

Q3 2017 results

October 27th 2017

Presentation

Speakers:

Massimo Mondazzi - CFO

Good afternoon and welcome to our results presentation for the first nine months of 2017.

We continue to deliver solid results in all businesses

In Upstream:

- Production in the 9 months was 4% higher YoY, or +6% considering the PSA effect and OPEC cut adjustments
- In exploration we had an important success in appraising the potential of Area 1 in Mexico. We raised the overall resources in place to 1.4 billion boe with further upside possible. We therefore confirm our FY target of 800 mln boe of discovered resources with a unitary cost of \$1
- First gas from Zohr is expected before year end whilst the other main start ups, Block 15/06 East Hub in Angola, Jangkrik in Indonesia and OCTP in Ghana, are ramping up better than expected
- Our EBIT result is triple what we achieved last year

In the Mid-downstream we recorded an EBIT of around €900 mln:

- G&P is on track to reach a structural positive result in 2017 for the first time in 6 years
- R&M is continuing its trend of strong results, with an EBIT which more than doubled year on year leveraging on good refining results and a strong marketing performance; refining breakeven is expected below \$4/bbl in 2017
- Chemicals achieved a new record in the 9 months and is targeting the best full year result in its history

In the first 9M we generated €6.8 billion of cash flow from operations before working capital at replacement cost.

This is 76% higher than last year's cash generation and €1.1 billion more than the €5.7 bln of capex in the period.

This is equivalent to an organic cash neutrality of less than \$60 having considered capex and the pro-rata payment of the full-cash dividend.

Finally, we confirm cash neutrality including the organic contribution of our dual exploration model of less than \$ 45/bbl for 2017. This ranks amongst the lowest in our peer group for covering a full cash dividend.

In the 3rd quarter 2017 we produced 1,803 kboe/d, raising our 9 months average to 1790 kboe/d, representing 4% growth YoY or 6% when factoring-in OPEC cuts and PSA effects.

During this period we anticipated the start up of our main projects: East hub in Angola, Jangkrik in Indonesia and OCTP in Ghana. These three fields are currently producing 90 kboed.

In December we will start up Zohr, that will reach 1st gas just 28 months after the discovery well and 20 months after the FID, a world record for a giant, deep water project.

For the Full Year, we plan an average production of 1815 kboed matching our all time high in 2010. This level, taking into account the effect of PSA and OPEC cut (-30 kboed) is equivalent to 5% growth versus 2016.

During 2017 we recorded a slower ramp up from Kashagan, more downtime on Goliat and shutdowns in the UK and Gulf of Mexico, the latter hurricane related.

These events have caused only a temporary slow down of our production growth and determined the revision of our 2017 guidance.

In the 4th quarter, with the end of the maintenance season and the progress in Kashagan we are expecting to produce around 1900 kboe/d.

Our EBIT of €3.3 billion, three times last year, was driven by an improved scenario (+2,2) and better performance (+0,3), partially impacted by OPEC cut (-0,15), higher exploration expenses (-0,15).

Opex at \$6.5/bbl and depreciation costs at \$10.5/bbl are in line with budget.

In the 9 months period, Upstream Operating Cash Flow adjusted for working capital and one/off fiscal payment in Angola was around €5.8 billion, equivalent to \$ 13 per barrel.

Taking into account the lower scenarios and the negative effect of OPEC and VdA reductions our CFFO/ bbl in this period corresponds to 15,5 \$ confirming the value accretion of our new barrels and an improvement of the original plan (CFFO @15\$/bbl on avg 2017-18 at 57.5 \$Brent).

In the first 9 months of 2017 we strengthened the positive results in our mid-downstream segments, highlighting the robustness of the turnaround.

G&P has continued to progress in its restructuring and was at breakeven during this period.

Net of one-off contributions, the result was €364 mln higher compared to 2016, confirming the material improvement of the underlying performance.

This achievement gives us the confidence to reiterate our guidance for a positive structural result in our G&P business for 2017.

In Refining and Marketing, we achieved positive EBIT of nearly half a billion euros. This remarkable improvement is related to the optimization in crude supply and good performance in the retail marketing with an EBIT of €340 Mln.

Refining results at €120 mln were significantly better versus last year despite the upset in Sannazzaro and the force majeure in Livorno: this year we expect the EBIT refining breakeven margin below \$4/bbl.

Finally Versalis reached excellent results, with more than €420 million of EBIT.

