# letter to shareholders

The new oil environment featured by significantly lower prices than in the past over the short-to-medium term warrants higher flexibility and efficiency from the oil industry in order to continue to grow and create value for all stakeholders.

Emma Marcegaglia
CHAIRMAN

Claudio Descalzi
CHIEF EXECUTIVE OFFICER AND GENERAL MANAGER

We believe that our company is in an ideal strategic position to face this challenge successfully, underpinned by our competitive portfolio of oil&gas assets, a robust financial structure and the initiatives launched in May 2014 designed to focus our core upstream activities and to accelerate the turnaround in the mid-downstream business.

The organizational structure, division-based in the past years, has been fully integrated, streamlined and refocused on the priority of our core business. This allowed Eni in the past and will allow again in the future to achieve significant cost efficiencies, also thanks to the centralization of technical services.

In 2014, in spite of an increasingly weak scenario, Eni achieved excellent results supported by record cash flow over the last six years. Adjusted operating profit amounted to €11.57 billion (down by 9% compared to 2013), while adjusted net profit was €3.7 billion (down 16%), affected by lower oil prices (down by 9%). These negatives were mitigated by the continuing turnaround in the G&P, R&M and Chemical segments which reported a €1.2 billion improvement in the operating performance, in addition to the return to profitability of Eni's subsidiary Saipem. Cash flow from operating activities was €15.1 billion, up by 37% compared to 2013 thanks to higher value of upstream production, renegotiation of gas contracts, optimization of working capital and efficiency actions across all businesses. Proceeds from the divestment of non-strategic assets generated €3.7 billion of cash. These inflows funded cash outlays relating to capital expenditure amounting to €12.2 billion, mainly focused on the upstream activities, dividend payments of approximately €4.4 billion and share repurchases resulting in a distribution yield of 8.3%, one of the best results in the Oil&Gas industry. A robust cash generation allowed Eni to reduce its net borrowings, while the leverage decreased to 0.22, down by 0.03 points compared to 2013.

In light of these results, the Board of Directors will propose to the Annual Shareholders' Meeting a cash dividend of €1.12 per share, of which €0.56 per share paid as interim dividend in September 2014 (€1.1 in 2013).

In 2014, in line with our plans, upstream production delivered 1.6 million boe/d, generating a cash flow per boe of $30, with 80% of the production coming from low or medium risk countries. Year-end proved reserves were 6.6 billion of barrels, with the organic reserve replacement ratio of 112%, compared to an average of 127% registered in the last five years. Adjusted operating profit was €11.55 billion.

Exploration has proved to be a driver of production growth and value

generation as well as Eni's distinctive feature among the oil majors. Since 2008 Eni has discovered over 10 billion of barrels of oil equivalent (boe) in place, more than every other player in the oil industry, of which 900 million of boe were discovered in 2014, at a competitive cost of $2.1 per boe. Near-field discoveries marked the year's activity; these discoveries are expected to have a rapid time-to-market leveraging on the synergies from the front-end-loading of ongoing projects and utilization of existing production infrastructures.

We renewed our exploration portfolio through the acquisition of new acreage covering approximately 100,000 square kilometres, along the guideline of diversifying the geographical presence. We confirm our expansion plans in the Pacific basin, where we signed the contracts of production sharing for the exploration of 2 onshore blocks in Myanmar and 3 offshore blocks in Vietnam, in addition to the acquisition of licences in Indonesia, Australia and China. We also confirm our interest for the unexplored basins, following Eni's entrance in the offshore of Portugal, South Africa and deep offshore of Egypt. In the next four years, we will invest giving priority to near-field exploration in order to support production, and we will start the initiatives in Cyprus' offshore, the unexplored areas of our acreage in Mozambique and similar structures in Kenya, in the Pacific basin, pre-salt plays of West Africa, as well as re-launch of activities in core areas of Egypt and Kazakhstan in new geological structures.
We plan to anticipate cash generation by disposal of interests in our discoveries in order to balance costs/risk exposure and profitability in an optimal way, in the meanwhile ensuring the reserve replacement and balanced presence in the worldwide upstream.

With regard to development, we are aiming at excellence in time-to-market in order to maximize the value of our reserves. We plan to achieve development efficiency leveraging on the integration of skills along the life cycle of the reserves and by deploying an innovative organizational model which insources engineering and retains tight control of construction and commissioning. Phased project development allowed us mitigate operating risks and reduce the financial exposure.
This approach led to the top results in the industry such as West Hub project in the Block 15/06 in Angola, the first Eni-operated producing project in the country with first oil just 4 years after the declaration of commerciality, and the Nené Marine in Congo, whose start-up was achieved just 8 months after the final investment decision.
In the next four years, we plan to start-up 16 new major fields operated by Eni. Together with the ramp-up at the field started in 2014, this will add more than 650 kboe/d of production by 2018, to support our growth and replace mature fields decline. These projects have an average breakeven of $45/barrel and will generate an overall cash flow from operations of €19 billion in the four-year plan. In addition to the above-mentioned fields, the main projects include Goliat in the Barents Sea, the heavy oil and gas assets in Venezuela, the Block 15/06 in the East Hub located in Angola which will leverage on the synergies with West Hub, Jangrik in Indonesia, the Offshore Cape Three Points (OCTP) block in Ghana, upgrading of giant fields in Libya as well as the restart of Kashagan, for which the Consortium found an adequate solution for the return to full operativity by the end of 2016. Thanks to the development of new projects in addition to maintenance of the production plateau of existing fields, we foresee average production growth at a rate of 3.5% to 2018.
In Mozambique, where Eni has made the greatest discovery in its exploration history with a mineral potential of about 2,500 billion cubic meters of gas in place, we plan to finalize gas contracts and obtain the necessary production licences, in order to make a final investment decision for the project Coral floating LNG in the second half of 2015.
We engage to make our upstream more and more sustainable.
The continuous improvement in our activities, in line with the best practice in the industry, underpinned our track record of zero well incidents, zero blow-outs, oil spill reduction and injury index improvement for the eleventh consecutive year. In the Norwegian section of the Arctic Sea, where Eni is the first to develop a field in a highly sensitive ecosystem, our monitoring process and oil spill management have become a benchmark for the industry. In the future, we will pursue ambitious targets, especially in reducing greenhouse gas emissions where we are planning for a 50% reduction in gas flaring in the next four years and for optimizing water reuse.

