

# Eni 2007 First Quarter Results

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Good afternoon Ladies and Gentlemen, and welcome to our first quarter results presentation.

## Market Environment

Let start with the scenario.

The market environment was mixed.

Oil prices continued to decline from the record level reached in the third quarter of 2006 and averaged 58\$ per barrel in the first quarter, 6.5% lower than a year ago.

By contrast, our refining margin indicator averaged 3\$ per barrel and was 4% higher than in the first quarter of 2006. It is worth saying that the margins realized by our own refineries showed a better trend than the benchmark mainly as a result of lower maintenance activity.

Finally, the euro appreciated by 9% versus the US dollar year on year.

## Consolidated Results: Net Profit

*As usual, I would like to remind you that Eni's results are affected by several issues, including the seasonal factor affecting the demand for natural gas and petroleum products used for residential heating, the demand for which is highest in the first quarter of the year, the coldest months, and lowest in the third quarter, the warmest months. Therefore, Eni's operating profit and change in net debt in the first quarter cannot be extrapolated for the full year.*

*Having said this, let us now comment on the financials*

In the first quarter, adjusted net profit amounted to 2.7 billion euro down around 9% if compared to the same period of 2006.

This trend is a result of the lower operating profit (-0.3 billion euro) and the higher financial expenses related to the mark to market valuation of derivatives.

Despite the increased tax rate in UK and Algeria, the adjusted tax rate amounted to 46.7% substantially flat year on year thanks to the strong results achieved in the G&P division.

## Consolidated Results: Operating Profit

Adjusted operating profit decreased by 5% compared to the first quarter of 2006, totalling 5.3 billion euro. This result reflects the weaker upstream trading environment that was

partially compensated by the strong performance achieved in the other business lines, in particular Gas and Power.

Net of the negative impact of mild weather conditions, the euro appreciation versus the US dollar and the price scenario, the adjusted operating profit was up 4%.

## **E&P: Production Trend**

Turning now to our business segments.

Hydrocarbon production in the first quarter of 2007 decreased by 5.1% compared to the same period of 2006, averaging one million seven hundred and thirty four thousand barrels per day (1,734 kboe/d).

The main drivers of this trend are the impact of the termination of the Dacion field contract and the disruption in Nigeria that accounted for 90 thousand boe/d overall.

I would like to recall that the Dacion field's production was accounted for in the entire 1st Q 2006 and that the unilateral termination of the contract by PDVSA was effective 1st April 2006.

Excluding these negatives events production was flat year on year. Of course this production does not take into account the production from the newly acquired assets in Congo.

We expect production level for the full year 2007 to remain in line with that in 2006. The contribution from the assets acquired in Congo and the Gulf of Mexico and the build up of the Libyan gas project will be offset by the impact of Venezuela, the continuing disruption in Nigeria and the decline in production from mature fields.

## **E&P: Operating Profit**

The adjusted operating profit for the E&P division totalled 3.1 billion euro, decreasing by more than 26% on a like for like basis.

This decrease reflects:

- the impact of the appreciation of the euro versus the US dollar [1].
- lower hydrocarbon production sold (-9.4 million boe) [2];
- lower liquids realisations prices in US dollars partially offset by slightly higher gas prices (liquids -3%; gas +1%) [3];
- as well as higher operating costs, DD&A and exploration expenses [4].

[1] It accounted for -301 mln euro

[2] It accounted for -311 mln euro (include Dacion and Nigeria impact -135 mln euro)

[3] It accounted for -164 mln euro

[4] It accounted for -336 mln euro (opex € -68 mln; DD&A and abandonment cost € -42 mln; exploration € -218 mln)

## **G&P: Natural Gas Volume Sold**

As for the Gas & Power division, overall gas volumes sold, both consolidated and associated, declined by around 10% in the first quarter of 2007, totalling around 27 bcm (30 bcm in 1Q 06).

In particular:

- gas sales in Italy, including self consumption, decreased to 17 bcm as a result of the mild weather conditions (-1.9 bcm) this negative trend was partially offset by the higher volume sold resulting from the increased number of customer served.
- International gas sales declined by around 7%, totalling 10.3 bcm (11.1 bcm 1Q06) mainly as a result of the mild winter (-0.9); this negative impact was partially offset by the higher volume sold in the target markets.

## **G&P: Operating Profit**

Turning to the Gas & Power division's financial results, reported operating profit for the first quarter increased by around 37% to 1.6 billion euro (1.2 billion euro in 1Q06).

The first quarter result includes negligible negative special items as well as inventory losses of 40 million euro.

The adjusted operating profit amounted to 1.7 billion euro, up around 40% compared to the same period of 2006 (1.2 billion euro).

## **G&P: Ebitda Proforma Adjusted**

Let me elaborate on G&P Ebitda proforma adjusted by business segment.

Supply and Marketing showed an increase by 73% compared to the first quarter of 2006.

