

Interim update and Q2 results

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Speakers:

Paolo Scaroni - CEO

Massimo Mondazzi – CFO

Paolo Scaroni

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

In the first half of 2013, our Italian and European operations performed poorly, affected by a weak market context across the board.

Meanwhile, our upstream activities performed well but suffered from non technical production shut-ins in Libya and Nigeria.

While these issues have impacted first-half results, our underlying business has made strong strategic progress; key start-ups for 2013 – including Kashagan - are on track, we have closed major gas renegotiations and we are continuing with the restructuring of our downstream businesses.

On the corporate front, this has been an excellent first half – our disposal programme has unlocked a further €5.9bn of value, including the recently completed transaction with CNPC.

Let's take a closer look at the first half, starting from upstream.

The two key issues are Libya and Nigeria. In Libya, the security issues in Q1 and other disruptions in Q2 cost us around 20kboe/d in the first six months of the year. The situation in the country remains volatile, and we cannot exclude further disruptions in the second half. Meanwhile, in the rest of North Africa operations are only marginally affected by continuing unrest, although the ramp-up of our Algerian projects has been slower than expected.

The major concern is however Nigeria, where in the first half we lost around 30kboe/d from a combination of flooding, bunkering and sabotage. Production losses were even higher in July as a result of the LNG blockade, although this issue has now been resolved.

Turning now to the economic crisis which is impacting European and Italian operations, this continued to worsen. Gas consumption in Italy fell by 11% in Q2, driven by a near-30% decline in gas demand for power generation. Declining electricity consumption and competition from coal, renewables and hydro, mean that gas demand for power generation is now 49% lower than in Q2 2008.

With regards to refined products, in H1 2013 we saw a further 7% contraction in Italian demand, bringing the total decline since 2008 to 26% and adding further pressure to structural refining over-capacity in the Mediterranean. And in Chemicals, demand continued to be depressed, in particular in the elastomer segment which was hit by lower sales to the tyre industry.

In this tough market context, we made robust progress on our long-term objectives of growth and profitability.

In E&P, we have already achieved 6 out of the 8 key start ups we announced in our Strategy in March. Kashagan is on track and we can confirm production of at least 75 k boe/d by the end September.

All together, new projects are performing well. Start-ups and ramp ups contributed an additional 90 kboe/d to Q2 production, offsetting the impacts of the Karachaganak and Galp disposals , the disruptions in Libya and Nigeria and the heavier maintenance activities. And we expect their contribution to grow in the second half, bringing the overall additional equity production to 120 kboe/d for the full year.

With regards to our longer term prospects, exploration continues to deliver strong results; to date in 2013 we have made discoveries for almost 1 billion boe of new resources, with major oil finds in Ghana, Pakistan, Egypt, continuing success in Mozambique and – as you have seen today – Congo.

With regards to Mozambique, we are studying the results of our 10th well which looks to be a play-opener for the South of the block. In the rest of the year, we will drill promising prospects in Norway, Australia, Vietnam and the GoM.

At the same time, to fight the strong headwinds in Europe and Italy, we are taking more incisive actions in our mid and downstream activities.

In G&P, we have closed good renegotiations with our two major suppliers, Gazprom and Sonatrach. We are determined to secure further, significant, cuts to supply prices through outstanding price reviews with Gastera and Statoil.

With regards to GasTerra, we have made some progress, but we cannot exclude arbitration proceedings. With regards to Statoil, we believe that we have no alternative to arbitration and we have accordingly opened the proceeding.

In Refining and Chemicals, we are restructuring our footprint. On top of the announced closures and reconversions – such as the Priolo cracker, scheduled for this summer, and the Venice refinery, which we will shut down in September – we have announced the additional closure of gasoline and polyethylene lines at our Gela plant.

This brings the total cut in Eni's refining capacity to 5 million tonnes, and the total reduction in Eni's polyethylene capacity to 23%.

Turning now to capital allocation, we continue to make excellent progress in streamlining our asset base, unlocking value and strengthening our balance sheet.

The €5.9bn of asset sales so far this year bring total disposal benefits secured since June 2012 to over €24bn.

This has driven a substantial improvement in our financial position. Adjusting Q2 net debt for the proceeds from the Mozambique disposal, it is €13bn - less than half the €27bn we had in June 2012.

In what remains a volatile context, this strengthened balance sheet is a key pillar of our strategy to create value, investing in high-returns growth opportunities generated by exploration success.

I will now hand you over to Massimo for a review of our financial results.

Massimo Mondazzi

Thank you Paolo.

In the second quarter of 2013, the market environment was negative for all relevant parameters.

The average dated Brent price was 102,4 dollars a barrel, down 9% versus last quarter and down 5% year-on-year.

The Brent/Ural refining margin weakened to \$3.8/bbl, representing a fall of 13% versus last quarter and a fall of 40% year-on-year.

In Q2, the euro averaged \$1.31, this represented a depreciation by 1% against the US dollar versus the previous quarter and an appreciation year on year of 2%.

In the second quarter of 2013 adjusted operating profit was €1.95 billion, down 51% when excluding Snam's contribution to continuing operations in the second quarter of 2012.