It will be the second year in a row of record results for our chemical division.

This remarkable accomplishment was made possible by the production mix optimized to capture a favourable scenario.

During 9M these sectors generated a CFFO in excess of € 1.2 billion, and a free cash flow of almost € 900 mln including the benefits of the sale of our Belgium retail business.

Overall the company generated in 9 months € 3.8 bln EBIT, an improvement of €2.8 bn vs last year.

This result was driven by:

- the improved scenario for €2.5 bln, mostly in the upstream sector;
- growth and efficiency actions for € 500 mln; and
- negative one-off effects and OPEC cuts for around € 200 mln

We generated an adjusted net profit of €1.4 billion.

The average tax rate in the 9 months was 60%. On a full year basis, we confirm a tax rate of 65% reflecting the growing weight of upstream to the overall result and a cash tax rate of 28%.

Finally our cash balance.

Up to September we generated € 6.8 bln of operating cash flow which allowed us to more than cover our capex, which reached a level of €5.7 bln.

It implies that we were able to cover our investments and the pro-rata full cash dividend with an oil price just below \$ 60/bbl.

This result would have been even stronger considering the not yet optimized performance in Kashagan and Goliat and the one off reduction of Val d'Agri.

On a yearly basis we confirm an organic coverage of dividends at about \$60/bbl.

Our organic cash generation is further reinforced by the dual exploration model which allow us to anticipate cashflow of future production from our main discoveries.

During this year mainly due to Mozambique and Zohr disposals we will cash-in €3.7 billion, of which €1.5 billion was cashed in the first 9 months.

This will reduce our full year dividend cash neutrality to less than \$45, one of the lowest in the sector.

With an expected leverage at 25%, corresponding to a gearing of 20%, we confirm the strength of our balance sheet.

And now we come to our conclusions

Let me highlight in one slide the key messages for 2017 that we presented today:

- E&P will reach its highest ever level of production and will continue to add high value barrels;
- G&P is structurally positive;
- Chemicals is beating new records and R&M is further enhancing its resilience;
- At less than \$45/bbl Brent we have one of the lowest levels of cash neutrality to cover capex and a full cash dividend; and
- Gearing is expected to fall to 20% at year end.

Now together with the company's top managers, we can open the floor to q&a.

Q3 2017 Eni SpA Earnings Call

Questions and Answers

CORPORATE PARTICIPANTS

Massimo Mondazzi - Chief Financial Officer

Antonio Vella - Chief Upstream Officer

Luca Bertelli - Chief Exploration Officer

CONFERENCE CALL PARTICIPANTS

Oswald Clint - Sanford Bernstein, Analyst

Anish Kapadia- Tudor Pickering Holt, Analyst

Brendan Warn - BMO Capital Markets, Analyst

Theepan Jothilingam - Exane BNP, Analyst

Irene Himona - Société Générale, Analyst

Biraj Borkhataria - RBC, Analyst

Marc Kofler - Jefferies, Analyst

Massimo Bonisoli - Equita, Analyst

Thomas Adolff - Credit Suisse, Analyst

Alessandro Pozzi - Mediobanca, Analyst

Rob West – Redburn, Analyst

Lucas Herrmann - Deutsche Bank, Analyst

Hamish Clegg – Bank of America Merrill Lynch, Analyst

OSWALD C. CLINT, SANFORD C. BERNSTEIN & CO., LLC., RESEARCH DIVISION: Massimo, I wanted to ask about the CapEx, please. I think you're saying it's coming in at EUR 7.5 billion and that feels like it's a couple of hundred million euros less than initial guidance. If that's true, can you talk about where that saving is coming from? Is it one big project like Zohr or is it CapEx savings across all of the development projects and also upstream and also downstream? And more importantly, will those savings flow into 2018 as well, please?

And my second question was just on the liquids realization spreads that we're seeing here in the quarter and also for 2017 where we're seeing a narrowing that's happening here through this year versus last year. Does that continue to narrow as Kashagan oil liquids volumes continue to increase?

MASSIMO MONDAZZI: I'm going to answer your first question. I'm not sure I got your second question. Maybe later on, I'll ask you to repeat the question.

So as far as the CapEx, okay, so yes, you are right. We are expecting something less than EUR 2 billion in the fourth quarter, so totaling something in the range of EUR 7.5 billion. The slight decrease versus the original guidance is, I would say, spread all around the businesses, and we say, around the main project.

