that we have to -- we needed to transform our Company.

We did also because of the general contest, we need a shorter Company, more flexible Company to increase communication with all the people and to be more flexible to avoid or to overcome all the different hurdles that we have in front of us. And we need a team very, very close team in a Company that is not a group of different companies but the management team is very close around the Company [sales]. So we change it completely. But is also we change because we needed to change.

We are not more the Company of 2005-2004 with different business going very well, the situation changed, the gas changed, (inaudible) is not more there, refineries losing money, chemicals losing money. We had to react and to react we have to change your culture. To change your culture you have to create a big anomaly and the anomalies, the Company, the organization and the management team. For that reason I took this decision, I.

UNIDENTIFIED COMPANY REPRESENTATIVE: Kashagan.

CLAUDIO DESCALZI: Kashagan, who is -- no, I didn't take any decision about that. But I think that it was going to pay the bill. From a contractual point of view, every cost that has been -- yes, that we had after the first oil, after -- before the commercial production is at cost of the joint venture, that is clear. We have to understand which kind the perimeter because we are also spending out the money for the development because we are to continue the development, drilling the wells, so that is out.

But for the pipe itself, normally from a contractual point of view, is at the expense of the joint venture. We don't have contractually any penalties. So that is -- but the penalties itself is really to pay the bill for the pipeline. So that is the answer.

NITIN SHARMA, ANALYST, JPMORGAN: Nitin Sharma, JPMorgan. Looking at the cash flow from operations guidance maybe you could just throw some light as to how much of this improvement is coming through from the underlying net resumptions. I see Brent is clearly going quite positively in terms of those assumptions and that must be helping. So maybe some light on that.

And probably, Marco, you could throw some light on the declining spot prices and what we have seen in terms of European gas prices. How does that play out for your renegotiations and going forward now that you would not have Hub linkage but prices that will be closer to Hub. So if there is a fluctuation how does that kind of play out in your earnings? Thank you.

MASSIMO MONDAZZI: So as far as the contribution in terms of cash flow, definitely the strong flow of

production in E&P will represent the baseline together with the increase we are projecting by 3% as we said in 2015 -- starting from 2015.

Second the Gas & Power evolution from a contractor point of view that we said and we're [implying] it will give us some additional contribution in terms of recovery of prepaid gas.

And third, I would say the shutdown of up to 50% of refinery capacity, at the same time we'll free some cash trapped in working capital in terms of oil plays that would be free as we shut down the capacity.

And then in this projection we are assuming a recovery as reasonable in cash contribution from Saipem and even the reduction losses from the chemical business. These are in good order the main elements of this contribution.

MARCO ALVERA: So talking about the Hub changes and the impact on the take or pay. Last year we had 100% oil indexation. And so, the 30% reduction we have seen in Hubs would have resulted directly in a hit to the bottom line or at least an extra purchasing cost.

Now we have 60% so that is hugely medicated. And as we target the 100% going forward we will be floating around the Hub. We have had on the sales side some contracts that were not Hub linked to support that transition so that is what you are seeing overall the smoother ride than if we had taken a full hit.

UNIDENTIFIED COMPANY REPRESENTATIVE: Any other questions?

IRENE HIMONA: Irene Himona, Societe Generale. Just if I may go back to the efficiency program, the EUR1.7 billion from full-year cost savings, you described it comes from simplification and centralizations. Can you say how many people are actually involved? So by the end of the full-year plan what is the headcount reduction going to be? Because I imagine that is part of it.

CLAUDIO DESCALZI: There is no head reduction, that is not coming from a reduction of our people, it's coming from other different services, general services, IT, [sponsorization] and a duplication of staff that we had and now we are using in a different place.

So we are not reducing our people, we are netting so we are balancing our people in different business. And that means that we are reducing the employment maybe in some areas because we are able to free up the resources from these exercises. So we are not going to dismiss anybody. We are going to dismiss costs and use [risk] activities.

JON RIGBY: It's Jon Rigby again from UBS. One other question I had. I noticed as I was looking through your release that if I look at the dividend you announced and the EPS number you reported it is effectively 100% payout ratio I think for the second -- first half of the year.

So, Claudio, I mean you have now moved to the Board level. So could you tell me was there a pause of thought about that situation and a thought process about what an appropriate level of payout should be, and particularly I guess because the nature of the Company is also evolving, right?

So this is a legacy dividend based around a Company that looked very different three or four years ago to the way it will look like in two to three years. So I just wondered -- I know you reiterated confidence in the dividend, but maybe you could just talk about that and your role as a director of ENI?

CLAUDIO DESCALZI: I can tell you what I talked to my Board and here we have also our President and one of the directors that are in front of me. And what we -- what I told to my Board and to the Chairman, we show

the cash flow and the EBIT profile in the next full-year. It is clear that the payout of the level of today is not accessible. But I think that with the [problem] that we have in terms of EBIT results and cash results so we confirm our guidance.

We have a strong number of actions, very robust. By the end -- in three years' time by the end of the plan we reach a level that is going back to the acceptable leverage -- level, sorry, average. So we will leave something that is about 58% that is an acceptable level of payout. And so -- and we did that in a very analytic way. We did all the different components at the corporate level.

