

H1 2017 results

July 28th 2017

Presentation

Speakers:

Claudio Descalzi - CEO

Good afternoon and welcome to our 1st half results presentation.

Our long-term strategy of upstream growth and Mid-downstream turnaround delivered excellent results, in the first half.

In Upstream:

Production was 3% higher YoY, and 6% considering the adjustment for PSA effect and OPEC cuts

All the key developments have been executed ahead of schedule and on budget, delivering 3 major start ups: Block 15/06 East Hub in Angola, Jangkrik in Indonesia and OCTP in Ghana

Zohr is progressing ahead of schedule towards first gas by year end

Kashagan ramp up continues with oil gross production above 200 kbbbl/d

The overall contribution of ramp ups and start ups has already achieved 200 kboe/d in the first half of the year.

In June we took the FID for Coral FLNG, the first offshore development in the country, which will give us a material contribution from the beginning of the next decade, opening up a new LNG hub.

Finally, Eni has made important new discoveries in the shallow waters of Campeche Bay in Mexico. We doubled the Amoca hydrocarbon estimates from 500 Mln boe to 1 bln boe raising Area 1 resources to 1.3 billion boe of OHIP with further upsides.

In the Mid-downstream we recorded an EBIT of around €730 mln:

G&P is on track to reach a structural positive result in 2017 for the first time in 5 years

R&M is continuing the trend of strong results, with an EBIT growing by 110% year on year and refining breakeven expected below \$4/bbl in 2017,

Chemicals reached a new record, achieving the best half result ever and the highest return on capital employed among our businesses

Cash growth is the most remarkable result.

We generated €5 billion of cash flow from operations (before working capital), excluding the negative effect of Val d'Agri shutdown that amounted to €150 million in the quarter.

This doubles the size of last year's cash generation and is well above the amount of €4.3 bln of the capex in the period.

Finally in the first six months of the year, we have already collected €300 Mln of net cash-in from the disposals completed in the past months and, in the second half of the year, we expect to collect the remaining amount equivalent to € 3.7 bln.

Before detailing our operational and financial results, I'd like to elaborate on our latest exploration success.

In Mexico, we were the first international company to make a discovery. We have drilled the Amoca-2 and Amoca-3 wells in the shallow water of Campeche Bay, confirming and discovering major multiple oil prone reservoirs.

The Amoca field now is estimated to contain a resource base of 1 Billion barrels of oil.

Amoca 3 has been successfully tested delivering, with high productivity, oil with 25-27° API degrees and low GOR.

In the Area 1 where Eni holds a 100% stake, we will continue the drilling campaign with Miztón-2 and Tecoalli-2.

On Amoca, we are preparing a Plan of Development targeting an early production with a plateau of around 50,000 BOPD, and we foresee low development costs due to the fact that Amoca is a shallow water field and just a few kilometers from the shore.

We are targeting the start up in the 1st Half of 2019.

In addition, in June 2017 we won three more licenses, strengthening the presence in this emerging new oil basin, with the aim of building a new "core area" in the country.

For the first half of the year we have already discovered about 500 mln boe, more than half of our target for the year.

Furthermore, the Mexico success enhances the optionality of our model that is based upon:

- The "Dual Exploration" approach which focuses on assets with high initial stakes and future disposal to accelerate cash-in and reduce exposure
- and the fast track development, to anticipate production, operational cash and reserves promotions.

Development is an area where we have made major efforts over the last years in order to increase cost efficiency and reduce time to market.

The start-ups of 2016, and the more recent ones in 2017, are clear evidence that this model is working effectively.

In February, the East Hub project came on stream 5 months ahead of schedule and the overall block 15/06 is now producing around 150 kbbl/d of oil, 50 kbbl/d net to Eni.

In May, we put two more projects into production: Jangkrik, an LNG development in Indonesia and OCTP, an oil field in Ghana.

The ramp-up of Jangkrik was already completed at the end of June, 2 months ahead of schedule, reaching a total production plateau of around 85 kboed, 45kboed in equity. On

June 22nd we delivered to Pertamina the first LNG for the domestic market and at the beginning of July, we lifted the first cargo for the export market.

In Ghana the OCTP project was completed 3 months ahead of schedule and is now in the ramp up phase, reaching a full production level of 45 kboed by the end of the year.

The second phase will produce gas and will start in the first half of 2018, allowing us to achieve a production plateau of about 85 kboed.

Finally, Zohr is progressing very positively, with a progress of 80% at the end of July, and we expect to start up within December.

We have already drilled 6 wells and almost completed the laying down of the offshore pipelines. The new offshore control platform, installed in June, is under commissioning while the onshore gas plant is 70% completed.

