ENI SPA
Form 6-K
April 04, 2008


# SECURITIES AND EXCHANGE COMMISSION
**Washington, D.C. 20549**

**Form 6-K**

**REPORT OF FOREIGN ISSUER**
Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934

For the month of March 2008

**Eni S.p.A.**
(Exact name of Registrant as specified in its charter)

**Piazzale Enrico Mattei 1 - 00144 Rome, Italy**
(Address of principal executive offices)

(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.)

Form 20-F x Form 40-F o

(Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2b under the Securities Exchange Act of 1934.)

Yes o No x

(If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): _______)

**Table of Contents**

## TABLE OF CONTENTS

**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, hereunto duly authorised.

Eni S.p.A.

Name: Fabrizio Cosco
Title: Corporate Secretary

Date: March 31, 2008

Table of Contents

# ENI 2007 CONSOLIDATED FINANCIAL STATEMENTS

**Net profit for the year confirmed at euro 10 billion**
**Proposed a dividend per share of euro 1.30**

*San Donato Milanese, March 14, 2008* - Eni s Board of Directors today approved Eni s 2007 consolidated financial statements, which reported net profit of euro 10,011 million[1] and draft financial statements of the parent company Eni SpA, which reported net profit of euro 6,600 million. The Board of Directors resolved to propose to the Annual Shareholders Meeting the distribution of a dividend[2] amounting to euro 1.30 per share (pay-out 47%). Taking account of an interim dividend of euro 0.60 per share paid in October 2007, a balance amounting to euro 0.70 per share (euro 1.40 per ADR[3]) will be paid on May 22, 2008 to all outstanding shares on the register at the ex-dividend date of May 19, 2008.

Eni s consolidated financial statements and the draft financial statements of the parent company were submitted to the Board of Statutory Auditors and to Eni s external auditors. Enclosed are the consolidated profit and loss account and balance sheet and the profit and loss account and balance sheet of the parent company.
The Board of Directors also approved Eni s 2007 Sustainability Report in which the Company illustrates its commitment to sustainable development in line with international best practice.

## Convening of the Annual Shareholders Meeting on April 22 and 29, 2008 to approve the 2007 financial statements

In addition to the approval of the 2007 financial statements of the parent company and of the dividend proposal, the Annual Shareholders Meeting is convened on April 22 and 29, 2008, on first and second call respectively, to approve the following:

**Financial statements of AgipFuel SpA and Praoil Oleodotti Italiani SpA:** the Board of Directors proposes the approval of 2007 financial statements of these Eni subsidiaries that were merged into the parent company, effective January 1, 2008. Reported net profit, amounting to euro 900,816 and euro 14,818,016 respectively, is proposed to be attributed to retained earnings.

**Share buy-back:** the Board of Directors intends to propose the continuation of the share buy back program for a period of 18 months after the Shareholders Meeting for a maximum amount of euro 7.4 billion, equating to 400 million shares or approximately 9.9866% of the issued share capital. Both limits will take account of treasury shares on the Shareholders Meeting date.
From the inception of the share buy-back programme to March 13, 2008, Eni has repurchased a total of 369.7 million of its own shares, equal to 9.23% of issued share capital, for a total cost of euro 6,352 million (representing an average cost of euro 17.182 per share), equal to 85.8% of the maximum of euro 7.4 billion authorized by the Annual Shareholders Meeting of May 24, 2007.

---

(1) Attributable to Eni shareholders. This result is the same as the preliminary results announced in February 2008; for details see Eni s Press Release of February 15, 2008.

(2) As a consequence of new tax laws in force from January 1, 2004, dividends are not entitled to a tax credit and, depending on the receiver, are subject to a withdrawal tax on distribution or are partially cumulated to the receiver's taxable income.

(3) On ADR payment date, JPMorgan Chase Bank, N.A. will pay the dividend less the entire amount of a withholding tax under Italian law (currently 27%) to all Depository Trust Company Participants, representing payment of Eni SpA s interim dividend.

