

# Eni in 2016

## Summary Annual Review



## Mission

We are an energy company.

We are working to build a future where everyone can access energy resources efficiently and sustainably.

Our work is based on passion and innovation, on our unique strengths and skills, on the quality of our people and in recognising that diversity across all aspects of our operations and organisation is something to be cherished.

We believe in the value of long term partnerships with the countries and communities where we operate.



Nooros - Drilling plant - Egypt

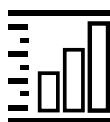
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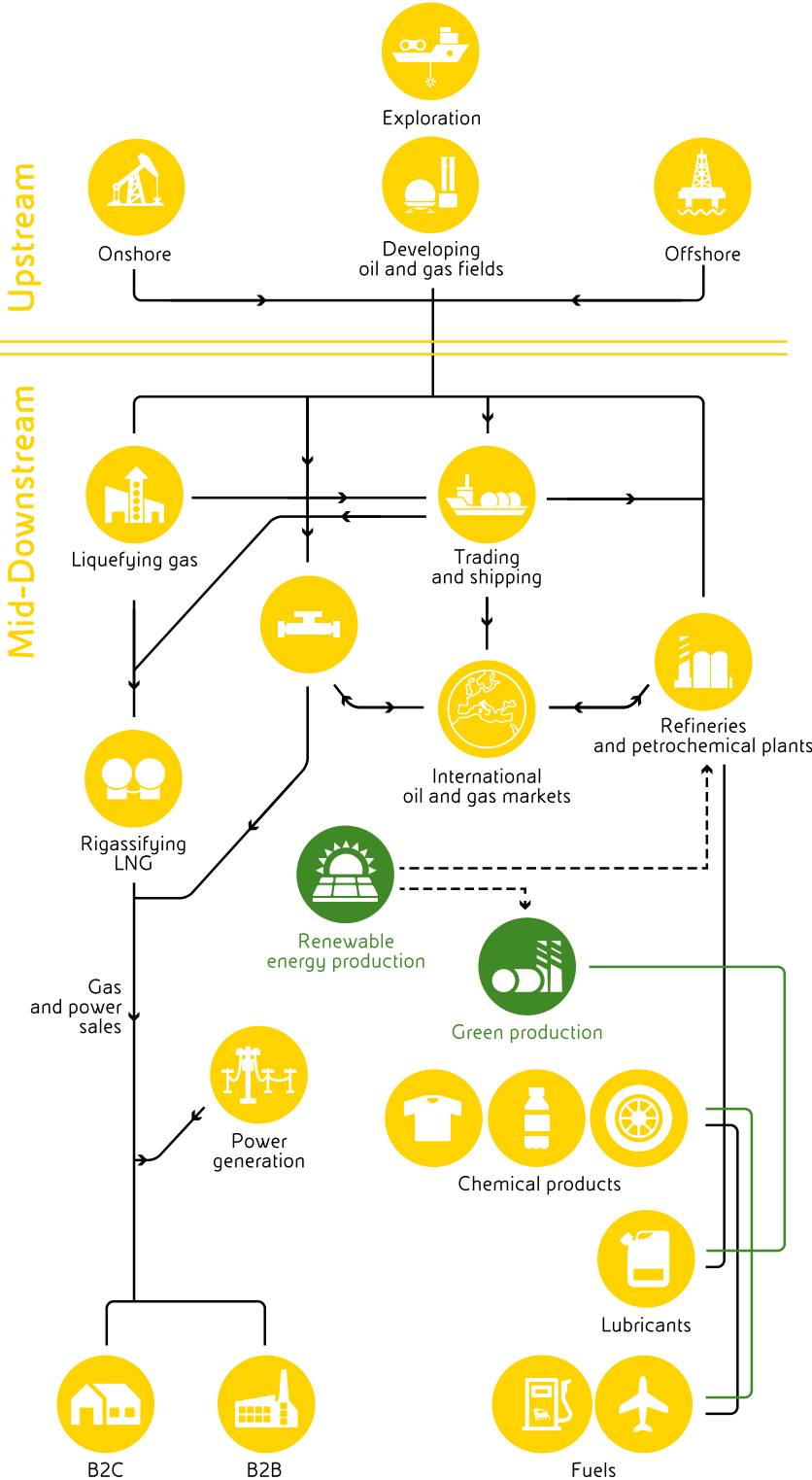
## Information about this report

This summary review comprises an extract of the description of the businesses, the management's discussion and analysis of financial condition and results of operations and certain other Company information from Eni's Integrated Annual Report for the year ended December 31, 2016. It does not contain sufficient information to allow as full an understanding of financial results, operating performance and business developments of Eni as "Eni 2016 Integrated Annual Report" and "Eni's Annual Report on Form 20-F 2016". It is not deemed to be filed or submitted with any Italian or US market or other regulatory authorities. You may obtain a copy of "Summary Annual Review - Eni in 2016", "Eni 2016 Integrated Annual Report" and "Eni's Annual Report on Form 20-F 2016" on request, free of charge (see the request form on Eni's web site - eni.com - under the section "Publications"). The "Summary Annual Review" and "Eni 2016 Integrated Annual Report" may be downloaded from Eni's web site under the section "Publications". Financial data presented in this report is based on consolidated financial statements prepared in accordance with the IFRS endorsed by the EU. This report contains certain forward-looking statements particularly those regarding capital expenditure, development and management of oil&gas resources, dividends, allocation of future cash flow from operations, future operating performance, gearing, targets of production and sale growth, new markets and the progress and timing of projects. By their nature,

forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that will or may occur in the future. Actual results may differ from those expressed in such statements, depending on a variety of factors, including the timing of bringing new fields on stream; management's ability in carrying out industrial plans and in succeeding in commercial transactions; future levels of industry product supply; demand and pricing; operational problems; general economic conditions; political stability and economic growth in relevant areas of the world; changes in laws and regulations; development and use of new technologies; changes in public expectations and other changes in business conditions; the actions of competitors and other factors discussed elsewhere in this document. As Eni shares, in the form of ADRs, are listed on the New York Stock Exchange (NYSE), an Annual Report on Form 20-F has been filed with the US Securities and Exchange Commission in accordance with the US Securities Exchange Act of 1934. Hard copies may be obtained free of charge (see the request form on Eni's web site - eni.com - under the section "Publications"). Eni discloses on its Annual Report on Form 20-F significant ways in which its corporate governance practices differ from those mandated for US companies under NYSE listing standards. The term "shareholders" in this report means, unless the context otherwise requires, investors in the equity capital of Eni SpA, both direct and/or indirect. Eni shares are traded on the Italian Stock Exchange (Mercato Telematico Azionario) and on the New York Stock Exchange (NYSE) under the ticker symbol "E".

## Eni's activities

Eni engages in oil and natural gas exploration, field development and production, mainly in Italy, Algeria, Angola, Congo, Egypt, Ghana, Libya, Mozambique, Nigeria, Norway, Kazakhstan, the UK, the United States and Venezuela, overall in 44 countries.



Eni sells gas, electricity, LNG and oil products in the European and extra-European markets, also leveraging on trading activities. Products availability is ensured by oil and gas production in the upstream segment, long-term gas supply contracts, CCGT power plants, Eni's refinery system as well by Versalis' chemical plants. The supply of commodities is optimized through trading activity. Integrated business units enable the company to capture synergies in operations and reach cost efficiencies.

# Eni

## at a glance

Total Recordable Injury Rate  
**-21%** from 2015

**1.1 bln boe**  
 of additional resources  
 @ 0.6 \$/boe

**7.5 bln boe**  
 of proved reserves

Asset disposal  
**€2.6 bln**  
 40% of the 2016-2019 plan

**€8.3 bln**  
 normalized cash flow  
 from operations

**€3 bln**  
 savings vs. 2015

**0.24**  
 pro-forma leverage

Cash neutrality price  
**46 \$/bbl**

Eni is an energy company with operations in 73 countries around the world with a staff of 33,536 employees. In 2016, Eni delivered outstanding industrial and financial results and strengthened growth and value prospects. The Group accomplished a solid competitive position

leveraging on competences and exploration successes, a reduction in the full-cycle cost of the produced barrel consistently with a weakened trading environment, mid-downstream sustainability and, in the long-term, the ability to adapt to decarbonization.



Exploration & Production

**1,759** kboe/d

hydrocarbon production

**-9%**

upstream GHG emissions

**+193%**

organic reserve replacement ratio

**40%** Zohr disposal

expected cash in of €2 bln



Gas & Power

**88.93** bcm

worldwide gas sales

**-3%**

GHG emissions/kWh<sub>eq</sub> of power generation

**70%**

Eni's supply portfolio indexed to hub

**€200** mln

saving on logistic cost



Refining & Marketing and Chemicals

**4.2** \$/bbl

break-even refining margin

**€278** mln

R&M adjusted EBIT

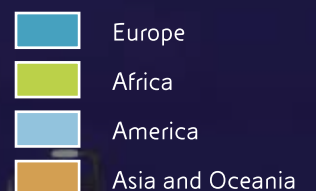
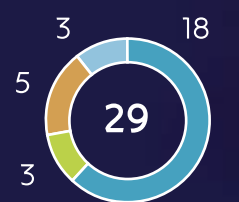
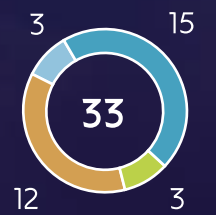
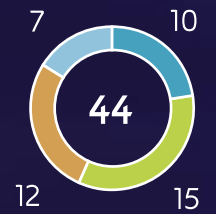
**€305** mln

chemical adjusted EBIT

**-29.5%**

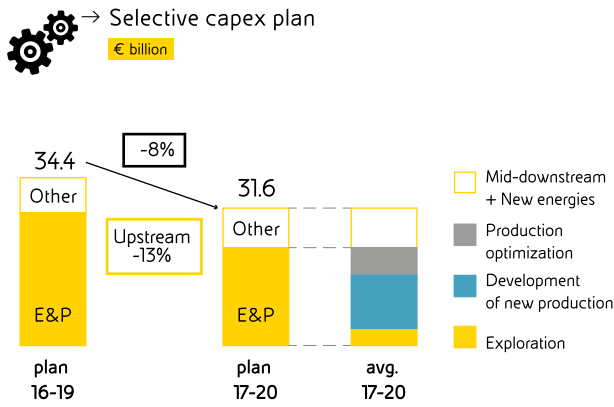
GHG emissions

Countries of activity

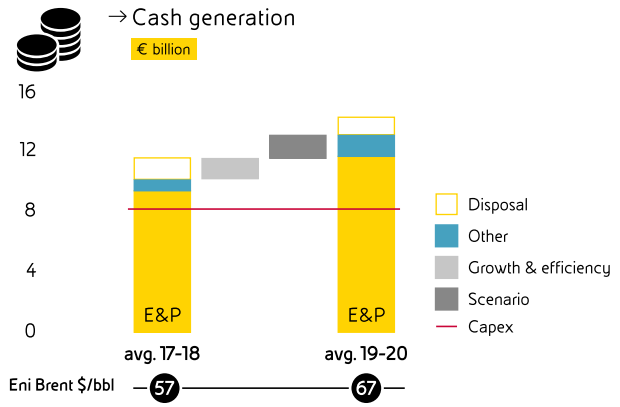




# Our strategy



Our commitment to capital discipline is proven by an expected reduction in four-year capex program vs the previous plan without sacrificing our growth prospects. This will be achieved through project modularization and re-phasing in our upstream business, which will remain by far the cornerstone of our strategy covering 86% of the total capex plan and deliver competitive returns.



Our cash generation is projected to grow in the four-year plan in a stable Brent scenario. This organic growth could find additional support from scenario upside, with approximately €0.2 billion for each dollar change in Brent prices on a yearly basis compared to our price forecast; portfolio management, with additional resources for our cash allocation; and capex flexibility, considering that 55% of our capex in 2019 and 2020 are uncommitted.

## → Group strategy

The main goal of Eni's growth strategy is to build a high-margin cash portfolio and will be pursued through the following levers: (i) portfolio upgrading through high-impact exploration activity in conventional basins, in proximity of existing facilities and in the nearby of final markets; (ii) development of high-quality projects with a design to cost approach, aimed to accelerate production start-ups and reduce financial exposure; (iii) value maximization through the integration of our reserves portfolio with gas marketing activities (with a more relevant role played by LNG), the improvement of mid-downstream businesses and implementation of our Dual Exploration Model.

## → Dividend policy confirmed

Eni is committed to a progressive distribution policy in line with our plans of underlying earnings and cash flow growth and the scenario evolution. This forecast is dependent on the results that ultimately will be achieved in implementing our strategy and on management's estimations of the minimum level of Brent prices at which the Company's cash flows from operating activities are able to fund planned capital expenditures and dividend payments. This projected level of cash neutrality is dependent upon achievement of our plans of profitable production growth and upgrading of profitability in mid and downstream businesses. In future years, management expects to continue paying interim dividends for each fiscal year, with the balance for the full-year dividend paid in the following year. In line with the policy, in 2017, we confirm our plan to pay a cash dividend of €0.80 per share.

## → Capex plan

Over the next four years, Eni plans to invest €31.6 billion, excluding capex associated with the disposal plan, to support continued organic growth in oil&gas production. Eni's capital expenditure program is reflective of a lower oil price environment and of uncertainties about future trends in the oil markets. Our capital expenditure plan will be more selective than in the past and will focus on the more profitable projects in portfolio and on project re-phasing and modularization. These optimizations and curtailments, as well as wider portfolio effects are expected to drive an 8% reduction in capital expenditure compared to the previous plan at constant exchange rates and net of capital expenditure associated with our disposal activity, without sacrificing our production growth targets. E&P capital expenditure for the four-year plan is expected to decrease by 13% compared to the previous plan. In 2017, we expect overall capex in the range of €7.6 billion, down by 18% vs 2016 at a constant exchange rates and post portfolio transactions.

## → Cash flow plan

The combined effect of the industrial actions for the development of the E&P segment, the optimization of mid-downstream businesses and widespread initiatives of spending review will allow Eni to reduce the Brent break-even level with a cash neutrality (including the floor dividend) at 60 \$/bbl in 2017 and lower than 60 \$/bbl in subsequent years. The execution of a disposal program of €5-7 billion will increase our financial flexibility.



