

Eni 2019 – 2022 Strategy presentation

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Presentation

Speaker:

Claudio Descalzi - CEO

Massimo Mondazzi - CFO

Good morning and welcome to our 2019-22 strategy presentation.

Today's agenda is divided in two parts.

During the morning, Massimo and I will present our 4 year plan.

In the afternoon, our top management will answer your questions and add more details for each business.

Before detailing our 4YP, I would like to give you an overview of the distinctive factors of today's Eni.

In 2014, anticipating the downturn, we decided to transform our business model.

We spread a new culture of integration and efficiency, that has allowed us to accelerate time-to-market and unlock value in our business.

We grew organically by refocusing our operating model and diversifying our geographical footprint.

Today, our value chain is shorter, and the synergies within our businesses have been optimized.

In doing this, we used the following levers, covering all our businesses:

- First, we focused on material exploration in proven plays and close to existing facilities. This model worked so effectively that, since 2014, we have discovered more than 5 bln boe, and we replaced in excess of 130% of our production.
- We sanctioned 30 projects, and further accelerated value generation by deploying our dual exploration model;

- Second, we completely restructured our development model, cutting time to market in our projects to half the industry average, while reducing capex by 35%;
- In mid-downstream, we successfully developed a strategy of restructuring and expansion, renegotiating gas contracts, optimizing downstream capacity and opening new areas of growth in LNG, and in refining through an international JV;
- In renewables, our distinctive model is leveraging our presence in producing Countries to open new opportunities.

The prevailing and distinguishing factor here has been Eni's ability to act swiftly and decisively.

Now, let's move to the 2019-2022 strategic plan.

Integration, efficiency and technology deployment are the main strategic levers of our operational model.

These are the drivers of our new energy for long-term value creation, towards a low carbon future.

First, we are developing our strong portfolio, diversifying our geographical position in 3 main areas: the Middle East, Norway and Mexico:

- In the Middle East, we have seized a massive set of new opportunities, by adding fast-track production, high potential resources and ultra-low cost refining capacity;
- The establishment of VAR Energi in Norway will create a platform for long term growth;
- While in Mexico, this year's start-up is just the first step in this promising region.

Second, we will pursue more opportunities along the value chain:

- growing LNG, giving greater value to our equity gas;
- and developing one of the largest refineries in the world.

Third, we are expanding our renewables and green businesses, and designing and implementing innovative solutions based on a circular economy.

Financially, we will maintain discipline, growing organically, and pursuing further efficiencies driven by technology and digitalization.

And now a focus on technology, which underpins our business model.

For us, new technologies are like exploration discoveries: finding them is not enough, they need to be put rapidly into production to capture their full potential.

Going forward, we want to capitalize on our technology even more, reducing the time to market from ideas to deployment.

Our innovations cover all businesses with 7,200 patents and 350 projects, belonging to 3 different platforms:

- Operational excellence: in terms of asset integrity, HSE, efficiency and cost optimization. The big projects in Egypt, Mozambique and Angola wouldn't have been achieved without our own technology.
- Decarbonisation: where we are investing one third of our R&D expenditures;
- And the Circular Economy: for maximizing our industrial efficiency, and reusing or extracting value from waste or by-products.

In the Plan, we will spend €900 mln, expecting benefits of up to €4 bln.

In upstream, we will continue to grow organically, keeping capex stable and generating large amounts of free cash.

We target an average growth rate of 3.5% per year till 2022 and thereafter.

Also considering the new developments in the Middle East, Mexico and Africa, we will keep our upstream capex at €6.5 bln per year, and lower our cash neutrality to 37 \$/bbl.

In exploration, we have increased our 4YP target by 25% to 2.5 billion boe of discovered resources.

And finally, at our scenario we will generate a cumulated operating cash flow of €50 billion, equivalent to a free cash flow of €22 billion, almost double our dividend needs.

Exploration is a key value driver for our company and we will focus on highly prospective licenses in diversified areas.

With more than 460,000 sq km of net acreage, we have enlarged our risked potential by 20% versus last year, to more than 12 bln boe of resources.

We are drilling around 40 wells per year and we expect to discover 2.5 billion boe in the plan, with an annual spending of €900 mln.

Our portfolio is positioned in super and proven basins. Primary targets will be Mexico offshore, the Middle East, and high-potential and mature areas close to existing facilities in Norway, Angola, Ghana and Egypt.

We will continue to generate early cash flow and to swap assets through our dual exploration model.

In 2019 we target 600 mln boe with a Unit exploration cost of 1.8\$/boe.

Block 15/06 in Angola is a great example of the effectiveness of the Eni exploration model and of the successful deployment of our technology.

Specifically, this gives us the major advantage of being able to recognize and discover complex sub salt exploration plays.

Up to now, we have drilled 21 exploration wells with an 86% success rate, discovering more than 4 billion boe of hydrocarbons in place, and we have reached a gross production in excess of 150 kbopd.

In the last few months we made 3 material discoveries of light oil.

The first 2 – Kalimba and Afoxe - are estimated to contain between 400 and 500 million bbl of oil in place.

And just a few weeks ago, we discovered a new giant – Agogo – that is estimated to contain up to 650 million bbl of light oil in place, with further upside.

The development of these fields will be fast-tracked, relying on existing facilities.

But it's not over yet! In the next 2 years, we have an additional 3 exploration wells plus more *appraisal* work.

Coming to production, we will deliver an annual average growth rate of 3.5% to the end of the plan.

New project start-ups and ramp-ups will account for around 660 kboe/day by 2022. Of this, 50% is related to the ramp up of the recent start-ups.

An additional 290 kboe/d are related to expansion projects of the existing fields.

In the period, we will put 18 major projects into production and we will operate 77% of our equity.

In 2019, we will grow at a rate of 2.5% vs. 2018, assuming a flat scenario and excluding portfolio effects.

Thanks to the long pipeline of projects in our portfolio we are expecting to grow by 3.5% on average per year also through 2025.