These 4 fields are expecting to deliver 75kboe/d of equity this year and more than 190 kboe/d in 2018.

Thanks to these developments, Upstream production in the first half of 2017 was 1783 kboe/d, a 3% growth.

Factoring-in OPEC cuts and the PSA effect, first-half production would have been 1836 kboe/d resulting in a 6% growth.

In the first half we had a remarkable contribution from ramp ups and start ups of 200 kboed.

For the Full Year, we confirm our guidance of 1840 kboe/d thanks to the contribution of around 270 kboe/d coming from the projects in Egypt, Angola, Indonesia, Ghana, Kazakhstan and Norway.

The good upstream EBIT result of €2.3 billion was related, for around 80%, to an improved scenario, and the rest to better performances and cost efficiency.

Upstream Operating Cash Flow was around €4.2 billion with a cash flow per barrel in line with the guidance given at our strategy presentation.

In the first half of 2017 we delivered positive results in our mid-downstream segments, confirming the effectiveness of the turnaround programme.

In G&P, we recorded a positive EBIT of € 192 million, 136 mln € more than last year. Net of one-off contributions, the 1st half result was €184 mln higher compared to 2016, confirming the material improvement of the underlying performance.

This achievement consolidates the prospect for a positive and structural result of G&P business in 2017.

In Refining and Marketing, we achieved a positive EBIT of €231 Mln, 110% more than last year. This remarkable improvement is related to the optimization in crude supply and good performance in the retail marketing. Refining results were in line versus last year despite the upsets in Sannazzaro and this year we expect the refining breakeven margin below \$4/bbl.

Finally Versalis reached excellent results, achieving the full-year target in only 6 months.

This achievement has been possible thanks to lower downtime and an optimized production mix and proves that Versalis is now in the position to capture market opportunities.

Overall in the first half, the company generated € 2.9 bln EBIT, an improvement of €2.1bn vs last year.

This result is driven by:

- the improved scenario for €1.9 bln, mostly in the upstream sector
- growth and efficiency actions for € 400 mln
- one-off effects and OPEC cuts for around € 200 mln

We generated a net profit of €1.2 billion, the highest level since 2014.

The average tax rate in the first half of 2017 was 55%. We expect, at our scenario of \$55/bbl, to have a tax rate of 65% on a full year basis, reflecting the growing weight of upstream to the overall result.

During the 1st half we invested 4.3 billion euros, a reduction of 14% against the first half of 2016.

The projects which started-up this semester and the Zohr development have been the main drivers of 1st half capex.

In the 2nd half, investments will reduce their pace, amounting to around €3.5 bln, as major developments are completed.

We confirm that full year capex will be below €8 billion, representing an 18% reduction vs 2016, at the same exchange rate, in line with our guidance.

2017 will be a year of strong cash recovery.

In the first half, notwithstanding a volatile oil price environment, we generated € 5 bln of operating cash flow which allowed us to entirely cover our capex, which reached a level of €4.3 bln.

In particular in the Q2 we confirm an accelerated trend of cash flow generation, reaching a level of €2.3 bln compared to a capex amount of just €1.8 bln.

In the coming quarters, our cash flow will benefit from a larger contribution from production growth and we will reduce the pace of our investments, reaching a level of 3.5 Bln € in H2.

Finally before the end of the year we will cash-in €3.7 billion, mainly due to Mozambique and Zohr disposals, and the Belgian retail gas sales already collected in July.

On a yearly basis we confirm an organic coverage of dividends at about \$60/bbl, dropping to \$45, including the organic contribution of the dual exploration.

This value implies a full cash dividend and comes from the organic cash generation of our discovered reserves and production, while ensuring future growth and 100% reserves replacement.

Based on this performance I will propose to the Board that we shall confirm an interim dividend of 40 €/cents per share.

Together with the CFO and Company management, we are now ready to answer your questions.

Q2 2017 Eni SpA Earnings Call

Questions and Answers session

CORPORATE PARTICIPANTS

Claudio Descalzi - Chief Operating Officer

Massimo Mondazzi - Chief Financial Officer

Antonio Vella - Chief Upstream Officer

Daniele Ferrari - CEO Versalis

Massimo Mantovani - Chief Midstream Gas & Power Officer

Luca Bertelli - Chief Exploration Officer

Alberto Chiarini - Chief Retail Market Gas & Power Officer

CONFERENCE CALL PARTICIPANTS

Oswald Clint - Sanford Bernstein, Analyst

Biraj Borkhataria - RBC, Analyst

Christyan Malek - JPMorgan, Analyst

Brendan Warn - BMO Capital Markets, Analyst

Irene Himona - Société Générale, Analyst

Alessandro Pozzi - Mediobanca, Analyst

Massimo Bonisoli - Equita, Analyst

Thomas Adolff - Credit Suisse, Analyst

Marc Kofler - Jefferies, Analyst

Theepan Jothilingam - Exane BNP, Analyst

Iain Reid - Macquarie, Analyst

OPERATOR: (Operator Instructions) First question comes from Mr. Oswald Clint from Bernstein.

