Interim Update and 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.

Looking at the first half of 2012, there are three main highlights that I would like to draw your attention to; two of these are positive strategic developments, and one is a negative business trend.

First, we have made a good start on our non-core asset disposal programme - unlocking value for shareholders, reducing debt and refocusing the business.

Secondly, we have further built up the organic growth prospects of our E&P through a stream of truly exceptional exploration successes.

And third, we are facing challenging market conditions in our Italian and European businesses, with G&P, R&M and Chemicals buffeted by Euro area headwinds.

I will now take you through each of these points in a little more depth. Sandro will then present the financial performance in Q2.

Let's look at Snam and Galp.

As for Snam, the disposal process is well underway. Following the signing of the sale of 30% to CDP, we have placed a further 5% in the market crystallising value for our investors, reducing the overhang on Snam and confirming the market's appetite for this asset.

For our remaining 20%, we are talking to potential investors. Depending on the evolution of these talks and market conditions we will evaluate how best to progress on the disposal. Any transaction will take place following the closing of the CDP deal, expected in the autumn.

With regards to Galp, we have recently executed the first step of our disposal process completing the sale of 5% to Amorim Energia for €14.25/sh and exited the company's shareholder pact. We are now free to evaluate different options to extract value from our stake, with flexibility and no time constraints.

As a result of these two disposals, by next year Eni 's business portfolio will look like that of its peers, and net debt will fall by around €20bn, bringing our gearing below industry average.
As a consequence, we will adjust the way we return cash to shareholders in line with industry practices, accompanying our dividend with a recently-approved share buyback programme.

Let's now turn to the second highlight: exploration.

For many years now, we have discovered around 1bn boe of new resources a year – well in excess of our average production of about 600-700m boe a year, providing fuel for future growth.

In the first six months of this year, through our discoveries and appraisals in the Barents Sea, Egypt and West Africa, we have discovered over 400 Mboe.

And on top of that, we have an extraordinary, game changing success in Mozambique, which brings total new resources discovered by June 30th to 2.2bn boe.

This number does not include the results of the 5 th well in Mozambique , announced today, which increases gas in place to 60 TCF . Of these, 40 are to be unitized with Area 1 and 20 in structures which are fully in our Block. Following this success, we now estimate that the overall potential of the discoveries in area 4 is 70 tcf of gas in place

We have also been working on our long-term exploration prospects, securing new and promising acreage in the Norwegian and Russian Barents Sea, in the Black Sea, in East Africa and in the Far East.

Turning now to our operating performance, while in E&P we seized the benefit the rapid recovery of Libyan volumes, our Italian and European businesses faced strong economic headwinds.

In G&P, gas demand continued to fall driven by the weak economy and the competitiveness of coal and renewables in power generation. For an idea of the impact this is having, normalised demand in the first six months of the year was 5% lower in Italy and 7% lower in key European countries year-on-year, and as much as 13% and 18% lower compared to the pre-crisis first half of 2008. This has prevented European oversupply from being absorbed, and spot prices from closing the gap with oil linked prices.

In this context, we have leveraged on recent supply renegotiations to remain competitive and profitable. In the first half, our merchant business delivered a positive result even excluding one-offs, of which the main one is the Gazprom extraordinary benefit.

R&M is also suffering from unprecedented demand decline. Italian consumption of refined products was down by around 10% in the first half of the year, adding further pressure to Europe's structural refining over-capacity. We are working to offset the negative market environment through cost cuts and temporary capacity reductions, such as the partial closure of our Gela refinery.

Lastly, our chemicals unit Vesalis almost broke even in Q2 but volumes have been suffering from low demand and the rest of the year will remain challenging. In this context, we are making steady progress on our turnaround strategy, with the closure of our Porto Torres cracker benefiting Versalis results by around €20m in the first half.

Thank you for your attention. I will now hand you over to Sandro for an overview of Q2 financial results.

Alessandro Bernini

Thank you Paolo and good afternoon ladies and gentlemen.

In the second quarter of 2012, the market environment was broadly positive.

The decline in the Brent price – which averaged 108 dollars a barrel in the quarter, down 8% year-on-year – was more than offset by the 11% appreciation of the dollar versus the euro compared to one year ago.

The European refining scenario was also supportive, with an average Brent/Ural margin of 6.3$/bbl, almost a threefold increase from the second quarter of 2011 .

Turning now to our results, you should note that - following the announced divestment of Snam - the Regulated businesses in Italy have been deconsolidated from Gas&Power results and represented as discontinued operations, in accordance with the applicable reporting standards. Consequently, margins generated by transactions between Snam and eni group companies are considered as a part of the Ebit adjusted and net income adjusted from continuing operations, whilst margins generated by transaction between Snam and third parties have been classified as discontinuing operation. The same reporting standard has been applied also to Q2 2011 results in order to facilitate the year-on-year comparison.

In the second quarter of 2012 adjusted operating profit from continuing operations was €4.24 billion, up 14.2% from the second quarter 2011. This result reflected a better operating performance by the Exploration & Production division due to the ongoing production recovery in Libya and organic growth.

In spite of continuing demand weakness and rising competitive pressure, the Merchant business of the Gas & Power Division reported operating losses in line with the second quarter of 2011 leveraging on an improved cost position due to the benefits of renegotiated supply contracts. On a similar note, Refining & Marketing and Chemicals reported stable losses in the face of a deteriorating trading environment.