You mentioned Zohr. We are really well on track on Zohr, even in costs. So probably, versus the original guidance, we recorded a slight decrease. But the costs were so low even at the beginning that the point is minimal. And we are recording even a slight reduction in non-upstream CapEx. I mean, mainly in Refining and in the Chemical as well as the new businesses because we are a bit late in implementing our renewable project, mainly in Italy. This is the first question. Could you repeat, please, your second question?

OSWALD C. CLINT: Yes, I just wondered, your liquids realization versus the spread and the difference between those is they are a lot narrower; the gap is a lot less this year, in the third quarter versus last year and I'm just wondering about is that trending down from here.

MASSIMO MONDAZZI: Yes, yes, I confirm that we -- our realization is a little bit better and we expect that to continue even into 2018, thanks to the -- mainly, the production from Goliat, the Kashagan, that you know are high-quality oil.

OPERATOR: The next question comes from Mr. Anish Kapadia from TPH.

ANISH KAPADIA ANALYST: A couple of questions, just another one on the CapEx. Given the move that we've seen in the euro and dollar, I was wondering, should we expect flat CapEx in 2018 in dollar terms, i.e., lower CapEx in euro terms next year?

And then the second question, looking at the potential FID over the next year. So there's a number of projects that appear ready to FID. I just wondered which of these you think would reach FID by the end of next year. And the projects I'm thinking of are Nene Phase 3, Amoca in Mexico, the Mamba onshore project, Etan in Nigeria and the Kashagan CCO project.

MASSIMO MONDAZZI: Okay. So as far as the CapEx guidance, I would say, definitely, we will be more precise when we present the strategy presentation next February. So we don't have now a guidance to be shared with you, but as far as I can see right now, there is no reason to change the guidance we gave for the full year in last March, when we talked about an average of EUR 8 billion per year. So it would be, more or less, the same. So the expectation will be, in 2018, such a level of CapEx untouched.

And now I ask Antonio Vella to update you about the FID we are going to take at the end of this year and in 2018.

ANTONIO VELLA, CHIEF UPSTREAM OFFICER: Okay, concerning the FID of 2017, we are progressing quite well with the Johan Castberg with Statoil. And probably, we will progress in final investment decision by end of November, so when -- it's the same day that we're going to present the POD to the authorities. So Johan Castberg will be one of those 2. The second one is Nidoco expansion, which we have a Phase 3 of Nidoco and will be done also this year.

ANISH KAPADIA ANALYST: I'm sorry, the projects for 2018?

ANTONIO VELLA: So 2018, we have Mexico. As you know, that Mexico is ongoing. And Etan, it's also ongoing. We are receiving most of the offer for the final investment decision, but we are not quite sure that it will be done this year. Most probably, it will be done next year. Thank you.

OPERATOR: Next question comes from Mr. Brendan Warn from BMO Capital Markets.

BRENDAN WARN, SENIOR OIL AND GAS ANALYST, BMO CAPITAL MARKETS EQUITY RESEARCH: Just first question is a clarification on your statements on Kashagan. I noticed Kazakhstan is obviously down this quarter in terms of production, but if you can just clarify what you said about the slower ramp up, and you gave some production estimates for 2018.

Then my second question just relates to Versalis. Obviously, you've had great results these last 9 months. Can you talk about if there is any change to mid-cycle expectations into 2018? You touch on polyethylene margins being down into 2018 and stable sales volumes. Should we expect better results than sort of the EUR 300 million guided to your Strategy Day? I'll leave it there.

MASSIMO MONDAZZI: Okay, so I leave the floor to Antonio to answer the question about Kashagan.

ANTONIO VELLA: Okay. So during the Q2, if you remember, we started the commissioning of the gas injection and we performed additional maintenance specifically in the Island-A, which is this potentiality is [380,000]. And the start-up of Island-A is going to happen by 10th or 15th of November. So unfortunately, this has postponed the -- our ramp-up, which will be completed by the first half of 2018. In addition to that, we have completed all the shutdown of Karachaganak. And as Massimo mentioned, our growth on Kazakhstan in third quarter to fourth quarter would be 35,000 barrel. Thank you.

MASSIMO MONDAZZI: Okay. So as far as Versalis, mid-cycle, certainly, as you mentioned, what we are projecting is a worsening of the scenario. Probably, the EUR 300 million of EBIT per year in the next 2, 3 years still remain our guidance as far as the expected EBIT for this business.