OSWALD C. CLINT, SENIOR RESEARCH ANALYST, SANFORD C. BERNSTEIN & CO., LLC., RESEARCH DIVISION: Claudio, can I just ask maybe about the discoveries, another 0.5 billion barrels here this year so far. You already had a pretty healthy outlook on production that is well onto 2025, from what you have discovered. So how do you think about that 3% long-term production growth level? Is that the right number? Could you do more? And if not, then I guess it means you're going to continue to see more and more of these divestments from the exploration side of the strategy? And then the second question is more on Jangkrik. I see you have won a contract to sell LNG into Pakistan for next year. So was that the original plan? Can you maybe tell us how much gas goes domestically versus LNG exports and if there's any difference in the netbacks between those 2 monetization strategies?

CLAUDIO DESCALZI: The first question about production growth. We confirm our production growth, again the strategy of 3% in the 4-year plan, 3% long-term because it's based on the existing reserves, existing projects, very, very mature one. And it's clear that it is here -- will be -- is higher than the 3%. But the -- on average, we can confirm. We are growing. We have production optimization and other positive results that help us compensate some offset this year. But overall, we can confirm. For exploration, for the dual exploration, we are discovering like in Mexico with a very high stake

because we own 100%. So the model -- we are confirming the model, and we have -- after all this FID and project long term, we still have some billions of resources that we found that are ready and ready for the dual exploration. So them all, that is absolutely confirmed. For Jangkrik, contractually, we have a 25% that flow into the domestic market, and the rest is for -- is on the export market. We took in consideration the -- this commercial aspect when we sanctioned the project. So there is no surprise. And on average, it gave a very good internal rate of return. And so I think that the model is quite robust. In Indonesia, it's quite robust countries, and the 25% is a reasonable amount, especially considering that Indonesia needs a lot of gas for the internal domestic consumptions.

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

BIRAJ BORKHATARIA, ANALYST, RBC CAPITAL MARKETS, LLC, RESEARCH DIVISION: I had a few. Firstly, on CapEx. 2017 is obviously very H1 weighted. I'm looking at the Slide #8, but the reported figure for H1 is about EUR 5 billion in the first half. So should we think about it as EUR 8.5 billion CapEx for the year and then the difference between the 2 is received as divestments? That'll be my first question. Second question is slightly related to that. But could you give any guidance on the Rosneft deal and when do you expect that to close, whether that's 3Q or 4Q? And finally, just going to your production guidance. Q2 production was a little weaker than we had expected, but you maintained the guidance. So could you talk a little bit about any contingency you have within that [18, 40] number and how much you have left there?

CLAUDIO DESCALZI: About the first question, I'll say a few things. Then I -- Massimo will take over to complete the answer. In term of CapEx, you saw what we presented is a - is very robust one because we have a cash flow from operation that is quite high, higher than the CapEx. And the CapEx of the second half will be lower because the major investment development being done in the first half, now we have just Zohr and we have differences between CapEx and cash flow from operation. Clearly, what we said is that considering the dual exploration, we have \$45 of cash neutrality. And the \$45 million cash neutrality is made by two main components. One is the operating cash flow coming from our production. The second one is organic cash flow coming from the dual exploration. So the answer is that the \$45 million is reached considering the two organic components. You want to say something about Zohr, M&A and the rest?

MASSIMO MONDAZZI, CFO, ENI S.P.A.: But I confirm that the number we are projecting by the end of the year in term of investment is net of what we are going to recover through the disposal that we already signed, mainly Zohr. So this is the overall effect. And then in term of timing, you don't know, it's a bit long process. We -- very recently, we got the antitrust authorization. I'm talking about the Rosneft deal on Zohr. So what is still amiss? Some other bureaucratic papers to be prepared. Maybe the closure would happen in the third quarter. As a second chance, we say fourth quarter, for sure, in 2017.