The decline reflected the significant losses incurred by Engineering & Construction, due to a revision of profitability estimates on some large contracts. Excluding the Engineering & Construction impact, Eni's operating profit would have declined by 27.2%.

Adjusted net profit was €0.58 billion, down 55% when excluding Snam's contribution to continuing operations in the second quarter of 2012. The decline was due to lower operating performance and a higher group tax rate, which rose to 91.2%, or almost thirty percentage points higher than a year ago.

The increase was almost exclusively due to the absence of a tax shield for the Saipem losses with residual effects due to the higher contribution of profit before income taxes from E&P, which is subject to a larger fiscal take than the other businesses.

We now expect our full year tax rate to be around 66%. Excluding the effect of the Saipem guidance revision, this is coherent with our previous expectations of 63-64%.

Turning to E&P, in the second quarter of 2013, Eni's liquids and gas production of 1,648 kboe/d was broadly in line with the second quarter of 2012, for the reasons outlined by Paolo.

Exploration & Production reported an adjusted operating profit of €3,409 million, down by 19.6% year on year. This was driven in roughly equal parts by the worsening scenario, on the one hand, and by lower oil production, increased opex and DD&A, on the other.

And now G&P.

In the second quarter of 2013, gas sales declined by 6% to 18.4 bcm from the second quarter of 2012, or 3.4% excluding the impact of the Galp divestment. Against the backdrop of the ongoing downturn in demand and intensified competitive pressure, Eni's sales in Italy were broadly stable at 6.50 bcm, while international gas sales were down by 9% to 11.9 bcm.

In the second quarter of 2013, the Gas & Power Division reported an adjusted operating loss of €436 million, a deterioration of €35 million compared to Q2 2012.

The marketing business reported adjusted operating losses of €457m, an improvement from the €494m loss in Q2 2012. The effects of the worsening competitive environment were offset by the renegotiation of gas supply contracts with retroactive effects to the beginning of the year.

As you may recall, a number of our G&P activities are not consolidated in ebit. Income from these associates in the second quarter amounted to €56m, compared to €81m in the second quarter of 2012. This reflects the impact of the Galp disposal (-18 mln €) and reduced Union Fenosa Gas profitability from the shut-in at Damietta (-10 mln €).

In the second quarter of 2013, Refining & Marketing reported an adjusted operating loss of €174 million, increasing by €32 million or 22.5% from the second quarter of 2012.

This performance reflected lower refining margins, impacted by the narrowing price differentials between light and heavy crudes and weak demand for refined products.

The negative trading environment was partly counteracted by efficiency gains of €32 million compared to Q212; these related to reduced energy costs, plant optimizations and lower throughputs at less competitive refineries. aimed at reducing energy costs, optimization of plant set-up and lower throughputs at less competitive refineries under the current scenario.

Marketing results declined, driven by lower sales related to declining demand for fuels and mounting competitive pressures.

Versalis losses amounted to €82m, €57m worse than in Q2 last year.

You should bear in mind that in Q2 2012, Versalis benefited from a relatively favourable environment, owing to the rapid and temporary decline in feedstock costs. Overall, in the first half of the year Versalis results show an improvement of €49m, or 25%, as a result of the stronger scenario for steam crackers, efficiency gains of €14m and higher revenues from licensing activities.

The Engineering & Construction segment has been commented on previously, and the combined Other Activities and Corporate results improved by €28m to an aggregate loss of €128 million.

Net cash generated by operating activities and disposal amounted to €4.4bn. This was made up of €2.0 billion from operating activities and €2.4 billion from divestments, mainly the disposals of Snam and Galp.

Capital expenditure amounting to €2.8 billion mainly related to continuing development of oil and gas reserves and exploration projects.

Overall, investments in the first half of the year, including both technical and financial, were €6.3bn, and we confirm FY 2013 capex broadly in line with 2012.

Dividends were paid in the quarter for €2.2 billion.

As a result, net financial debt remained broadly stable compared to Q1.

Following the close of the quarter, we have received €3.5bn of cash for the sale of 20% of Mozambique Area 4. This will support an improvement in leverage at year-end 2013 compared to year-end 2012, at our scenario of 104/bbl Brent for the full-year.

I will now hand you over to Paolo for the outlook.

Paolo Scaroni

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

In E&P, technical performance, in terms of start-ups and ramp ups, is in line with our previous guidance of 3% growth at 90\$/bbl. However, Libya and Nigeria remain key uncertainties. On the assumption that Nigerian and Libyan production remains at the low levels experienced in H1, production at current oil prices will be broadly in line with last year.

For G&P, we confirm our expectation of a further significant cut in gas supply prices, although where revisions are not closed before year-end the benefits relating to 2013 will be deferred to future periods. In any case, as a result of the renegotiations we have already closed, we expect no further take or pay prepayments this year.

In R&M we expect weak market conditions to continue, largely offset by the benefits of cost cuts and capacity closures. In Versalis, results will improve, supported by the shut down of unprofitable capacity. We are determined to bring these two businesses to profit, and should the scenario prove more negative we will launch additional measures.

Looking ahead, we expect the second half to be significantly better than the first, driven by production growth from start-ups and ramp ups and more incisive actions to face the deteriorating market environment in Europe. We will continue to reward shareholders with a sustainable, progressive dividend, and will evaluate the activation of a buyback in Q3.

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