OPERATOR: Next question comes from Mr. Theepan Jothilingam from Exane Paribas.

THEEPAN JOTHILINGAM, EXANE BNP PARIBAS: I just had a question coming back to disposals. Could you just talk about the timing and monetary value of the reimbursement CapEx disposals and how we should model that? Secondly, I think just in terms of the production disruptions Eni has suffered in 2017, I think you've mentioned Kashagan now. Is there any other rollover into 2018 we should think about? And thirdly, could you just confirm that your CapEx and your flexibility around group CapEx for 2018 still remains down to 20%?

MASSIMO MONDAZZI: Okay. So about the disposal timing, you know, first of all, the big deadline. We already completed the Zohr disposal as regards both the BP and Rosneft transaction, and we expect to complete the 25% disposal of Area 4 to Exxon by the end of this year.

The EUR 5.7 billion CapEx -- or the EUR 7.5 billion CapEx as a guidance by year-end, are net of the CapEx. We are in bracket savings because of the disposals. And as far as the numbers in 2017, we are talking about something in the range of, I would say, EUR 700 million as concerns the 40% of Zohr. And we expect EUR 400 million as far as the 25%(corrected) of Mozambique. So we are talking about EUR 1.1 million saved as far as the 9 months, slightly higher if we project a number by year-end.

Let me complete my answers talking about the CapEx flexibility, and then I leave the floor to Antonio, talking about production. So CapEx flexibility, so yes, more or less, the flexibility we expect out of the assumed EUR 8 billion in 2018 remain more or less at 20%. Definitely, as we go ahead and we are closer to the beginning of the year, we expect that this percentage will be slightly reduced. And now, Antonio, to answer.

ANTONIO VELLA: Okay. So let's go back to the third quarter, which the production has been

1,800,000, and how we're going to grow to 1,900,000 in this fourth quarter. So as I mentioned you that Kazakhstan will grow 35,000 and we expect to back on Kashagan on oil of 240,000. And Italy, Val d'Agri, we got a shutdown of a month during July and then now we are on production it's going to grow 20,000 barrel. And then on U.K., we completed all the maintenance and we will grow to 22,000. And Indonesia and in Ghana, we'll go over 13,000. And all the other maintenance, which has been partly completed, this part is going to be completed soon, and then this is going to be a robust value of 1,900,000.

THEEPAN JOTHILINGAM: Okay great. I was just trying to understand, does **Eni** receive back that EUR 1.1 billion of CapEx? And when do you receive that CapEx?

MASSIMO MONDAZZI: So the capital has been already received. We are talking about Zohr because, by definition, we haven't received any cash for Mozambique because we are still waiting for the closing. So talking about Zohr, you know that part of the price will be delayed. So in 2017, we'll cash in something in the range of 65% of the overall cash, including the CapEx I just mentioned.

THEEPAN JOTHILINGAM: Okay, so it's in the disposal process?

MASSIMO MONDAZZI: Yes, yes. So just to be sure that the information is completed, when we come to conclusion, so in the case of Zohr, we already got the completion, all the capex will be reimbursed. We have been reimbursed as far as the CapEx before 2017 because the economic data we are referring to is for January 2016. And part of the price, the 35%, will be cashed in, in the next 2 years, I will say mainly in 2018 and the remaining part in 2019.

OPERATOR: Next question comes from Ms. Irene Himona from Societe Generale.

IRENE HIMONA, EQUITY ANALYST, SOCIETE GENERALE CROSS ASSET RESEARCH: I had 2 questions, please. Firstly, Gas & Power, in particular, retail gas. You separated that business out in a subsidiary earlier this year. In the past, you had called it non-core. Now, in today's press release, you seem to be saying you actually want to keep it and maintain market share. I was just wondering if you can update us on your latest thinking strategically about this division.

My second question, Refining & Marketing, which was very impressive this quarter, can you just split for us Refining from Marketing in Q3 in terms of EBIT?

MASSIMO MONDAZZI: Okay. So strategic thinking about Gas & Power, yes, the current strategy underlying on this respect is to keep the gas, the retail business in our portfolio. So we changed a little bit our mind versus what we said more or less 2, 3 years ago when we judged this business as a non-core one.

