

fourth quarter and full year 2009 preliminary results

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Speaker:

Paolo Scaroni - CEO

Alessandro Bernini - CFO

Paolo Scaroni

Ladies and gentlemen, welcome to our 2009 preliminary results conference call.

As you may remember, at our strategy presentation in February 2009 we said that we expected difficult market conditions to continue for at least a year, and that eni was ideally placed to cope with the challenge because of the resilience of its business portfolio.

This has proved to be the case and we performed well relative to our industry.

Our E&P division's focus on core areas has enabled us to deliver the promised 27 start-ups, which will add 180 kboe/d to our production at plateau, and to achieve record production of 1.886 million boe/d in the fourth quarter.

Our G&P division has proved to be particularly resilient to the downturn, with stable volumes and an excellent operating performance.

In R&M we have seen depressed refining margins throughout the year and margins in the fourth quarter at the lowest level for decades. Our relatively small exposure and the good performance in marketing has allowed us to limit the losses.

We have continued to focus on improving efficiency in all our businesses. The cost reduction programme we launched in 2006 has delivered €1.3bn of savings to date.

Overall, we have achieved solid financial results, with over €13bn of operating profits and over €5bn of net profits in a challenging environment.

In 2009 we have also delivered several key achievements which will drive growth in the future.

In E&P, as you all well recall, we are strategically focusing on giant projects in the world's fastest-growing oil-producing areas. During 2009 we entered Iraq with Zubair, one of the world's largest oilfields. We then have agreed to develop two more giants in Venezuela: Junin 5 heavy oil and Perla wet gas that have resources in excess of 1.4 billion boe.

These two countries will be immediately accretive to production and reserves.

We have also added 1 billion boe new resources with discoveries in Angola, Ghana and Gulf of Mexico, amid a 30% reduction in exploration expenses year on year. We also strengthened our exploration portfolio in several high-potential areas by adding acreage in West Africa, Gulf of Mexico, China and Norway.

Turning to gas, we completed the restructuring of the regulated business unlocking value through integration. In recent months we have delivered on two further strategic agreements. Our long-standing relationship with Gazprom, which acquired our Gazpromneft stake earlier in the year, has enabled us to complete a deal on our long term take-or-pay contracts. Meanwhile, we have reached an agreement with the EU on the disposal of three international pipelines which will end a long running antitrust investigation without affecting our transportation rights. These two key agreements will enable us to continue to build on our leading position in the European gas market.

Sandro will now comment on the fourth quarter results

Alessandro Bernini

Thank you Paolo and good afternoon Ladies and Gentlemen.

The market environment in the fourth quarter was mixed.

On the positive side, oil prices increased by 36% compared with the fourth quarter 2008 while, **on the negative**, gas prices, particularly those prevailing on the European market, were more than 40% lower and refining margins, which averaged 1.24 dollars per barrel, were down 84% as a result of the significant overhang of industry refining capacity.

Finally, the euro showed an appreciation of 12% versus the US dollar averaging 1.478 during the quarter.

Turning to the financials, fourth quarter adjusted operating profit has been 3.7 billion euro, down 6% year-on-year. This result reflected the anticipated weak performance of the Refining & Marketing division almost entirely compensated by the better operating performance of Exploration & Production and the Gas & Power divisions.

Adjusted net profit in the fourth quarter declined by 29% to 1.4 billion euro as a result of the decrease in the operating profit, lower results reported by equity-accounted entities and an adjusted tax rate 7.8 percentage points higher than the last quarter of 2008.

This came as a result of

- the higher amount of corporate income tax due in Italy, as a consequence of the surcharge provided by the law which enacted the Treaty of friendship between Italy and Libya and
- the tax charges paid by the E&P division in Lybia, following the conclusion of last year discussions with local tax authorities.

Hydrocarbon production in the fourth quarter reached the record level of one million eight hundred and eighty six thousand boe per day (1,886 kboe/d), increasing by 1.7% compared to the same period of 2008.

This increase is due to production ramp-up and new field start-ups mainly in the Gulf of Mexico, Congo, Egypt and Nigeria as well as the reimbursement of royalties in kind in the USA and other contractual revisions totalling approximately 40 kboe/d. These positives were partially offset by the OPEC cuts, mature field declines as well as the negative impact of PSAs.

Fourth quarter adjusted operating profit of 2.8 billion euro was up 3% compared to the corresponding quarter of 2008, mainly as a result of higher hydrocarbons realizations in dollars (oil + 47%; gas -38%) and increased production sold, which was offset by the appreciation of the euro versus the US dollar.

In terms of reserves, we replaced 96% of our production but, at constant price, we delivered 109% reserve replacement ratio, maintaining the life index **above 10 years**.

These results compare well with last year's performance of 83% at constant price and confirm the solidity of our upstream portfolio.