In the G&P, R&M and Chemical segments, we have intensified our turnaround in order to accelerate cash and EBIT breakeven despite a continuing deterioration in fundamentals.
The results of this strategy are evident in the Gas & Power segment, where Eni has anticipated breakeven to 2014, reporting an adjusted operating profit of €310 million and robust cash generation despite structural weakness of demand, strong competition from hubs and replacement of gas with photovoltaic and coal in the power generation. The main driver was the renegotiation of the long-term contracts, which allowed Eni to index approximately 70% of its supply portfolio to the market benchmark, ensuring better competitiveness for our gas. Furthermore, Eni halved the take-or-pay exposure, lifting its pre-paid volumes, with a cash benefit amounting to approximately €660 million. Our strategy for the next four years will continue to leverage on a new round of negotiations with our suppliers, targeting to align our procurement costs to wholesale prices and recovery of the logistic costs. On the commercial side, we are targeting to preserve margins at large clients, while in the LNG segment we plan to supply innovative and structural products such as for example small scale LNG sales. In the retail segment, our objective is to retain our customers in order to reduce the churn rate as well as increase the revenue per customer through the sale of extracommodity products. Operational efficiency and credit risk control will help the performance.

In the Refining & Marketing segment, the progress in turnaround drove a 50% reduction in adjusted operating losses (down by €208 million) due to a 30% cut in throughput based on traditional oil cycles and the re-balancing of portfolio through the start-up of the green diesel production at the Venice plant as well as cost efficiencies. This result was achieved in the trading environment characterized by structural overcapacity and weak demand.
In November 2014, Eni defined with interested stakeholders a plan designed to convert the Gela plant to a bio-refinery. This sustainable plan will combine the Company's objective of profitability with the defence of employment levels and environmental preservation. The Gela site will be turned into a modern hub for the production of high quality bio-fuel by using the Eni's proprietary technology as well as advanced logistic hub. The staff in excess will be deployed in Eni's upstream activities in Sicily, for which a re-launch is foreseen.
In the next four years we plan to complete the overhaul of up to 50% of the capacity, invest selectively and keep specific focus on efficiency pursuing reduction of fixed cost and energy saving initiatives. In the marketing segment, we intend to boost the profitability of retail sales in Italy through rationalization/ optimization of inefficient outlets, simplifying of commercial offer and re-launch of a new promotional initiative "you&eni" to maintain the loyalty of our customers.
Outside Italy we foresee to focus our presence in the Central Western Europe, completing the network disposal in Eastern Europe.
In light of the results of 2014 and planned initiatives, Eni is targeting to anticipate EBIT breakeven in 2015.
Similarly to the refining sector, our chemical business is affected by competitive pressure from more efficient producers from East Asia, the Middle Est and the United States and overcapacity, against the background of stagnant demand. The return to profitability and financial breakeven of Versalis will leverage on our capacity to identify and implement sustainable solutions for the reconversion of the loss-making sites. In 2014, we completed the overhaul of petrochemical activities in Sardinia, with the start-up of bio-plastic production at Porto Torres site in joint venture with Novamont and divestment of Sarroch plant. In November 2014, Eni defined a plan aimed to guarantee an economically sustainable future for the Porto Marghera site. This plan foresees the increase in the production from renewables, in partnership with the US-based company Elevance Renewable Science and the definitive closure of the petrochemical plant.
The other drivers will be refocusing on high value products leveraging on technology in niche segments (elastomers, hydrocarbon resins), enhancement of green chemical platform and expansion projects in the elastomer segment in South-East Asia. The results of Versalis reported an improvement in 2014, with an adjusted operating loss reduced to €346 million (down 10%); we are aiming at EBIT breakeven by 2016.
In the next four years, we anticipate

a gradual increase in oil prices and assume a long-term price of $90 a barrel for the Brent crude benchmark based on our review of demand and supply fundamentals.
In this scenario, our priority is to maximize cash generation, leveraging on well designed industrial actions, conventional oil&gas projects, profitable even in a low price scenario, capital discipline and a robust disposal program. Our investment plan is focused on high value projects with accelerated returns as well as modular approach to the development aimed to limit financial exposure. This optimization will determine the outlay for the next four years estimated at €47.8 billion, that will be directed for 90% to exploration and development of hydrocarbon reserves, down by 17% compared to the previous plan, at constant exchange rates.

We are aware that the motivation of our people is key to the achievement of our targets. Therefore, we intend to keep investing on our personnel, focusing in particular on leadership and change management, maintaining a strong focus on our fundamental values of integrity and transparency.

In conclusion, 2014 was a positive year for Eni, thanks to the achieved results and the timely start-up of the appropriate actions aimed to face a new cycle in the oil&gas industry. In a still uncertain 2015, Eni thanks to its excellent strategic position is well organized to continue to create sustainable value for its shareholders, in the short and long term.

March 12, 2015

In representation of the Board of Directors

**Emma Marcegaglia**
*Chairman*

**Claudio Descalzi**
*Chief Executive Officer and General Manager*