Table of Contents

## Convening of the Shareholders   Meeting on June 9 and 10, 2008 for the renewal of the corporate bodies

The Board of Directors, with the majority of its members approving the resolution and with the consent of the Board of Statutory Auditors, convened the Shareholders   Meeting on June 9 and 10, 2008, on first and second call respectively to appoint corporate bodies, proposing to set the number of Directors to be appointed by the Shareholders Meeting at nine.

## Convening of the Noteholders   Meeting

Eni   s Board of Director also convened the Meeting of Noteholders of the Eni   s bond   Eni SpA - Euro Medium Term Notes Third Issuance   on April 21, 22 and 28, 2008, on first, second and third call respectively to appoint the joint representative of the Noteholders, and to resolve on term and emolument of his/her office.

The report on Corporate Governance is available at Eni headquarter and on Eni   s website, **www.eni.it**. This report provides information about the adoption of the corporate governance code endorsed by the Italian Stock Exchange authority (Borsa Italiana SpA) and adherence to relevant commitments.

Eni   s 2007 Annual Report is available on Eni   s website **www.eni.it**, in the section Publications, Reports.

The convening notice and the Board of Directors report on the proposals to the Shareholders   Meeting convened on April 22, 2008 will be available on Eni   s website **www.eni.it**, by March 21, 2008.

* * *

*Financial statements and information herewith set forth are extracted from 2007 consolidated annual report and the parent company   s financial statements (available only in the Italian version) which have been disseminated along with this press release. The 2007 consolidated annual report and Eni SpA financial statements include the certification rendered by management pursuant to Article 154-bis, paragraph 5 of Legislative Decree No. 58/1998, in accordance with the format set by the Italian market regulatory body (CONSOB).*

**Contacts**
**E-mail:** segreteriasocietaria.azionisti@eni.it

**Investor Relations**
**E-mail:** investor.relations@eni.it
**Tel.: +39 0252051651 - fax: +39 0252031929**

**Eni Press Office:**
**E-mail:** ufficiostampa@eni.it
**Tel.: +39 0252031287 - +39 0659822040**

**Eni**
Società per Azioni, Rome, Piazzale Enrico Mattei, 1
**Capital Stock:** euro 4,005,358,876 fully paid
Registro Imprese di Roma, c. f. 00484960588
**Tel.: +39-0659821 - Fax: +39-0659822141**

* * *

*This press release is also available on the Eni web site:* ***www.eni.it.***

*About Eni*
*Eni is one of the leading integrated energy companies in the world operating in the oil and gas, power generation, petrochemicals, engineering and construction industries. Eni is present in 70 countries and is Italy s largest company by market capitalization.*

Table of Contents

## Eni consolidated profit and loss account

| (million euro) | 2006 | 2007 | Change | % Ch. |
|---|---|---|---|---|
| Net sales from operations | 86,105 | **87,256** | 1,151 | 1.3 |
| Other income and revenues | 783 | **827** | 44 | 5.6 |
| Operating expenses | (61,140) | **(61,979)** | (839) | (1.4) |
| *of which non recurring items* | *(239)* | ***(8)*** | | |
| Depreciation, depletion, amortization and impairments | (6,421) | **(7,236)** | (815) | (12.7) |
| **Operating profit** | **19,327** | **18,868** | **(459)** | **(2.4)** |
| Finance income (expense) | 161 | **(83)** | (244) | .. |
| Net income from investments | 903 | **1,243** | 340 | 37.7 |
| **Profit before income taxes** | **20,391** | **20,028** | **(363)** | **(1.8)** |
| Income taxes | (10,568) | **(9,219)** | 1,349 | 12.8 |
| Net profit | 9,823 | **10,809** | 986 | 10.0 |
| *attributable to:* | | | | |
| - Eni | 9,217 | **10,011** | 794 | 8.6 |
| - Minority interest | 606 | **798** | 192 | 31.7 |