Adjusted net profit from continuing operations was €1.38 billion, in line with a year ago. The better operating performance was offset by a higher consolidated tax rate from continuing operations (up approximately 4 percentage points). This was mainly due to the increased contribution of E&P, which has a higher-than-average tax rate.

Looking more closely at E&P, in the second quarter of 2012 Eni grew liquids and gas production by 10.6% to 1,647 kboe/d.

This performance was mainly driven by the ongoing recovery in Libyan production and the start-ups and ramp-ups of new fields in Russia, Australia, and Egypt. These positives were partly offset by the shutdown of the Elgin/Franklin field, the increase in bunkering in Nigeria and mature field declines.

In the second quarter of 2012, E& P reported an adjusted operating profit of €4.23 billion, up by 10.8%, driven by increased daily production and the appreciation of the dollar versus the euro.

Turning now to G&P, in the second quarter of 2012, Eni's worldwide natural gas sales declined by 3% to 19.6 bcm.

This decrease was mainly due to weak demand and ongoing competitive pressure. In Italy, volumes sold declined 8.3% in the quarter, with the power generation segment showing a double-digit decline owing to the increasing competitiveness of coal and growing use of renewables.

International sales (excluding volumes sold to shippers) increased by around 1%, benefiting from higher sales to retail (+18 %) and stronger LNG sales in premium Far Eastern markets.

In terms of results, the G&P division - which from this quarter includes just Gas Merchant, Power and international transport - reported an adjusted operating loss of €369 million, compared to a loss of €314 million in the second quarter of 2011.

The decline is mainly attributable to the lower results of international transport after the sale of assets in the second half of 2011.

Turning now to G&P adjusted proforma Ebitda, while overall losses widened slightly, the impact was entirely attributable to asset sales in International Transport.

Marketing profitability improved from the year-earlier period, with losses narrowing by €60m to €231m owing to improved results from associates.

The Refining & Marketing business reported an adjusted operating loss of €144 million, €20m higher than in the previous period.

In Refining, margins were impacted by shrinking differentials between light and heavy crudes, as well as higher expenses for oil-fueled utilities.
The negative trading environment and volatile margins were partly offset by efficiency enhancements, the optimization of plant set-up and lower throughputs at the weakest refineries.

The overall utilization index of our refineries is in line with the second quarter of 2011.

In Marketing, results improved slightly thanks to higher margins in wholesales as compared to the lows of the second quarter of 2011. This was partly offset by lower sales volumes in the retail market due to declining fuel demand.

In the second quarter of 2012, the Chemicals Division reported an adjusted operating loss of €26m, an improvement versus the second quarter of 2011 and, more remarkably, compared to the result achieved in the first quarter, in spite of weak commodity demand but supported by a higher benchmark margin of cracking.

The Engineering & Construction business reported steady operating results at €388 million (up 2.6%). This trend reflected higher revenues and better margins on the works executed, mainly in the Engineering & Construction business unit.

Other activities and corporate showed an aggregate loss of 157 million euro versus 129 million euro in the previous year, mainly due to higher insurance costs.

Net cash generated by operating activities amounted to €4.2 billion in the quarter.

Cash outflows in the quarter include dividend payments of 2.3 billion euro, which reflect the payment of the final 2011 dividend as well as dividends paid to Snam and Saipem minorities.

Capital expenditure, including Snam, amounted to €3.3 billion and mainly relates to the continuing development of oil and gas reserves, and the upgrading of rigs and offshore vessels in Engineering & Construction. We also completed divestments for €729m, including the back-in of the Republic of Kazakhstan in Karachaganak and the disposal of Oyo in Nigeria.

The change in net debt was positively impacted by other items, including the initial re-financing of an intercompany loan due by Snam for around € 1.5 billion.

As a result, net financial debt at 30rd June 2012 was down €0.5 billion from March 31st .

Thank you for your attention.

I now will hand you over to Paolo for his final remarks.

Paolo Scaroni

Thank you Sandro. Looking forward to the rest of the year:

- In E&P, production levels will continue to suffer from two unexpected events, namely the closure of Elgin Franklin and the sharp increase in bunkering in Nigeria, which reduced Q2 entitlements by over 30kboe/d year on year. Net of these impacts we confirm previous guidance of approximately 10% production growth before price effects, with better performance offsetting the shift of expected start-ups in Angola and Algeria to the second part of the year.

- In Gas&Power, by which we now mean our gas merchant, power and and international transport businesses, we confirm previous guidance of an improvement in operating profits compared to 2011. On reported figures, much of this improvement will come from one-off items, of which the largest is the retroactive impact of the Gazprom renegotiation.

- In R&M we expect weak market conditions to continue, offsetting the benefit of increasing efficiency and operating improvements.

Looking ahead, eni is entering a new era. Our balance sheet will be transformed by divestments, securing our capacity to finance long-term projects in any market environment. We will continue to leverage on our exploration success to deliver organic production growth. And we will reward shareholders with a remuneration policy which guarantees a sustainable dividend and provides for further upside through buybacks.

Thank you for your attention. Sandro and I – plus the heads of our main business units – will now be pleased to take your questions.