In the last 12 months, we have strengthened our position in Norway, UAE and Mexico.

In Norway, with Var Energi, we have increased our production capacity and found additional potential in exploration.

Var is producing 110 kboed equity and is expected to grow to around 175 kboed by 2023, with new developments that have an average breakeven below 30 \$/bl.

We have a significant exploration potential with more than 100 licenses that we are going to test over the next 4 years.

In the UAE, we are involved in producing fields, major developments and further near-field/high-potential exploration activities.

Our recent expansion in the area has been driven by our know-how and technologies that fit with the development of the reservoirs of the region.

The existing equity production will grow from 40,000 to 100,000 boed in the longer term.

The major development of Ghasha, the largest gas hub in the Abu Dhabi offshore, where Eni is the technical leader, will add more than 100,000 boe/d of equity in the second half of the decade, with an early production in 2022.

In Mexico, we are developing Area 1 with production starting up very soon in mid 2019.

Overall, these 3 initiatives will contribute an equity production of 260 kboed at the end of the plan.

We have a long list of proven projects, accounting for 3 bln boe of 3P reserves that are reaching FID in the plan.

They are low cost - high value developments that will add stable cash flow, and 470 kboed of equity production in 2025.

More than 70% of the FIDs in the plan are brown-field.

And in 2019, we will sanction 8 projects.

Turning to upstream cash flow, out of the €6.5 bln annual capex, €3.7 bln will be for developments and €2.1 bln for the infilling and expansion of existing fields.

Opex stays flat at 6.6 \$/boe, and DD&A increases by about 1 \$/bbl over the plan, as a consequence of the start-ups in Mexico, Norway and Mozambique.

With the accretive contribution of new production, operating cash flow grows from €11.5 bln in 2019 to €13.6 bln in 2022 at the Eni scenario.

During the plan, we are expecting to generate €22 bln of upstream Free Cash Flow.

Coming to our mid-downstream, we will double the operating income versus last year, to €2 bln, generating an aggregate free cash flow of about €5 bln.

- G&P's EBIT will grow to €700 mln € at the end of the period.
- For R&M, we target a further reduction of break-even margin and to reach an EBIT of €1 billion in 2022.
- In Versalis, we continue to work to improve performance and we expect an EBIT of over €270 million at the end of the Plan.

Midstream activities will deliver a stable contribution, increasing synergies with the rest of the businesses. This will enable an increase in LNG, leveraging integration with the upstream to capitalize on equity gas.

We will continue to optimize our gas supply portfolio by renegotiating contracts and reducing logistic costs.

Thanks also to the continuous growth of the retail business, G&P's cumulated Free Cash Flow will be €2.3 Bln during the plan.

In retail, Eni Gas e Luce will more than double last year's EBIT to around €500 million by the end of the Plan.

We target to grow our customer base in core countries by 26% up to around 12 million, driven by a doubling of power customers.

We will expand extra-commodity services that will account for 20% of EBIT in 2022, driving more value per customer and lower churn.

In 4 years, we expect to generate around €1.6 bln of organic free cash flow.

LNG will play a crucial role in creating a stronger G&P in the longer term.

We are accelerating the ramp up of our portfolio, and we expect to reach 14 MTPA of contracted volumes in 2022, and up to 16 MTPA in 2025, placing us amongst the top players in the market.

By the end of the plan, more than 70% of contracted volumes will come from our equity production, mainly in Africa and East Asia, with a break-even price of the underlying new gas projects of 22.5 \$/boe, equivalent to less than 4 \$/MMBTU.

In Refining & Marketing, we expect to double last year's result, reaching an EBIT of €1 billion, including the Ruwais pro-forma contribution.

We expect to generate €2.6 billion of organic Free Cash Flow in the plan.

In Refining, the main drivers will be:

- Strengthening the refining asset base: with the recent acquisition of Ruwais we will increase our refining capacity by 40% by 2023.
- Optimization of our refining processes: we expect to benefit from IMO by increasing the gasoil yield to 55%, thanks to the EST restart by mid-year, and other existing deep conversion capacity in the Taranto and Milazzo refineries. And green refineries in full operation.
- In a few weeks, we expect to start-up Gela and, with the second phase of Venice by 2021, our green production will grow to 1 Mil tonnes per year.

In Marketing, we target an increase in our market share in Italy to 25% with a growing contribution of premium products and green fuels, and an organic increase of sales in Germany and France.

And now renewables, a business where we will continue to grow organically during the plan.

We have 60 Brownfield and Greenfield projects for a total of more than 1.6 GW of new capacity by 2022, investing €1.4 bln, and up to 5 GW by 2025. Overall investments will be made also through partnerships and financing.

Our portfolio is well diversified both in terms of geographical footprint and technology, where we will also deploy solutions developed by our R&D.

In Italy, we will expand the Progetto Italia, our industrial conversion project that generates power from renewables on reclaimed industrial areas.

We expect the renewables' business to deliver stable cash flows in the long term, with an unlevered IRR between 8 and 12%, and an additional upside by replacing gas consumption in our operations.

And now our new target on decarbonisation.

The energy world is at the crossroads of a major transformation: supplying more energy to more people while drastically reducing CO2 emissions.

In the next two decades, global energy demand will grow by around 30%.

But meanwhile, we have to reduce CO2 emissions by 45% in order to limit the growth of global temperature to below 2° degrees Celsius, in accordance with the Paris Agreement's goals.

Tackling this dual challenge is a strategic priority for our Board, and a responsible action towards our stakeholders and environment.

Today, we announce a new target of our decarbonization process: to achieve net zero emissions in our upstream business by 2030.

We will do this by:

- Increasing efficiency to minimize direct upstream CO₂ emissions, and by 2025 we will eliminate gas process flaring and reduce methane emissions by 80%;
- And offsetting residual upstream emissions through large forestry projects.

Other elements of our strategy are:

- A growth in low carbon sources, with an increasing share of gas and biofuels in our portfolio;
- An increase in zero carbon sources, such as solar, wind and hybrid systems;
- And a circular approach, to maximize the use of waste as feedstock, and to transform and extend the life of industrial sites.