And after these figures the Board accepted, I made the recommendation to proceed and then the Board of mid-September, I'm going to ask the approval for this dividend. But I think that has been done on the basis of the results of the last two months of the new program and all the different components that we had and Gas & Power, in E&P, in R&M, in chemicals, in the restructuring of the cost of the corporate.

That has been done not only to pay the dividend, but really to write the level of the cash flow and the efficiency of the Company. So I think that we are quite sure that what we propose is sustainable not just for this year but for the long-term.

THOMAS ADOLFF: Thomas Adolff, Credit Suisse. As I look at your E&P portfolio, I mean your exposure is predominantly to conventional plays, which is a conscious decision you made a number of years ago. You have got a little bit of LNG, you've got gas value chain. How does shale play into your thinking over the medium- to longer-term as a major oil Company?

CLAUDIO DESCALZI: As a major oil Company I play the same role I played just two, three, four, five, six, seven years ago. So it is still out in terms of traditional North American shale gas or shale oil -- at the moment shale gas more than shale oil.

What we continue, what we are continuing is to work in the country where we are for the unconventional, we are a conventional block in Nigeria, we are a conventional block in Pakistan, in Indonesia. So we have some unconventional blocks, we are working on it at the exploration level or production level like in Pakistan. But we want to do something sustainable.

And in terms of activities and in terms of costs and so where we have facilities where we are already drilling conventional [horizons], and we are also in the proximity of -- underneath we have an unconventional like we have in Algeria and Pakistan we can optimize costs and we can do something that is sustainable.

We think that we have found and we are so many conventional assets that we prefer to continue our strategy.

And the strategy is still to reload, and we are reloading our portfolio on the basis of a conventional asset, oil and gas. Now we are more oriented to oil plays in West Africa, not only in West Africa, gas play more in the Pacific, but that too will be also the future.

MARK BLOOMFIELD, ANALYST, DEUTSCHE BANK: Mark Bloomfield, Deutsche Bank. Two questions, please.

Firstly on the restructuring plan in Refining & Marketing. You talked about cash breakeven by the end of 2015. I wonder if you could give us a sense of the kind of upside as we look ahead to 2017 if you are successful in delivering that plan?

And the second question, just thinking about your success with exploration in the pre-salt West Africa, I think you've indicated that they will be some early production potential by 2015. But again, perhaps you can give us a flavor of where you see that going 2016/2017, what is baked into your 3% production growth aspiration? Thanks.

CLAUDIO DESCALZI: We start with exploration, so we give the opportunity to Luca Bertelli, the head of exploration, to say something about what he is doing.

LUCA BERTELLI, CHIEF EXPLORATION OFFICER, ENI S.P.A.: Exploration, we had these successes in the pre-salt plays in West Africa and now the focus is in developing the oil that we discover in Marine 12 in Eni Marine.

We have already first production coming year end from Eni Marine. And as Claudio said, Eni Marine will be developed in a phased approach. So we will see two, three phases of development of Eni Marine.

The field still needs to be fully appraised because now we consider that we have 1.2 million barrel of oil in Eni Marine, but there is still further potential for upside. So this is the focus on development of it.

Gabon the well is just finished now. It is a nice discovery, very thick hydrocarbon column, it's gas and condensate, it's not oil. And we need to appraise and we will do very soon as far as when we found a proper rig for appraising and testing the field. So this is the short-term plan for West Africa pre-salt discoveries.

CLAUDIO DESCALZI: To be clear we already found the rig, he doesn't know but we found it. So for refinery and downstream, I think that the contest is we try to go -- we will go to breakeven. It is clear that the contest is very -- especially in Europe is very difficult. I think that is continuing to be difficult because we don't have the right conditions.

So the fundamentals in terms of gas price, oil price, facilities, regulation, time to market -- so I don't think that the refinery business will be the future for us or for any other European company. So what we have to do is really to reduce our losses, get the breakeven and continue our optimization.

But we won't reduce capacity to reduce losses. What we can do is to reduce additional capacity. I think that with the level that we plan now we can deliver even and maybe make some money. But the refinery system in Europe remains really difficult for the reason I told you. Said under pressure.

CHRIS COUPLAND, ANALYST, BOFA MERRILL LYNCH: Chris Coupland, Bank of America. I will start with a boring question, the restructuring for your efficiency program and the refinery capacity shutdowns. Can you give us an idea for both items, whether there are significant upfront one-off costs that you have already budgeted for the next few years as you are fixing both those items?

And the second question, back to the topic of dividends, we are looking at roughly EUR4 billion, EUR13 billion of CapEx and you are telling us about EUR15 billion operating cash flow number. So it looks to me like that is still not quite enough. Are you effectively arguing we will get there by 2017?

And surrounding that question maybe you can also comment on buybacks, script dividends, other flexibilities you see around shareholder returns? Thank you.

CLAUDIO DESCALZI: So I answer about the upfront costs for the efficiency program and the refining restructuring, then Massimo will answer about the rest. For the efficiency program, we don't have a lot of upfront costs. We already started, we already got EUR250 million. I think that we have some costs clearly to optimize, but quite marginal and will start in 2015, so next years.