The overall gas volumes sold in the fourth quarter of 2009, including both consolidated and associated companies, decreased by approximately 11% year on year, totalling 26.6 bcm. The decline in volumes is mainly due to the economic downturn and the increased competitive pressure in Italy.

Despite lower volumes, adjusted operating profit increased by 65% compared to the same period of 2008, as a result of the favourable trend in the quarter of the euro/dollar exchange rate, while it had negatively affected the previous year quarter results, and the good performance registered by Distrigaz.

The fourth quarter results also benefited from gains on the settlement of non-hedging commodity derivatives associated with future sales of gas and electricity at fixed prices, compared to a loss posted in the last quarter of 2008. The positive difference worth approximately 190 million euro.

Adjusted pro forma EBITDA during 2009 amounted to 4.4 billion euro, exceeding our performance in 2008, whilst in the fourth quarter was of 1,159 million euro, more than 23% up compared to last year.

As you recall, we break down our EBITDA into:

- **marketing of gas in Europe;**
- and **infrastructure-based activities**, namely Snam Rete Gas and the international transport pipelines, both of which have stable returns.

The split between these two business segments is approximately fifty-fifty.

Fourth quarter results of the **Marketing** segment increased by 73% as a result of the previously mentioned euro/dollar exchange rate and the excellent performance of Distrigaz but were adversely affected by lower volumes sold in Italy.

Furthermore, **SRG, along with Italgas and Stogit**, confirmed their resilience to the economic downturn, posting in the quarter an EBITDA of 363 million euro, in line with the preceding quarters.

Finally, the EBITDA generated by the **International Transportation** declined versus the fourth quarter of 2008 because of the reduced tax charge paid in Tunisia and recovered through revenues, preserving the margins at net income level.

In R&M, utilization rate declined to 73% in response to the negative scenario (due to a weak industrial demand of gasoil and narrow price differential between light and heavy crudes).

The fourth quarter recorded an adjusted operating loss of 196 million euro compared to an operating profit of 243 million euro in the same period of 2008, reflecting the step decline of refining margins and to a lesser extent the higher commercial margins registered in 2008 as a result of the downward trend of oil prices.

Retail volumes slightly decreased, but we were able to maintain our market share in Italy above 31%.

And finally, a quick overview of the other businesses.

In the fourth quarter of 2009, the Petrochemical business posted an adjusted operating loss of 104 million euro, mainly due to high feedstock costs.

Engineering & Construction, namely Saipem, has delivered an operating profit of 284 million euro, in line with last year thus confirming to be resilient to the economic downturn thanks to a diversified and strong backlog.

The Other Activities and Corporate showed an aggregated loss of 151 million euro versus a loss of 195 million euro in the fourth quarter of 2008.

Moving to the financial results, in 2009, operating activities generated a cash flow of 11.3 billion euro. On top of this:

the disposal of the Gazpromneft 20% stake and of marginal E&P assets

as well as

the Snam Rete Gas minority shareholder capital increase

contributed around 5.1 billion euro, bringing the overall cash generated to 16.4 billion euro.

The cash flow generated financed a total capex of 13.7 billion euro, acquisitions of 2.7 billion euro, mainly related to Distrigaz' minorities, and dividends paid in May and September, which totalled 4.5 billion euro. Other disbursements absorbed approximately 100 million euro and brought the overall cash outflow to 21.0 billion euro.

As a consequence, net financial debt at the end of December of 23 billion euro led to a debt to equity ratio of 0.46 compared to 0.38 at the end of 2008.

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

Paolo Scaroni

Thank you Sandro,

I will now take you through our outlook for 2010.

We expect the challenging market conditions we have seen in 2009 to continue this year. In this context, eni will continue to deliver solid results.

Our 2010 upstream production will be in line with 2009 in a 65 \$/bl brent scenario, assuming OPEC cuts at the same level of 2009. We expect growth to resume in the subsequent years, reinforced by access to major new fields and our successes in exploration.

In Gas & Power, we expect resilient results in our marketing business despite increasing competitive pressure and a slow recovery in European gas demand. The recent agreement with Gazprom will also help to reach this target.

The regulated business will continue to improve delivering synergies from the integration of Snam Rete Gas, Italgas and Stogit; 2010 results will not be impacted by the disposal of the TENP, Transitgas and TAG which will be finalized at the beginning of 2011.

In Refining we see continuing tough conditions ahead. Refining margins are not showing signs of recovery but we will benefit from a good performance in marketing and continuing efficiency improvements. As you know our exposure to R&M is small compared to our peer group

Consolidated capex for the group is expected to remain broadly in line with 2009 to support the development of our pipeline of projects. These projects will continue to drive eni's growth in the future – a theme which we will discuss further in our Strategy Presentation next month.

We will now be pleased to answer your questions.