CLAUDIO DESCALZI: The last question was about production growth in 2017 because we confirm. So what we can say that what we have in 2017, the second half, first of all, we have 100% of the [Dockery] that we recover starting from 19 of July. Then we have the Kashagan ramp-up. We have OCTP ramp-up. We have East Hub ramp-up and some fields in Egypt. So overall -- and Jangkrik has already ramped up. So overall, we can consider that we have an addition, of 270,000 barrel per day. It's coming from ramp-ups and new startups that will allow us to reach these targets. We still have some contingency, clearly, in order of some 10,000 barrel per day, something around more than that. And we have also production optimization that is near field, especially in Egypt and in West Africa, that is going to help. But that is real contingency, because without any issue, we have all the barrels that we need to reach this target.

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

Next question from Mr. Christyan Malek from JPMorgan.

CHRISTYAN FAWZI MALEK, MD AND HEAD OF THE EMEA OIL AND GAS EQUITY RESEARCH, JP MORGAN CHASE & CO, RESEARCH DIVISION: Just 2 questions. First of all, on Zohr. If you could just elaborate more, in terms of just the development plan. I know you talked about it being on track, in terms of just -- probably CapEx associated with it. You saw extensive derisk [by] CapEx and what are some of the key milestones that you're looking for to ensure it become, so to speak, the [marketable by] the end of the year? The second question, it comes back to cash breakeven. To what extent do you want to [sort of low this] cash breakeven? I know you talked about in \$40s, in terms of that's a target. But over the medium term, do you feel comfortable that you can get your cash breakeven post-dividend into sort of the \$40 to \$50 range with the CapEx burden that you have, particularly developing there as what you've discovered, and so on? Just want to understand how you've calibrated that, in terms of your \$8 billion CapEx.

CLAUDIO DESCALZI: Christyan, for Zohr, Antonio Vella will answer and then Massimo for cash breakeven.

ANTONIO VELLA, CHIEF UPSTREAM OFFICER, ENI S.P.A.: Okay. So concerning the situation of Zohr of today is we have let's start from the offshore. We completed already 2 wells. The rig is on the third one. We confirm the rate of production above 250 million scf per well. We may estimate also 300 million. And we are going to complete all the well within November. The sea line has been completed, and we have just the last 9 kilometer of the 26-inch pipe. And onshore, we have already a progress of 80%. We are intending to start gas in December with the first train of 350 million scf, and then immediately after, we grow with the second train and third and so on, as planned at the beginning.

MASSIMO MONDAZZI: But in term of future cash breakeven, we never gave an exact number looking forward. What we said presenting our strategy, that we are starting from 60 and we're going to decrease the breakeven all along the 4-year plan. And the result that we said -- the result that we are reaching in this quarter, this semester comforting us that the future decrease is absolutely likely and available to us.

CLAUDIO DESCALZI: CapEx at Zohr.

MASSIMO MONDAZZI: CapEx Zohr. So we gave the numbers around 12 billion for full development, part of then devoted to the first phase and that we are definitely fully in line, even slightly lower than what we announced in this respect because we are recording a very good performance in term of, from one side, the activities and, second, the latest contract we signed with the contractors.

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

BRENDAN WARN, SENIOR OIL AND GAS ANALYST, BMO CAPITAL MARKETS EQUITY RESEARCH: Two questions, if I may. Just firstly, you mentioned the Kashagan a couple of times. Can you just talk about what sort of level we should be expecting it to reach plateau for -- in 2018, in terms of the ramp-up? If you can just touch on what activity needs to be done. And then I guess, moving to Chemicals. Obviously, you've had a great result from the Versalis, obviously showing your benefits of your transformation program. How do you think about that asset still, in terms of -- you, obviously, tried to off-load stake back in 2015. Is it something that you still sell -- now see post-transformation to put to the market? Or do you consider as a part of your core operating business, please?

CLAUDIO DESCALZI: Okay. The first question on Kashagan, Antonio Vella will answer, and then

Daniele Ferrari and myself, we will talk about Chemicals.

ANTONIO VELLA: Okay. As Claudio mentioned, 200,000 barrel and 210,000 its normal rate of production those days. And the commissioning of the gas injection is in sour at this moment. So we expect any moment from now to start gas injection, as scheduled.

DANIELE FERRARI: In terms of the Chemical business, the result that you see appearing today are essentially the effect of the work which has been done over the last 2 or 3 years. So the combination of restructuring and closure, unfortunately, portfolio and geography modification and a lot of efficiency on existing assets. And we are clearly in a positive scenario like that, we are capturing the maximum benefit of it. This is clearly -- there was a peak in the first half of the year due to some unexpected maintenance or other [practice]. But in spite of that, we will continue to benefit of these results for the rest of the year in a normalized way and expecting to be well above our forecast. In terms of the future of this business, I'd like to leave it to Claudio for comment.

