

2011 Second Quarter Results

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Speakers:

Paolo Scaroni - CEO

Alessandro Bernini – CFO

Paolo Scaroni

Good afternoon ladies and gentlemen, and welcome to our interim update and second quarter results conference call.

During the first half of 2011, our results were hit by two uncertainties, of which the major one is of course Libya. In this context, we have made good progress on the strategic drivers which underpin our medium and long-term growth and value creation targets.

I will now give you a brief overview of the developments in our business for this quarter. Sandro will then take you through our financial performance in Q2.

Let's look at the two uncertainties which impacted first half results in more depth.

The disruption in Libya has affected all our businesses. Turning first to E&P, in the second quarter of the year our Libyan production averaged around 50kboe/d, with a negative impact of more than 230kboe/d on the average daily production for the quarter.

Meanwhile, the suspension of Libyan gas imports into Italy impacted G&P results in two ways. In terms of volumes, we suffered from reduced sales to shippers. And in terms of margins, we suffered because Libyan gas was replaced with gas from other sources which have not yet been renegotiated. The situation in Libya is also impacting our downstream refining and petrochemicals businesses as both had to replace Libyan feedstocks with more expensive alternatives.

For forecasting purposes, we are assuming that the situation in Libya will continue as is until the end of 2011. However, we are ready to resume normal operations as soon as the necessary political and security conditions are in place; our assets have suffered no damage and we will be able to return to pre-crisis levels of production in a relatively short space of time, especially in our gas fields.

The second major uncertainty affecting our results this year is the ongoing renegotiation of our main gas supply contracts. Our reported first half ebit does not include the expected benefits from contract renegotiations, which will be retroactive once agreements have been reached. Discussions with our suppliers are progressing well.

Looking now at the broader picture, we have made significant progress on the strategic drivers which underpin our medium and long-term growth.

Exploration continues to deliver excellent results: following the over 900mln boe discovered last year, we added another 415 mln boe of resources in the first six months of 2011.

Amongst these, we are particularly excited by the Skrugard discovery in the Barents Sea which, together with the Goliat project starting up in 2013, will give us a significant presence in this new frontier oil-producing area. In Indonesia, we have roughly doubled the gross recoverable resources in place at Jangkrik to more than 2 Tcf through additional exploration, resulting in a material resource base in an area with existing infrastructure and favourable gas market conditions.

Over the last few months we have also made excellent progress on some of the giants which will drive growth to 2014. In Venezuela, we have agreed all the details of the Junin-5 development plan with PDVSA, including the possibility of bringing forward production start up, and are finalising the commercial agreements for Perla, for which we expect to sign the GSA and take FID before year-end.

In Russia, our joint venture with Novatek has defined the gas sales agreement with Gazprom for our fields in the Yamal Peninsula, paving the way for the Final Investment Decisions on Samburgskoye and also Urengoskoye in the second half of this year.

In G&P, we continue to strengthen our leading position in the European gas market: organically, we have expanded our market share, recovering 6 p.p. in Italy and increasing volumes despite sluggish demand in Germany, France and Spain. Meanwhile, we have consolidated our presence in the Belgian retail market through the recent acquisition of Nuon Belgium.

We also continue to work on our objective of maximising value from our non core subsidiaries, Galp and Snam.

I will now hand you over to Sandro for the presentation of our results.

Alessandro Bernini

Thank you Paolo and good afternoon ladies and gentlemen.

In the second quarter of 2011, the macro environment was mixed. On the positive side, the Brent price averaged 117 dollars a barrel, up 50% compared to the second quarter of 2010.

However, the average European refining margin Brent/Ural was 2.2 \$/bbl: a 52% year-on-year decrease that heavily impacted our R&M results.

Finally, the euro appreciated 13% versus the US dollar, compared to the corresponding period of last year.

Moving to our results, adjusted operating profit in the second quarter amounted to 4 billion euro, down 3% year-on-year. This result is mainly due to the weak performances of the Gas & Power – which does not reflect any benefits from gas contract renegotiations - and downstream businesses (Refining & Marketing and Petrochemicals), partially offset by the contribution of the Exploration & Production and Engineering & Construction divisions.

Adjusted net profit for the second quarter was 1.4 billion euro, down 14% year on year. This result also reflects a higher adjusted tax rate (up by more than 2 percentage points to 59.2%).

In the second quarter of 2011, Eni's hydrocarbon production amounted to 1,489 kboe/d, a decrease of 15% compared to Q2 2010.

This negative operating result was mainly due to the ongoing instability in Libya, which reduced production by approximately 200kboe/d if compared to the second quarter of 2010 and by at least 230kboe/d if compared to our planned production profile in Q2 2011 . Furthermore, PSA entitlements were negatively affected by the sharp increase in the oil price, with an estimated impact of 36 kboe/d.

The increase in the oil price, however, boosted the division's adjusted operating profit, which amounted to over 3.8 billion euro, up 11% compared to the second quarter of last year. This positive result comes in spite of the negative impact of the US dollar depreciation amounting to around 300 m euro in the quarter.

In Gas & Power, overall gas volumes sold, including consolidated and associated companies, totalled 20.3bcm, up around 14% year on year.