A key role will be played by the deployment of new technologies aimed at capturing and using carbon emissions.

Now let's talk about the two new pillars of our decarbonization strategy: forestry and circular economy.

Buying carbon credits is no longer enough.

We will use our scale and our geographical positions to take an active participation in forestry initiatives, that will bring wider community benefits, such as new jobs and economic empowerment of local communities.

This will become a structural component of our decarbonization business model.

We have already created the first partnerships for REDD+ projects development. Our final target is to reach a potential of more than 20 Mton/y of CO₂ sequestration by 2030.

For Eni, the circular economy is a key driver and a powerful tool for sustainable growth towards a low carbon future.

During the 4YP, we will invest more than €950 Mln, and an additional €220 mln in R&D, to develop industrial circular solutions.

- In our green refineries, we will process waste and biomasses, not in competition with food, to produce green diesel. This is also a good example of the transformation and life extension of assets;
- We will produce advanced biofuels and renewable-chemicals from biomasses and waste, and intermediates from vegetable oil and experimental Guayule crops to produce natural rubber;

- The first pilot of our proprietary 'Waste To Fuel' technology has started in Sicily, and we will build up to three industrial plants, with a total treatment capacity of 330,000 tonnes per year;
- In chemicals, we pursue an eco-design approach to maximize product recycling and reduce consumption of raw materials.

And all these initiatives have been implemented thanks to the fast deployment of our technologies.

And now I will leave the floor to Massimo for the financial plan and distribution policy.

In the next 4 years we will pursue a disciplined investment programme.

In 2019 we plan to invest around €8 bln of which 80% related to E&P while decarbonisation, circular economy & renewables will grow up to 5% of the overall budget. In the next 4 years we plan to invest €33 bln:

- 77% is allocated to E&P, of which € 15 bln for new developments, € 8 bln for expansion projects of the existing fields and maintenance, and around € 2 bln for exploration drilling.
- The upstream investment plan is also well diversified in terms of geographies thanks to the developments in Middle East, Norway and Mexico. While preserving our short term production growth, we also reinforced our pipeline of long term/long plateau projects with new developments in Abu Dhabi, Angola and Algeria that will further underpin our growth beyond the plan improving our CAGR to 3.5% to 2025 vs previous guidance of 3%.
- 9% of group capex will be devoted to further strengthen our decarbonization strategy through:
 - flaring down and increased energy efficiency projects;
 - circular economy initiatives, such as waste to fuel projects and advanced biofuel and petrochemicals; and
 - renewables with €1.4 bln in more than 60 projects for a total installed capacity of 1.6 GW by 2022.
- The remaining capex refers to the legacy mid-downstream and in particular to stay in business activities.

We will retain substantial flexibility, with around 50% of our capex uncommitted in 2021-2022; furthermore we envisage a modest cost inflation impact all along the plan period.

Our capital investment program is not only disciplined and flexible but also valuable and resilient even in a stressed scenario.

Current portfolio of upstream projects in execution, covering two third of the 660 kboed production increase @ 2022, is even more profitable than before with a new breakeven price down to 25 \$/bl and an overall Internal Rate of Return @ Eni's scenario of around 22%. The significant improvement vs the previous breakeven guidance of 30 \$/bl is due to

the quality of the incoming projects, recently sanctioned, as well as the contribution of the fast track and phased development concept applied to the projects underway.

This projects portfolio is already free cash flow positive, thanks to the proceeds from the Dual Exploration Model. Excluding this contribution the payout will be reached in 2021.

Our projects portfolio remains resilient and competitive under both weak and low carbon scenarios. In case of a 20% reduction of the hydrocarbon prices the Internal Rate of Return remains above 19% and, when applying Eni's low carbon sensitivity of a 40\$/ton CO2 price in 2015 real terms, the Internal Rate of Return declines only marginally, in the range of 0.5 percentage points.

2019 Cash flow from operations before working capital is expected at €12.8 bln showing a slight increase vs the €12.7 bln recorded in 2018 despite the higher scenario of last year that accounted for around €0.8 bln.

Considering a flat 2019 scenario, that implies a Brent price of 62\$/bl and a PSV gas price of 266 €/kcm similar to 2018, our cash generation grows strongly over the next 4 years. In particular 2019 Cash flow from operations is expected to increase around €1 billion vs 2018 thanks to:

- Upstream volumes growth and an improved production mix resulting in a cash flow per barrel increase of around \$1;
- the overall growing contribution from mid-downstream mainly driven by R&M.

2022 cash flow will further increase by €2.6 bln with a strong contribution from all businesses. The drivers will be:

- The valuable production growth, resulting in an additional 1\$ cash flow per barrel to 20.5\$
- the retail gas&power customer base expansion,
- further business integration in mid-downstream,
- as well as the growing contribution from the repositioned refining activity.

Organic free cash flow, at 2019 scenario, will continue to grow at a robust pace with an average CAGR of 17%. As a result the cash neutrality to cover working capital, capex and dividends will improve from 55\$/barrel in 2019 to 50\$/barrel by the end of the plan period, demonstrating the increasing resilience of our business model and supporting our progressive shareholder remuneration.

And now let me focus on our remuneration policy.

The progress we have made in enhancing our portfolio has been remarkable as reflected in our 2018 figures. Looking ahead, we are targeting a further material as well as sustainable growth that will drive to margin expansion in all businesses combined with a stronger balance sheet.

On this basis, we are pleased to announce an increase in our 2019 dividend by 3.6% to 0,86 €/sh, in line with our commitment to a progressive remuneration policy.

In addition we will start a four year buyback programme envisaging, in 2019, a capital allocation of €400 mln.

In the following three years, assuming a leverage steadily below 20%, the annual capital allocation will amount either to €400 mln in a 60-65 \$ Brent scenario or 800 mln € with a scenario above 65 \$ Brent.