For the refining we have to -- so we are shutting down, is clear that we have cost for abundant and we have costs for investment. And that we don't start before 2015 second half and we will be more clear about the profile of these costs at the next strategy presentation.

MASSIMO MONDAZZI: Okay, as far as the cash flow, you did the calculation right. So what we talk about this afternoon was an average of EUR15 billion in 2014 and 2015, but we mentioned the 2016-2017 level

that for the time being remains -- as we said during last strategy presentation, that will be and the range of 2016-2017.

So it means that reaching this final target means that definitely looking at I would say the real cash flow from operation less the level of CapEx that, by the way, this year is projected to be in the range of [EUR12.5 billion] that could be in the range of EUR13 billion all on the full-year plan. We will help us to cover completely the dividend.

On top of this let me remind what Claudio already said about the exploration potential contribution to this result. If we dispose of some interest in some of the recent successes we got in exploration that are far above the level of development that could be sustainable in our organization and without affecting the 3% production increase we are keeping on promises.

This contribution could help us really as it would be a contribution from operation. Because what we are doing is just to anticipate part of the future contribution if the price would be the right one definitely as we did when we dispose of the interest in China. So that is to the Chinese in (inaudible) start.

So this is the scheme. So sustainable, sustainable by definition without any additional effort by 2016-2017 if we include this kind of industrial contribution from partial disposition of exploration would be sustainable even in 2014 and 2015.

We talk about the script dividend, but the script dividend in case would be saw as an opportunity for our shareholders, not I would say a solution to avoid a cash payment of the dividend. That is our thought on this respect.

And third, you mentioned the gain -- the buyback -- that buyback. We would like to retain a high degree of freedom and decide the level of buyback and so I am not ready to share any kind of guidance on this respect.

UNIDENTIFIED COMPANY REPRESENTATIVE: The last question from the floor and then we will take a question on the phone.

UNIDENTIFIED PARTICIPANT: Good afternoon, gentlemen, Chris (inaudible) from Nomura. Getting back to Saipem, just two questions if I may. First of all in the options that you consider around the strategic review on Saipem, would that be -- would that include a placing of the stock into the market and/or a breakup of the business?

And secondly, given the pressures facing the services sector arguably, what sort of timeline would you consider around that strategic review? Would you consider delaying it if the price wasn't attractive enough?

CLAUDIO DESCALZI: So, I told you that we are at the very beginning of the process. So we don't have any strategy now for the future. It is too early. But it is clear that never and never and never breakout the business, that is not our role.

We are shareholder, we are going to sell a stake in the future. We are going to understand how we are going to do that. And we want to maximize, I repeat, the value for Eni and the value for Saipem. So for sure we don't want to breakout the business. (Inaudible). So sorry, can you repeat the last questions?

UNIDENTIFIED PARTICIPANT: Do the options that you are considering include a placing of the stock? Thank you.

MASSIMO MONDAZZI: Claudio said that we are at the very beginning, so we are not ready to share any kind of potential solution for the future.

UNIDENTIFIED COMPANY REPRESENTATIVE: Okay, I think that we can have a few question on the phone.

OPERATOR: Roberto (inaudible).

UNIDENTIFIED PARTICIPANT: I hope you can hear me well because the audio quality is poor. Again on Saipem please. You answered already to some topics, but maybe you can spend a few words about the financing that you are getting to Saipem. So what is going to be the attitude of Eni's (inaudible) Saipem for its financing in the next month given the decision of (inaudible) stake.

Then a question on the Gas & Power, clarification on the [breakeven] at EBIT for this year already. Can you repeat as a reminder please what are the eventually the retroactive impact that you are accounting for this year within the breakeven number you are mentioning?

And then again a final on the Gas & Power again, but the fact that you are going to be 100% Hub linked in the future for your gas procurement, is that going to change also the marketing strategy for the future in selling gas? Meaning that won't no longer go to (inaudible) two three year contracts but you will floating also on this (inaudible) the policy? Thank you.

CLAUDIO DESCALZI: The answer on Saipem is very short and fast. As I repeat what I said before, we are at the beginning so I don't want to talk about something that we are still under evaluation. (Inaudible) can talk about Gas & Power, Marco.

MARCO ALVERA: So you should assume there is about EUR500 million of retroactive and this is a combination of various contracts and various things in this year's results. The pricing structure is really driven by the clients. And so I think we are at a point now where we price more of our sales contracts linked to Hub than the purchasing contracts are.

I think the good news with moving to a Hub indexation is we have the flexibility now to sell on the Hubs themselves. And as you see in our half-year and quarterly results our sales at the PSV, the Italian Hub, becoming finally a real liquid Hub really gives us that extra flexibility that we didn't have before.

So overall you will have a greater percentage of sales priced at the Hub as well, but part of that is going to be a result of direct sales at the Hub.

UNIDENTIFIED COMPANY REPRESENTATIVE: I don't think that there is any more questions. Yes. Okay. Thank you. Thank you very much for your attendance for your questions and the strategy presentation of data is finished. Thanks.