A Strategic Review of Eni S.p.A.

History, Current Strategic Issues and Recommended Solutions Moving Forward

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Overview of Presentation

- Company History
- The Current Position of Eni
- The Future of the Markets in which Eni Operate
- Strategic Issues Facing Eni in 2008
- Explanation of each Issue, and Possible Solutions
- Overview of Recommendations
- Appendices

Company History 1

Post World War Two

- Enrico Mattei is asked to dismantle Agip.
- Discovery of the Po Valley Gas Field.
- Mattei appointed manager of SNAM.
- Frantic Rate of Pipe-laying.

Formation of Eni

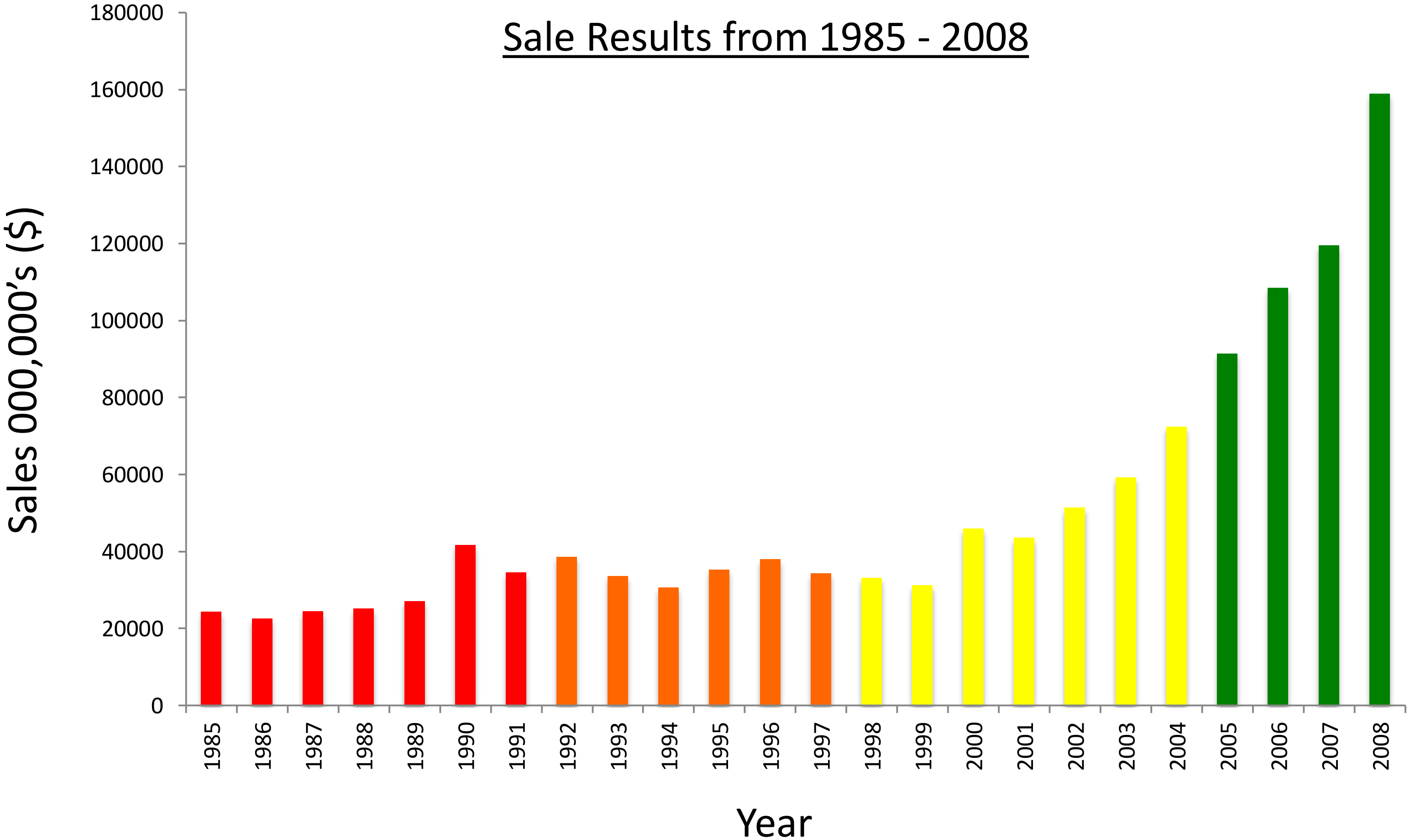
- Government merge Agip and SNAM with others to form Eni.
- Mattei, 1953-1962
- Large International Growth