Coming to the end of my section, let me remind you that IFRS 16 accounting principles came into effect on 1st January 2019.

The main impacts of the new standard in 2019 will be:

- the accounting of the opening lease liabilities of around €6 bln that will imply a leverage increase of around 10 percentage points
- an improvement of around €1 bln of Free cash flow reflecting the classification of the principal portion of the lease payments as financing cash flows
- an EBIT increase of around €0.3 bln as a result of the reclassification of interest component of lease cost as interest expenses

The adoption of the new accounting standard will impact on some performance metrics disclosed in this presentation such as the leverage, the cash neutrality and the operating costs per barrel.

To facilitate the full comprehension of such broad changes, in the 2019 company's reporting selected main metrics will be disclosed also excluding the effect of the IFRS 16. In particular, from 2019 on, we will detail the lease liabilities accounted for in the financial debt in order to measure the leverage as it was before, that remains the reference for our remuneration policy.

Thank you Massimo.

And now, our ambitions for the next decade.

In UPSTREAM

- we will continue to grow organically and diversify our geographical footprint through a greater presence in the Middle East, in East Africa and Asia;
- we will leverage our core competences in exploration and development to maintain a project breakeven well below 30 dollars per barrel;
- And in a lower carbon world, natural gas must play a greater role. By 2030, up to 60% of our production will be gas.

In G&P

- we will more than double our global LNG vs. 2018, leveraging our integrated model with Upstream;
- we are also well positioned to capture share in the European retail market where we will continue to be a relevant player.

In DOWNSTREAM

- we will continue to improve overall asset efficiency, lowering refining breakeven to less than 1.5 dollars per barrel through a further rebalancing of our capacity;
- in Versalis, we aim to increase our position in renewable chemistry.

In RENEWABLES

- we will focus on the development of new solar and wind capacity, with a target of more than 10 GW;
- And we will expand our bio-fuel capacity focusing on 2nd and 3rd generation feedstocks.

Decarbonisation is structurally embedded in our overall strategy and ambitions.

And on that, today we are setting a major target: our upstream business will be carbon neutral by 2030.

This is a crucial step in our efforts towards a low carbon future.

Thank you.

Now, before the Q&A, here's a short video about the main points of our Strategy.

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Questions and Answers session

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Questions and Answers

Francesco Gattei: Okay. Thank you. Good afternoon. We are now ready to start with the Q&A. So please raise your hand and we give the board. Oswald?

OSWALD C. CLINT, SENIOR RESEARCH ANALYST, SANFORD C. BERNSTEIN & CO., LLC., RESEARCH DIVISION: Yes. I wanted to start on the upstream, please, where there's significant visibility out here to 2025, a good 7 years of production growth. But when I look at Page 10 and I look at your little exhibit, at least in 2019 out to 2022, the gray shaded area still, at least if I'm reading that correctly, looks like it's at least a 10% decline rate coming through the base portfolio and really relies on executing the ramp-up of this new pipeline. So I just wanted to know well -- I guess, and also in your press release, you speak about enforcing the long plateau, long-pipeline projects for the future. So my question is, is there a period between '19 to '22 where the base is pulling back a little bit harder before you layer in those longer-term, long-plateau projects in terms of risk here and in terms of the production growth numbers? And secondly, just kind of linked to that, Angola Block 15/06, significant resource. You speak a lot about fast-track and how should we expect that to be fast-tracked as well. I guess, some of your competitors are moving back into the country. This is properly deep water, perhaps a little bit more challenging to execute a fast-track program, so do you see that as a risk as you think about that country?

CLAUDIO DESCALZI: Thank you. So I'll start from the last questions. Angola, when I talk about fast-tracking Angola, it's something that we already achieved because the East Hub and the West Hub that are in the deep offshore has been executed in 3.6 years. That is half of the time-to-market of the deep offshore. That has been executed in the last 4 or 5 years. So the time-to-market from the discoveries to production was really, really fast. So it's something that we have already done in this country. So how we are going to treat the new discoveries? We are going to treat the first 2 discoveries that are smaller but still big by being tied in to the existing hubs, just as a first early production, because we have to test. And that means that can be put in production in less than 3 years; 1.5 year or a couple of years, we can also put in production in also less. But for the big discovery as well, we're going to have an early production that is our phased approach. We create the cash flow in the same PSC. So there is [indiscernible] with others, so we can recover immediately the investment. I think that for the third one, we have to go for a third hub. But we've already done that, and the timing of that is not because there are new companies in the country that our time-to-market is going worse. For that, we are pretty sure.

And that, our [Agogo discovery] is new. It's clearly so new, that it's not in this 4-year plan because these are discoveries that we made recently.

So the decline rates of our E&P is always at 5%. It's 5% that we get also with our production optimization on the existing fields; so that is stable. There is no reduction. So we

have confirmed the 3.5%. And the good news is that we are going to put in production [target] and have FIDs, based on our 3P reserves - remember that in the past, we used also the contingent reserve from exploration - that are, we can call, proven reserves. So it's a reserve that's been tested, finalized the appraisal phase and so we are really ready for the FID. Clearly, the 3.5% on the 2025 target is influenced also because we have big projects like Mamba, and the other projects that will start after the plan. But also in this case, we talk about 3P reserves. So we've never been so robust in term of our growth because we have in our hand really sure reserves. So there is no up and down, and the decline in rates is 5%.

Francesco Gattei: Christyan Malek

CHRISTYAN FAWZI MALEK, MD AND HEAD OF THE EMEA OIL & GAS EQUITY RESEARCH, JP MORGAN CHASE & CO, RESEARCH DIVISION: Christyan Malek from JPMorgan. A couple of questions. First of all, your capital framework. When I think about the buyback targets that you've laid out and fixed interest that's linked into gearing and oil price, I'm a bit sort of -- I just want to be clear, is this regardless of where the oil -- if oil goes below \$60, will you continue with that floor buyback? And with regards to gearing, if you've seen opportunity, and you re-gear again, does that mean the buyback gets recalibrated? So I just want to understand the relationship between your gearing, the oil price and your scale of a quantifiable buyback. The second question is regarding the ADNOC deal. I mean, you didn't really talk about that in this presentation at length, but what's the logic across the Middle East. We're seeing Aramco and others build significant export capacity in refining and petrochemicals linked into where countries are buying from them. What's the logic in terms of through cycle to now, go long on additional capacity through the UAE? I understand it from a sort of value chain perspective, but is this sort of top of the cycle investing, regarding potential late cycle margin?