Why we did it? First of all, because the work that is being done and injected in retail gave a significant return. And it gave confidence to us that this could be a good business to be retained in our portfolio with good prospective even in terms of growth.

And second, we realized in this, I would say, uncertain environment that to keep, I would say, a quite stable or anyway a non Brent-related brand business in our portfolio is something positive. So that's the reason why the current idea would be to keep on developing the retail business, selecting our client, but at the same time, trying to enlarge the number of product to be sold to our customers. And increase the return we can get from the customer is definitely the strategy we intend to follow.

And as regards the Refining & Marketing, in terms of EBIT, as far as the third quarter, so in term of Marketing, so the overall is EUR 224 million. And as far as Marketing, the contribution is in the range of EUR 130 million. And as far as the Refining, the remaining part, so more or less EUR 90 million, EUR 94 million.

OPERATOR: Next question comes from Mr. Biraj Borkhataria from RBC.

BIRAJ BORKHATARIA, ANALYST, RBC CAPITAL MARKETS, LLC, RESEARCH DIVISION: First of all, on cash flow generation, could you just elaborate a bit on the extraordinary tax payment in Angola? That would be helpful. And if you are expecting anything similar for any other reasons maybe in the next couple of years. And the second question is pretty much -- is there any colour you can give on P&L taxes versus cash taxes, especially as you look out into 2018?

MASSIMO MONDAZZI: Okay. As far as the taxes, I'm afraid it's a bit -- it's too soon to give you a guidance. I would say nothing can drive me to give you a different guidance as far as 2018. So more or less, we expect a 65% of tax rate, assuming an environment, mainly a Brent price, in the range of \$55 per barrel. Because we expect that as the oil price will grow up, even our -- as we said a lot of time in the past, even our tax rate will be lower.

And the first question was about the Angola. And so we paid USD 170 million, this is a long-lasting negotiation with the Angolan tax authorities involving all the international oil companies operating there. The period of time under negotiation was very long, starting from 2002 to 2016. It was related to how to deduct some items, some operating items in the existing contracts. The payment we made is definitive, so all the discussion, all the negotiation now in the countries are over. It was an extraordinary situation in our portfolio, and we do not expect any other negotiation like this in the near future.

OPERATOR: Next question comes from Mr. Marc Kofler from Jefferies.

MARC B. KOFLER, EQUITY ANALYST, JEFFERIES LLC, RESEARCH DIVISION: I just wanted to

come back to the production growth numbers that you've outlined in Q4. Could you just reiterate how you move up to 1.9 million? And then also, could you talk about 2018? I know, in the past, you have given an exit rate for the prior year, so maybe an exit rate '17 or any more colour around the 2018 production profile would be useful.

MASSIMO MONDAZZI: Okay, I'll give the floor to Antonio to talk about the increase from 1.8 million to 1.9 million of boe in the fourth quarter.

ANTONIO VELLA: Yes, thank you, Massimo. So as I mentioned before, the 1.8 million barrel per day on the third quarter, it will grow 100,000-barrel plus. In 1,000 -- 1,900,000, with the contribution of 35,000 from Kazakhstan, mainly from Karachaganak, because all maintenance has been completed. And the Italy plus were 20,000 barrel from Val d'Agri, as you remember, the shutdown on July. And U.K., plus 22,000 because we ended all the maintenance between Elgin/Franklin and Liverpool Bay.

Then we have a growth on Indonesia and Ghana on 13,000-barrel per day and then other maintenance. So that is going to be the 1,900,000 that is going to end the year of 2017.

MASSIMO MONDAZZI: Okay. So, Marc, as far as the guidance in production for 2018, again, we are now internally working around the new strategic plan, so it's a bit soon to anticipate if there is any change versus what we said in March. So maybe we can update you in the next week on this respect.

MARC B. KOFLER: Okay. And purely for an exit rate, any chance for this year?

MASSIMO MONDAZZI: Yes, the exit rate will be slightly higher than the 1.9 million boe that Antonio mentioned.

OPERATOR: Next question comes from Mr. Massimo Bonisoli from Equita.

MASSIMO BONISOLI, ANALYST, EQUITA SIM S.P.A., RESEARCH DIVISION: A couple of questions. Back to Val d'Agri, you assume higher production in fourth quarter. Could you give us some colour on the reinjection activity considering the request from local authorities? And the second question is any colour on the strategic thinking on Versalis? Considering all the option in place, can you give us an indication on how many months roughly will it take to IPO Versalis?