CLAUDIO DESCALZI: So for Chemicals, I think that is very interesting story and the work we've done in the last years now is paying a lot also, because if we consider the average price of 2016, it was lower. A normal chemicals with a lower commodity price is getting better. And now we go to an increase of 10 -- about \$10 with a -- so more expensive commodity, and our Versalis is doing better. So that mean that what we have done in term of specialties, so reduction of capacity there, are not very efficient and especially changing products and increasing the pseudo-specialties allow us to stay far from the commodity cost and became more structurally strong. So Versalis is not at the end. I think that we still have a huge upside, and it's becoming very important business for us. It was not a few years ago, because for years, we lost money. But now they very good work and that our people are doing [Versalis], changing completely the picture. And this helping, this is helping also the main business, the upstream business. If you consider that this semester, also with a \$10 more expected 2016, we had the result in the downstream, so Versalis Chemicals and the refinery, more than EUR 730 million. That is a very important, more than EUR 600 million of the cash flow. There aren't a lot, our consolidated result, to reach EUR 2.9 billion. So Versalis is the present that would be absolutely the future. At the moment, we want to continue talking about the future to increase and consolidate this upside. And within that, we can grow, especially in green chemicals where we have the patent and a lot of proprietary licenses. And it's an area where we can increase our -- the quality of our product. Also, they're resilient, respect to the commodity, making Versalis more robust looking forward. Going back to Kashagan, just to complete your question about the ramp-up. Antonio said that now we are in the commissioning and we are injecting, we are really close to inject this gas. And that means that after this injection, we can start. If we ramp up, that can bring us from the 200,000, 210,000 of today by the end of the year to reach the full production and the plateau.

OPERATOR: Next question Mrs. Irene Himona from SG.

IRENE HIMONA, EQUITY ANALYST, SOCIETE GENERALE CROSS ASSET RESEARCH: I have a couple of questions. Firstly, on capital expenditure. You guide to no change this year, Claudio. But thinking about the 4-year plan, the 31.6 billion over the phase given your targeted production growth, in the event that we stay at \$45 to \$50 rather than improve towards your \$60 to \$65 scenario, how much CapEx flexibility is there to reduce that number should the macro remain below your assumptions? My second question was about working capital specifically. Obviously, in Q2, you had a reversal of a lot of the Q1 increase. Can you talk a little bit about the quarterly seasonality in that working capital, particularly as it relates to downstream gas and perhaps what we can expect in Q3 and Q4?

CLAUDIO DESCALZI: Thank you. I'll answer the first question and Massimo, answer the second. For our flexibility, in the 4-year plan -- in the second half of the 4-year plan, we have 50% now committed to CapEx. So we have this 50% flexibility. The flexibility is due not just to the fact that we don't have a

commitment or final commitment on the CapEx, but also to the fact that we finally discover very interesting resources. Mexico is one, but we have also in other countries, especially in North Africa and sub-Saharan Africa. And as we did in the past when we have been able to reduce in the last 3 years 38% of our CapEx expenditure, but increasing about 15% our production rate. That's been the highest increase in the industry. That's because not only we reduce CapEx, but we move CapEx to a less expensive asset. So that is clearly a huge range of opportunity in front of us, especially in the last few years of the plan. I talk about 50%. In talking about 2018, so what can happen tomorrow? This flexibility, in terms of CapEx volume, can be reduced about 20%. So we have a 20% flexibility on our plan that can be reduced completely, or reduced partially, and move into our asset that very quickly can increase production, creating value and improving our cash neutrality. Mexico is an example because we presented and we said we want to put Mexico in production in 2018. Clearly, we move CapEx from one side to another side because it's a fast track with a very high internal rate of return. But just to talk about numbers, 50% of flexibility in the last period and 20% the next year. Now I'll give the floor to Massimo.

MASSIMO MONDAZZI: So Irene, definitely our working capital is exposed to a seasonal effect. The worst quarter in this respect is the first one in the year. The second worst is the third one. This is related to, mainly, to the mid and retail Gas & Power business, as far as the first quarter because of the delay in payment of the gas sold at the end of the year, so November, December, January, February, respectively. While the third quarter, because of the storage of the gas in advance, waiting for the seasonality. Having said that, we had, you remember, an absorption in working capital in the first quarter. Three months ago I said that this effect had been fully reabsorbed along the year, and I'm confirming what I said. So now we have an absorption of around 300 million. We keep on reabsorbing this effect in third quarter, maybe with a lower base because of the storage effect I just mentioned there and fully in the fourth quarter.