## Eni consolidated balance sheet

| (million euro) | Dec. 31, 2006 | Dec. 31, 2007 | Change |
|---|---|---|---|
| **Fixed assets** | | | |
| Property, plant and equipment | 44,312 | **50,137** | 5,825 |
| Other assets | 629 | **563** | (66) |
| Inventories - compulsory stock | 1,827 | **2,235** | 408 |
| Intangible assets | 3,753 | **4,333** | 580 |
| Investments accounted for using the equity method and other investments | 4,246 | **6,111** | 1,865 |
| Financing receivables and securities related to operations | 557 | **725** | 168 |
| Net payables in relation to capital expenditures | (1,090) | **(1,191)** | (101) |
| | **54,234** | **62,913** | **8,679** |
| **Net working capital** | | | |
| Inventories | 4,752 | **5,435** | 683 |
| Trade receivables | 15,230 | **15,609** | 379 |
| Trade payable | (10,528) | **(11,092)** | (564) |
| Tax payable and provision for net deferred tax liabilities | (5,396) | **(4,412)** | 984 |
| Provisions | (8,614) | **(8,486)** | 128 |
| Other current assets and liabilities: | | | |
| *Equity instruments* | | ***2,476*** | *2,476* |
| *Other* | *(641)* | ***(2,600)*** | *(1,959)* |

| | | | |
|---|---|---|---|
| | (5,197) | (3,070) | 2,127 |
| **Provisions for employee benefits** | (1,071) | (935) | 136 |
| **Net assets held for sale including related net borrowings** | | 286 | 286 |
| **CAPITAL EMPLOYED, NET** | **47,966** | **59,194** | **11,228** |
| **Shareholders' equity including minority interest** | 41,199 | 42,867 | 1,668 |
| **Net borrowings** | 6,767 | 16,327 | 9,560 |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | **47,966** | **59,194** | **11,228** |

Table of Contents

## Eni SpA [4] profit and loss account

| (million euro) | 2006 | 2007 | Change |
|---|---|---|---|
| Net sales from operations | 52,985 | **47,810** | (5,175) |
| Other income and revenues | 255 | **168** | (87) |
| Operating expenses | (49,264) | **(43,656)** | 5,608 |
| *of which non recurring items* | *(164)* | ***21*** | |
| Depreciation, depletion, amortization and impairments | (829) | **(863)** | (34) |
| **Operating profit** | **3,147** | **3,459** | **312** |
| Finance income (expense) | 98 | **(1,387)** | (1,485) |
| Net income from investments | 3,785 | **4,953** | 1,168 |
| **Profit before income taxes** | **7,030** | **7,025** | **(5)** |
| Income taxes | (1,164) | **(425)** | 739 |
| **Net profit** | **5,866** | **6,600** | **734** |

## Eni SpA balance sheet

| (million euro) | Dec. 31, 2006 | Dec. 31, 2007 | Change |
|---|---|---|---|
| **Fixed assets** | | | |
| Property, plant and equipment | 5,507 | **5,748** | 241 |
| Compulsory stock | 1,701 | **2,109** | 408 |
| Intangible assets | 948 | **1,019** | 71 |
| Investments accounted for using the equity method and other investments | 20,897 | **23,545** | 2,648 |
| Financing receivables and securities related to operations | 6,662 | **7,985** | 1,323 |
| Net payables in relation to capital expenditures | (313) | **(240)** | 73 |
| | **35,402** | **40,166** | **4,764** |
| **Net working capital** | **(128)** | **(667)** | **(539)** |
| **Provisions for employee benefits** | **(310)** | **(288)** | **22** |
| **CAPITAL EMPLOYED, NET** | **34,964** | **39,211** | **4,247** |
| **Shareholders' equity** | **26,935** | **28,926** | **1,991** |
| **Merger surplus** | **588** | | |
| **Net borrowings** | **7,441** | **10,285** | **2,844** |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | **34,964** | **39,211** | **4,247** |

(4) Following the merger of the wholly-owned subsidiaries Enifin SpA and Eni Portugal Investment SpA into Eni SpA effective since January 1, 2006, 2006 results have been restated in order to allow a homogeneous comparison among periods. All amounts deriving from inter-company transactions involving Eni SpA and the mentioned subsidiaries have been eliminated.