2016 results	2017-2020 main targets	Key drivers and actions
Discovered <b>1.1</b> billion boe of additional resources	<b>2-3</b> billion boe in 2017-2020	Exploration is the main engine of our profitable growth thanks to competitive discovery costs and a rapid time-to-market of new resources as well as the effectiveness of our Dual Exploration Model, which anticipates the cash conversion of our assets.
Disposals closed <b>€2.6</b> billion including 40% of Zohr	<b>€5-7</b> billion	The disposal program will comprise the dilution of interests in our exploration assets, non-strategic hydrocarbons producing assets and other marginal assets in the mid and downstream businesses. These expected cash inflows will improve the Group's financial flexibility. A significant portion of this plan has been already delivered with the disposal of a 25% interest in Area 4 in Mozambique to ExxonMobil for a cash consideration of \$2.8 billion.
Production <b>1,759</b> kboe/d	<b>+3%</b> c.a.g.r. net of disposal	Growth to be fuelled organically by new fields start-ups, full production at the Goliat and Kashagan projects and the ramp-up of the other fields started in 2016 and continuing production optimization to fight fields natural decline; that will add approximately 850 kboe/d in 2020.
GHG emission upstream/production <b>-9%</b>	Down by <b>43%</b> in 2025 compared to 2014	The future of the energy sector will depend on the ability of the oil majors to reduce their carbon footprint. At Eni we are focusing on 3 areas: flaring down projects, the development of profitable initiatives to produce energy from renewables and control of fugitive emissions at our infrastructures.
Cash flow per barrel <b>12.9</b> \$/bbl	<b>20</b> \$/bbl in 2019-2020	The start of high-quality projects in the plan period and our competitive operating costs will underpin cash generation per barrel targeting an expected 29 \$/boe in the last two years of the plan, at an average Brent scenario of 67.5 \$/bbl. This will be coupled by a continuous strive at our legacy assets to maximize efficiency, targeting an overall 20 \$/bbl in 2019-20.
Reduction of net borrowings <b>€4.8</b> billion	Leverage within the ceiling of <b>0.3</b>	During the downturn, in spite of the sharp contraction in the operating cash flow due to lower oil prices, Eni has managed to maintain its leverage within the ceiling of 0.3 through a combination of cost cuts, asset disposals, capital expenditure curtailments and working capital optimization. At the end of 2016, our leverage stood at 0.28. In 2017, we expect that the Company leverage will improve from 2016. This will be driven by the planned portfolio transactions, including the likely completion of the Zohr divestment, and an expected reduction of 18% in the Group capital expenditure at constant exchange rates vs 2016, post portfolio transactions. Any upside in the scenario will further improve our financial structure.
G&P cash flow generation <b>€2.2</b> billion	Structural break-even and cumulative cash flow from operations <b>€2.6</b> billion	Eni's strategy in the G&P sector will leverage on the renegotiations of our long-term gas supply contracts in order to align pricing and volume terms to current market conditions and dynamics, optimization of logistic costs, the development of Eni's portfolio of highly profitable businesses and cost efficiencies and operational streamlining.
Break-even refining margin <b>4.2</b> \$/bbl	Break-even refining margin <b>3</b> \$/bbl by 2018	Planned initiatives include the completion of the Gela project and the second phase of Venice upgrading, optimization of plant setup and continued efficiency gains in logistics, energy management and capital discipline.
Adjusted EBIT in chemical business <b>€305</b> million	<b>~€300</b> million per year	Considering structural headwinds in the competitive environment the Company will retain a strong focus in preserving profitable and cash-positive operations. Planned actions include the completion of the restructuring process at unprofitable sites, increased plant flexibility and optimization, development of new products and specialties as well as the start-up of certain joint ventures in East Asia with local partners to produce and market elastomers.



## Business review

Over the past three years, we have transformed Eni into a leaner, more resilient company. We have built a high margin portfolio reducing the break-even of our project through a competitive discovery costs, a design to cost approach in exploration which has focused conventional prospects in proximity of existing producing facilities leading to fast time-to-market and cost synergies, as well as efficient development activities and field operations.







# Exploration & Production



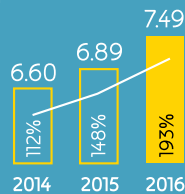
→ Adjusted operating profit  
€ million

2014 →	11,679
2015 →	4,182
2016 →	2,494

For the full year 2016, the E&P segment reported a decline of 40% in adjusted operating profit due to lower realization on commodities in dollar terms (down by 20%) as well as the Val d'Agri shutdown, which lasted four months and half. These effects were only partially offset by higher production in other areas and efficiency improvements.



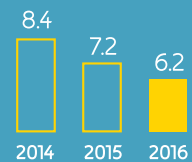
→ Proved reserves and RRR  
bboe



In 2016 we reached the best ever performance in Eni's history in terms of reserve replacement ratio at 193%. Also considering the 40% sale of Zohr, in 2016 the pro-forma reserve replacement ratio remains very robust at 139%, confirming the value of Eni's dual exploration model, which does not jeopardize our future growth plans.



→ Opex efficiency  
\$/boe



Opex has been reduced by 14% vs 2015, helping us achieve one of the best performance in the industry at \$6.2 per boe. Going forward we will retain tight control over our field operations to drive continuous efficiency.

## → Dual exploration model

Signed two agreements with major international players in the oil&gas business for the disposal of a 40% interest in the Zohr giant gas discovery, located in the operated block of Shoruk (Eni 100%) in Egypt, with expected cash-in of approximately €2 billion, including the reimbursement of expenditures incurred by Eni in 2016. The first transaction closed on February 2017 following approval by the Egyptian authorities; the second one is expected to close by the first half of 2017. In March 2017, signed a preliminary sale and purchase agreement to divest a 25% interest in the Area 4 block, offshore Mozambique, for a cash price of approximately \$2.8 billion.

These transactions proved the efficacy of our dual exploration model, which is targeting simultaneously the fast-track development of discovered resources and the monetization of part of discovered volumes to accelerate cash conversion and to reduce the financial exposure in the development phase.

## → Production growth

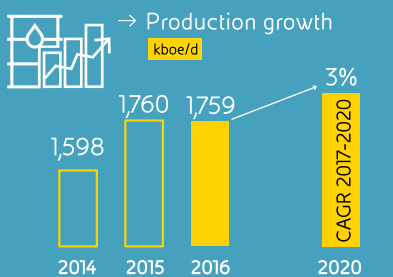
2016 oil and natural gas production was 1,759 kboe/d, in line with 2015, in spite of the Val d'Agri shutdown. We achieved the start-up of the Goliat field in the Barents Sea, the restart of the Kashagan field and production ramp-up at the West Hub project in the offshore Block 15/06 in Angola and the Great Nooros Area in Egypt. In February 2017, the East Hub project in Block 15/06 came on stream, five months earlier than scheduled. In 2017, we will continue to grow, reaching an all-time high of about 1.84 million boe/d. The planned start-ups of the four-year plan and a number of upgradings in core areas, ramp-ups and production optimizations will deliver an overall contribution of about 850 kboe/d by the end of the plan period.

## → Exploration success fuelling future production

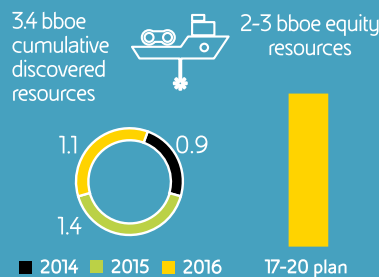
Against the backdrop of a weak commodity environment, Eni redefined the role of exploration on near-field plays, to ensure fast production support and quick conversion of resources into economic returns. Eni's value creation is driven by exploration, because it ensures organic growth, low costs, flexibility and early monetization of discoveries as proved by the Zohr and Mozambique deals. In the last three years, the Company found 3.4 bboe of new resources, out of which 25% has already been transformed into proven reserves and 25% is under disposal through the dual exploration model. The Company has significantly reduced the break-even of our project portfolio due to competitive discovery costs, a design to cost approach in exploration, which has focused conventional prospects in proximity of existing producing facilities leading to fast time-to-market and cost synergies, as well as efficient development activities and field operations.

## → Business sustainability

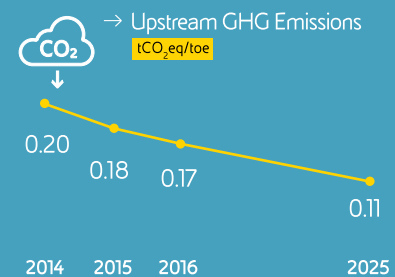
Eni's operating model is driven by operational excellence, management risks and a constant focus on preserving the environment, health and safety of people working in Eni and of local communities, as well as on fighting the climate change. The business sustainability in the short-to-long-term is key to achieve our financial and growth targets also through increasing stakeholders engagement and stable relations with local authorities. Looking forward we confirm a decrease of more than 20% of process flaring in 2020 versus 2014, in line with target of zero routine flaring in 2025; a water re-injection program which is targeting a 72% re-injection rate in 2020; and a reduction of our carbon footprint leveraging on gas initiatives and energy savings projects. Our targets are based on lowering CO<sub>2</sub> emissions and enhancing efficiency in all Eni's activities, retaining a low-carbon portfolio.



We are targeting an average production growth at rate of 3% (net of disposals), leveraging on a robust pipeline of new projects in core areas, production ramp-ups and optimization.



Additions to the Company's resources backlog were 3.4 billion boe in the last 3 years, at a cost of 1 \$/boe. Our target is to discover 2 to 3 billion boe of new resources in the plan period.



The unitary emission of CO<sub>2</sub> per ton of oil equivalent produced, declined by 8.8%, in line with the targeted 43% reduction to 2025 compared to 2014. This will be achieved by leveraging on already selected flaring down projects, reduction of emissions from methane fugitives and energy efficiency projects.

## Strategy

Eni's upstream growth model will continue to focus on conventional assets, which will be organically developed, leveraging on a competitive cost structure, which make them profitable even in a low price environment.

The remarkable exploration successes of the last years have increased the Company's resource base, contributing to the Company's value generation through the monetization of the discovered resources in excess of the target replacement ratio in accordance to Eni's dual exploration model.

Eni's priorities are to increase and monetize discovered resources and to growth cash generation.

The drivers to achieve those priorities are: (i) focusing of exploration activities on appraisal programmes at the recent discoveries (Egypt, Angola, Norway and Mexico), near-field activities to ensure quick production support and new selected initiatives in high-risk, high-rewards prospects in unexplored areas, with the objective of delivering 2-3 billion boe of discovered resources; (ii) renewal of the portfolio of exploration leases; (iii) fast-track development of discovered resources by optimizing the time-to-market and exercising tight control on project execution; and (iv) production growth at an annual average rate of 3% net of disposal leveraging on a robust pipeline of new projects in core areas. The main start-ups of 2017 are the Jangkrik project (Eni operator with a 55% interest) in Indonesia, the East Hub project in Angola, the oil and gas development of the OCTP project (Eni operator with a 47.22% interest) in Ghana as well as accelerated start-up of the giant offshore Zohr discovery and continuous start-up of the discoveries in the Great Nooros Area in Egypt. Post-2017 start-ups will be concentrated in North and West Africa.

Cost optimization will be driven by project modularization and re-phasing which will enable the Company to reduce

financial exposure and to accelerate production start-ups and a continuous focus on efficiency by means of several initiatives to control operating costs, to be achieved also by renegotiating the supply of field services and goods.

Eni acknowledges that the upstream performance could be adversely impacted in the short-to-medium-term by a number of risks: (i) the commodity risk related to crude oil prices. Eni is planning to mitigate this risk by retaining efficient operations and capital discipline. In the 2017-20 plan period, Eni estimates a decrease of 13% of capital expenditure net of exchange rate effects versus the previous four-year plan mainly due to project re-phasing and modularization and a larger impact from portfolio transactions; (ii) the political risk due to social and political instability in certain countries of operations. A major part of Eni's activities are currently located in countries that are far from high-risk areas and Eni plans to grow mainly in countries with low-mid political risk (approximately 85% of the capital expenditure of the four-year plan); (iii) risk related to the growing complexity of certain projects due to technological and logistic issues. Eni plans to counteract those risks by contractors selection, tight control of the time-to market and the retaining of the operatorship in a large number of projects (76% of production related to operated projects portfolio in 2020); and (iv) the technical risk related to the execution of drilling activities at deep waters, high pressure/high temperature and PEE (Potential Economic Exposure) wells.

In the 2017-20 plan period, Eni plans to decrease the drilling of critical wells (19% of overall planned drilling activities in 2017 to 15% in 2020; 16% on average in the four-year plan) and to increase operatorship of critical projects (63% of planned activity) ensuring better direct control and deploying its high operational standards.

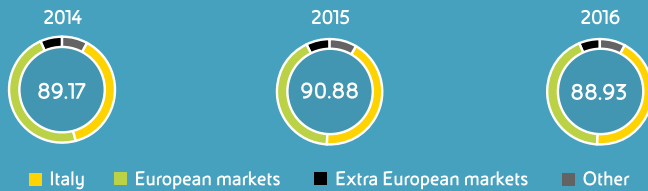


# Gas & Power



→ Worldwide gas sales

bcm



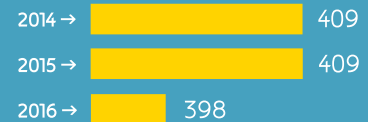
■ Italy ■ European markets ■ Extra European markets ■ Other

Sales in Italy (38.43 bcm) were barely unchanged compared to 2015. Sales in the European markets amounted to 38.06 bcm, barely unchanged from the previous year. Sales in the Extra European markets were down by 0.94 bcm compared to the previous year driven by lower LNG volumes marketed in the Far East, due to the lack of contracts renewal.



→ GHG emissions/kWheq

gCO<sub>2</sub>eq/kWheq



GHG emissions/kWheq relating to electricity production decreased by 3% compared to 2015 benefitting from progress in energy saving actions.

## → A turning point for G&P

In the context of sluggish gas consumption in Europe, 100 bcm lower than the pre-crisis level, the G&P reported an adjusted operating loss of €390 million, lower than 2015 when we benefitted from positive one-off items on long term gas contracts as well as from higher LNG margins. In 2016, we reduced these negatives thanks to the renegotiation of some additional gas contracts, saving on logistic costs for €200 million as well as better trading results in a highly volatile market. These improvements, when fully in place, will structurally halve the G&P recurring losses on a yearly basis, and together with ongoing renegotiations and reductions in logistic costs, will allow G&P to reach the structural break-even in 2017 and positive results going forward.

## → Extracting value from integration

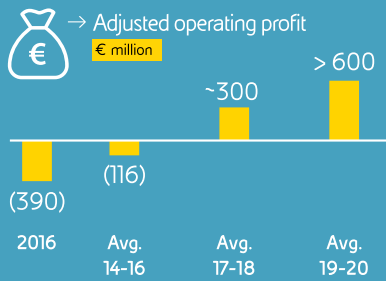
Eni's new G&P model aims to better integrate the gas marketing with Upstream to maximize the value of the Company's equity gas with a worldwide marketing capability. This will be based on two pillars: (i) domestic markets, where we traditionally have an important role in the energy development of the hosting countries; and (ii) the LNG business, where we will build our own competitive and sizeable portfolio up to 10 MTPA in 2025. This will be done by adding new equity production from Indonesia, East Med, Angola, Congo, Australia and Mozambique. Eni believes in the future of gas and will become a global integrated gas and LNG player thanks to its upstream position.