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

ALESSANDRO POZZI: My first question is on Mexico. You have good success there in a couple of other structures in the block. I was wondering if you can maybe give us more color on the potential upside in the block, on top of what you've found already. And I believe you talked about Mexico as part of your dual exploration model. So I was wondering whether it's too early maybe to talk about potential disposals there? And second question on Gas & Power, you upgraded early guidance. I was wondering what gave you the confidence to upgrade the guidance now compared to 3 months ago? And as we move further to 2018, just wondering if you have any visibility on what Gas & Power can produce next year?

CLAUDIO DESCALZI: Thank you. Luca will answer to the first question, then Massimo Mantovani will talk about Gas & Power. So Luca?

LUCA BERTELLI, CHIEF EXPLORATION OFFICER, ENI S.P.A.: Thank you, Claudio. Yes, we have 2 other wells that will be drilled in the second half of 2017 in Mexico, and these are on 2 different structures than Amoca where we drilled so far. So we do believe that we may still have some additional upside in the Contractual Area 1, and we should see the result from these wells.

CLAUDIO DESCALZI: So as I said, Mexico is an ideal target for a dual exploration because we own 100%, and we are creating a big value and we want to grow faster to the FID for the first project. Clearly, it's not now the time to talk about that because we want to create and build up additional value on these assets, before talking about exploration -- dual exploration. But clearly, it is one of the future targets.

MASSIMO MANTOVANI, CHIEF MIDSTREAM GAS & POWER OFFICER, ENI S.P.A.: For Gas & Power,

you are correct. As it was anticipated, we are now aiming a structural positive result from 2017. This improvement is mainly due also to the renegotiation of the gas supply long-term agreement, which is undergoing. And also, of course, on the improvement on the optimization of the logistic costs. And in the -- actually these improvements are looking good for 2017 as compared to what we were expecting. And please also note that some of these negotiations, like the Sonatrach we recently closed, will have also impact on 2018 as the contract is for the gas here until September 2019. So we are moving on the right track and we are, of course, looking at further negotiation, which is undergoing.

ALESSANDRO POZZI: And do you have better visibility on next year's earnings for the Gas & Power at the moment?

CLAUDIO DESCALZI: Can you repeat, sorry, because...

ALESSANDRO POZZI: Yes, just wondering if next year, you can give maybe an idea of what the Gas & Power can produce in terms of EBIT?

MASSIMO MANTOVANI: Well, we are targeting an improvement on what we were expecting and this is actually already been proven in 2017. Of course, the negotiations are going so we cannot really give figures about that.

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

MASSIMO BONISOLI, ANALYST, EQUITA SIM SPA, RESEARCH DIVISION: A couple of questions. One on the retail Gas & Power business. Following your recent statements, could you share with us your thoughts on how would you create value on this asset going forward? And also considering the recent carveout, could you share some relevant figure of this business, like revenue EBIT earnings? The second question is on Val d'Agri. What is the remaining impact on the third quarter, if any, of the production start [at core]?

CLAUDIO DESCALZI: Okay. The first question will be answered by Alberto Chiarini and the second one by Antonio.

ALBERTO MARIA CHIARINI, CHIEF RETAIL MARKET GAS & POWER OFFICER, ENI S.P.A.: Okay. Thank you for the question. Of course, the way to extract value for a retail market in (inaudible) is going along two main lines. One is to extract more value from our current customers. I remind you that we have close to 9 million customers in Europe, and this has to do with the improvement and the introduction of all the services through the partnership we have with some of our partners. So we are introducing insurance services, land boilers, maintenance and this -- all these new products that should allow us to extract more value from our existing customers. The second line is to increase customers and we are mainly targeting power market -- power market in France. We are entering into the power market, and we have already reached 100,000 customers, thanks -- leveraging on the existing gas customers, and the power market in Italy. Power market in Italy is going for a liberalization process and of course, we believe that we can play a bigger role in this liberalization path.

ANTONIO VELLA: As far as the Val d'Agri, the remaining effect in Val d'Agri, because I would like to remember that production, we started up the 17th, 18th of July. In terms of EBITDA and what EBITDA effect would be, I would say marginal. We are talking about something in the range of EUR 30 million, a bit higher in terms of cash because we cash in the oil that we sold with a delay of 1.5 months. So the effect, in terms of cash that we had in the second quarter, would be more or less replicated in the third quarter. I'm talking about something less than EUR 100 million.