CLAUDIO DESCALZI: Okay. So Massimo, answer about the buyback and answer about ADNOC stuff and the R&M and upstream.

MASSIMO MONDAZZI: Okay. So in term of buyback, the -- I guess, the policy is clear. So below \$60, there will not be any buyback. So the difference between the \$55 cash breakeven and \$60 will be devoted to an incremental dividend and to debt reduction. So buyback will start above \$60, from \$60 on. And the attempt is to stay in between the range that we are giving. So EUR 400 million between \$60 and \$65 and above \$65, EUR 800 million. So this is the way the amount is linked to oil price, giving a rule to flexibility that is

underpinned in the buybacks. So our purpose is to distribute back cash to shareholder, depending on the amount of the excess cash. So the best, I would say, indicator to figure out the available free cash flow would be the oil price. So that's the logic. And in term of, I would say, priority in the allocation of the additional cash, I would say a good example is what we are doing in 2019. So what I expect in 2019, assuming a \$62 per barrel as we are assuming in our forecast, the leverage, and we're talking about leverage and not the gearing, is assumed to be slightly higher than 20%. But our visibility looking forward is for a leverage below 20%. So notwithstanding the acquisition of the 20% of Ruwais that Claudio is going to talk about in one second, we are taking the promise that we are in the position to distribute this additional cash flow. So we have very well in mind the balance between may be a growth, future growth, that could be even not organic versus the remuneration of our shareholders.

CLAUDIO DESCALZI: So talking about the Emirates (UAE) in our recent entering, because we have never been in the area for 60 years. So it's first time that we are in Abu Dhabi, Bahrain, Oman, Sharjah. So clearly, the first reason is the quality of the assets. And when we talk about quality of asset, we talk about the upstream and downstream. We are in all the spectrum because we are in producing fields and we have to develop. And that is very strong point because Abu Dhabi in the new strategic plan decide to develop the gas, which they didn't before. They want to be self-sufficient and also to export, and so we became the technical leader, in the joint venture of all the gas development in the offshore. So we have this new development, but we have also all the exploration brought offshore around this development that we are going to perform.

Then we have other exploration. But our view was, first of all, we have the need to have some quality assets in the refinery. That could be seen as a short way also to rebalance the upstream when the price is low. But also because our strategy, and it's one of the keyword that we use, not now, but for a long time is integration. So in this case, we reached the target. We have a full integration from exploration to development to the refinery and marketing. Because we have also constituted a joint venture for the marketing. So that is why to create value we don't want to just buy something here and there. Instead, we want to create a critical mass. We want quality assets and we want to be along the chain. And actually, that is giving strong contribution, on average, also to our refineries. And from our point of view, that was possible because we made a strong proposal on our technology, because we have a complex refinery in Italy, we had to really optimize all our refinery systems and that's all the technology and patents that we developed in Italy to reach our

breakeven in the country, where there's no oil and gas. So given those aspects, we can apply and give a big upside in term of value to the existing refinery in Abu-Dhabi, to the current and future extension. So that is the reason why we joined them.

MASSIMO MONDAZZI: On top of what Claudio is saying, an additional plus, the Ruwais refinery is brand new, but already in production. So for us looking for an immediate rebalancing our portfolio, this definitely is a plus because we are getting some dividend from now, from 2019 onwards and the investment would be self-financed investment. So that's the best. So it's really resilient in terms of cost, very well located in term of geography, towards the markets we referenced and capable to give this rebalance in our portfolio immediately.

FRANCESCO GATTEI: Jason Kenney.

JASON S. KENNEY, HEAD OF EUROPEAN OIL AND GAS EQUITY RESEARCH, GRUPO SANTANDER, RESEARCH DIVISION: Firstly, thank you for your hospitality over the last couple of days and this morning as well. It's Jason Kenney from Santander. I just had one question, really, it's about profitability and I want to know when return of capital employed is going to be ahead of WACC?

MASSIMO MONDAZZI: So the return on capital employed has been higher than the weighted average cost of capital in 2018 when we accounted \$72 per barrel. It's expected to be at \$62 at the same level. So we are talking about weighted average cost of capital slightly higher than 7%. It's expected to be higher than 10% in '21 and '22. Among this, E&P will be always above the weighted average cost of capital that refer to the E&P business, that is 7.6%.

FRANCESCO GATTEI: Michele Della Vigna

MICHELE DELLA VIGNA, CO-HEAD OF EUROPEAN EQUITY RESEARCH & MD, GOLDMAN SACHS GROUP INC., RESEARCH DIVISION: I had 2 questions on your sector-leading targets to reduce net carbon emissions from upstream to 0 by 2030. First, on the carbon capture of 30 MTPA of CO₂, I was wondering how you think of reforestation versus carbon capture and storage there and what costs per ton of CO₂ you think you can achieve there. And then thinking about your biofuel strategy, you transformed 2 refineries which were lossmaking: Venice and Gela, into profit-making biofuel refineries. I was wondering, how much more do you think you can scale up that business in the longer-term beyond the 1 MTPA? And how

complex are the logistics to get all of the feedstock in place, particularly when it comes from waste? Thank you.