## → Fully alignment of gas supply contracts to market conditions

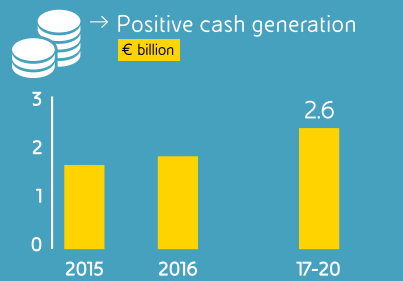
Eni's take-or-pay, long-term supply contracts include revisions clauses whereby each counterpart has right to renegotiate the economic terms and other conditions periodically, in relation to ongoing changes in the gas scenario. Leveraging on recent renegotiations, 90% of Eni's portfolio of supply contracts is currently indexed to HUB prices and will benefit the 2017 performance. Looking forward, the Company expects to fully align our supply portfolio to market conditions and dynamics in terms of both pricing and volumes. The renegotiation efforts will seek to obtain cost indexation that will track our pricing formulas, to align the procurement costs to prices prevailing in the wholesale market, which includes sales to large industrial and power companies and resellers, and to match Eni's minimum contractual take with the dimension of the Company's addressable market.

## → Enhancement of customer base

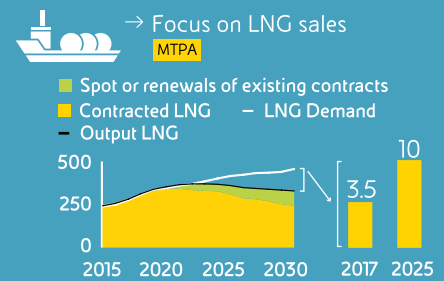
Eni intends to increase the weight in its portfolio of customers who are willing to sign supply contracts in the open market rather than opting to use the regulated tariffs established by Italian gas authorities. The G&P marketing effort will address retail customers in Italy and in the main European markets in order to valorize the existing customer base against the backdrop of escalating competitive pressures. This will be achieved by the offer of new products and services, brand identity, the administrative advantages of the dual offer of gas and electricity, a competitive cost to serve and continuing innovation in processes, promotion and customer care and post-sale assistance. Management believes that offering a wide range of valuable services with the selling of the commodity will underpin the profitability of our retail operations considering that the regulatory modifications to the indexation of the raw material cost have substantially flattened the margin on the commodity. Management will also seek to improve profitability by means of cost efficiencies particularly by streamlining business support activities and reducing general and administrative costs.



In the plan period, we will complete the turnaround, which was launched three years ago, targeting structural break-even by 2017 and a growing performance to more than €600 million in the last two years of the plan.



In 2016, we achieved strong cash generation driven by effective management of working capital also reflecting non recurring trends. Going forward our target is to retain positive cash generation. We plan to reach a cumulated cash flow from operations to €2.6 billion.



We retain a positive view on the role of gas in satisfying global energy requirements, considering its lower environmental impact. There will be a need of new LNG projects, opening huge opportunities for our gas assets coming on-stream, where we will build our own competitive and sizeable portfolio up to 10 MTPA in 2025.

## Strategy

Against this scenario, the Company priority in its Gas & Power business is to achieve structural profitability and retain positive cash-generative operations, leveraging on the renegotiations of our long-term gas supply contracts in order to align pricing and volume terms to current market conditions and dynamics, optimization of logistic costs, the development of Eni's portfolio of highly profitable businesses and cost efficiencies and operational streamlining.

Eni's renegotiation efforts will seek to obtain cost indexation that will track pricing formulas, to align procurement costs to prices prevailing in the wholesale market, which includes sales to large industrial and power companies and resellers, and to match the minimum contractual take with the dimension of our addressable market. The expected termination of certain long-term gas supply contracts with take-or-pay clause will reduce Eni's contractual minimum take and will add flexibility to Eni's portfolio and renegotiation strategy. Furthermore, management plans to almost complete the recovery of pre-paid gas volumes due to the triggering of the take-or-pay clause in past reporting periods. This asset amounted to €0.3 billion at 2016 year-end. We expect to improve profitability in gas marketing through initiatives intended to reduce logistic costs by reselling unutilized transport capacity to other operators and by possibly benefitting from expected liberalization measures in the European gas system designated to increase the liquidity of spot markets. The Company intends to grow its presence in market segments where margins can be sustained in the long-term. As part of this plan, we intend to strengthen our role as a global player in LNG trading where we plan to achieve steady profitability, also leveraging on integration with our upstream operations by marketing equity gas. We will seek to preserve margins on sales to large accounts by leveraging on the

Company's multiple presence across various markets and expertise in delivering innovative and tailor-made offering structures to best suit customers' needs by providing complex pricing formulas, hedging against the commodity risk and flexibility in volumes collection. In the retail segment, our priority is to maximize profitability and cash generation through more effective and efficient operations. We will closely monitor the level of working capital and we will be more selective in new customer additions in order to reduce the portfolio risk and counterparty losses. Finally, the Company intends to capture margins improvements by means of trading activities by entering into derivative contracts both in the commodity and in the financial trading venues in order to capture possible favorable trends in market prices, within the limits set by internal policies and guidelines that define the maximum tolerable level of market risk. As part of this strategy, the Company intends to improve results of operations by effectively managing the flexibilities associated with the Company's assets (gas supply contracts, transportation rights, storage capacities, unutilized power capacity). This can be achieved through strategies of asset-backed trading by entering into derivative contracts to leverage on commodity price volatility, the risks of which might be absorbed in part or entirely by the natural hedge granted by the asset availability. Asset-backed activities may lead to gains, as well as losses the amount of which could be significant.

Based on the above outlined trends and industrial actions, management expects to improve results of the Company's gas marketing business over the plan period. Our profitability outlook factors in the expected benefits of ongoing renegotiations of the Company long-term supply contracts which the Company is seeking to finalize during the plan period.

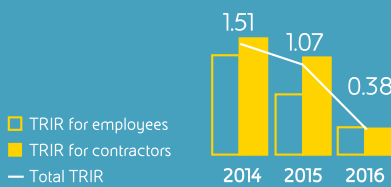


# Refining & Marketing and Chemicals



→ TRIR - Total Recordable Injury Rate

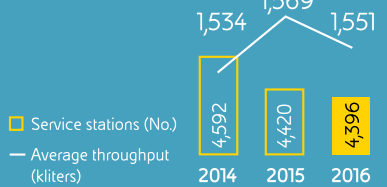
(recordable injuries/worked hours) x 1,000,000



In 2016 the TRIR in the R&M and Chemicals segment recorded a significant reduction (down by 64%).



→ Service stations and average throughput in Italy



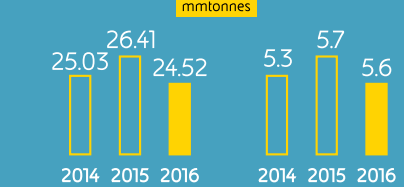
As of December 31, 2016, Eni's retail network in Italy consisted of 4,396 service stations, lower by 24 units from December 31, 2015 (4,420 service stations).



→ Refinery throughputs on own account



→ Production of petrochemical products



In 2016 Eni's refining throughputs amounted to 24.52 mmttonnes, lower y-o-y (down by 7.2%). Production of petrochemical products (5,646 ktonnes) decreased by 54 ktonnes (down by 0.9%).

## → 2016 results

In a context of weak refining margins and stagnation of petrochemical consumptions, we have substantially completed the restructuring of the R&M and Chemicals segment. In 2016, the Refining & Marketing business reported an adjusted operating profit of €278 million, down by 28% from 2015. This reflected negative impact of an unfavourable refining margin scenario (Eni's standard refining margin - SERM - in 2016 worsened to 4.2 \$/bbl, compared to 8.3 \$/bbl in 2015, down by 49.4%), the lower availability of domestic crude oil from the Val d'Agri field and higher incidence of scheduled standstills in 2016. These negatives were partly offset by improved plants efficiency and optimization.

The Chemical business reported an adjusted operating profit of €305 million, barely unchanged from the full year 2015 with an adjusted operating profit of €308 million. The unfavourable trading environment with worsening margins of crackers, polyethylenes and styrenes was partially offset by steady sale volumes and optimization actions. In 2016, these segments generated approximately €3 billion of operating cash flow compared to a deficit of €0.4 billion in 2013, funding cash outflows for capex and mitigating lower Brent prices effects on Eni's activities. This turnaround leveraged on plants optimization, widespread efficiency actions, as well as the reduction of the relative weight of basic commodities at the benefit of green production and value added products.

## → Operating performance

In 2016 Eni's refining throughputs amounted to 24.52 mmttonnes, lower y-o-y (down by 7.2%) due to unavailability of domestic crude oil of the Val d'Agri field at the Taranto plant and planned shutdowns at Livorno and Milazzo refineries. These negatives were partially offset by higher throughputs at the Sannazzaro refinery, despite the incident occurred at the EST plant in December 2016.

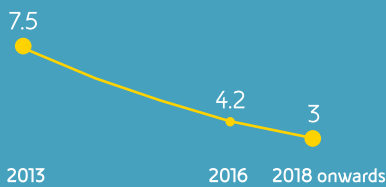
On a homogeneous basis, when excluding the impact of the disposal of CRC refinery in the Czech Republic finalized on April 30, 2015, refining throughputs were down by 4.5%. Sales of petrochemical products in Europe amounted to 3.76 mmttonnes, recording a slight reduction of 1.1% y-o-y, due to a slow recovery in consumptions. Higher intermediates sales were partially offset by lower sale volumes in the other businesses.

## → Green projects

In April 2016, following the commitments foreseen in the Memorandum of Understanding, Eni launched the Green Refinery project in Gela. The refinery will have a capacity of 750 ktonnes/y. The conversion will leverage on application of the ecofining proprietary technology, developed and patented by Eni, to convert unconventional and second generation raw materials into green diesel. Gela reconversion represents the first integrated and cross businesses' project which Eni is developing in Italy to combine the needs of the business and those of the communities living in the area. The Chemicals business has progressed in the conversion plans of the Porto Marghera petrochemical hub into a green facility, fed with renewables sources. The project is based on an agreement signed in 2015 with the US-based company Elevance Renewable Science Inc., covering research, technological development and engineering of plants for the production of bio-additives to be used in the oil industry and in the adjacent Eni bio-refinery, as well as applications such as detergents and bio-lubricants.



→ Break-even refining margin  
\$/bbl



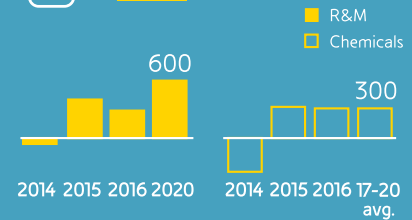
In the Refining business we reduced the break-even margin from 7.5 \$ per barrel in 2013 to 4.2 in 2016, reshaping our downstream oil business. Our target is to achieve 3 \$/bbl of break-even margin by 2018.

→ Cash flow from operations  
€ billion



In the R&M business we expect to deliver a cumulative cash flow from operations of €3.3 billion better than the previous plan, in spite of a weaker refinery environment. In Chemicals, we target a cumulative operating cash flow of €1.2 billion, despite a deteriorating scenario.

→ Adjusted operating profit  
€ million



The R&M business goal is to double operating profit within 2020 from the 2016 result, through optimization actions and marketing results. Chemicals target is to achieve an operating profit of around €300 million per year leveraging on refocusing the products portfolio and international expansion.

## Strategy

### Refining & Marketing

The Company priority is to retain profitable and cash-positive operations even in a depressed downstream oil environment, by further reducing the break-even margin of Eni refineries to 3\$ per barrel by 2018. The refining business has undergone a restructuring process resulting in a reduction of the installed capacity by more than 30% versus the 2012 baseline. This process has comprised the conversion of the Venice refinery into a green refinery for the production of bio-fuels based on a proprietary technology, the shutdown of Gela refinery, which is undergoing a transformation into a green refinery like the Venice site, asset disposals, the shutdown of unprofitable lines and other efficiency initiatives.

Additional optimization is needed considering the structural headwinds and volatility of the refining scenario. The planned initiatives include: (i) the completion of the Gela project and the second phase of Venice upgrading; (ii) optimization of plant setup and continued efficiency gains in logistics; (iii) capital discipline.

In Marketing activities, competitive pressure is expected to continue due to weak demand trends. Management plans to achieve a gradual improvement in results of operations mainly by focusing on innovation of products and services, as well as efficiency in the marketing and distribution activities.

Retail operations abroad will be focused on the core markets of Germany, Austria, Switzerland and France, where Eni intends to exploit synergies with Italian operations, brand awareness and development of non-oil activities. Overall,

management expects that under constant 2017 scenario assumptions, in the next four-year plan the business will generate enough cash to fund its capital expenditure plans and to generate a surplus.

### Chemicals

The outlook in the chemical business is unfavorable due to structural headwinds in the industry pressured by overcapacity, weak growth and rising competition from cheaper products streams from the Middle East, Far East and the US. In the last years, following the restructuring process Versalis managed the risk exposure by reducing capacity, divesting unprofitable lines, plants optimization and other efficiency measures as well as a shift in products less exposed to the scenario volatility like specialties and green chemicals.

Looking forward management believes that further steps are needed to preserve profitable and cash-positive operations, including self-financing the business capital requirements. The industrial plan contemplates: (i) the completion of the restructuring process at unprofitable sites; (ii) increasing plants flexibility and optimization; (iii) development of new products and specialties as well as the start-up of certain joint ventures in East Asia with local partners to produce and market elastomers.

Overall, management expects that even under the Eni's conservative scenario assumptions the business will generate enough cash to fund its capital expenditure requirements along the plan period.



## Financial review

2016 was a year of records for Eni, in spite of a challenging scenario. We have met all of our strategic milestones and delivered outstanding results, beating our main operating targets in production, reserves and cash neutrality. We did it while enforcing a strong cost efficiency, reducing capex, opex and G&A. We are the only major that reduced its debt since the beginning of the downturn. This is a clear evidence of the effectiveness of the transformation process we carried out in the last three years.







# Group results for the year

## Successful effort method (SEM)

Effective January 1, 2016, management elected to change the criterion to recognize exploration expenses adopting the successful-effort-method (SEM). The successful-effort method is largely adopted by oil&gas companies, to which Eni is increasingly comparable given the recent re-focalization of the Group activities on its core upstream business. In accordance to IAS 8 "Accounting policies, Changes in accounting estimates and Errors", the SEM application is a voluntary change in accounting policy explained by the alignment with an accounting standard largely adopted by oil&gas companies and as such it has been applied retrospectively. Under the SEM, geological and geophysical exploration costs are recognized as an expense as incurred. Costs directly associated with an exploration well are initially capitalized as an unproved tangible asset until the drilling of the well is complete and the results have been evaluated. If commercially viable quantities of hydrocarbons are not found, the exploration well costs are written off. If hydrocarbons are found and, subject to further appraisal activity, are likely to be capable of commercial development, the costs continue to be carried as an unproved asset. If it is determined that development will not occur then the costs are expensed. Costs directly associated with appraisal activity undertaken to determine the size, characteristics and commercial potential of a reservoir following the initial discovery of hydrocarbons are initially capitalized as an unproved tangible asset. When proved reserves of oil and natural gas are determined and development is approved by management, the relevant expenditure is transferred to proved property.

The retrospective application of the SEM has required adjustment of the opening balance of several items as of January 1, 2014. Specifically, the opening balance of the carrying amount of property, plant and equipment was increased by €3,524 million, intangible assets by €860 million and the retained earnings by €3,001 million. Other adjustments related to deferred tax liabilities and other minor line items.