- 4 -

**Table of Contents**
**Contents**

**Table of Contents**
**Contents**

MISSION

We are a major integrated energy company, committed to growth in the activities of finding, producing, transporting, transforming and marketing oil and gas. Eni men and women have a passion for challenges, continuous improvement, excellence and particularly value people, the environment and integrity.

**Countries of activity**

EUROPE
Austria, Belgium, Croatia, Czech Republic, Denmark, Faroe Islands, France, Germany, Greece, Hungary, Ireland, Italy, Luxembourg, Malta, the Netherlands, Norway, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, Switzerland, Turkey, the United Kingdom

CIS
Azerbaijan, Georgia, Kazakhstan, Russia, Turkmenistan

AFRICA
Algeria, Angola, Cameroon, Congo, Côte d Ivoire, Egypt, Gabon, Libya, Mali, Morocco, Mozambique, Nigeria, Tunisia

MIDDLE EAST
Iran, Kuwait, Oman, Qatar, Saudi Arabia, the United Arab Emirates

CENTRAL ASIA
India, Pakistan

SOUTH EAST ASIA AND OCEANIA
Australia, China, East Timor, Indonesia, Malaysia, Papua-New Guinea, Singapore, Thailand

AMERICAS
Argentina, Brazil, Canada, Dominican Republic, Ecuador, Mexico, Peru, Trinidad & Tobago, the United States, Venezuela

**Table of Contents**
**Contents**

Ordinary Shareholders Meeting of April 22 and 29, 2008

This notice convening the meeting was published on the
Gazzetta Ufficiale of the Republic of Italy
No. 34, section II of March 20, 2008

This annual report includes the report of Eni s Board of Directors and Eni s consolidated financial statements for the year ended December 31, 2007, which have been prepared under the International Financial Reporting Standards (IFRS), as adopted by the European Union.

*Disclaimer*
*This annual report contains certain forward-looking statements in particular under the section Outlook regarding capital expenditure, development and management of oil and gas resources, dividends, share repurchases, allocation of future cash flow from operations, future operating performance, gearing, targets of production and sale growth, new markets, and the progress and timing of projects. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that will or may occur in the future. Actual results may differ from those expressed in such statements, depending on a variety of factors, including the timing of bringing new fields on stream; management s ability in carrying out industrial plans and in succeeding in commercial transactions; future levels of industry product supply; demand and pricing; operational problems; general economic conditions; political stability and economic growth in relevant areas of the world; changes in laws and governmental regulations; development and use of new technology; changes in public expectations and other changes in business conditions; the actions of competitors and other factors discussed elsewhere in this document.*

**Table of Contents**



*Eni means the parent company Eni SpA and its consolidated subsidiaries*

**Results**
Eni reported net profit of euro 10 billion for the full year 2007, up 8.6% from a year earlier. On an adjusted basis, net profit amounted to euro 9.5 billion, down 9%, driven by lower operating performance in the upstream and downstream oil businesses, partly offset by better results in the Engineering & Construction and Gas & Power divisions.

**Dividend**
Based on 2007 earnings and cash flow, coupled with a sound financial structure, a dividend of euro 1.30 per share will be distributed to shareholders (euro 1.25 per share in 2006, up 4%) confirming management commitment to return to shareholders a dividend flow among the most attractive in the industry. Included in this annual payment is euro 0.60 per share which was distributed as interim dividend in October 2007. The balance of euro 0.70 per share is payable on May 22, 2008 to shareholders on the register on May 19, 2008. Pay-out stands at 47%.

**Oil and natural gas production**
Oil and natural gas production for the year averaged 1.736 mmboe/d, down by 1.9% compared with 2006. Management plans to achieve strong production growth over the medium-term and leveraging on its portfolio of capital projects and the integration of acquired assets.
The company targets a production level of more than 2.05 million boe/d by 2011, with an yearly average growth rate of 4.5% under Eni s assumptions for Brent prices of 55 $/barrel.