Company History 2

1962 - 1992

- Government take over management; following the death of Mattei.
- Eni continued to expand its interests, however financial performance remained weak.
- 1964 saw a large increase in activities for the Oil Companies, exploration was started in the Persian Gulf and North Sea.
- 1975 - Chairman losses operating Companies.
- Profit 1988-1990

Company History 3



Company History 4

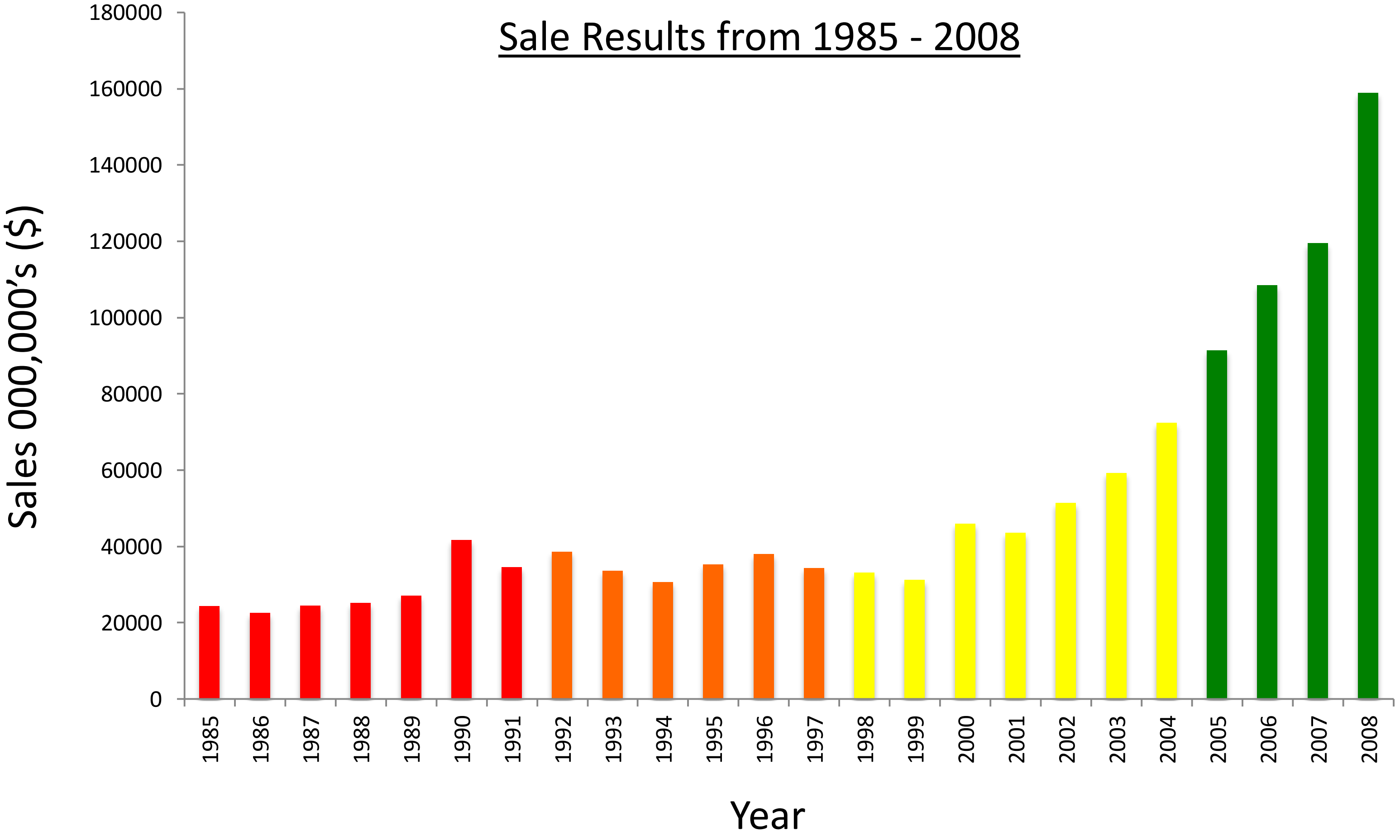
1992 - 1998

- Bernabè: Privatisation and Transformation

1998 - 2005

- From Restructuring to Growth
- Vittorio Mincato

Company History 5



Overview of Current Position

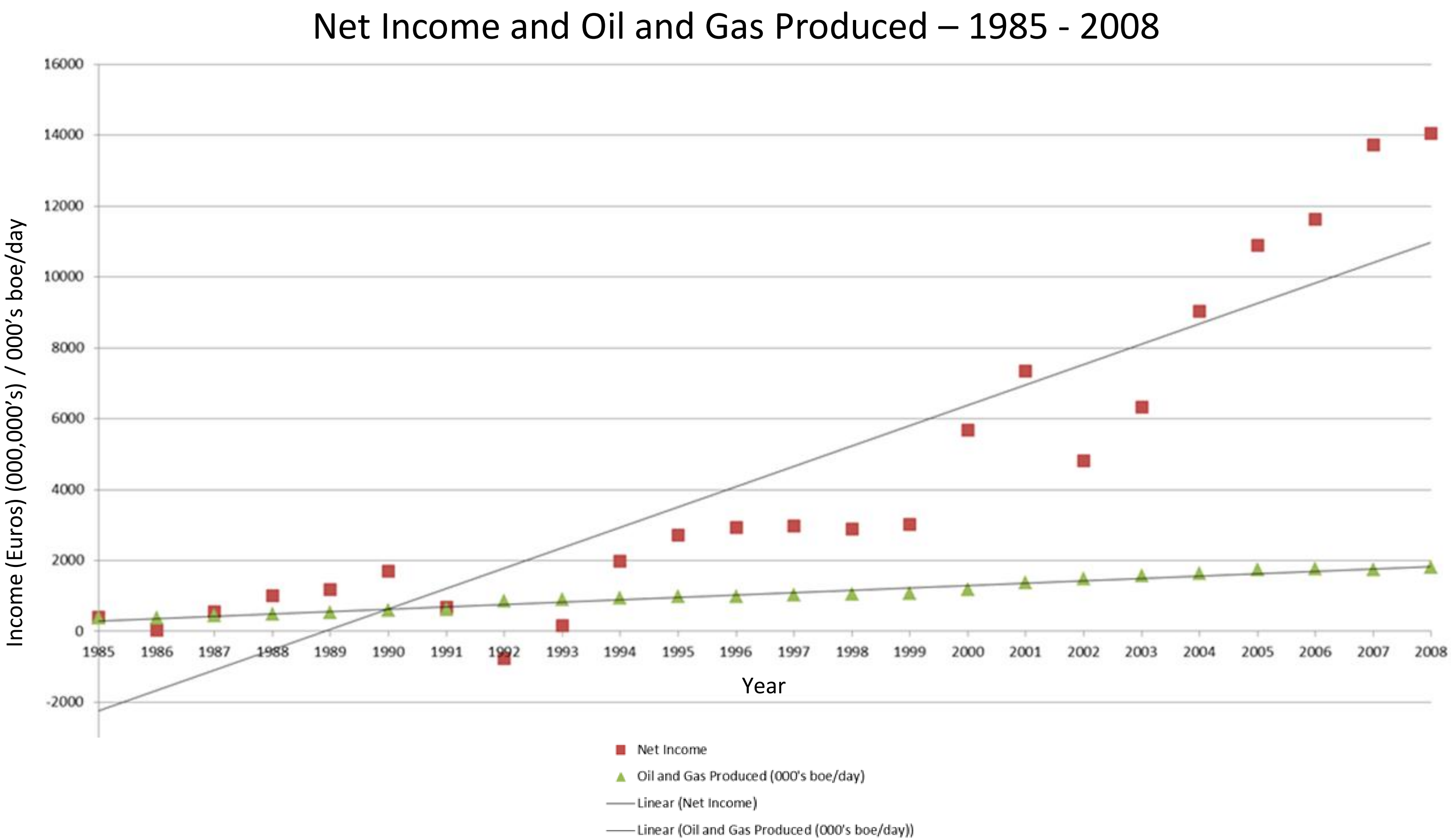
- Products and Services Sold; Eni operate in three main markets;
  - Exploration and Production (E&P)
  - Gas and Power (G&P)
  - Refinery and Marketing (R&M)