Referring to the full year 2015, the adoption of SEM resulted in lower operating profit (down by €815 million) due to the accrual of impairment of capitalized exploration costs and the write-off of suspended exploration projects due to changes in hydrocarbon price scenario. Considering these special items, Group adjusted operating profit for 2015 increased to €4,178 million, from €4,104 million recorded before SEM accounting. More details are available on the "Basis of presentation" in the "Notes to the Consolidated Financial Statements".

## Continuing and discontinued operations

In relation to the Engineering & Construction segment classified as asset held for sale in the 2015 consolidated financial statements, on January 22, 2016 Eni closed the sale of a 12.503% stake in the entity to CDP Equity SpA, for a consideration of €463 million. Concurrently, a shareholder agreement between Eni and CDP Equity SpA entered into force, which established the joint control of the two parties over the target entity. Those transactions triggered loss of control of Eni over Saipem. Therefore, effective January 1, 2016, Eni deconsolidated the assets and liabilities, revenues and expenses of Saipem from the consolidated accounts. The retained interest of 30.55% in the former subsidiary has been recognized as an investment in an equity-accounted joint venture with an initial carrying amount aligned to the share price at the closing date of the transaction (€4.2 per share, equal to €564 million) recognizing a loss through profit of €441 million. This loss has been recognized in the Group consolidated accounts for 2016 as part of gains and losses of the discontinued operations. Considering the share capital increase of Saipem, which was subscribed pro-quota by Eni at the same time as the aforementioned transactions (for an overall amount of €1,069 million), the initial carrying amount of the interest retained amounts to €1,614 million, which becomes the cost on initial recognition of the investment in Saipem for the subsequent application of equity accounting. Saipem reimbursed intercompany loans owed to Eni (€5,818 million as of December 31, 2015) by using the proceeds from the share capital increase and new credit facilities from third-party financing institutions.

In this financial statement, adjusted results from continuing operations of 2015 are reported on a standalone basis, thus excluding Saipem's results. A corresponding alternative performance measure has been presented for the net cash flow from operating activities. The net result of discontinued operations for the year 2016 only comprised a loss recognized to align the book value of the Eni's residual interest in Saipem to its share price at January 22, 2016. This date marked the loss of control of Eni over Saipem, following the sale of a 12.503% interest to CDP Equity and the concurrent entering into force of the shareholder agreement between the parties. For further information, see the reconciliations and the explanatory notes furnished in the paragraph "Alternative performance measures" in the subsequent pages.

Due to termination of negotiations with US-based SK



Capital hedge fund, to divest a 70% interest in Versalis SpA, as disclosed in the press release dated June 21, 2016, Eni's chemical business is no longer qualified as a disposal group held for sale. Therefore, Eni's consolidated accounts as of and for the twelve months ended December 31, 2016, have been prepared accounting this business as part of the continuing operations. Based on IFRS 5 provisions, in case a disposal group ceases to be classified as held for sale, management is required to amend financial statements retrospectively as if the disposal group has never been qualified as held for sale. Accordingly, the opening balance of the consolidated accounts of 2016 has been amended to reinstate the criteria of the continuing use to evaluate Versalis.

This adjustment to the Versalis evaluation increased the opening balance of Eni's consolidated net assets by €294 million and was neutral on the Group's net financial position. In presenting the Group's consolidated results, Versalis assets and liabilities and revenues and expenses have been recorded line-by-line in the Group accounts. Results of the comparative periods have been reclassified accordingly. In the Group segment information, Versalis results have been reported as part of the R&M and Chemical segment because a single manager is accountable for the performance at both operating segments and the two segments exhibit similar economic characteristics.

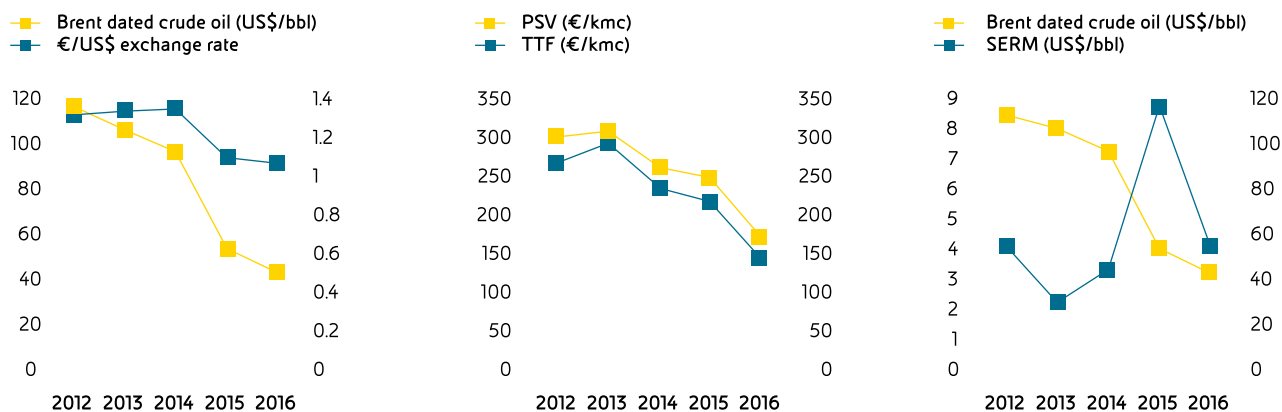
## 2016 Results<sup>1</sup>

Eni reported a **net loss from continuing operations** of €1,051 million for the FY2016, which far lower than the €7,952 million loss recorded in 2015.

This improvement mainly reflects a mild recovery that has been staging in oil markets from the second half of the year. Better market fundamentals were factored in the upward revision to management's long-term assumption for the benchmark Brent price to \$70 per barrel from the previous \$65, which has been adopted in the financial projections of the 2017-2020 industrial plan. This revision triggered asset revaluations of €1,005

million post-tax at oil&gas properties, which were absorbed by impairment losses due to a lowered outlook for gas prices in Europe and other drivers, as well as other non-recurring charges for an overall negative impact of €831 million. On the contrary, the FY 2015 result was negatively affected by the recognition of special charges of €8.5 billion. Those comprised impairment losses of upstream asset (€3.9 billion) and the write-off of deferred tax assets for €1.8 billion due to a lowered outlook for oil prices. Furthermore, the year-ago charges included the impairment of the Chemical business (€1 billion) whose carrying amount was aligned to the expected fair value based on a sale transaction then ongoing designed to established an industrial joint venture, as well as other extraordinary charges of €1.8 billion mainly in the G&P segment. Still, 2016 underlying performance was negatively affected by a continued slump in commodity prices mainly in first half of the year which determined y-o-y declines in crude oil prices (down by 16.7%, from 52.5 \$/b reported in 2015, to 43.7 \$/b in 2016), in gas prices (down by 28.2%) and in refining margins (down by 49.4%). These declines drove a 23% reduction in the Group consolidated turnover. In addition the performance was affected by a four and half-month shutdown of the Val d'Agri oil complex in Italy. Management implemented a number of initiatives to withstand the negative scenario including tight investment selection, with capex down by 19% y-o-y at constant exchange rates, control of E&P operating expenses (down by 14%), optimizations of plant setup at refineries and chemical plants, savings on energy consumptions and logistic costs and G&A cuts. All these measures improved EBIT by around €1.7 billion. Finally, income taxes declined by €1,186 million due to the above mentioned extraordinary drivers. The tax rate has been affected by the high relative incidence on taxable profit recorded in the first three quarters of 2016 of results under PSA schemes, which are characterized by higher-than-average rates of taxes.

**Group net loss pertaining to Eni's shareholders** amounted to €1,464 million, which included a loss in the discontinued operations of €413 million relating to the impairment taken to align the book value of Eni's retained interest in Saipem to its fair value, equal to the market capitalization at the date of loss of control (January 22, 2016) with a charge of €441 million.



<sup>1</sup>) For 2016 Consolidated Financial Statements see the Eni's Annual Report on Form 20-F on Eni's website.



## Adjusted results

2014	(€ million)	2015	2016	Change	% Ch.
<b>8,965</b>	<b>Operating profit (loss) - continuing operations</b>	<b>(3,076)</b>	<b>2,157</b>	<b>5,233</b>	..
1,460	Exclusion of inventory holding (gains) losses	1,136	(175)		
1,912	Exclusion of special items	7,648	333		
<b>12,337</b>	<b>Adjusted operating profit (loss) - continuing operations</b>	<b>5,708</b>	<b>2,315</b>	<b>(3,393)</b>	<b>(59.4)</b>
(1,114)	Reinstatement of intercompany transactions vs. discontinued Operations	(1,222)			
<b>11,223</b>	<b>Adjusted operating profit (loss) - continuing operations on a standalone basis</b>	<b>4,486</b>	<b>2,315</b>	<b>(2,171)</b>	<b>(48.4)</b>
<b>1,720</b>	<b>Net profit (loss) attributable to Eni's shareholders - continuing operations</b>	<b>(7,952)</b>	<b>(1,051)</b>	<b>6,901</b>	<b>86.8</b>
1,008	Exclusion of inventory holding (gains) losses	782	(120)		
1,471	Exclusion of special items	8,487	831		
<b>4,199</b>	<b>Adjusted net profit (loss) attributable to Eni's shareholders - continuing operations</b>	<b>1,317</b>	<b>(340)</b>	<b>(1,657)</b>	..
(476)	Reinstatement of intercompany transactions vs. discontinued Operations	(514)			
<b>3,723</b>	<b>Adjusted operating profit (loss) - continuing operations on a standalone basis</b>	<b>803</b>	<b>(340)</b>	<b>(1,143)</b>	..
65.9	Tax rate (%)	82.4	120.6		

## Sources and uses of cash

In 2016, net cash provided by operating activities amounted to €7,673 million. Proceeds from disposals were €1,054 million and mainly related to the 12.503% interest in Saipem (€463 million), an interest in Snam due to exercise of the conversion right by bondholders (€332 million) as well as fuel distribution activities in the Eastern Europe. Following the closing of the Saipem transaction, Eni was reimbursed of intercompany loans due by Saipem amounting to €5,818 million.

These inflows funded part of the financial requirements for capital expenditure for the year (€9,180 million, of which €500 million will be reimbursed with the disposal of 40% interest in Zohr), the payment of Eni's 2015 balance dividend and the 2016 interim dividend (€2,881 million), and finally the amount cashed out to subscribe the share capital increase of Saipem (€1,069 million). Capital expenditure decreased by 19% vs 2015 at constant exchange rates, including Eni's capital contributions to joint-ventures, as planned. The normalized

cash flow from operating activities was €8.3 billion calculated by excluding the negative effect of the Val d'Agri shutdown (€0.2 billion), a reclassification of certain receivables for investing activities to trading receivables (€0.3 billion), while including changes in working capital due to the sale of Zohr (€0.1 billion). This normalized cash flow funded for over 90% the capex of the year, reduced from €9.2 billion to €8.7 billion when deducting the expected reimbursement of past capex related to the divestment of a 40% interest in the Zohr project (€0.5 billion).

As of December 31, 2016, the ratio of net borrowings to shareholders' equity including non-controlling interest - leverage - decreased to 0.28, compared to 0.29 as of December 31, 2015. This change was due to lower net borrowings which offset a €4 billion reduction in total equity, driven by the negative result of the period, the derecognition of the Saipem non-controlling interest and dividend distributions to Eni shareholders.

## Capital expenditure by segment

2014	(€ million)	2015	2016	Change	% Ch.
10,156	Exploration & Production	9,980	8,254	(1,726)	(17.3)
	- acquisition of proved and unproved properties		2		
1,030	- exploration	566	417		
9,021	- development	9,341	7,770		
105	- other expenditure	73	65		
172	Gas & Power	154	120	(34)	(22.1)
819	Refining & Marketing and Chemicals	628	664	36	5.7
537	- Refining & Marketing	408	421	13	3.2
282	- Chemicals	220	243	23	10.5
113	Corporate and other activities	64	55	(9)	(14.1)
(82)	Impact of unrealized intragroup profit elimination	(85)	87	172	..
<b>11,178</b>	<b>Capital expenditure - continuing operations</b>	<b>10,741</b>	<b>9,180</b>	<b>(1,561)</b>	<b>(14.5)</b>
694	Capital expenditure - discontinued operations	561		(561)	
<b>11,872</b>	<b>Capital expenditure</b>	<b>11,302</b>	<b>9,180</b>	<b>(2,122)</b>	<b>(18.8)</b>

## Profit and loss account

2014	(€ million)	2015	2016	Change	% Ch.
98,218	Net sales from operations	72,286	55,762	(16,524)	(22.9)
1,079	Other income and revenues	1,252	931	(321)	(25.6)
(80,333)	Operating expenses	(59,967)	(47,118)	12,849	(21.4)
145	Other operating income (expense)	(485)	16	501	..
(7,676)	Depreciation, depletion, amortization	(8,940)	(7,559)	1,381	15.4
(1,270)	Impairment losses (impairment reversals), net	(6,534)	475	7,009	..
(1,198)	Write-off	(688)	(350)	338	49.1
<b>8,965</b>	<b>Operating profit (loss)</b>	<b>(3,076)</b>	<b>2,157</b>	<b>5,233</b>	<b>..</b>
(1,167)	Finance income (expense)	(1,306)	(885)	421	32.2
476	Net income from investments	105	(380)	(485)	..
<b>8,274</b>	<b>Profit (loss) before income taxes</b>	<b>(4,277)</b>	<b>892</b>	<b>5,169</b>	<b>..</b>
(6,466)	Income taxes	(3,122)	(1,936)	1,186	38.0
78.1	Tax rate (%)	..	..		
<b>1,808</b>	<b>Net profit (loss) - continuing operations</b>	<b>(7,399)</b>	<b>(1,044)</b>	<b>6,355</b>	<b>85.9</b>
(949)	Net profit (loss) - discontinued operations	(1,974)	(413)	1,561	
<b>859</b>	<b>Net profit (loss)</b>	<b>(9,373)</b>	<b>(1,457)</b>	<b>7,916</b>	<b>84.5</b>
	attributable to:				
<b>1,303</b>	- Eni's shareholders	<b>(8,778)</b>	<b>(1,464)</b>	<b>7,314</b>	<b>83.3</b>
<b>1,720</b>	- continuing operations	<b>(7,952)</b>	<b>(1,051)</b>	<b>6,901</b>	<b>86.8</b>
(417)	- discontinued operations	(826)	(413)	413	50.0
<b>(444)</b>	- Non-controlling interest	<b>(595)</b>	<b>7</b>	<b>602</b>	<b>..</b>
88	- continuing operations	553	7	(546)	(98.7)
(532)	- discontinued operations	(1,148)		1,148	..