**Proved oil and natural gas reserves**
Estimated net proved reserves at December 31, 2007 amounted to 6.37 bboe determined under a Brent price of 96 $/barrel. Eni s estimated proved reserves comprised 30% of proved reserves of the three equity accounted Russian gas companies purchased as part of a bid procedure for assets of bankrupt Yukos and participated by Eni with a 60% interest, considering that it is probable that Gazprom will exercise a call option to acquire a 51% interest in these companies. The all sources reserve replacement ratio was 90% and the average reserve life index was 10 years. In the medium term Eni targets a reserve replacement ratio higher than 100% based on Eni s assumptions for Brent prices.

**Natural gas sales**
Natural gas sales were up approximately 0.9% to

Production performance was impacted by mature field declines, price impacts in certain PSAs, disruptions and unplanned events in Nigeria, the North Sea and Venezuela. Partially offsetting these effects was the benefit of the acquired assets in the Gulf of Mexico and Congo as well as the organic growth achieved in Libya, Egypt and Kazakhstan.

98.96 bcm driven by the organic growth achieved in international markets, partially offset by the lower European gas demand registered in the first quarter of 2007 due to unusually mild winter weather. In the medium term, Eni expects to target more than 110 bcm leveraging on international sales growth, which are planned to increase at a 9% yearly average growth rate in the four-year period 2008-2011.

**Portfolio developments**

In 2007, Eni executed a number of competitively-priced acquisitions of assets and investments and signed certain major deals in core areas.

Made important transactions to acquire oil and gas assets in the Gulf of Mexico and in Congo onshore with total expenditures amounting to euro 4.52 billion. In 2008 these assets are expected to produce approximately 100 kboe/d under Eni scenario.

As part of the strategic alliance with Gazprom, Eni in partnership with Enel (60% Eni, 40% Enel) was awarded a bid for the acquisition of Lot 2 of ex-Yukos assets including a 100% interest in the three companies OAO Arctic Gas Company, ZAO Urengoil Inc, OAO Neftegaztechnologia which are engaged in exploration and development of large predominantly gas reserves. Acquired assets allow Eni to access to 2.5 bboe of resources net to Eni according to a participating interest of 30%, considering that Gazprom retains a call option to purchase a 51% interest in those three gas companies. Through the same transaction Eni has also purchased 20% of OAO Gazprom Neft. The cash consideration for these transactions amounted to euro 3.73 billion net to Eni.

Announced in November 2007 the terms of recommended cash offer to acquire the entire issued share capital of the UK-based oil company Burren Energy plc. Total cash consideration is expected to amount to approximately euro 2.4 billion. Burren holds producing assets in Congo and Turkmenistan flowing at a rate of over 25 kboe/d and partners Eni in the Congolese assets that Eni bought from Maurel & Prom. The deal closed in January 2008.

Signed a major petroleum agreement with NOC, the Libyan National Oil Corporation. The agreement provides for the extension of the duration of Eni s

Acquired a 13.6% stake in Angola LNG Ltd Consortium responsible for the construction of an LNG plant. It will be designed with a capacity to process one bcf/d of natural gas and produce 5.2 mmtonnes a year of LNG and related products.

Signed a framework agreement with Gazprom to build the South Stream pipeline system which is expected to import to Europe volumes of natural gas produced in Russia across the Black Sea.

**Exploratory program**

In 2007, Eni invested euro 1,659 million in executing its exploratory program, up 23% from 2006. Activity for the year led to the completion of 81 exploratory wells (43.5 net to Eni) with a commercial rate of success of 40% (38% net to Eni). A further 28 wells were in progress as of the year end. The main discoveries were achieved in Angola, Brazil, Congo, Egypt, Indonesia, Nigeria, Norway, Pakistan, the United Kingdom, the Gulf of Mexico and Alaska.