CLAUDIO DESCALZI: Thank you. So the first one was related to the -- so carbon -- the natural sink, sequestration versus the CCUS and CCS. Clearly, natural sink is less expensive -- much less expensive, ranging in cost of about, between \$11 and \$15 on average because that is the cost to recover your investment. Investment is not so much, \$11 per ton. So it's less heavy and less expensive than is CCUS. Clearly, we are also working on the CCUS in different way. CCS and CCUS. And I think, that during the visit this morning, for the group of people that had the opportunity, there are different kind of possible sequestration. It's the technology. But when we talk about your power plant, you're talking about your refinery or your chemical plant, you need also CCUS. You can't reset everything with forestry. But clearly, forestry for us is more than acquired credit, because you can buy it. It's a little bit more expensive sometimes or less expensive, it depends. But it's really impacting our communities. We're going to do it in Africa, in the countries where we operate, but generally speaking, in Africa. Because we do also in other countries like Zambia and South Africa, where we're not really in operation. We are also in Mozambique, we are in Ghana, so we have projects that are impacting the society. It's really creating a lot of jobs. It's creating a different kind of diversification, which is agriculture, but this is also diversification. The model is quite straight forward because we are working with developers. We are not yet a developer. We started as a developer in small areas compared to what we are using now in Ghana. So we want to work there because we have a lot of communities. So we engage and there's commitment to buy the credits. And then, we give back to the community some percentage, that can go from 10% to 40%, related to the gain that you make from the credit you buy. So it's really good for the environment and really good for the communities. And clearly for us, it's good because it's a way to offset our residual upstream Scope 1 emissions.

So the other question about how we can expand this business. Clearly, this business is going to be quite big. We can cover all Italy in terms of consumption and maybe also export. The first point is really the logistic. Not logistic to have the palm oil. Because it's quite complex and we spent some money for that. But we are going in another direction because we want to use the second generation.

We are using at least 20%, 25% of second generation and our aim is to reach 100%, because we have the technology, which is our own technology and it will allow us to use

100% of second generation. Gela is going to use 100% of second and if possible, third generation.

So we want to roughly, first of all, in these refineries, to stop using palm oil. And in the future, if you want to talk about expansion, the expansion will be different scale because I think that you saw the waste-to-fuel technology. That, the scale is more and we already have a plant in Sicily. That is much better to cover the local issue about waste material and biomass. That is for organic [waste]. And the future will be with the smaller scale using our technology, we are working -- we started in Italy. Smaller scale to produce oil. Oil or also feedstock for our refineries. But this waste-to-fuel is very interesting, also for abroad, because their production is about 30%-35% oil and we have 65% of water from the organic waste. So you can imagine in other parts of the world where they need water for agriculture, then there is some CO2 that we use for sequestration or for example in our algae [production]. So I think that the development in technology is so fast and for that reason we talk about fast deployment of our R&D. For this reason the development of this part will be completely different. So we are going to make plans where we have waste to cut logistics, also to improve the HSE and reducing the CO2 emissions.

FRANCESCO GATTEI: Alessandro, Jon and Jason.

ALESSANDRO POZZI, BANCA DI CREDITO FINANZIARIO S.P.A., RESEARCH DIVISION - RESEARCH ANALYST, MEDIOBANCA: Alessandro Pozzi from Mediobanca. I believe we've seen a reduction in the breakeven cost of projects in the upstream to, I believe it was \$25 per barrel. I was wondering how much of that is driven by numerator, so to lower CapEx intensity? And how much is driven by just going after bigger projects with larger resources? That's the first one. The second one is on the buyback. I was wondering in the EUR 400 million is going to be implemented may be in the second half of this year? And then as we look at '19, when did you decide on the buyback? Is it on a quarter-by-quarter basis? Or 6 months by 6 months? Or, yes, if you can let us know how you're going to implement it.

CLAUDIO DESCALZI: So we'll talk about breakeven first because it's the reason we can pay the buyback. So the breakeven is really a new, I think, kind of model. We reduced cost, we are more efficient and also the quality of the project and also the phase of the projects. So it's the overall package, phasing the project, more efficient cost, working with a very good time-to-market, based on new projects that are on bigger reserves and following our model in being close to our existing facilities. All this helps a lot because these are big projects, but we are able to be more efficient in our CapEx. Clearly, we talk about giant projects, close to

existing facilities, phased projects. So all this is creating this good result in term of breakeven. So for the buyback, we have to propose to all in the general assembly and then I think that the EUR 400 million, that is this year, we start immediately as it can be July, June, August, we don't know, but around that time. And then we can start using the model that Massimo explained to you. So and if we pay every quarter or every 6 months, I don't think that change a lot or at the end of the year. I don't know if Massimo can answer about that.

MASSIMO MONDAZZI: No. Exactly what Claudio said, what I could add is that the plan would be put in place as good as possible in order to avoid any kind of interference with the market. So starting from 2019, we will start the buyback immediately after the general assembly. And from 2020 on, we will start the beginning of the year. I will say the reference for the amount of buyback to be applied all along the year would be our scenario. So the price we assume in our scenario will be the driver for the amount of share to be bought back that year.

FRANCESCO GATTEI: Okay. Jon

JONATHON RIGBY, MD, HEAD OF OIL RESEARCH AND LEAD ANALYST, UBS INVESTMENT BANK, RESEARCH DIVISION: It's Jon Rigby from UBS. Can I ask a couple of questions on LNG? You referenced the volume improvement or expansion that is going to roll through. I think you indicated in Gas & Power actually. So can you just talk a little bit more or articulate a little bit more what you're going to do with those volumes, what kind of EBIT impact you're expecting from them and how you're using those volumes to generate EBIT in Gas & Power. The second question, just a point of clarification on your Scope 1 emission in the upstream. You talk about Scope 1 only. So to the LNG processing activities fall into that or is that set in Scope 2? And then thirdly, just a point of clarification, maybe for Massimo. I think you've indicated there's EUR 0.3 billion EBIT benefit from IFRS 16. Where does that fall in the EBIT guidance that you've given on a segmental basis?