## Non-GAAP measures

### Alternative performance measures

Management evaluates underlying business performance on the basis of Non-GAAP financial measures under IFRS ("Alternative performance measures"), such as adjusted operating profit and adjusted net profit, which are arrived at by excluding inventory holding gains or losses, special items and, in determining the business segments' adjusted results, finance charges on finance debt and interest income. The adjusted operating profit of each business segment reports gains and losses on derivative financial instruments entered into to manage exposure to movements in foreign currency exchange rates which affect industrial margins and translation of commercial payables and receivables. Accordingly, also currency translation effects recorded through profit and loss are reported within business segments' adjusted operating profit. The taxation effect of the items excluded from adjusted operating or net profit is determined based on the specific rate of taxes applicable to each of them. Management includes them in order to facilitate a comparison of base business performance across periods, and to allow financial analysts to evaluate Eni's trading performance on the basis of their forecasting models. Non-GAAP financial measures should be read together with information determined by applying IFRS

and do not stand in for them. Other companies may adopt different methodologies to determine Non-GAAP measures. Follows the description of the main alternative performance measures adopted by Eni. The measures reported below refer to the actual performance:

### Adjusted operating and net profit

Adjusted operating and net profit are determined by excluding inventory holding gains or losses, special items and, in determining the business segments' adjusted results, finance charges on finance debt and interest income. The adjusted operating profit of each business segment reports gains and losses on derivative financial instruments entered into to manage exposure to movements in foreign currency exchange rates which impact industrial margins and translation of commercial payables and receivables. Accordingly, also currency translation effects recorded through profit and loss are reported within business segments' adjusted operating profit. The taxation effect of the items excluded from adjusted operating or net profit is determined based on the specific rate of taxes applicable to each of them. Finance charges or income related to net borrowings



excluded from the adjusted net profit of business segments are comprised of interest charges on finance debt and interest income earned on cash and cash equivalents not related to operations. Therefore, the adjusted net profit of business segments includes finance charges or income deriving from certain segment operated assets, i.e., interest income on certain receivable financing and securities related to operations and finance charge pertaining to the accretion of certain provisions recorded on a discounted basis (as in the case of the asset retirement obligations in the Exploration & Production segment).

#### **Inventory holding gain or loss**

This is the difference between the cost of sales of the volumes sold in the period based on the cost of supplies of the same period and the cost of sales of the volumes sold calculated using the weighted average cost method of inventory accounting as required by IFRS.

#### **Special items**

These include certain significant income or charges pertaining to either: (i) infrequent or unusual events and transactions, being identified as non-recurring items under such circumstances; (ii) certain events or transactions which are not considered to be representative of the ordinary course of business, as in the case of environmental provisions, restructuring charges, asset impairments or write ups and gains or losses on divestments even though they occurred in past periods or are likely to occur in future ones; or (iii) exchange rate differences and derivatives relating to industrial activities and commercial payables and receivables, particularly exchange rate derivatives to manage commodity pricing formulas which are quoted in a currency other than the functional currency. Those items are reclassified in operating profit with a corresponding adjustment to net finance charges, notwithstanding the handling of foreign currency exchange risks is made centrally by netting off naturally-occurring opposite positions and then dealing with any residual risk exposure in the exchange rate market. As provided for in Decision No. 15519 of July 27, 2006 of the Italian market regulator (CONSOB), non-recurring material income or charges are to be clearly reported in the management's discussion and financial tables. Also, special items allow to allocate to future reporting periods gains and losses on re-measurement at fair value of certain non hedging commodity derivatives and exchange rate derivatives relating to commercial exposures, lacking the criteria to be designed as hedges, including the ineffective portion of cash flow hedges and certain derivative financial instruments embedded in the pricing formula of long-term gas supply agreements of the Exploration & Production segment.

#### **Adjusted operating profit, adjusted net profit and cash flow from operating activities on a standalone basis**

Considering the significant impact of the discontinued operations in the comparative reporting periods of 2015,

management used an adjusted performance measures calculated on a standalone basis. This Non-GAAP measure excludes as usual the items "profit/loss on stock" and extraordinary gains and losses (special items), while it reinstates the effects relating to the elimination of gains and losses on intercompany transactions with the Engineering & Construction segment which, as of December 31, 2015, was in the disposal phase, represented as discontinued operations under the IFRS5. These measures obtain a representation of the performance of the continuing operations which anticipates the effect of the derecognition of the discontinued operations. Namely: adjusted operating profit, adjusted net profit and cash flow from operating activities on a standalone basis.

#### **Profit per boe**

Measures the return per oil and natural gas per barrel produced. It is calculated as the ratio between Results of operations from E&P activities (as defined by FASB Extractive Activities - oil&gas Topic 932) and production sold.

#### **Opex per boe**

Measures efficiency in the oil&gas development activities, calculated as the ratio between operating costs (as defined by FASB Extractive Activities - oil&gas Topic 932) and production sold.

#### **Finding & Development cost per boe**

Represents Finding & Development cost per boe of new proved or possible reserves. It is calculated as the overall amount of exploration and development expenditure, the consideration for the acquisition of possible and probable reserves as well as additions of proved reserves deriving from improved recovery, extensions, discoveries and revisions of previous estimates (as defined by FASB Extractive Activities - oil&gas Topic 932).

#### **Leverage**

Leverage is a Non-GAAP measure of the Company's financial condition, calculated as the ratio between net borrowings and shareholders' equity, including non-controlling interest. Leverage is the reference ratio to assess the solidity and efficiency of the Group balance sheet in terms of incidence of funding sources including third-party funding and equity as well as to carry out benchmark analysis with industry standards.

#### **Free cash flow**

Free cash flow represents the link existing between changes in cash and cash equivalents (deriving from the statutory cash flows statement) and in net borrowings (deriving from the summarized cash flow statement) that occurred from the beginning of the period to the end of period. Free cash flow is the cash in excess of capital expenditure needs. Starting from free cash flow it is possible to determine either: (i) changes in cash and cash equivalents for the period by adding/deducting cash flows relating to financing debts/receivables (issuance/repayment of debt and receivables related to financing activities), shareholders' equity (dividends



paid, net repurchase of own shares, capital issuance) and the effect of changes in consolidation and of exchange rate differences; (ii) changes in net borrowings for the period by adding/deducting cash flows relating to shareholders' equity and the effect of changes in consolidation and of exchange rate differences.

### Net borrowings

Net borrowings is calculated as total finance debt less cash, cash equivalents and certain very liquid investments not related to operations, including among others non-operating financing

receivables and securities not related to operations.

Financial activities are qualified as "not related to operations" when these are not strictly related to the business operations.

The following tables report the group operating profit and Group adjusted net profit and their breakdown by segment, as well as is represented the reconciliation with net profit attributable to Eni's shareholders of continuing operations. For further details see Integrated Annual Report 2016 on Eni's website.

## Breakdown of special items

2014	(€ million)	2015	2016
<b>2,364</b> Special items of operating profit (loss)		<b>8,251</b>	<b>333</b>
179 - environmental charges		225	193
1,692 - impairment losses (impairment reversals), net		7,124	(459)
- impairment of exploration projects		169	7
(22) - net gains on disposal of assets		(406)	(10)
(10) - risk provisions		211	151
9 - provision for redundancy incentives		42	47
(16) - commodity derivatives		164	(427)
229 - exchange rate differences and derivatives		(63)	(19)
303 - other		785	850
<b>203</b> Net finance (income) expense		<b>292</b>	<b>166</b>
of which:			
(229) - exchange rate differences and derivatives		63	19
<b>(189)</b> Net income (expense) from investments		<b>488</b>	<b>817</b>
of which:			
(159) - gains on disposal of assets		(33)	(57)
(38) - impairments / revaluation of equity investments		506	896
<b>(300)</b> Income taxes		<b>(7)</b>	<b>(72)</b>
of which:			
976 - net impairment of deferred tax assets of Italian subsidiaries		880	170
(824) - other net tax refund			
69 - deferred tax adjustment on PSAs			
- net impairment of deferred tax assets of upstream business outside Italy		860	6
(521) - taxes on special items of operating profit (outside Italy) and other special items		(1,747)	(248)
<b>2,078</b> Total special items of net profit (loss)		<b>9,024</b>	<b>1,244</b>
Attributable to:			
533 - non-controlling interest		353	
<b>1,545</b> - Eni's shareholders		<b>8,671</b>	<b>1,244</b>



2016	Exploration & Production	Gas & Power	Refining & Marketing and Chemicals	Corporate and other activities	Impact of unrealized intragroup profit elimination	GROUP	DISCONTINUED OPERATION	CONTINUING OPERATIONS
(€ million)								
<b>Reported operating profit (loss)</b>	<b>2,567</b>	<b>(391)</b>	<b>723</b>	<b>(681)</b>	<b>(61)</b>	<b>2,157</b>		<b>2,157</b>
Exclusion of inventory holding (gains) losses		90	(406)		141	(175)		(175)
<b>Exclusion of special items:</b>								
- environmental charges		1	104	88		193		193
- impairment losses (impairment reversals), net	(684)	81	104	40		(459)		(459)
- impairment of exploration projects	7					7		7
- net gains on disposal of assets	(2)		(8)			(10)		(10)
- risk provisions	105	17	28	1		151		151
- provision for redundancy incentives	24	4	12	7		47		47
- commodity derivatives	19	(443)	(3)			(427)		(427)
- exchange rate differences and derivatives	(3)	(19)	3			(19)		(19)
- other	461	270	26	93		850		850
<b>Special items of operating profit (loss)</b>	<b>(73)</b>	<b>(89)</b>	<b>266</b>	<b>229</b>		<b>333</b>		<b>333</b>
<b>Adjusted operating profit (loss)</b>	<b>2,494</b>	<b>(390)</b>	<b>583</b>	<b>(452)</b>	<b>80</b>	<b>2,315</b>		<b>2,315</b>
Net finance (expense) income <sup>(a)</sup>	(55)	6	1	(721)		(769)		(769)
Net income (expense) from investments <sup>(a)</sup>	68	(20)	32	(6)		74		74
Income taxes <sup>(a)</sup>	(1,999)	74	(197)	188	(19)	(1,953)		(1,953)
<i>Tax rate (%)</i>	<i>79.7</i>	<i>..</i>	<i>32.0</i>			<i>120.6</i>		<i>120.6</i>
<b>Adjusted net profit (loss)</b>	<b>508</b>	<b>(330)</b>	<b>419</b>	<b>(991)</b>	<b>61</b>	<b>(333)</b>		<b>(333)</b>
of which attributable to:								
- non-controlling interest						7		7
- Eni's shareholders						(340)		(340)
<b>Reported net profit (loss) attributable to Eni's shareholders</b>						<b>(1,464)</b>	<b>413</b>	<b>(1,051)</b>
Exclusion of inventory holding (gains) losses						(120)		(120)
Exclusion of special items						1,244	(413)	831
<b>Adjusted net profit (loss) attributable to Eni's shareholders</b>						<b>(340)</b>		<b>(340)</b>

(a) Excluding special items.





2015	Exploration & Production	Gas & Power	Refining & Marketing and Chemicals	Corporate and other activities	Engineering & Construction	Impact of unrealized intragroup profit elimination	GROUP	Discontinued operations			CONTINUING OPERATIONS	Reinstatement of intercompany transaction vs. Discontinued operations	CONTINUING OPERATIONS on a standalone basis
								Engineering & Construction	Consolidation adjustments	TOTAL			
(€ million)													
<b>Reported operating profit (loss)</b>	(959)	(1,258)	(1,567)	(497)	(694)	(23)	(4,998)	694	1,228	1,922	(3,076)		(4,304)
Exclusion of inventory holding (gains) losses		132	877			127	1,136				1,136		1,136
<b>Exclusion of special items:</b>													
- environmental charges			137	88			225				225		225
- impairment losses (impairment reversals), net	5,212	152	1,150	20	590		7,124	(590)	(590)		6,534		6,534
- impairment of exploration projects	169						169				169		169
- net gains on disposal of assets	(403)		(8)	4	1		(406)	(1)	(1)		(407)		(407)
- risk provisions		226	(5)	(10)			211				211		211
- provision for redundancy incentives	15	6	8	1	12		42	(12)	(12)		30		30
- commodity derivatives	12	90	68		(6)		164	6	(6)		164		170
- exchange rate differences and derivatives	(59)	(9)	5				(63)				(63)		(63)
- other	195	535	30	25			785				785		785
<b>Special items of operating profit (loss)</b>	5,141	1,000	1,385	128	597		8,251	(597)	(6)	(603)	7,648		7,654
<b>Adjusted operating profit (loss)</b>	4,182	(126)	695	(369)	(97)	104	4,389	97	1,222	1,319	5,708	(1,222)	4,486
Net finance (expense) income <sup>(a)</sup>	(272)	11	(2)	(686)	(5)		(954)	5	24	29	(925)	(24)	(949)
Net income (expense) from investments <sup>(a)</sup>	254	(2)	69	285	17		623	(17)		(17)	606		606
Income taxes <sup>(a)</sup>	(3,173)	(51)	(250)	107	(212)	(47)	(3,626)	212	(53)	159	(3,467)	53	(3,414)
<i>Tax rate (%)</i>	76.2	..	32.8		..		89.4				64.3		82.4
<b>Adjusted net profit (loss)</b>	991	(168)	512	(663)	(297)	57	432	297	1,193	1,490	1,922	(1,193)	729
of which attributable to:													
- non-controlling interest							(243)			848	605	(679)	(74)
- Eni's shareholders							675			642	1,317	(514)	803
<b>Reported net profit (loss) attributable to Eni's shareholders</b>							(8,778)			826	(7,952)		(7,952)
Exclusion of inventory holding (gains) losses							782				782		782
Exclusion of special items							8,671		(184)		8,487		8,487
Reinstatement of intercompany transactions vs. discontinued operations													(514)
<b>Adjusted net profit (loss) attributable to Eni's shareholders</b>							675		642	1,317			803

(a) Excluding special items.