This strong performance was driven by:

- the more favourable treatment received under resolution 134 versus 248 [1]
- the effect of the recent resolution 79 [2] that resolved the full recovery of the provision made in 2005 and the partial recovery of the provision made in first half of 2006 according to the 248 resolution;
- the favourable comparison versus the first quarter of 2006 which was negatively affected by higher supply costs related to the gas shortage of the 2005/2006 winter [3] .

Furthermore, the result benefited from the strengthen of the euro versus the US dollars [4].

These positive effects were partially offset by lower gas volumes sold Italy and abroad, due to the mild winter [5].

Moving to the other business segments

The Regulated ebitda proforma adjusted amounted to 412 million euro down 14% versus the first quarter of 2006. The decline is due to the lower volume distributed and transported as a result of the mild winter [6].

Powergen and International transportation showed a result in line with 2006. With reference to the powergen, starting from this quarter, this business segment will include the tolling activity only, since marketing activities have been moved to the Supply & Marketing segment in accordance with our objective to develop a dual offer strategy.

[1] It accounted for around +110 million euro

[2] It accounted for + 136 million euro

[3] It accounted for + 157 million euro

[4] It accounted for + 100 million euro

[5] It accounted for around -200 million euro

[6] It accounted for around -70 million euro (mainly distribution for 59, SRG only 8)

### **R&M: Operating Profit**

The R&M division reported an operating loss of 10 million euro in the first quarter of 2007.

This result includes negative special items for 18 million euro related to provisions for environmental laws (17 million euro) and redundancy incentives (1 million euro). In addition, we also accounted for an inventory loss of 112 million euro.

On an adjusted basis the operating profit increased by around 35%, as a result of lower maintenance activity [1] in the Italian refineries. The result also benefited from both higher margins in dollar terms and increased throughput notwithstanding the termination of the Priolo contract at the end of 2006[2].

These positive effects were partially offset by the appreciation of the euro vs the US dollars[3] and the lower contribution from marketing activities in Italy [4] mainly as a result of lower retail margin on gasoline and weaker gas-oil consumption due to mild weather conditions.

[1] It accounted for +35 million

[2] It accounted for +61 million euro (+48 throughput & performance; +13 higher margins in US\$)

[3] It accounted for -27 million euro

[4] It accounted for -36 million euro

### **Other Businesses: Adjusted Operating Profit**

As far as Eni's other businesses are concerned, in the first quarter of 2007 the Petrochemicals division (Polimeri Europa) posted an adjusted operating profit of 122 million euro. This increase versus the same period of 2006 was mainly due to the higher base chemical margins.

The adjusted operating profit of the Oilfield services & Engineering business totalled 176 million euro, up 126% versus the same period of last year. This achievement was attributable to higher results in onshore construction as well as the higher contribution from offshore drilling and construction activities.

Other Activities and corporate accounted for an overall operating loss of 85 million euro slightly below the loss accounted for in the first quarter of 2006 (109 million euro).

## **Sources and Uses of Cash**

During the first quarter of 2007 our businesses generated operating cash flow totalling 5.6 billion euro, that funded 2 billion euro of organic capex and a return of cash to shareholders of around 500 million euro (including SRG).

Over the same period the financial structure has strengthened and, at the end of March, the net financial debt decreased to 3.9 billion euro bringing our debt to equity ratio to 0.09.

Let me underline that over the coming quarters we expect significant cash out related to investments, dividends and to the ongoing buy back programme. Assuming a 55 \$/boe scenario the net debt to equity ratio will be in the range of 0.3-0.4 at year end, depending on whether Gazprom exercises the options on the 20% stake in Gazprom Neft and on the 51% of the former Yukos gas assets acquired.

## **Capex**

Capex in the first quarter of 2007 amounted to 2.0 billion euro up 50% on a like for like basis. This was mainly due to higher expenditure in the upstream business (+42%; or +405 million euro) as a result of increased exploration expenses (+116% or +201 million euro) and higher development capex (+29% or +132 million euro). Engineering & Oilfield Services also showed a significant capex increase (+156%; or 151 million euro) related to the construction of new FPSO units.

For the full year 2007 we expect to invest around 10.5 billion euro on capital expenditure. In addition we will account for acquisitions of assets and interests amounting to 9.2 billion euro mainly related to the recent transactions in Russia, Gulf of Mexico, Congo and Central Eastern Europe. Assuming that Gazprom exercises its call options Eni overall investments in 2007 will decrease to 16.2 billion euro.

## **Recent Acquisitions: Strategic Rationale**

Before opening the Q&A session, I would like to provide you with a quick update on our recent acquisitions.

All acquisitions are driven by a strong industrial and strategic rationale.

In particular in E&P, the recent acquisitions represent a further step forward in our strategy of entering hydrocarbon rich regions and strengthening our presence in core producing areas.

These transactions will boost our production growth in the 06/10 period and beyond, thus placing Eni among the fastest growing companies. The expected production growth in the Plan period is now 4%.

Through these transactions, Eni added approximately 2 bn boe of resources , at an attractive cost, in countries where we can play an important role as operator and where we can add value by applying our core competencies.