CLAUDIO DESCALZI: Okay. So for the LNG. Clearly, the LNG became a very strong tool for our equity gas because we discover a lot of gas. So it gives a strong flexibility to our upstream. So clearly from our representation point of view, they are separated, but we have to look at the flexibility that the very strong LNG gives to our upstream because they are really working together. Last year was very positive because in Indonesia, for example, we have been able to increase our production and we used LNG also for spot cargo. So it gave us bigger possibility. As I said during the presentation, the EBIT growth would be long term

because it is based on contracted volume, which is based on our equity and our equity is strong now in Nigeria, in Angola, in Indonesia. We have to restart with Damietta, and we will be very strong with Coral and with the 2 trains that we are developing in Mamba and onshore. So clearly, it's the long term. The impact will be strong, but just related to its commercial part because we don't see all the upstream. I don't have the figures for the long term now, but we talk about very interesting figures. Clearly, after this plan, when Mamba and Coral and the additional development in full gas in Egypt and we can start using Damietta.

The other question was Scope 1. I say that this is a major first step and that is that of upstream. Now we are working, we are not ready yet. Just to reach this, we worked 3 years because it's clearly a message directly from the top, but then it's a bottom-up because we have to build the model. We have to work to be sure to take this very important commitment. We are working to finalize the Scope 1 for all our businesses. And clearly, we are also working on the Scope 3. We don't have the figures, but we have about 42 million, 40 million tons per years for our Scope 1. And then when we look at the Scope 3, we have 250 million tons. So first step is the upstream, then the rest of the business Scope 1 and then Scope 3 -- but we are already work on the Scope 3. That (Scope 3) implies different things, policies and the market trend and implies also products. So it's more complicated but we are really determined to reach this target.

MASSIMO MONDAZZI: So, first of all, in order to be sure that it's absolutely clear, all the numbers that are being disclosed this morning refer to the numbers before the implementation of the IFRS 16. And then the final slide gives you a reference about the magnitude of the impact. And I said that all along, that for 2019, we will always present to you the double view, before and after the IFRS 16 in order to allow you to better understand what the significant impact is. So for example, when we say that the free cash flow would be EUR 1 billion higher, that means more or less \$5 in terms of cash neutrality for us. It means that the most important metrics will change dramatically.

As far as the EBIT that you mentioned, so the EUR 0.3 billion is due to the fact that the advantage in terms of EBIT relates to the reclassification of financial interest. Definitely, this advantage will fall in the field of upstream. That definitely is the most important user of our debt.

FRANCESCO GATTEI: Okay. Jason, then Thomas and Chris.

JASON GAMMEL, EQUITY ANALYST, JEFFERIES LLC, RESEARCH DIVISION: It's Jason Gammel from Jefferies. First question is on the dual exploration strategy. It looks like a lot of the activity that is planned for 2019 is actually more near-field exploration. So should we think about the strategy then in terms of generating early cash flow as more early production systems tied back to infrastructure like with Agogo rather than equity divestment of exploration success? And then the second question is on ADNOC refining and the dividend policy. I believe that you said at the time of the announcement, that the dividend would be pretty attractive, around 10% or so of investment, but that would be over the medium term. And so I guess, my question is, does the free cash flow that you've laid out for R&M include the dividend from ADNOC refining and the latter part? And would that potentially be interrupted if there was a decision to further expand the Ruwais facility?

CLAUDIO DESCALZI: Okay. I will answer on the dual exploration. Massimo can talk about the dividend issue. So the dual exploration, we continue to have big discoveries. Recently, we used dual exploration in terms of swaps and directly, or as an investment for the future. So it's a continuing inactive mechanism because now we use dual exploration during the downturn and we need really to reinforce also our cash flow. In this case, we prefer to use the swap to get these assets to work for our diversification. So that will be the way. The near-field exploration is not new, and it's not just for today, this year or last year. We have been successful because we use this kind of model, the near-field exploration. So we go where we have the facilities, but especially where we know the environment, but through different tools, especially in pre-salt on different kind of traps, stratigraphic traps or sub-salt, we can discover something that the others did not discover, but in very mature areas. So we have contractors in known situations. We have facilities. And then we can give value. So we are in this stage. We are going to continue, but it's more focused on swapping than cashing in.

MASSIMO MONDAZZI: So the number that we have shown as far as R&M do include the contribution we expect from ADNOC refineries. So our 20% of ADNOC refinery. You correctly mentioned the expectation in the range of 10% as a medium. Definitely, we expect a ramp-up in term of capacity, but even now as I said, the advantage to get in, in this -- in such a huge asset already producing, already running is to have some cash flow anyway. So in the numbers, I said, we already embedded such a contribution. That in the first year is not meaningless. So we are talking about something in the range of EUR 200 million each year, all right, growing over EUR 300 million by 2023, '24 when the configuration of the current asset will reach the scope that now we are envisaging and we are working for. This

additional activity will be self-financed. If there would be an additional growth expected, definitely we will evaluate it. But if we decide that this additional growth is valuable, we'll be happy to give up some cash back to be reinvested in such an initiative because we really believe that this refinery is a very nice, very good investment to stay in.

FRANCESCO GATTEI: First Thomas and then Chris.

THOMAS YOICHI ADOLFF, HEAD OF EUROPEAN OIL & GAS EQUITY RESEARCH AND DIRECTOR, CREDIT SUISSE AG, RESEARCH DIVISION: Thomas Adolff from Credit Suisse. I've got 2 questions, please. Firstly, on organic versus inorganic CapEx. In this presentation, you talked about organic growth but you've been very busy doing inorganic things in the recent past. So I wondered what role will M&A play going forward? Are there any particular gaps you still want to fill? Or do you want to expand further into the Middle East, such as LNG? And the second question is just on capital intensity in the upstream. So by 2024, 2025, your upstream production will be about 25% higher than it is in 2018. But you still guide to a CapEx that is relatively flat over the 4-year plan period. So perhaps you can talk about capital efficiency or any other things you assume in that?