- Eni take their supply from many different countries around the world for example;
  - For oil; Libya, Angola, Egypt and Congo (amongst many others)
  - For gas; Libya, Egypt, The North Sea and Nigeria (amongst many others)

- Sell their products globally, with a large proportion of their income coming from Italy

- Performance of each main business unit (2008);
  - E&P: Revenue €33.3bn, Net Profit €8.0bn, Profit Margin 24%
  - G&P: Revenue €36.9bn, Net Profit €2.65bn, Profit Margin 7.2%
  - R&M: Revenue €45.0bn, Net Profit €510m, Profit Margin 1.1%

Overview of Current Position



Looking to the Future

Consider the future of;

- Oil
  - Increasing demand
  - Reserves only guaranteed for 10 years
  - Probable reserves for 20.5 years
- Gas
  - Demand increasing at twice the rate of oil
  - Cleaner product to produce electricity with
  - Reserves of gas could out last the reserves of oil

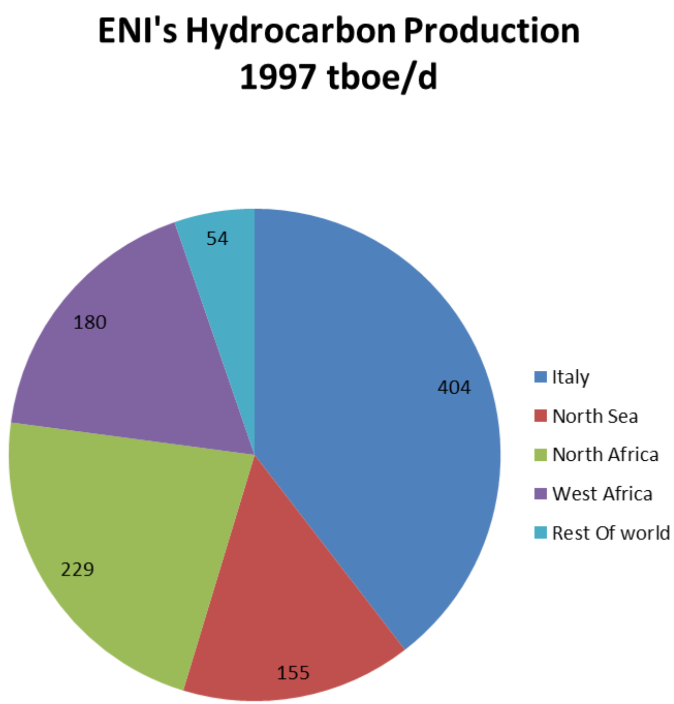
- Sustainable/Renewable Power
  - Long term solution to the worlds power demand
  - Slow but sustainable growth
  - Heavy investment over the coming years
  - Stable market

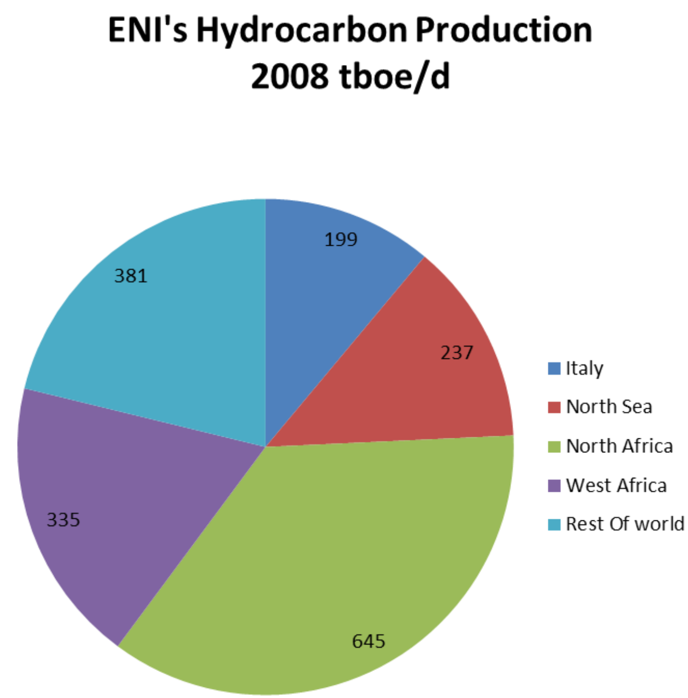
Strategic Issues Facing Eni S.p.A in 2008