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

THOMAS YOICHI ADOLFF, VP, CREDIT SUISSE AG, RESEARCH DIVISION: Can you hear me now? Great. I have three questions, if I may. Firstly, just on CapEx. Your earlier comments alluded to 20% flexibility for 2018. Now let's say this CapEx goes from EUR 8 billion per annum to EUR 6.5 billion and it stays there for a few years, can you perhaps talk about what that means, in terms of medium-term upstream growth versus your 3% per annum target? The second question I have is just some thoughts around the dividend, and maybe not the right time to ask since you tend to give these updates in March. The strengthening in the euro is obviously leading to a higher U.S. dividend and I'm just thinking how you think about managing this dividend. I'm thinking about priorities, in case the oil price stays low for the longer. Are you simply going to continue to fund it using your successful dual exploration strategy, while maintaining upstream spend to deliver that 3% growth, or looking at alternatives such as potentially introducing a temporary scrip? So, just your thought process around priorities. The last question for Claudio would be very simple. What keeps you up at night nowadays? What frustrates you the most? It can be internal things or even external things, but excluding the oil price.

CLAUDIO DESCALZI: So first answer to the last question, I sleep every night. So I think that I have to have time during the day too, to do what I have to do. And the result and the restructuring over the last 3 years showed that now we can sleep because things are going very well. And that brings me to answer to the first question. The price remained \$45 for 3 years, okay? What we have done, what we had built in the last years, is really to be able to tackle this kind of situation. When we say that during the strategy presentation that we projected our cash neutrality for 4 years at the level of \$45 per barrel, considering just the inorganic contribution, I mean, operating contribution and coming from the dual exploration, we meant this kind of sensitivity. We meant this kind of situation. So the answer is that we built our strategy and our 4-year plan to be resilient, at 4 years at \$45 per barrel. So if something like that to happen, we have all the tools with some flexibility, but without reducing our growth rate to cope with the \$45. So -- because that has been presented and all the projects had been shaped for this kind of possible situation. We say we cannot do anything with the price, what we can do with our cost, and we work hard on our cost. That means not just cutting for cutting. I said we cut 38%, but we create 50 -- 15% of production. So I think that is really structured to face this kind of situation. On the dividend, no scrip. For the rest, Massimo can answer.

MASSIMO MONDAZZI: There is not anything to add. So as you said, Thomas, the best timing to talk about the new approach eventually about the dividend would be the strategy. As far as the current situation, we are still projecting in line with what we said in March. So nothing structurally changed. So as Claudio said, we definitely can survive with this level in the short period of time and we -- clearly, we can have a balance without a specific priority because our plan aiming at, I would say, give ground for the production growth and the remuneration to the shareholder, at the same time and with a good equilibrium, as Claudio said, without any kind of additional effort such as the scrip or whatever.

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

MARC B. KOFLER, EQUITY ANALYST, JEFFERIES LLC, RESEARCH DIVISION: I just wanted to come back to the commentary around capital spending program and the flexibility and the medium -- I mean, the context of Mexico and looking to move forward there with Amoca. Can you talk about the types of development context you're considering at the moment? And then following on from that, the CapEx associated with that and if it's -- that project is going to take priority. Are there any other projects in the queue? Any commentary there would be really appreciated.

CLAUDIO DESCALZI: Okay. Mexico, I cannot give you now a figure for CapEx for Mexico. What we plan really is to don't have any big upfront exposure in terms of CapEx, so that's the reason, it's a huge -- it's a giant project and we go -- we'd like to go through by phases, phase by phase. Clearly, it's a shallow water, 20-meter water depth, 6 kilometers from the shore. You can use (inaudible), you can use very, very not expensive facilities. We really think that this kind of investment kind of breakeven, a technical breakeven, that is much less than \$20. Now our technical breakeven, on average, is \$17. That is something that then improved these figures in turn to have a lower breakeven. So it's very cheap, one with very small amount of investment. When we talk about -- because the right question that you made is flexibility, if you put Mexico, what other project can go out of your basket? I can say that at the moment, with the structure, with the price we have now and with the flexibility for 2018, the 20% we discussed before, I think that this 20% can accommodate Mexico. We have flexibility where -- we have flexibility in some big projects, but we have flexibility especially in the production optimization that takes a big part, at least 30%, of our work investment every year. That is production optimization means infilling, means some debottleneckings to increase the existing production. Clearly, we have to put in front all the different possible projects: production optimization, some long-term projects, Mexico and other project we have. And we still have some billion of resources, as I said, that with a good optionality, we can put in production. And these projects normally compete, in terms of different kind of risk -- integrated risk analysis. But clearly, the internal rate of return, the NPV, are very essential KPIs. So Mexico is in a very good position to enter and maybe reduce some costs somewhere else. Clearly, the aim is to create value. So we try to keep the same level of production. There is no problem we have -- we continue to see, but we want to increase the cash flow per barrel. Our target is clear. We have a cash flow per barrel at about \$65, so about \$20, \$29 per barrel, of cash flow per barrel. We want to create -- we want to improve this \$29 per barrel of cash that we create. And that means that Mexico, absolutely, has to compete with other projects. But in terms of CapEx, we have enough flexibility and space to introduce Mexico without increasing it.