CLAUDIO DESCALZI: Thank you. So you said that recently we have been very active. Recently, in the last 10 years, we did just Ruwais. So we are not so active in terms of M&A. We talked just about organic growth because we just aim at growing organically. So that's the reason we didn't talk about inorganic. Clearly, opportunistic on assets maybe, but it's not really, because we have so many 3P reserves and so many discoveries that we have. We have to be focused on what we have, and if you look at the cost of our exploration, now we put \$1.8 per barrel but the average over the last 5, 6 years is less than \$1 per barrel. And if we have to buy something, it's always more expensive. So clearly, we are organic. I think that we are organic. There's no M&A. If there is some possible asset that we like, we have to think that we want to keep the right balance between our dividend and buyback system for our investors, then look at diversification or assets to farm-in. So we have a clear priority. We don't need to buy something. We gave a clear indication about our policy, remuneration policy, and that is clearly in front of us, and we want really to respect that. When we start something, we absolutely respect what we promise and what we say. So we don't have to be worried about some competition or really inorganic growth because we don't need it.

For the CapEx, you look at the year, but our cycle is 4 or 5 years. And our growth, the growth we are implementing now started maybe 3, 4, 5 years ago. So it's not really correct.

We try to be really flat. That is very important to respect our free cash flow engagement, and we try also to reduce the inactive capital. I think, I remember that 6, 7 years so, we have 35%, 40% of inactive capital. Now we are in the range of 15%, 20%. That is intrinsic because the cycle is very long. But we try really to reduce the inactive capital in the year and you can do that with the time to market. Zohr is an example, Angola is an example, Jankrik is an example, Algeria is an example. So if you're able to reduce and squeeze your time to market, you don't have inactive capital. So that this an exercise. That is really an exercise bottom up that our structure made with the aim to preserve the free cash flow, reduce the inactive capital and optimize all the set of our investment. Thank you.

CHRISTOPHER KUPLENT, HEAD OF EUROPEAN ENERGY EQUITY RESEARCH, BOFA MERRILL LYNCH, RESEARCH DIVISION: Chris Kuplent from Bank of America. I've got a few questions on Var Energi. And first one is if you could talk us through a little bit the rationale behind the merger and perhaps the role that you expect Var Energi to take within the Eni plan and future. I'm hopefully right that you've accessed some growth in Norway thanks to this transaction, but I wonder whether you can give us a little bit more detail about how that growth is funded, how much free cash flow that new company is continuing to create in order to fund also the Eni dividend, ultimately. And then related to that. Just quickly, I saw in one of your slides that you referenced a proportional consolidation in the CFFO here in your guidance of Var Energi. I just wanted to double check whether that applies to CapEx production, et cetera, how you've treated that.

CLAUDIO DESCALZI: Okay. Massimo, if you want to answer, because it's more on dividend and the self-financing.

MASSIMO MONDAZZI: So the rationale, as you said, is to get access to additional growth in Norway. So Norway is a place in which there is still a significant exploration upside. So merging the portfolio of 2 companies now allows us to have a very well spread portfolio from the North, the Arctic to the South. So even in term of operation, the situation is much better. The organization in place now is very solid. So they capable to run the activity in Norway by their own. Definitely, we are looking at what they are doing and the contact is constant. And merging the portfolio is allowing us to have a larger cash flow. For example, Balder will reach the FID this year and will come in production very soon. So this additional cash flow is allowing us to have, I would say, an additional comfort that we said, when we announced the deal, amounting in the range of more or less \$2 per barrel in term of cash neutrality. So that is, to give you the dimension of the contribution. In term of representation, some numbers we have shown this morning include a pro forma

contribution from VAR Energi. Because of, I would say, the comparison between future numbers versus previous number, for example, the dollar per barrel we have shown, growing from \$18.5 2018 that include the cash flow from operation from the Norwegian activity. While the 2019/2022, do not include the contribution. So what we have done, we are including pro forma, the contribution from Var Energi also in 2019 and 2022. So this is the adjustment we have made in our numbers while all the other numbers, for example, the free cash flow, by definition, free cash flow will include the dividend that we expect from VAR Energi. So on this regard, nothing change.

FRANCESCO GATTEI: Okay. The last one, Massimo.

MASSIMO BONISOLI, ANALYST, EQUITA SIM S.P.A., RESEARCH DIVISION: Massimo Bonisoli from Equita. 2 question on downstream, one on the refining margin assumption, which increased by EUR 0.50 per barrel over 2020, 2021. How much is coming from the IMO 2020 change in regulation and how much from maybe the inclusion of the ADNOC in the new structure? The second question on Versalis. If I remember correctly, you earlier mentioned to EUR 270 million EBIT assumed by the end of the plan for Versalis. How much is coming from scenario recovery and how much from self-help measures?

CLAUDIO DESCALZI: Okay. I give the floor to the R&M COE, and then to the CEO of Versalis.

GIUSEPPE RICCI, CEO REFINING & MARKETING: The increase of margin that you are seeing in the 2020 and 2021 is due to IMO. It's due to IMO because we expect that the introduction was that this new specification for bunker oil will have a depreciation of high Sulphur crudes and an increase of appreciation of distillate, I mean, gas oil. This means an increase for at least a couple of years of the margins. The contribution of ADNOC for the breakeven will help us to reduce the breakeven below the \$3.

DANIELE FERRARI, CEO & DIRECTOR, VERSALIS SPA: For the Versalis side, the results are mainly coming from the scenario about EUR 200 million and the remaining is for our own agenda and actions. As you know, increasing resilience of Versalis is the mission that we have and we are doing in a difficult situation because the market didn't help us over the last 6 months, and we are doing that with existing assets as well. So it's something that we considered to have done with significant improvement from the past where we were losing EUR 400 million or EUR 500 million. Now we are swinging between breakeven and EUR 200

million and EUR 300 million positive and we do our best continuing to work and integration efficiency, changing our portfolio and renewable materials as well.

FRANCESCO GATTEI: Thanks. Okay, thank you to all. We will return after 2:00 with the investor and analyst for the Q&A with the COOs and we leave the room for the press conference.

CLAUDIO DESCALZI: Okay. Thank you very much.

MASSIMO MONDAZZI: Thank you.

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