ANTONIO VELLA: The actual production of Val d'Agri, as far as today, we are 67,000- 68,000-barrel-per-day equity. So the -- we still have a very good production in Val d'Agri. What we are missing today in term of reduction on oil due to the Costa Molina 2 closure is between 6,000- to 7,000barrel per day. So the -- as you know, the 9 of October, the Region Council of Basilicata have issued a suspension act for the water injection, based on trace of organic compound; amines, in particularly, found on sample of the water collected, both from reinjection water tank and the plant of Costa Molina reinjection well.

As far as the protocol, we agree. When we restarted the production after the separation of the waters, **Eni** made over 200 sampling and tests, sending all of this evaluation to the authorities. So at the moment, we are trying to find out a way that the analysis of the regional council has been made. However, the issue is under clarification, and we don't expect so long to wait the reinjection. Thank you.

MASSIMO MONDAZZI: So Massimo, talking about Versalis, the strategic thinking about Versalis, to keep it and to try to maybe to reinforce it is mainly on the biochemical branch of activity. So there are no projects about IPOs or something like this. So by definition, no time now projected to come to that conclusion. That is not on our table today.

OPERATOR: Next question comes from Mr. Thomas Adolff from Credit Suisse.

THOMAS YOICHI ADOLFF, CREDIT SUISSE AG: I've got 3 questions, if I may. Firstly, on production, and please correct me if I'm wrong here. I think every year, or at least this year when you provided guidance, you had a contingency buffer of about 30,000 barrels per day. And then your guidance for the full year was 1.845 million. You now guide to 1.815 million. So in theory, there's a loss of about 60,000 barrels per day or about 3% of your production and I wondered how this is split across Goliat, Kashagan and Val d'Agri or if any other fields may have disappointed.

The second question, on Kashagan again, and it feels that every time you provide an update, it kind of gets a bit worse. So I just wondered whether one should have been a bit more conservative in the guidance for complex projects such as Kashagan to begin with or were these hiccups really truly unexpected. And I just also wonder what this generally means for your forward guidance, whether these are sufficiently risked or lacking contingencies.

And the third question I have was on Goliat. Again, on Goliat, it's been up and down. And if I have the numbers right, both planned and unplanned, it's down about 12 weeks this year; that's almost a quarter. Now I'm just wondering whether you feel confident that you should be operating this project or whether it should be handed over to someone else.

ANTONIO VELLA: Okay, so let's answer, firstly, your question on Goliat. So **Eni** want to operate the rig at the field, and we are quite confident on the capability of producing Goliat. However, the -- as you know, the shutdown of 3 weeks has been postponed from first quarter -- from second quarter to third quarter. The work has been completed on the 2nd of October, and then after that, the work which was planned to do during the production, we received an order from PSC to make it an inspection, recertifying the electrical motor for 250 motors. The work has been completed successful. No surprise came out on the 250 motors. So now we are re-completing again all the activity, and we expect, the first week of November, to back on full production again on Goliat, as we've been experienced before.

Concerning the contingency, and we've been including contingency of Goliat. And as you know, Nigeria and Kashagan, it already has been introduced. We have -- on the next quarter, we'll have 5,000-barrel contingency remaining, which is quite enough. In Kashagan, I think, as I mentioned, the commissioning of the compressor reinjection was successful, and this is not an issue concerning your expectation. So the main issue was the maintenance on Island-A, which counting 380,000-barrel per day, and you can imagine what does it mean. This is going to be completed very quickly in mid of November, and the ramp-up will continue, as always, the joint venture has been presenting.

MASSIMO MONDAZZI: Thomas, to complete what Antonio said and recapping about the contingency, I would say -- I would like to add that, in the past, we already matched the guidance that we gave about production. Sometimes, we perform better than the guidance. So this is the first time we have been forced to revise the guidance because of the fact -- the unplanned shutdown that took place in the second part of this year. We already absorbed a significant part of the contingency we had in the budget because of the unplanned shutdown we had in Val d'Agri in June, July. So that's the reason why we remain short of contingency and we have been forced to reduce our guidance.

OPERATOR: Next question comes from Mr. Alessandro Pozzi from Mediobanca.