OPERATOR: Next question from Mr. Theepan Jothilingam from Exane BNP.

THEEPAN JOTHILINGAM, HEAD OF OIL AND GAS RESEARCH AND ANALYST OF OIL & GAS, EXANE BNP PARIBAS, RESEARCH DIVISION: It's Theepan here from Exane. Two questions, please. Firstly, just on Venezuela, could you perhaps just give us an update, in terms of Eni's exposure in Venezuela both in terms of capital employed, production and an update in terms of underlying operations in the country? The second question, perhaps for Claudio, is just in terms of strategy, Eni has transformed its downstream business over the last 2, 3 years. As you start to see gearing lowered with the successful dual exploration program, I was wondering, is there any appetite at capital to the downstream business going forward?

CLAUDIO DESCALZI: I'll give you the first answer and then my colleagues can complete. What's happening in Venezuela is that we are producing, as you know, from an operational point of view, we are producing gas mainly. Our activity on the Orinoco Oil Belt practically has been reduced, we can say, because there's no investment anymore. We are producing but it has been really reduced and we are no more engaged in the full field development. The gas production is flowing. We sell gas to the domestic market and there is some smaller exports. And this production is partially [secularized] by the condensate that we produce and then we can export and there are other forms of securitization. [We are as well, we are] recovering. We still have a -- we have an exposure. I think that nowadays it's the only country where we have a material exposure. We talk about EUR 400 million of exposure. That is not a huge figure, but it's not a huge figure because on a monthly basis, we are able to recover something. So there is no buildup that can exceed reasonable numbers. So it's not a very easy situation. We are absolutely on top of it on a daily basis, not just for the recovering money, but also for security reasons. Fortunately, our activity that we share with Repsol is completely offshore. I'm talking about Perla. The second, I don't know if you have anything to add?

No? Talking about the strategy, I think that we work a lot and we change -- at least we change the trend and the paths of our downstream business and now we are very happy. Honestly, we are happy about the good result, the EUR 2.9 billion of EBIT and more than EUR 700 million is due to our downstream business. They reacted very well also to an increase on the commodity price, and we believe that we can do better. We have huge potentiality and we have really the right people to work on this business and to improve it. So we'll see. We are not now in the strategies presentation. But if we are, we've put in effort and now we -- there's some very good stuff in our hands. And we want to really leverage the downstream business for our future growth, also to counterbalance our upstream business. So I think that for sure, we own this business and we want to grow and we want to invest in this business. And they produce us more than EUR 600 million free cash flow, so they have inside the potential and the resources to invest and to grow. And I honestly believe that we can do very well in it.

OPERATOR: The last question from Mr. Ian Reid from Macquarie.

IAIN STEWART REID, HEAD OF EUROPEAN OIL AND GAS RESEARCH, MACQUARIE RESEARCH: Just looking for an update on your high-impact exploration wells, in terms of what's going on now and also the stuff coming out. Obviously, Cyprus is a key well. Also, I think I remember you were talking about drilling Zohr deep at some point. I'm just wondering whether you've drilled that and what the results of that were?

CLAUDIO DESCALZI: Luca is going to answer.

LUCA BERTELLI: Okay. Regarding Zohr deep, we deepened one of our production wells in Zohr to a Jurassic. But we didn't encounter, in that part of the structures, any hydrocarbon. So now we are reassessing them although and we will reevaluate any potential in the future. Regarding Cyprus, as you know, we spud in with Total. Total is the operator in Block 11, that is the block just in front of our Shorouk block in Egypt. We're spudding the well just a few days ago, and the well is in drilling, and this could be, I would say, an important information to understand the future of Zohr-like plays in Cyprus water. Regarding our wells in Cyprus, we plan to restart a drilling campaign before the year-end with new wells, 2 additional wells, to be drilled back to back.

IAIN STEWART REID: And elsewhere?

CLAUDIO DESCALZI: Elsewhere.

LUCA BERTELLI: Sorry, I missed the second part of the question. Elsewhere, Cyprus I think, is the most important activity in the second half of the year but we have some near-field exploration wells in Norway to be drilled in the second half nearby Goliat. And also, we have a well in Ivory Coast, again, that we will drill together with Total. And that's the main activity on the second half of the year.

CLAUDIO DESCALZI: Okay. Thank you very much. I think we will close our meeting. I thank all of the people, investors and the analysts that participate. Thank you. Have a good day.

OPERATOR: Ladies and gentlemen, the conference call is over. Thank you very much for your participation.

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