1. Security of resources
2. Stagnation and decline of core markets
3. Increase in power and influence of regulators and commissions
4. Political instability
5. Volatility in oil and gas prices
6. Chemical Companies

1. Security of Resources

Eni's Hydrocarbon Production from 1997 and 2008





1. Security of Resources

Decline of Oil and the Rise of Gas

VOLUME SUMMARY		2006	2007	2008
Exploration & Production				
Estimated net proved reserves of hydrocarbons (at period end)	(mmboe)	6,436	6,370	6,600
- Liquids	(mmbbl)	3,481	3,219	3,335
- Natural gas	(bcf)	16,965	18,090	18,748
Average reserve life index	(year)	10.0	10.0	10.0
Production of hydrocarbons	(kboe/d)	1,770	1,736	1,797
- Liquids	(kbbl/d)	1,079	1,020	1,026
- Natural gas	(mmcf/d)	3,964	4,114	4,424

Solution Strategic Issue 1

- Investment in Gas E&P Activities
- Expansion of Shale Gas E&P activities
- Increase innovation adoption and production optimisation

Solution Strategic Issue 1

Vertically Integrated Gas and Power

Maximise profitability

Greater return on Investment

Strategic advantage over competitors

Greater Security

Why?

Invest in Gas E&P activities

Invest in electricity generation facilitates

Redirection of marketing activities in Europe

Linking Source to Sales

How?

2. Stagnation and Decline of Core Markets

Refining and Marketing

- 11% of assets in R&M

- Only 4.15% return on R&M assets in the last 2 years
    - Compared to Exploration and Production: 21%
    - And, Gas and Power: 32.3%

- Declines in;
    - Refinery capacity (664 in 1999 to 544 in 2008)
    - Retail outlets (12,489 in 1999 to 5956 in 2008)

- Only 6.8% of capital investment was spent on R&M

Solution Strategic Issue 2

Refining

- Sell the refinery assets held in European markets (Except Italy –stronghold; 31% market share)
- Use some of the capital raised to invest in R&M in emerging markets
- Re-distribute assets that can be transported to emerging economies (Africa, South America, India)
- Use the remaining capital to invest in Exploration and Production globally and to alleviate some long term debt
- Redistribute the capital expenditure budgeted for R&M

Marketing

- Re-purpose the marketing assets, and use to market and sell fuels that are;
  - Renewable
  - Sustainable
  - “Green”
- Move to acquire a company that specialises in this type of energy production

Solution Strategic Issue 2

Gas and Power

- Continue with heavy investment
- Expand power generation in emerging markets
- Vertical integration is key – no outsourcing like oil.

3. Increase in Power of Regulators

European Commission – Anti-Trust Charges

- ENI has been accused of fixing prices and restricting competition from accessing its pipelines
- Fines can reach billions; up to 10% of total annual revenue (2008: €108/$159 billion)
- ENI may be forced to sell part of its pipeline network
- High margins depend on controlling infrastructure. New pipelines cannot be built as demand is low
- EU tries to convince governments to enforce separation of production and transit/sales.
    - National markets become open to competition
    - Consumer prices are lowered (more oil sales)
    - Demand would increase allowing additional pipelines

3. LNG Pipeline Map

Solution Strategic Issue 3

- Keep decisive pipelines at all costs
  - e.g. TAG to Russia (→Gazprom) and Algerian pipelines
- Sell enough subordinate pipelines to lift antitrust charges
  - E.On sold part of its electricity grid
  - RWE sold part of its natural gas network
- Separation of upstream and downstream would consolidate gas utility debts

4. Political Instability

Main Area of Concern Associated with E&P Assets– North Africa

- North Africa
- Growing unrest Libya and Egypt.
- 85% of total production from North African
- 30% of total production in 2008.