ALESSANDRO POZZI, OIL & GAS EQUITY ANALYST, MEDIOBANCA SECURITIES: The first question on the cash flow breakeven. I believe your breakeven was around \$60 per barrel in the first 9 months, with volumes up in Q4 and, potentially, CapEx down. Just wondering if you can give us maybe a bit more color on how the breakeven could potentially reduce in Q4. And also, second question, I believe your target is to get to a gearing of 25%. I believe there's probably more than 2 billion of disposals that help you achieving that target. Just wondering if there is maybe some working capital movement on top of that.

MASSIMO MONDAZZI: So as far as the cash breakeven, you correctly mentioned the \$60 per barrel we already got in the 9 months and we are confirming by year-end. So all in all, the cash breakeven we expect in the fourth quarter, even if there is, I would say, no sense to calculate the cash breakeven applied to such a short period of time, so it remain around \$60, for an average of \$60 in term of full year cash breakeven.

As far as the leverage, you correctly mentioned the 25% would be reached, thanks to the cash-in of the 25% disposal of Area 4 in Mozambique. This is the -- I would say the most important contribution we expect. There are no significant contribution coming from working capital -- or more than normal coming from working capital in the fourth quarter. I have in mind a number that could be in the range of EUR 300 million, more or less, no more than that.

ALESSANDRO POZZI: Okay. And just onto your pro forma CapEx. It's going to be similar to the overall CapEx in Q4?

MASSIMO MONDAZZI: The EUR 7.5 billion include the -- what we are saving in term of disposal. I would say as far as the most important part, as far as Zohr, I would say, is done so because the contract has been signed. What could be potentially a variable part is the CapEx related to Mozambique. That is a deal that is expected to be closed by year-end. If not, the amount of CapEx that could be, I would say, postponed in term of recovery to next year is in the range of EUR 400 million.

OPERATOR: Next question comes from Mr. Rob West from Redburn.

ROBERT WEST, REDBURN: The first one is on Zohr. You highlighted some very strong well deliverability last quarter, around 250 million cubic feet per day. Have the recent wells been coming in as strong as those previous wells? And does that give you any room to change the development plan, for instance, using longer tiebacks or anything around the development there?

And then the second question I was going to ask you is just around the exploration plans in Mexico. I think there are 2 wells coming up in the plan. Do you have any update on just the timings of those and any initial indications that any of them have started drilling yet?

MASSIMO MONDAZZI: So Antonio and Luca to answer.

ANTONIO VELLA: Okay, concerning Zohr, we are progressing, as always we've been mentioned. So the first gas is confirmed, as Massimo already stated, in December.

So just to brief you where we are with all the development, so back to the deepwater, so the drilling and completion of the 8 wells, as you know. So 4 of that has been already completed and 2 of these are already connected and tested to the main pipeline. So with the 14-inch gas line, it's already connected and tested, ready for production. The 8-inch, also tested and ready for major injection. And the 26-inch pipeline is already connected to the shore and tested, ready for production.

As we've been always mentioned that the onshore activity is under commissioning, and we will complete all the connection and testing by, let's say, end of November. So the deliverability of the well has been also tested, and we are moving between 250 million to 300 million scf per well. And the first train is going to be 350 million scf, the early production. And then the ramp-up, as you know, as per POD presented.

MASSIMO MONDAZZI: So Rob, the plan has not changed because of the production per well because the current production per well is exactly what we expected since the beginning of the period. We already tested the production before launching the development plan.

ANTONIO VELLA: All the 4 well has been cleaned up and tested.

LUCA BERTELLI, CHIEF EXPLORATION OFFICER: Regarding Mexico, we are currently drilling our fourth well, and we expect to reach our targets in around a couple of weeks. The next plans comprises the testing of the 2 wells that we recently drilled for assessing the deliverability of the wells. So before the year-end, we will have result of a further well and the testing results.

OPERATOR: Next question comes from Mr. Lucas Herrmann from Deutsche Bank.

LUCAS HERRMANN, DEUTSCHE BANK AG: A couple, if I may.

Firstly, the dual exploration model, very successful this year in terms of realizing proceeds. As we look forward, what sits in your hopper or what exists today that you might be able to remind us of and talk around in terms of material potential revenues or proceeds into the future? And perhaps within that, maybe you'd give us some indication of where you see your equity stake remaining within Mexico, which I presume you will sell down at some other point.

Second question, just on Gas & Power and going back to Irene's comments on retail, when you gave your forward guidance on the profit potential of Gas & Power into the medium term, did that assume the retention of the retail business? Or should we feel more optimistic about the potential of the business now?