However, adjusted operating profit decreased by 60% compared to the same period of 2010, due to the sharply lower results delivered by the Marketing business.

It's worth reminding you that the results do not include any benefits from the renegotiation of our long term supply contracts, although these will be retroactive once agreements are finalized.

G&P adjusted proforma Ebitda for the second quarter of 2011 was 0.3 billion euro, compared to 0.8 billion euro in the second quarter of 2010.

International Transportation results showed a 17% increase, notwithstanding the closure of the Greenstream pipeline.

The Regulated businesses generated 367 million euro, up 5% versus the corresponding period of last year. The increase is mainly due to higher returns on new investments and efficiency actions.

Adjusted pro-forma Ebitda in the Marketing and Power business was negatively impacted by increasing competitive pressure in Italy and Europe as well as unfavourable climate and scenario effects. Furthermore, the ongoing situation in Libya reduced volumes to shippers and affected margins, owing to the substitution of recently renegotiated Libyan gas with other sources of supply not yet renegotiated.

Turning now to R&M, in the second quarter of 2011 the division reported an adjusted operating loss of 114 million euro, versus a loss of 52 million euro in the same period of last year due to an unfavourable scenario, as well as to the depreciation of the dollar versus the euro.

These negatives were partially offset by improved efficiency, the synergic integration of refineries and optimization of supply.

Marketing activities reported a significant improvement of ebit, benefitting from higher sales margins positively influenced by commercial initiatives, which more than offset a sluggish demand for oil products, both in Italy and abroad.

In the second quarter of 2011, the Petrochemical business reported an adjusted operating loss of 30 million euro, compared to a loss of 11 million euro in the second quarter of 2010. The results was negatively impacted by lower margins as high costs of oil-based feedstock and the cost of substituting the Libyan virgin naphta were not fully recovered in sales prices on end markets, and substantial demand decrease

Saipem delivered adjusted operating profits of 378 million euro, up 10% versus Q2 2010, mainly driven by higher results in onshore construction and offshore drilling operations.

Other Activities and Corporate showed an aggregate loss of 129 million euro, in line with the results reported in the second quarter of 2010.

In the second quarter of 2011, cash flow from operations was 4.4 billion euro. Other sources of cash included proceeds from divestments amounting to around 100 million euro, mainly related to the sale of upstream marginal assets.

The cash inflows were used to partly fund cash outflows relating to capital expenditure of 3.7 billion euro and dividend payments of 2.2 billion euro, which included the payment of the final dividend 2010 as well as dividends paid to Snam and Saipem minorities.

Net financial debt, as at the end of June, amounted to 26 billion euro, an increase of 1 billion euro versus Q1 and in line with the net debt at year end 2010.

In the second part of the year we will benefit from the sale of the international pipelines, one of which has been already finalised, while we are in exclusive negotiations with a preferred bidder for the disposal of TENP and Transitgas. The cash in is expected by year end.

In this time of market turbulence, we can rely on a financial debt which is well diversified by source of funding and is characterized by an optimal profile in terms of both composition and duration.

In the first half of the year we further extended the duration of our debt: over 80% of our gross debt is mid-long term with an average maturity of more than 5 years.

No bonds are due this year and long-term debt due by year end 2011 is just 300 million euro. In addition, 53% of our long term debt bears fixed interest rates, further stabilizing our risk exposure.

Thank you for your attention. I will now hand you over to Paolo for his closing remarks.

Paolo Scaroni

Thank you Sandro. In conclusion:

- In E&P, we are delivering on our strategy of developing giant fields in promising areas and making good progress on our growth targets for the plan period and beyond. For 2011, we forecast that Libya will continue to produce at current, reduced levels until the end of the year, with an estimated overall impact of at least 200kboe/d on full-year production. Net of this impact, we confirm our previous guidance of growth excluding PSA effects, or flat production at \$100/bbl, as start-ups, ramp ups and better performance from other areas of the world will sustain our production in the second part of the year.
- In Gas&Power, giving guidance for 2011 is particularly complex as our results will depend on both the timing and the terms of ongoing supply renegotiations, which are at present confidential. That said, assuming renegotiations are closed before the end of the year we expect G&P results to be broadly in line with 2010 net of the impact of Libya. The final impact of substituting Libyan gas with alternatives from our portfolio will also depend on the outcome of negotiations, but we expect it to be around €300m.

- In R&M, we previously guided to break-even in 2011 at the same refining market conditions as 2010. So far this year market conditions have continued to decline, leading us to report a €260mln loss for the first half. We expect market conditions to improve slightly in the second half of the year which, coupled with continuing cost optimization and the favourable seasonality of marketing results, will significantly reduce second half losses.
- In terms of leverage, we confirm our guidance of reducing year-end gearing below that reported at the end of last year.

Looking forward, our strategy remains unchanged. We will continue to invest for growth in the long-term interests of our shareholders, while maintaining a firm financial discipline, a strong balance sheet and our dividend policy.

Our solid long term prospects and the good overall results expected for this year support our proposal of an interim dividend of €0.52 a share, with a 4% increase on the 2010 interim dividend.

We will now be pleased to answer your questions.