Solution Strategic Issue 4

- Leverage strong relationships with governments in unstable countries to maintain some certainty/stability
- Investment in Gas E&P Activities
- Expansion of Shale Gas E&P activities

5. Volatility of Oil and Gas Prices

Causes of Volatility

- Political instability in Middle East and North Africa
- Global recession – decline in demand

Figure 1. Annual Average U.S. Crude Oil Prices

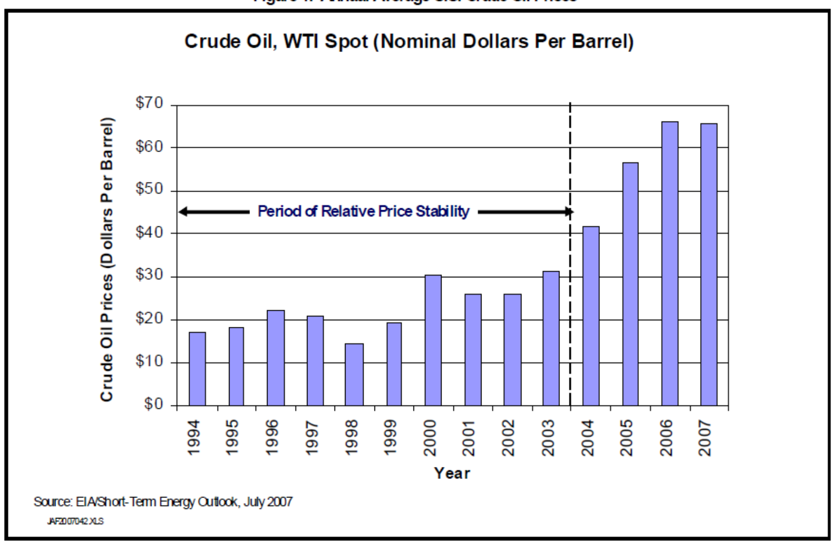
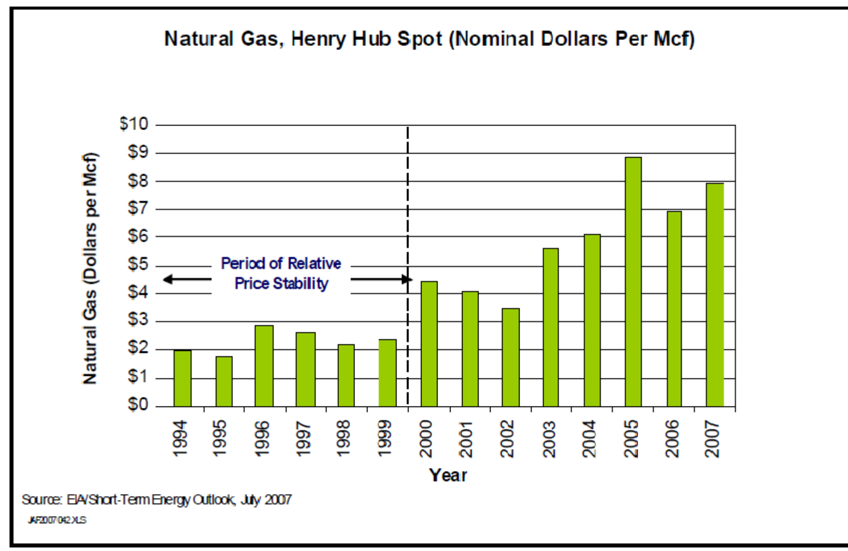


Figure 2. Annual Average U.S. Natural Gas Prices



Solution Strategic Issue 5

Long Term Strategy to Cope with Price Volatility

- Invest in substitute products that are more stable in pricing

- Invest in renewable fuel sources such as wind, tidal and biofuels because
  - More likely to acquire government funding and approval
  - By investing early, Eni can position themselves ahead of the market