In R&M, the acquisition of the retail network in the Czech Republic, Slovakia and Hungary allow us to enhance the integration with our local refining capacity and to achieve a material presence in a fast growing region.

### **New Gulf of Mexico Assets**

We recently announced an acquisition in the Gulf of Mexico.

This is an important move that will increase our presence in the area.

222 million boe of proved and probable reserves have been added and our equity production will increase from 36 to more than 110 kboe/d in the 2nd half of 2007. Furthermore, operatorship in the Gulf is strengthened. Around 60% of the overall acquired leases are operated.

In addition, we have gained access to leases with a significant exploration potential where we can add value by applying our skills in off-shore and deep off-shore.

Last but not least, the transaction is EPS and CFPS accretive from 2007.

### **Ex Yukos Assets**

And now Russia.

This is a step change deal. We enter a hydrocarbon-rich country with huge resources and high potential for the oil industry. Entering the Russian upstream sector has been a strategic target for Eni for some time.

The Yukos assets acquisition is the result of the strategic alliance signed with Gazprom last November and represents a step forward in securing significant and valuable gas resources in a key region.

The transaction is a tangible example of the competitive advantage of our integrated business model that allows us to capitalize on our strong positioning along the entire gas chain.

We have gained access to large and long lived assets that will boost our production growth in the long term. By applying our operational skills and technology we will maximize the value of those fields.

Three further transactions in Congo, Alaska and Angola represent a further important step in improving the value and quality of our upstream portfolio.

### **Other E&P Recent acquisitions**

First of all Congo. The deal allows us to add 126 mboe of 2P reserves to our current portfolio. Thanks to this acquisition, our Congolese production will increase from 67 kboe/d in 2006 to approximately 100 kboe/d in 2010.

The transaction is expected to be completed shortly. This will enable us to start booking reserves and accounting for production.

Second Alaska, where we have acquired a 70% stake and operatorship of the Nikaitchuq field. The reserves in place amount to around 70 million boe and first oil is expected to flow by the end of 2009.

Finally, last April we signed a Memorandum of Understanding with Sonangol in Angola for the acquisition of a 13.6% interest in A-LNG.

A new plant with a 5 million-ton capacity will be constructed. The LNG will be directed to the United States where Eni will acquire re-gasification capacity of 5 billion cubic meters per year in Pascagoula.

This project, which will develop over 200 billion cubic meters of gas in a period of 28 years, allows us to monetize currently untapped reserves (*100 million boe*).

### **Acquisition of Downstream Marketing Activities**

In the Refining and Marketing business we announced the acquisition of 102 retail stations in Czechia, Slovakia and Hungary, the aviation business at the Prague and Bratislava airport and the lubricant business.

The closing is expected in the third quarter of 2007 and the transaction is subject to the approval of the Anti-trust authorities.

The deal will improve the integration of its local refining capacity [1] and strengthen existing marketing business in a fast growing region reaching a market share of around 10%.

Furthermore we will enhance significantly the quality of our network. The outlets acquired have a throughput per site of 4.9 mln lt/y [2] are 95% [3] company owned, and all offer non oil products.

Finally with this transaction we strengthen our products portfolio more than doubling the lubricants sales in the area [4] and acquiring the avio business.

As far as the financial impact the deal allows us to exploit synergies and provide a double digit returns. Last but not least EPS accretive from 2007 [5].

Thank you for your attention and I am pleased to answer to any questions you may have.

[1] 16,3% share of Czech Refining Company (CRC)

[2] 2005 figure excluding the new stations starting operations during 2005

[3] 96 CODO stations on a total of 102; 60 property land.

[4] Overall 21 ktons/y

[5] CFPS accretive from 2009

## **G&P: Adjusted Operating Profit by Activities**

As usual let me elaborate on the result achieved in the G&P division that quarter after quarter is beating the expectation.

Marketing and Distribution adjusted operating profit increased by 67%. This strong performance was driven by:

- the more favourable treatment received under resolution 134 versus 248 [1];
- the outcome of the recent resolution 79 [2] that resolved the full recovery of the provision made in 2005 and the partial recovery of the provision made in first half of 2006 according to the 248 resolution;
- the circumstance that the first quarter 2006 was negatively affected by higher supply costs related to the gas emergency of the last winter [3].

Furthermore the result benefited from the strengthen of the euro versus the US dollars [4].

These positive effects were partially offset by lower gas volumes sold and distributed in Italy and abroad, due to the mild winter. [5]

Moving to the other business segments

The international transportation business posted an operating profit increase of 6%, mainly as a result of the higher volume transported throughout Greenstream.

Powergen accounted for an operating profit of 57 million euro. Starting from this quarter this business segment will account for the tolling activity only since the marketing activity has been moved to the marketing & distribution according our aim to develop a dual offer strategy.

Finally the contribution of Snam Rete Gas decreased because of the lower volume transported.

[1] It accounted for around +108 million euro

[2] It accounted for + 136 million euro

[3] It accounted for + 157 million euro

[4] It accounted for + 123 million euro

[5] It accounted for -250 million euro (of which -70 million euro related to distribution)