2014	Exploration & Production	Gas & Power	Refining & Marketing and Chemicals	Corporate and other activities	Engineering & Construction	Impact of unrealized intragroup profit elimination	GROUP	Discontinued operations			CONTINUING OPERATIONS	Reinstatement of intercompany transaction vs. Discontinued operations	CONTINUING OPERATIONS on a standalone basis
								Engineering & Construction	Consolidation adjustments	TOTAL			
(€ million)													
<b>Reported operating profit (loss)</b>	10,727	64	(2,811)	(518)	18	398	7,878	(18)	1,105	1,087	8,965		7,860
Exclusion of inventory holding (gains) losses		(119)	1,746			(167)	1,460				1,460		1,460
<b>Exclusion of special items:</b>													
- environmental charges			138	41			179				179		179
- impairment losses (impairment reversals), net	853	25	380	14	420		1,692	(420)	(420)		1,272		1,272
- net gains on disposal of assets	(70)		43	3	2		(22)	(2)	(2)		(24)		(24)
- risk provisions	(5)	(42)		12	25		(10)	(25)	(25)		(35)		(35)
- provision for redundancy incentives	24	9	(4)	(25)	5		9	(5)	(5)		4		4
- commodity derivatives	(28)	(38)	41		9		(16)	(9)	9		(16)		(25)
- exchange rate differences and derivatives	6	205	18				229				229		229
- other	172	64	37	30			303				303		303
<b>Special items of operating profit (loss)</b>	952	223	653	75	461		2,364	(461)	9	(452)	1,912		1,903
<b>Adjusted operating profit (loss)</b>	11,679	168	(412)	(443)	479	231	11,702	(479)	1,114	635	12,337	(1,114)	11,223
Net finance (expense) income <sup>(a)</sup>	(273)	7	(12)	(564)	(6)		(848)	6	40	46	(802)	(40)	(842)
Net income (expense) from investments <sup>(a)</sup>	333	49	64	(156)	21		311	(21)	(21)		290		290
Income taxes <sup>(a)</sup>	(7,170)	(138)	41	311	(185)	(79)	(7,220)	185	(51)	134	(7,086)	51	(7,035)
<i>Tax rate (%)</i>	61.1	61.6	..		37.4		64.7				59.9		65.9
<b>Adjusted net profit (loss)</b>	4,569	86	(319)	(852)	309	152	3,945	(309)	1,103	794	4,739	(1,103)	3,636
of which attributable to:													
- non-controlling interest							89			451	540	(627)	(87)
- Eni's shareholders							3,856			343	4,199	(476)	3,723
<b>Reported net profit (loss) attributable to Eni's shareholders</b>							1,303			417	1,720		1,720
Exclusion of inventory holding (gains) losses							1,008				1,008		1,008
Exclusion of special items							1,545		(74)		1,471		1,471
Reinstatement of intercompany transactions vs. discontinued operations													(476)
<b>Adjusted net profit (loss) attributable to Eni's shareholders</b>							3,856			343	4,199		3,723

(a) Excluding special items.

	(€ million)	2014	2015	2016
<b>Net cash provided by operating activities</b>		14,742	11,649	7,673
Net cash provided by operating activities - discontinued operations		273	(1,226)	
<b>Net cash provided by operating activities - continuing operations</b>		14,469	12,875	7,673
Reinstatement of intercompany transactions vs. discontinued operations		(925)	(720)	
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES ON A STANDALONE BASIS</b>		13,544	12,155	7,673

## Summarized group balance sheet

The Summarized Group Balance Sheet aggregates the amount of assets and liabilities derived from the statutory balance sheet in accordance with functional criteria which consider the enterprise conventionally divided into the three fundamental areas focusing on resource investments, operations and financing. Management believes that this summarized Group Balance Sheet is useful information in

assisting investors to assess Eni's capital structure and to analyze its sources of funds and investments in fixed assets and working capital. Management uses the summarized group balance sheet to calculate key ratios such as the proportion of net borrowings to shareholders' equity (leverage) intended to evaluate whether Eni's financing structure is sound and well-balanced.

(€ million)	December 31, 2015	December 31, 2016	Change
<b>Fixed assets</b>			
Property, plant and equipment	68,005	70,793	2,788
Inventories - Compulsory stock	909	1,184	275
Intangible assets	3,034	3,269	235
Equity-accounted investments and other investments	3,513	4,316	803
Receivables and securities held for operating purposes	2,273	1,932	(341)
Net payables related to capital expenditure	(1,284)	(1,765)	(481)
	<b>76,450</b>	<b>79,729</b>	<b>3,279</b>
<b>Net working capital</b>			
Inventories	4,579	4,637	58
Trade receivables	12,616	11,186	(1,430)
Trade payables	(9,605)	(11,038)	(1,433)
Tax payables and provisions for net deferred tax liabilities	(4,137)	(3,073)	1,064
Provisions	(15,375)	(13,896)	1,479
Other current assets and liabilities	1,827	1,171	(656)
	<b>(10,095)</b>	<b>(11,013)</b>	<b>(918)</b>
Provisions for employee post-retirement benefits	(1,123)	(868)	255
Discontinued operations and assets held for sale including related liabilities	9,048	14	(9,034)
<b>CAPITAL EMPLOYED, NET</b>	<b>74,280</b>	<b>67,862</b>	<b>(6,418)</b>
Eni shareholders' equity	55,493	53,037	(2,456)
Non-controlling interest	1,916	49	(1,867)
<b>Shareholders' equity</b>	<b>57,409</b>	<b>53,086</b>	<b>(4,323)</b>
<b>Net borrowings</b>	<b>16,871</b>	<b>14,776</b>	<b>(2,095)</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>74,280</b>	<b>67,862</b>	<b>(6,418)</b>

The Summarized Group Balance Sheet was affected by the movement in the EUR/USD exchange rate, which determined an increase in net capital employed, total equity and net borrowings by €1,747 million, €1,198 million, and €549 million respectively. This was due to translation into euros of the financial statements of US-denominated subsidiaries reflecting a 3.2% depreciation of the euro against the US dollar (1 EUR= 1.054 USD at December 31, 2016 compared to 1.089 at December 31, 2015).

**Fixed assets** (€79,729 million) increased by €3,279 million from December 31, 2015. The item "Property, plant and equipment" was up by €2,788 million mainly due to capital expenditure (€9,180 million), positive currency movements and net asset impairments reversals (€475 million). These positives were offset by DD&A (€7,559 million), the write-off of exploration projects lacking the criteria

for continuing to be capitalized and the write-off of the damaged units of the EST plant in Sannazzaro refinery (€350 million). The increase in the item "Equity-accounted investments and other investments" of €803 million was due to the recognition as an equity-accounted investment of the stake of 30.55% retained in Saipem following loss of control over the former subsidiary and the pro-quota share capital increase of Saipem subscribed by for an overall amount of €1,614 million, net of losses incurred in the period.

**Net working capital** was in negative territory at minus €11,013 million and decreased by €918 million y-o-y driven by reduced trade receivables, due to better management of working capital and higher volume of trade receivables due beyond end of the reporting period which were transferred to factoring institution, as well as increased trade payables. Other current assets and liabilities decreased due mainly



to the impairment of certain receivables in the E&P segment owed by certain NOCs, due to the expected outcome of ongoing negotiations in relation to under-lifting position. These negatives were partly offset by the decrease in tax payables and provisions for deferred taxes, reflecting lower provisions for current tax, driven by the reduction of taxable profit and E&P utilization of deferred tax liabilities relating to the impairment of under-lifting receivables, as well as the reduction in the risk provisions for the fulfilment of obligations.

**Discontinued operations, assets held for sale including related liabilities** (€14 million) decreased by €9,034 million due to the closing of the Saipem transaction and the divestment of fuel distribution activities in Eastern Europe.

**Shareholders' equity including non-controlling interest** was €53,086 million, down by €4,323 million from December 31, 2015. This was due to the net loss of the year (€1,457 million), the de-recognition of Saipem non-controlling interest (€1,872 million), as well as dividend distribution and other changes of €2,885 million (including the 2015 balance and the 2016 interim dividends paid to Eni's shareholders amounting to €2,881 million). These effects were partially offset by a positive change in the cash flow hedge reserve (€883 million) and positive foreign currency translation differences (€1,198 million).

## Leverage and net borrowings

Eni evaluates its financial condition by reference to **net borrowings**, which is calculated as total finance debt less: cash, cash equivalents and certain very liquid investments not related to operations, including among others non operating financing receivables and securities not related to operations. Non-operating financing receivables consist of amounts due to Eni's financing subsidiaries from banks and other financing institutions and amounts due to other subsidiaries from banks for investing purposes and deposits in escrow. Securities not related to operations consist primarily of government and corporate securities.

**Leverage** is a measure used by management to assess the Company's level of indebtedness. It is calculated as a ratio of net borrowings which is calculated by excluding cash and cash equivalents and certain very liquid assets from financial debt to shareholders' equity, including non-controlling interest. Management periodically reviews leverage in order to assess the soundness and efficiency of the Group balance sheet in terms of optimal mix between net borrowings and net equity, and to carry out benchmark analysis with industry standards.

(€ million)	December 31, 2015	December 31, 2016	Change
<b>Total debt:</b>	<b>27,793</b>	<b>27,239</b>	<b>(554)</b>
Short-term debt	8,396	6,675	(1,721)
Long-term debt	19,397	20,564	1,167
Cash and cash equivalents	(5,209)	(5,674)	(465)
Securities held for trading and other securities held for non-operating purposes	(5,028)	(6,404)	(1,376)
Financing receivables for non-operating purposes	(685)	(385)	300
<b>Net borrowings</b>	<b>16,871</b>	<b>14,776</b>	<b>(2,095)</b>
<b>Shareholders' equity including non-controlling interest</b>	<b>57,409</b>	<b>53,086</b>	<b>(4,323)</b>
<b>Leverage</b>	<b>0.29</b>	<b>0.28</b>	<b>(0.01)</b>

## Summarized group cash flow statement

Eni's Summarized Group Cash Flow Statement derives from the statutory statement of cash flows. It enables investors to understand the link existing between changes in cash and cash equivalents (deriving from the statutory cash flows statement) and in net borrowings (deriving from the summarized cash flow statement) that occurred from the beginning of the period to the end of period. The measure enabling such a link is represented by the free cash flow which is the cash in excess of capital expenditure needs. Starting from free cash flow it is possible to determine either: (i) changes in cash and cash equivalents for the period by adding/deducting

cash flows relating to financing debts/receivables (issuance/repayment of debt and receivables related to financing activities), shareholders' equity (dividends paid, net repurchase of own shares, capital issuance) and the effect of changes in consolidation and of exchange rate differences; and (ii) change in net borrowings for the period by adding/deducting cash flows relating to shareholders' equity and the effect of changes in consolidation and of exchange rate differences. The free cash flow and net cash provided by operating activities from continuing operations on a standalone basis are non-GAAP measures of financial performance.

2014	(€ million)	2015	2016	Change
<b>1,808</b>	<b>Net profit (loss) - continuing operations</b>	<b>(7,399)</b>	<b>(1,044)</b>	<b>6,355</b>
	Adjustments to reconcile net profit (loss) to net cash provided by operating activities:			
10,898	- depreciation, depletion and amortization and other non monetary items	17,216	7,773	(9,443)
(224)	- net gains on disposal of assets	(577)	(48)	529
6,600	- dividends, interests, taxes and other changes	3,215	2,229	(986)
2,199	Changes in working capital related to operations	4,781	2,112	(2,669)
(6,812)	Dividends received, taxes paid, interests (paid) received during the period	(4,361)	(3,349)	1,012
<b>14,469</b>	<b>Net cash provided by operating activities - continuing operations</b>	<b>12,875</b>	<b>7,673</b>	<b>(5,202)</b>
273	Net cash provided by operating activities - discontinued operations	(1,226)		1,226
<b>14,742</b>	<b>Net cash provided by operating activities</b>	<b>11,649</b>	<b>7,673</b>	<b>(3,976)</b>
(11,178)	<b>Capital expenditure - continuing operations</b>	<b>(10,741)</b>	<b>(9,180)</b>	<b>1,561</b>
(694)	Capital expenditure - discontinued operations	(561)		561
<b>(11,872)</b>	<b>Capital expenditure</b>	<b>(11,302)</b>	<b>(9,180)</b>	<b>2,122</b>
(408)	Investment and purchase of consolidated subsidiaries and businesses	(228)	(1,164)	(936)
3,684	Disposal of consolidated subsidiaries, businesses tangible and intangible assets and investments	2,258	1,054	(1,204)
435	Other cash flow related to capital expenditure, investments and disposals	(1,351)	465	1,816
<b>6,581</b>	<b>Free cash flow</b>	<b>1,026</b>	<b>(1,152)</b>	<b>(2,178)</b>
(414)	Borrowings (repayment) of debt related to financing activities	(300)	5,271	5,571
(628)	Changes in short and long-term financial debt	2,126	(766)	(2,892)
(4,434)	Dividends paid and changes in non-controlling interests and reserves	(3,477)	(2,885)	592
78	Effect of changes in consolidation, exchange differences and cash and cash equivalent related to discontinued operations	(780)	(3)	777
<b>1,183</b>	<b>NET CASH FLOW</b>	<b>(1,405)</b>	<b>465</b>	<b>1,870</b>
<b>13,544</b>	<b>Net cash provided by operating activities on a standalone basis</b>	<b>12,155</b>	<b>7,673</b>	<b>(4,482)</b>

### Change in net borrowings

2014	(€ million)	2015	2016	Change
<b>6,581</b>	<b>Free cash flow</b>	<b>1,026</b>	<b>(1,152)</b>	<b>(2,178)</b>
(19)	Net borrowings of acquired companies			
	Net borrowings of divested companies	83	5,848	5,765
(850)	Exchange differences on net borrowings and other changes	(818)	284	1,102
(4,434)	Dividends paid and changes in non-controlling interest and reserves	(3,477)	(2,885)	592
<b>1,278</b>	<b>CHANGE IN NET BORROWINGS</b>	<b>(3,186)</b>	<b>2,095</b>	<b>5,281</b>



Supplementary  
information

Assemblea Ordinaria degli Azionisti  
Ordinary Shareholders' Meeting



# Directors and officers

## Eni's Board of Directors<sup>1</sup>



**Emma Marcegaglia**  
Chairman



**Claudio Descalzi**  
Chief Executive Officer



**Andrea Gemma**

Nomination  
Committee  
Chairman

Control and Risk  
Committee

Sustainability  
and Scenarios Committee



**Pietro A. Guindani**

Compensation  
Committee  
Chairman

Sustainability  
and Scenarios Committee



**Karina A. Litvack**

Control and Risk  
Committee<sup>2</sup>

Compensation  
Committee

Sustainability  
and Scenarios Committee



**Alessandro Lorenzi**

Control and Risk  
Committee  
Chairman

Compensation  
Committee



**Diva Moriani**

Nomination  
Committee

Control and Risk  
Committee



**Fabrizio Pagani**

Sustainability  
and Scenarios Committee  
Chairman



Nomination  
Committee



**Alessandro Profumo**

Sustainability  
and Scenarios Committee

Nomination  
Committee

 From the slate submitted by the Ministry of the Economy and Finance.  
 From the minority slate.

Three-year term of office, 9 members, 7 independents, 1 executive Director; Chairman non-executive and independent pursuant to law.

<sup>1</sup> Appointed by the Ordinary Shareholders' Meeting held on May 8, 2014 for a three year period.

The Board expires at the date of approval of the financial statements for the 2016 financial year on April 13, 2017.

<sup>2</sup> Renominated by the Board of Directors on April 4, 2017.