6. Chemical Company

Chemical Company

- The Chemical industry of Eni is operating below industry standard
- Return on assets is currently negative

TABLE 15.8 Capital investment by business sector among the majors, 2003–7

	Average annual capital expenditure ($ million)	Exploration and production (%)	Refining and marketing (%)	Chemicals (%)	Gas and power (%)	Corporate and other (%)
Exxon Mobil	16,975	78.2	14.7	4.0	2.6[a]	0.5
Royal Dutch/Shell	16400	68.0	17.8	3.2	9.3	1.7
BP	17900	69.3	17.0	—	3.3	6.0
TotalFinaElf	12193	72.3	17.4[b]	9.9	—	0.4
Chevron Texaco	10800	77.0	17.6	1.6	—	3.8[c]
Conoco Phillips	11425	57.9	16.2	—	—	25.9[d]
Eni	9611	65.7	8.6	1.5	17.6	6.8[e]

Solution Strategic Issue 6

- Recommend selling the chemical business
- Sell to either Royal Dutch Shell or Exxon Mobile

Overview of Strategic Recommendations

1. Invest in Gas E&P, invest in Shale Gas E&P, invest in Renewables.
2. Sell refinery assets in Europe, keeping the Italian, and investing the capital raised in E&P and refinery in emerging markets. Repurpose marketing for renewables
3. Keep key pipelines, sell enough to counter anti-trust charges
4. Invest in renewables and Gas and Power
5. Invest in more price stable renewable fuel sources, ahead of the rest of the mainstream market

Summary

- Invest in upstream oil activities
- Divest downstream oil activities in Europe
- Continue growth and vertical integration of Gas and Power
- Buy into renewable and sustainable energy sources to facilitate a longer term strategy

Appendix

TABLE 15.5 Profitability differences between the majors' business segments, 2006–8 (%)

	Exploration and production		Refining and marketing		Gas and power		Chemicals		Corporate and other	
	ROA 2006–8	Share of total assets 2008	ROA 2006–8	Share of total assets 2008	ROA 2006–8	Share of total assets 2008	ROA 2006–2008	Share of total assets 2008	ROA 2006–2008	Share of assets total 2008
Exxon Mobil	28.45	46.83	13.37	25.60	n.a.	n.a.	19.47	8.84	−0.65	18.73
Royal Dutch Shell	20.40	37.70	7.38	28.51	6.03	17.41	5.32	5.46	4.47	6.86
BP	24.87	59.88	3.53	33.00	n.a.	n.a.	n.a.	n.a.	−6.16	8.36
ChevronTexaco	18.22	58.20	9.26	27.43	n.a.	n.a.	10.90	2.56	−5.55	11.81
Eni	20.99	42.53	4.15	11.22	10.82	32.30	−1.38	2.66	−29.60	0.80
Total	32.96	53.91	14.32	24.87	n.a.	n.a.	6.84	11.89	6.47	9.33
Repsol	19.07	34.27	11.22	34.40	14.97	10.23	10.09	5.68	−3.65	15.41

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Appendix

Exploration & Production

Key performance indicators		2006	2007	2008
Net sales from operations [a]	(€ million)	27,173	27,278	**33,318**
Operating profit		15,580	13,788	**16,415**
Adjusted operating profit [b]		15,763	14,051	**17,416**
Exploration & Production		15,518	13,785	**17,233**
Storage Business		245	266	**183**
Adjusted net profit		7,279	6,491	**8,008**
Capital expenditures		5,203	6,625	**9,545**
of which:				
exploration expenditures [c]		1,348	1,659	**1,918**
storage		40	145	**264**
Adjusted capital employed, net		18,590	24,643	**31,302**
Adjusted ROACE	(%)	37.5	30.0	**28.6**
Average realizations				
- Liquids	($/bbl)	60.09	67.70	**84.05**
- Natural gas	($/mmcf)	5.29	5.42	**8.01**
- Total hydrocarbons	($/boe)	48.87	53.17	**68.13**
Production [d]				
- Liquids	(kbbl/d)	1,079	1,020	**1,026**
- Natural gas	(mmcf/d)	3,964	4,114	**4,424**
- Total hydrocarbons	(kboe/d)	1,770	1,736	**1,797**
Estimated net proved reserves [d][e]				
- Liquids	(mmbbl)	3,481	3,219	**3,335**
- Natural gas	(bcf)	16,965	18,090	**18,748**
- Total hydrocarbons	(mmboe)	6,436	6,370	**6,600**
Reserve life index	(year)	10.0	10.0	**10.0**
Reserve replacement ratio of consolidated subsidiaries (SEC criteria)	(%)	38	38	**136**
Reserve replacement ratio including equity-accounted entities [e]	(%)	38	90	**135**
Employees at period end	(units)	8,336	9,334	**11,194**