And finally, just a simple question on Intisar or the volumes from Intisar, can you remind us what the level is and when those volumes start to drop out of your production schedule?

MASSIMO MONDAZZI: Okay, I'll answer your dual exploration question, maybe together with Luca, and Gas & Power, and then leave the floor to Antonio answering about Intisar.

So as far as the dual exploration, you mentioned Mexico. Definitely, Mexico could be the next step on this direction because we are retaining 100% of the Area 1 in Mexico. And there is no percentage, a minimum percent. Definitely, we would like to retain the operatorship. A dilution of 30%, 40% would be something that could be definitely achieved.

And then other potential target for the future could be Indonesia, where we are retaining significant stake in -- around Jangkrik and Merakes. This would be, I would say, next -- the next target.

Yes, Gas & Power, we had 2, 3 years ago project to divest in the retail business, but this project, you remember, we always said that the industrial projection were made including retail, without any disposal proceed including in our disposal program. So no effect about potential disposal and now, what we are projecting remain on the full activity, including retail. So no, I'm afraid no potential upside in term of guidance as far as this aspect.

And now, I leave the floor to Antonio to answer about Intisar.

ANTONIO VELLA: So as our agreement of Intisar is going to be completed by the end of 2018, and distribution of the production has been kept constant among all the years.

LUCAS HERRMANN: Sorry, could you remind me what that production is and therefore what falls out?

ANTONIO VELLA: So the production allocated was 70,000 for single years, and then it's going to be completed in the next year.

LUCAS HERRMANN: Sorry, that's 70,000 barrels of oil equivalent a day?

ANTONIO VELLA: That's right, yes. Thank you.

OPERATOR: Next question comes from Mr. Hamish Clegg from Merrill Lynch.

HAMISH CLEGG, BOFA MERRILL LYNCH: Three questions from me. Just to get back to Goliat. I know people asked about it again. A year ago, we were reassured that everything was okay, and it's persistently being switched on and off again. Could you reassure us what work is being carried out and why the PSA made you switch it off?

Secondly, just on Zohr, I know timing is meant to be on track for the year-end. We've seen many projects creep. Is there a risk we see the start-up creep into 2018?

And then, finally, and this may be too long term for the call, but could you tell us if you have any views or thoughts on preparing your refineries for the 2020 change in marine fuel regulation that we expect to impact the market being imposed by the IMO?

MASSIMO MONDAZZI: Okay. Antonio, to answer about Goliat and Zohr. And I'll answer about the refinery expectation.

ANTONIO VELLA: Yes, as I mentioned in Goliat, we did a 3 weeks shutdown, agreed with the authorities. And then at the completion of the shutdown, we got an instruction from PSC to look at the 250 motor, which we've been planned to check during the production. So this is the last activity that has been discussed with the authority and we do not expect any more reason to shut down Goliat again. So this has been several time discussed with the authority and we are confident that has been completed all the check they've been requesting. Concerning Zohr...

HAMISH WILLIAM GEORGE CLEGG: Agreed after you've completed the checks?

ANTONIO VELLA: Sorry?

HAMISH WILLIAM GEORGE CLEGG: And they've -- you've done the checks and they're happy with that.

ANTONIO VELLA: Until today, we have completed all the motors, and nothing has been identified on the recertification. And this has been the third recertification on all the motors. So we are -- they are quite happy now, and we are planning to start up jointly with the PSC and the safety delegates, as you know.

Concerning Zohr, we are -- as I mentioned to you, we are making a progress of 4%, 5% per month. And today, we are close to 90%. And this is why we are strongly confident to produce gas in December. The window is going to be after the mid of December. Anytime from there, we're going to produce gas.

MASSIMO MONDAZZI: And as far as the refinery, the new sulfur content regulation, we are quite positive on this because you know that our refining system is a complex one. So we are definitely prepared to deal with this new regulation. The real effect are quite uncertain in term of changes in prices and quantities, but our expectation would be that at least this positive effect should counteract the expected reduction in the European Refining margin. That's the reason why we -- for the future, we are projecting a stable Refining margin in the range of \$5 per barrel.

OPERATOR: No more question at the moment.

MASSIMO MONDAZZI: Okay. Thank you very much to all of you.

OPERATOR: Ladies and gentlemen, the **conference** is over. Thank you for calling **Eni**.

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