## Board of Statutory Auditors

**Chairman**  
Matteo Caratozzolo

**Statutory Auditors**  
Paola Camagni  
Alberto Falini  
Marco Lacchini  
Marco Seracini

**Alternate Auditors**  
Stefania Bettoni  
Mauro Lonardo

## Group Officers

**Emma Marcegaglia**  
Chairman

**Claudio Descalzi**  
Chief Executive Officer

**Luca Bertelli**  
Chief Exploration  
Officer

**Marco Petracchini**  
Internal Audit Department  
Senior EVP

**Roberto Casula**  
Chief Development,  
Operations & Technology  
Officer

**Roberto Ulissi**  
Corporate Affairs and  
Governance Department  
Senior EVP

**Alberto Chiarini**  
Chief Retail Market  
Gas & Power Officer

**Marco Bardazzi**  
External Communication  
Department EVP

**Claudio Granata**  
Chief Services  
and Stakeholder  
Relations Officer

**Luca Cosentino**  
Energy Solutions  
Department EVP

**Massimo Mantovani**  
Chief Midstream  
Gas & Power Officer

**Luca Franceschini**  
Integrated Compliance  
Department EVP

**Massimo Mondazzi**  
Chief Financial  
Officer

**Pasquale Salzano**  
Government Affairs  
Department EVP

**Giuseppe Ricci**  
Chief Refining & Marketing  
Officer

**Jadran Trevisan**  
Integrated Risk  
Management EVP

**Antonio Vella**  
Chief Upstream Officer

**Marco Bollini**  
Legal Affairs Department  
Senior EVP



# Remuneration<sup>3</sup>

The Eni Remuneration Policy is defined consistently with the recommendations of the Borsa Italiana Code as transposed in the Eni Code. It is approved by the Board of Directors following a proposal by the Compensation Committee, entirely made up of non-executive, independent Directors, and it is defined in accordance with the governance model adopted by the Company and with the recommendations of the Corporate Governance Code. This Policy aims to align the interests of management with the prime objective of creating sustainable value for shareholders over the medium-long term, in accordance with the guidelines defined in the Strategic Plan of the Company. The 2017 Remuneration Policy provides for the adoption of a new, simpler variable incentive system with two plans instead of three based on the

introduction of an equity-based component (in Eni shares), as a tool to strengthen the Company's culture of risk management.

The new incentive structure provides for the introduction of:

- an annual incentive plan, featuring a three-year deferral mechanism applicable to a portion of accrued bonuses and subject to specific performance conditions; this is to ensure the medium-term sustainability of results achieved in the short term;
- a long-term equity-based incentive plan, offered to managers with the greatest influence on business performance, and aimed at achieving medium-to-long-term objectives consistent with the Strategic Plan and the expectations of shareholders, as measured by comparison with the performance achieved by a defined peer group.

## 2016 Remuneration

The following table lists the individual remunerations to the Directors, Statutory Auditors, Chief Executive Officer and General Manager and, in aggregate, to the other Managers with strategic responsibilities (MSR). The remunerations

received from subsidiaries and/or affiliates, except those waived or paid to the company, are shown separately. All parties who filled these roles during the period are included, even if they only held office for a fraction of the year.

### Remuneration paid to Directors, Statutory Auditors, to the Chief Executive Officer and General Manager and to other Managers with strategic responsibilities (€ thousands)

First name and Surname	Position	Period for which the position was held	Expiration of office <sup>(a)</sup>	Fixed remuneration	Remuneration for participation in the Committees	Variable non-equity remuneration				Total	Fair value of equity compensation	Severance indemnity for end of office or termination of employment
						Bonuses and other incentives	Profit sharing	Benefits in kind	Other remuneration			
<b>Board of Directors</b>												
Emma Marcegaglia	Chairman	01.01 - 12.31	05.2017	238						238		
Claudio Descalzi	Chief Executive Officer and General Manager	01.01 - 12.31	05.2017	1,350		1,755		15		3,120		
Andrea Gemma	Director	01.01 - 12.31	05.2017	80	90					170		
Pietro Angelo Guindani	Director	01.01 - 12.31	05.2017	80	50					130		
Karina Litvack	Director	01.01 - 12.31	05.2017	80	63					143		
Alessandro Lorenzi	Director	01.01 - 12.31	05.2017	80	80					160		
Diva Moriani	Director	01.01 - 12.31	05.2017	80	51					131		
Fabrizio Pagani	Director	01.01 - 12.31	05.2017	80	50					130		
Alessandro Profumo	Director	01.01 - 12.31	05.2017	80	40					120		
<b>Board of Statutory Auditors</b>												
Matteo Caratozzolo	Chairman	01.01 - 12.31	05.2017	80					97	177		
Paola Camagni	Statutory auditor	01.01 - 12.31	05.2017	70					80	150		
Alberto Falini	Statutory auditor	01.01 - 12.31	05.2017	70					80	150		
Marco Lacchini	Statutory auditor	01.01 - 12.31	05.2017	70					12	82		
Marco Seracini	Statutory auditor	01.01 - 12.31	05.2017	70					80	150		
<b>Other Managers with strategic responsibilities<sup>(b)</sup></b>												
Remuneration in the company that prepares the Financial Statements				8,595		9,118		186	126	18,025		4,603
Remuneration from subsidiaries and associates				458						458		
Total				9,053		9,118		186	126	18,483		4,603
				11,561	424	10,873		201	475	23,534		4,603

(a) The term of office expires with the Shareholders' Meeting approving the Financial Statements for the year ending 31<sup>st</sup> December, 2016.

(b) Managers who were permanent members of the Company's Management Committee during the course of the year together with the Chief Executive Officer and Division Chief Operating Officers, or who reported directly to the Chief Executive Officer (twenty-three managers).

3) For detailed information on Eni's remuneration policy and compensation see the "Remuneration Report 2017" available on Eni's website under the sections "Governance" and "Investor relations".





In particular:

- the column **"Fixed Remuneration"** reports fixed remuneration and fixed salary from employment due for the year (on an accrual basis), gross of social security contributions and taxes to be paid by the employee. It does not include attendance fees, as these are not provided for;
- the column **"Remuneration for participation in the Committees"** reports (on an accrual basis) the compensation due to Directors for participation in Committees established by the Board;
- the column **"Variable non-equity remuneration"** under the item "Bonuses and other incentives" shows the incentives paid during the year due to rights vested following the assessment and approval of related performance results by relevant corporate bodies, in accordance with that specified, in greater detail, in the Table "Monetary incentive plans for the Chief Executive Officer and General Manager and other Managers with strategic responsibilities"; the column "Profit-sharing" does not show any figures since no profit sharing mechanisms are in place;
- the column **"Benefits in kind"** reports (on an accrual and taxability basis) the value of any fringe benefits awarded;
- the column **"Other remuneration"** reports (on an accrual basis) any other remuneration deriving from other services provided;
- the column **"Fair value of equity compensation"** reports the relevant fair value for the year related to the existing stock option plans, estimated in accordance with the international accounting standards that allocate the related cost in the vesting period;
- the column **"Severance indemnity for end-of-office or termination of employment"** reports indemnities accrued, even if not yet paid, for terminations that occurred during the financial year, or in relation to the end of term in office and/or employment.

### Monetary incentive plans for the Chief Executive Officer and General Manager and other Managers with strategic responsibilities (€ thousands)

First name and Surname	Position	Bonus for the year			Bonus for previous years			Other bonuses
		payable/paid	deferred	deferral period	no longer payable	payable/paid <sup>(a)</sup>	still deferred	
Claudio Descalzi	Chief Executive Officer and General Manager <sup>(b)</sup>	1,755	2,214	Three-year			3,564	
Other Managers with Strategic Responsibilities <sup>(c)</sup>		5,948	6,985		2,970	3,170	9,757	
		<b>7,703</b>	<b>9,199</b>		<b>2,970</b>	<b>3,170</b>	<b>13,321</b>	

(a) Payment relating to the deferred monetary incentive and the long-term monetary incentive awarded in 2013.

(b) For Claudio Descalzi, with regard to his previous position of COO of the E&P Division, held until 8<sup>th</sup> May 2014, in 2016 are paid 659 thousand euros relating to the deferred monetary incentive assigned in 2013, calculated in relation to the performance targets achieved during the 2013-2015 vesting period and 589 thousand euros are no longer payable relating to the long-term monetary incentive assigned in 2013, calculated in relation to the performance targets achieved in the 2013-2015 vesting period. Still with regard to Claudio Descalzi's previous position as COO of the E&P Division, the Deferred Monetary Incentive assigned in 2014 of 378 thousand euros is still deferred.

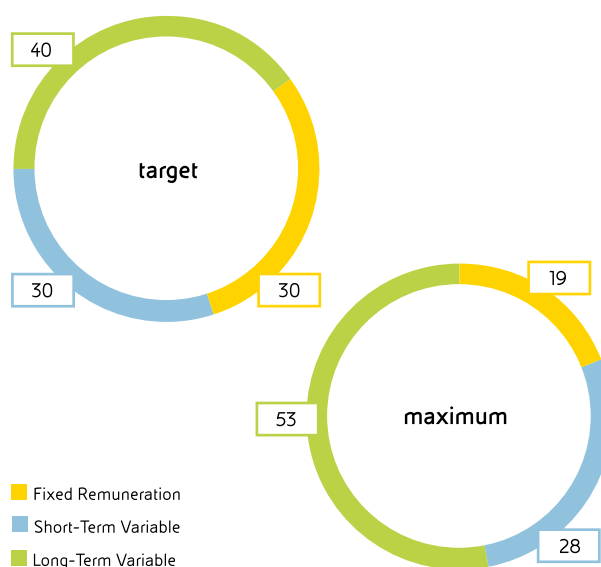
(c) Managers who were permanent members of the Company's Management Committee, during the course of the year together with the Chief Executive Officer or who reported directly to the Chief Executive Officer (twenty-three managers).

### Overall remuneration of key management personnel → Pay mix CEO/GM

Remuneration of persons responsible of key positions in planning, direction and control functions of Eni Group companies, including executive and non-executive Directors, Chief Operating Officers and other managers with strategic responsibilities in charge at December 31, 2016, amounted to €44 million, as described in the table below:

(€ million)

Fees and salaries	26
Post employment benefits	2
Other long-term benefits	12
Indemnities upon termination of the office	4
<b>TOTAL</b>	<b>44</b>

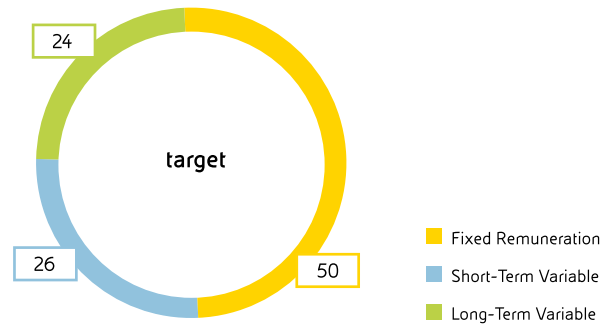




Pay mix

The 2017 Remuneration Policy Guidelines lead to a remuneration mix in line with the managerial role held, with greater weight placed upon the variable component, in particular in the long term, for roles characterised by a greater impact on company results, as highlighted in the Pay mix diagrams, respectively for the CEO/General Manager and other managers with strategic responsibilities calculated by considering the value of short and long-term incentives offered for results within the target values.

→ Pay mix MSR



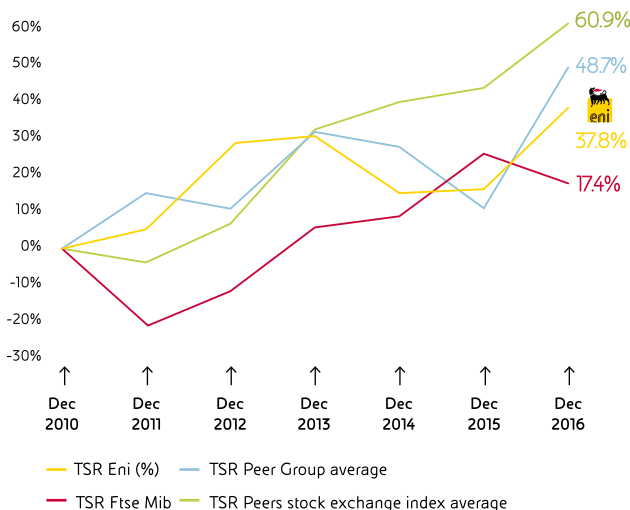
Performance and remuneration

In 2011-2016, Eni delivered a Total Shareholder Return of 37.8%, compared with 17.4% for the FTSE MIB index, while the Peer Group<sup>4</sup> produced an average TSR of 48.7% compared with an average of 60.9% for the peer companies' respective Reference Stock Market Indices<sup>5</sup>. The chart below shows the comparison between developments in TSR and the total CEO/GM remuneration in 2011-2016. The Remuneration Policy Guidelines for the 2017-2020 mandate increase the weighting,

compared with the previous term, of the variable components of the pay mix, especially of the long-term component. For the 2017-2020 term, the pay mix, calculated on the basis of base salary and target-level performance, includes a long-term variable component made up of the deferred portion of the short-term incentive and the long-term share incentive as measured using international methods for determining remuneration benchmarks.

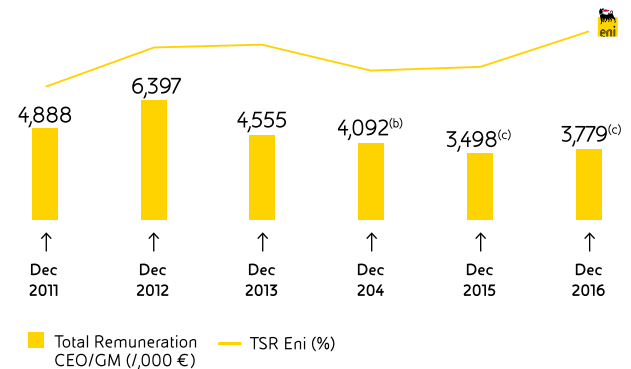
→ Total Shareholder Return

(Eni vs Peer Group and Reference Stock Market Indices)



→ Pay for performance analysis

(TSR Eni vs CEO/GM total remuneration for 2011-2016)<sup>(a)</sup>



(a) For further details see "Eni Remuneration Reports".  
 (b) For 2014 fixed remuneration is calculated as the sum of the pro-rata amounts paid to the outgoing CEO and to the incoming CEO.  
 (c) For 2015 and 2016, total remuneration also includes incentives accrued by the current CEO/GM in his previous role as COO of the E&P Division.

4) The Peer Group consists of Exxon, Chevron, Shell, Total, BP, Repsol.  
 5) The Reference Stock Market Indices are: Dow Jones Industrial, CAC 40, FTSE 100, AEX, Ibex 35.

# Investor information

## Eni share performance in 2016

In accordance with Article 5 of the By-laws, the Company's share capital amounts to €4,005,358,876.00, fully-paid, and is represented by 3,634,185,330 ordinary registered shares without indication of par value.

In the last session of 2016, Eni share price, quoted on the Italian Stock Exchange, was €15.47, up by 12.1% from the price quoted at the end of 2015 (€13.80). The Italian Stock Exchange is the primary market where Eni share is traded. During the year, FTSE/MIB index, the basket including the 40 most important shares listed on the Italian Stock Exchange, decreased by 10.2 percentage points.