(a) Before elimination of intragroup sales.
(b) From 2008, adjusted operating profit is reported for the "Exploration & Production" and "Storage" businesses, within the Exploration & Production division. Prior period data have been restated accordingly.
(c) Includes exploration bonuses.
(d) Includes Eni's share of equity-accounted entities.
(e) Includes a 30% stake of the reserves of the three equity-accounted Russian companies purchased in 2007 as part of a bid procedure for assets of bankrupt Yukos and participated by Eni with a 60% interest, considering that Gazprom exercises a call option to acquire a 51% interest in these companies so as to dilute Eni's interest to 30%. Reserves of the 20% participated OAO Gazprom Neft were also excluded considering the call option attributed to Gazprom.

Appendix

Gas & Power

Key performance indicators		2006	2007	2008
Net sales from operations [a]	(€ million)	28,368	27,633	**36,936**
Operating profit		3,802	4,127	**3,933**
Adjusted operating profit [b]		3,882	4,092	**3,541**
Marketing		2,045	2,228	**1,469**
Regulated businesses in Italy		1,365	1,419	**1,549**
International transport		472	445	**523**
Adjusted net profit		2,862	2,936	**2,650**
Adjusted pro-forma EBITDA [b]		4,896	5,077	**4,466**
Marketing		2,966	3,068	**2,310**
Regulated businesses in Italy		1,222	1,289	**1,401**
International transport		708	720	**755**
Capital expenditures		1,174	1,366	**1,794**
Adjusted capital employed, net		18,864	20,547	**21,333**
Adjusted ROACE	(%)	15.1	14.9	**12.7**
Worldwide gas sales	(bcm)	98.10	98.96	**104.23**
of which: E&P sales [c]		4.69	5.39	**6.00**
LNG sales		9.9	11.7	**12.0**
Customers in Italy	(million)	6.54	6.61	**6.63**
Gas volumes transported in Italy	(bcm)	87.99	83.28	**85.64**
Electricity sold	(TWh)	31.03	33.19	**29.93**
Employees at period end	(units)	12,074	11,582	**11,389**

(a) Before the elimination of intragroup sales.
(b) From 2008, adjusted operating profit is reported for the same businesses as EBITDA pro-forma adjusted. Results of the power generation activity are reported within the marketing business as it is ancillary to the latter.
(c) Exploration & Production sales in Europe and in the Gulf of Mexico.

Appendix

Refining & Marketing

Key performance indicators		2006	2007	2008
Net sales from operations [a]	(€ million)	38,210	36,401	**45,083**
Operating profit		319	729	**(1,023)**
Adjusted operating profit		790	329	**566**
Adjusted net profit		629	319	**510**
Capital expenditures		645	979	**965**
Adjusted capital employed, net at year end		5,766	7,149	**8,260**
Adjusted ROACE	(%)	10.7	5.0	**6.4**
Refinery throughputs on own account	(mmtonnes)	38.04	37.15	**35.84**
Conversion index	(%)	57	56	**58**
Balanced capacity of refineries	(kbbl/d)	711	748	**737**
Retail sales of petroleum products in Europe	(mmtonnes)	12.48	12.65	**12.67**
Service stations in Europe at period end	(units)	6,294	6,440	**5,956**
Average throughput per service station in Europe	(kliters)	2,470	2,486	**2,502**
Employees at year end	(units)	9,437	9,428	**8,327**

(a) Before elimination of intragroup sales.