At the end of 2016, Eni ADR listed on the NYSE was \$32.24, up

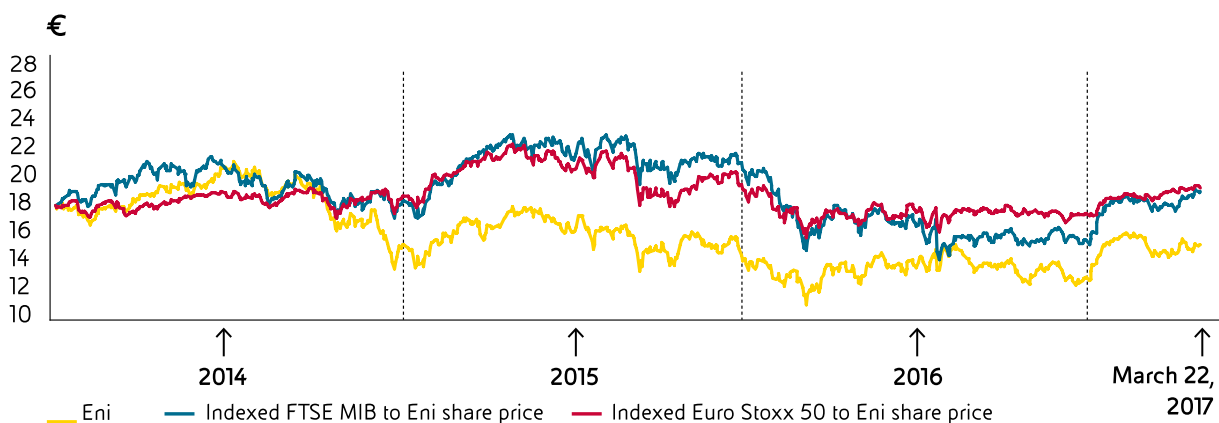
by 8.2% compared to the price registered in the last session of 2015 (\$29.80). One ADR is equal to two Eni ordinary shares. In the same period the S&P 500 index increased by 9.5 percentage points. Eni market capitalization at the end of 2016 was €56 billion (€50 billion at the end of 2015), confirming Eni as the first company for market capitalization listed on the Italian Stock Exchange.

Shares traded during the year totalled almost 4.7 billion, with a daily average of shares traded of 18.4 million (20.3 million in 2015). The total traded value of Eni shares amounted to approximately €63 billion (€79 billion in 2015), equal to a daily average of €246 million.

## Share information

	2014	2015	2016
<b>Market quotations for common stock on the Mercato Telematico Azionario (MTA)</b>			
High	(€) 20.41	17.43	15.47
Low	13.29	13.14	10.93
Average daily close	17.83	15.47	13.42
Year-end close	14.51	13.80	15.47
<b>Market quotations for ADR on the New York Stock Exchange</b>			
High	(US\$) 55.30	39.29	33.33
Low	32.81	29.28	25.00
Average daily close	47.37	34.31	29.74
Year-end close	34.91	29.80	32.24
Average daily traded volumes	(million of shares) 17.21	20.30	18.41
Value of traded volumes	(€ million) 304	312	246

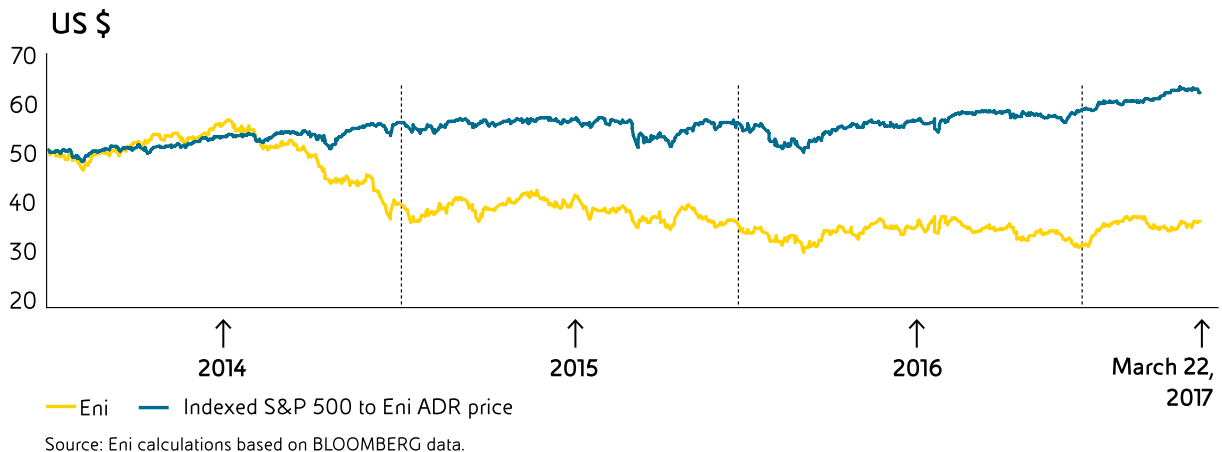
## → Eni share price in Milan (December 31, 2013 - March 22, 2017)



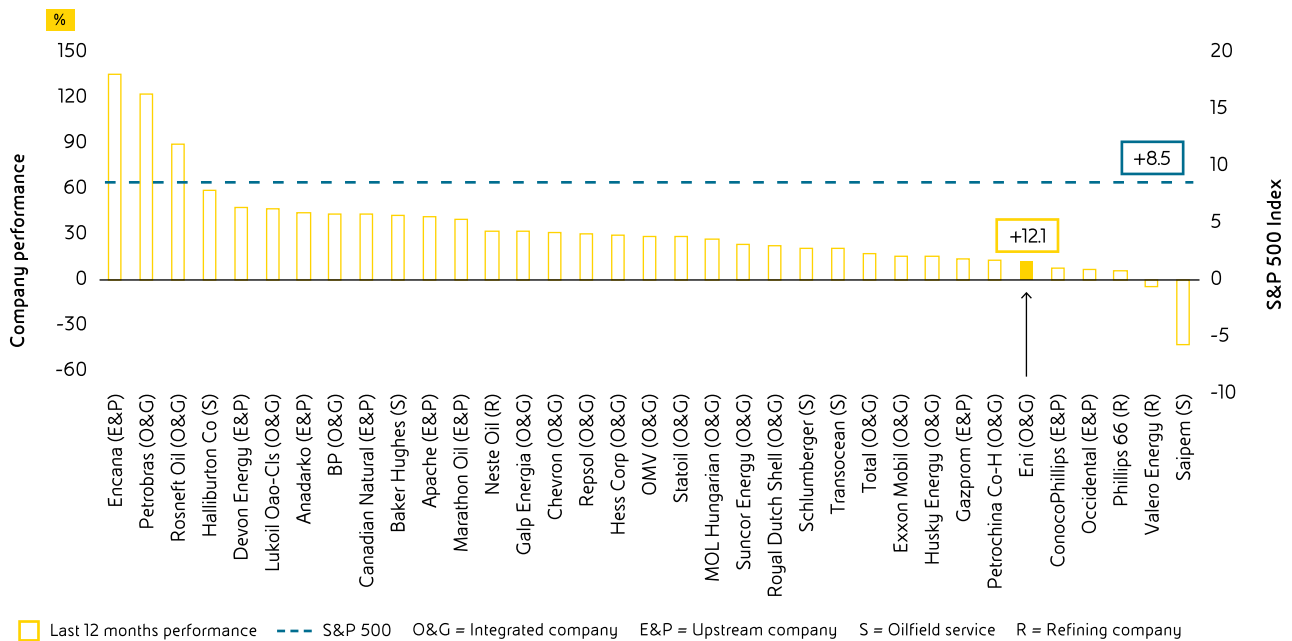
Source: Eni calculations based on BLOOMBERG data.



### → Eni ADR price in New York (December 31, 2013 - March 22, 2017)



### → Eni's share performance vs. main Oil&Gas companies (last 12 months)



### Summary financial data

	2014	2015	2016
Net profit (loss) - continuing operations			
- per share <sup>(a)</sup>	(€) 0.48	(2.21)	(0.29)
- per ADR <sup>(a)(b)</sup>	(US\$) 1.28	(4.91)	(0.64)
Adjusted net profit (loss) - continuing operations			
- per share <sup>(a)</sup>	(€) 1.16	0.37	(0.09)
- per ADR <sup>(a)(b)</sup>	(US\$) 3.08	0.82	(0.20)
Adjusted return on average capital employed (ROACE)	(%) 5.8	1.8	0.2
Leverage	21	29	28
Current ratio	1.5	1.4	1.4
Debt coverage	105.7	76.3	51.9
Dividends pertaining to the year	(€ per share) 1.12	0.80	0.80
Pay-out	(%) 310	(33)	(197)
Dividend yield <sup>(c)</sup>	(%) 7.6	5.7	5.4
Total Shareholder Return (TSR)	(11.9)	1.1	19.2

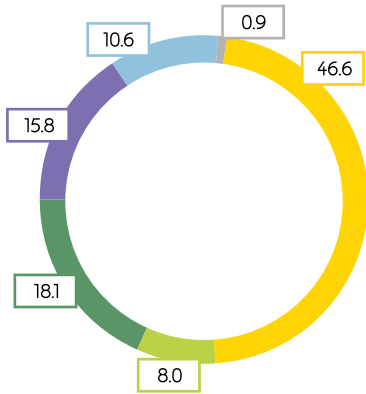
(a) Fully diluted. Ratio of net profit (loss)/cash flow and average number of shares outstanding in the period. Dollar amounts are converted on the basis of the average EUR/USD exchange rate quoted by ECB for the period presented.

(b) One American Depository Receipt (ADR) is equal to two Eni ordinary shares.

(c) Ratio of dividend for the period and the average price of Eni shares as recorded in December.

→ Shareholders distribution by geographic area<sup>(\*)</sup>

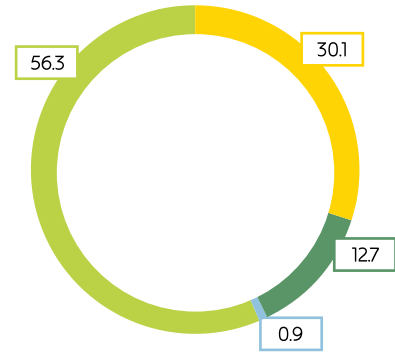
- Italy
- UK/Ireland
- Rest of Europe
- USA and Canada
- Rest of world
- Other



(\*) As of January 12, 2017.

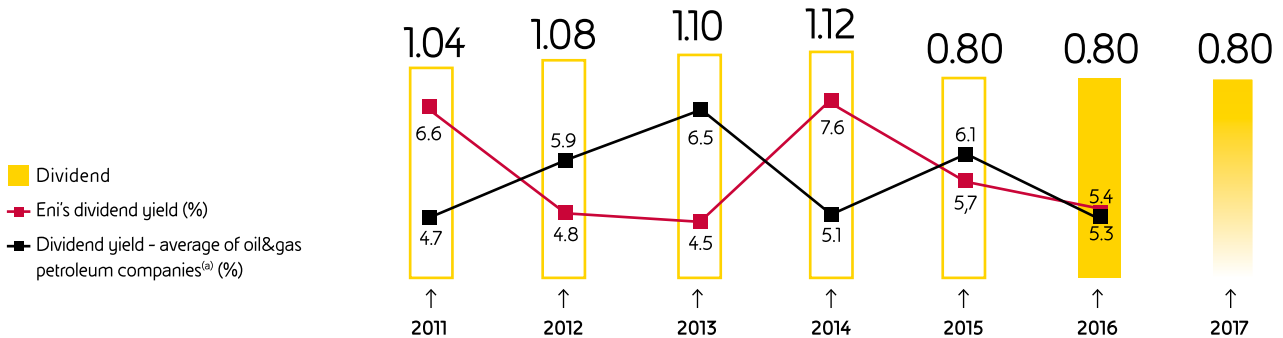
→ Class of shareholders<sup>(\*)</sup>

- Public holding
- Institutional shareholders
- Individual shareholders
- Treasury shares



(\*) As of January 12, 2017.

→ Dividend per share



(a) Refers to: BP, Chevron, Repsol, ExxonMobil, Royal Dutch Shell and Total.

## Dividends

Management intends to propose to the Annual Shareholders' Meeting scheduled on April 13, 2017, the distribution of a dividend of €0.80 per share for fiscal year 2016, of which €0.40 was already paid as interim dividend in September 2016.

Total cash outlay for the 2016 dividend is expected at approximately €2.88 billion (including €1.44 billion already paid in September 2016, relating to 2016 interim dividend) if the Annual Shareholders' Meeting approves the annual dividend. In future years, management expects to continue paying interim dividends for each fiscal year, with the balance to the full-year dividend to be paid in each following year. Eni intends to continue paying interim dividends in the future. Holders of ADRs receive their dividends in US dollars. The rate of exchange used to determine the amount in dollars is equal

to the official rate recorded on the date of dividend payment in Italy (April 26, 2017).

On ADR payment date (May 8, 2017), Bank of New York Mellon pays the dividend less the amount of any withholding tax under Italian law (currently 26%) to all Depository Trust Company Participants, representing payment of Eni SpA's gross dividend. By submitting to Bank of New York Mellon certain required documents with respect to each dividend payment, US holders of ADRs will enable the Italian Depository bank and Bank of New York Mellon as ADR Depository to pay the dividend at the reduced withholding tax rate of 15%. US shareholders can obtain relevant documents as well as a complete instruction packet to benefit from this tax relief by contacting Bank of New York Mellon at 201-680-6825.

## Publications



**Annual Report on Form 20-F 2016** a comprehensive report on Eni's activities and results to comply with the reporting requirements of the US Securities Exchange Act of 1934 and filed with the US Securities and Exchange Commission.



**Remuneration Report 2017** a report on Eni's compensation and remuneration policies pursuant to rule 123-ter of Legislative Decree No. 58/1998.



**Integrated Annual Report 2016** a comprehensive report on Eni's activities and financial and sustainability results for the year.



**Corporate Governance Report 2016** a report on the Corporate Governance system adopted by Eni pursuant to rule 123-bis of Legislative Decree No. 58/1998.



**Fact Book 2016** a report on Eni's businesses, strategies, objectives and development projects, including a full set of operating and financial statistics.

These and other Eni publications are available on Eni's internet site [eni.com](http://www.eni.com), in the section Publications - [http://www.eni.com/en\\_IT/documentation/documentation.page?type=bil-rap](http://www.eni.com/en_IT/documentation/documentation.page?type=bil-rap)

Shareholders may receive a hard copy of Eni's publications, free of charge, by filling in the request form found in the section Publications or through an e-mail request addressed to [segreteria.societaria.azionisti@eni.com](mailto:segreteria.societaria.azionisti@eni.com) or to [investor.relations@eni.com](mailto:investor.relations@eni.com). Any other information relevant to shareholders and investors can be found at Eni's website under the "Investor Relations" section.

## Financial calendar

The dates of the Board of Directors' meetings to be held during 2017 in order to approve/review the Company's quarterly, semi-annual and annual preliminary results are the following:

Results for the first quarter of 2017	May 9, 2017
Results for the second quarter and the first half of 2017 and proposal of interim dividend for the financial year 2017	July 27, 2017
Results for the third quarter of 2017	October 26, 2017
Preliminary full-year results for the year ending December 31, 2017 and dividend proposal for the financial year 2017	February 2018

A press release on quarterly results is disseminated to the market the following day, when management also hosts a conference call with financial analysts to review the Group performance.



Eni SpA

**Registered Office**

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Business Register of Rome  
taxpayer's code 00484960588

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