Eni s exploratory portfolio has been strengthened by acquiring new acreage in the Gulf of Mexico, onshore Congo and Alaska, in line with Eni s strategy of focusing on core areas. The new acquired acreage extends for 26,000 square kilometers (net to Eni, 95% operated).

**Kazakhstan - Agreement for the development project of the Kashagan oilfield**

On January 14, 2008, all parties to the North Caspian Sea Production Sharing Agreement (NCSPSA) consortium and the Kazakh authorities signed a memorandum of understanding to settle a dispute commenced in August 2007 regarding conditions and rights for developing and exploiting the Kashagan field. The agreement establishes a renewed economic equilibrium of the contract in consideration of changed market conditions and provides stability for the project execution which will continue to play a fundamental role in Eni s future.

**Venezuela: Settlement of the dispute on the Dación field and Orinoco project**

On February 15, 2008 Eni and the Venezuelan mineral rights in Libya and the launch of large projects aiming at monetizing substantial gas reserves and overhauling offshore exploration activities.

Signed a gas sale agreement between the Consortium conducting operations at the Karachaganak field (Eni is co-operator with a 32.5% stake) and KazRosGaz, a joint venture established by the Kazakh and Russian companies KazMunaiGaz and Gazprom. This agreement lays the foundations for the development of gas reserves of the field.

authorities reached a final settlement over the dispute regarding the expropriation of the Dación field. Under the terms of the settlement, Eni will receive a cash compensation in line with the carrying value of the expropriated asset.

On February 29, 2008 Eni and the Venezuelan State oil company PDVSA signed a strategic agreement for the development of the Junin Block 5 located in the Orinoco oil belt. This block covering a gross acreage of 670 square kilometers holds a resource potential estimated to be in excess of 2.5 bboe of heavy oil. Eni intends to maximize the value of the heavy oil using the Eni Slurry Technology (EST).

Contents



# STATISTIC RECAP

| Financial highlights | | 2005 | 2006 | 2007 |
|---|---|---|---|---|
| (million euro) | | | | |
| Net sales from operations | | 73,728 | 86,105 | **87,256** |
| Operating profit | | 16,827 | 19,327 | **18,868** |
| Adjusted operating profit [(a)] | | 17,558 | 20,490 | **18,986** |
| Net profit [(b)] | | 8,788 | 9,217 | **10,011** |
| Adjusted net profit [(a)] [(b)] | | 9,251 | 10,412 | **9,470** |
| Net cash provided by operating activities | | 14,936 | 17,001 | **15,517** |
| Capital expenditures | | 7,414 | 7,833 | **10,593** |
| Dividends pertaining to the year [(c)] | | 4,086 | 4,594 | **4,750** |
| Cash dividends | | 5,070 | 4,610 | **4,583** |
| Cost of purchased own shares | | 1,034 | 1,241 | **680** |
| Research and development costs | | 204 | 222 | **208** |
| Total assets at year end | | 83,850 | 88,312 | **101,560** |
| Debts and bonds at year end | | 12,998 | 11,699 | **19,830** |
| Shareholders' equity including minority interest at year end | | 39,217 | 41,199 | **42,867** |
| Net borrowings at year end | | 10,475 | 6,767 | **16,327** |
| Net capital employed at year end | | 49,692 | 47,966 | **59,194** |
| Share price at year end | (euro) | 23.43 | 25.48 | **25.05** |
| Number of shares outstanding at year end | (million) | 3,727.3 | 3,680.4 | **3,656.8** |
| Market capitalization [(d)] | (billion euro) | 87.3 | 93.8 | **91.6** |

(a) For a detailed explanation of adjusted operating and net profit see page 68.
(b) Profit attributable to Eni shareholders.
(c) Amounts due on the payment of the balance of 2007 dividend are estimated.
(d) Number of outstanding shares by reference price at period end.

| Summary financial data | | 2005 | 2006 | 2007 |
|---|---|---|---|---|
| Net profit | | | | |
| *- per ordinary share* [(a)] | (euro) | 2.34 | 2.49 | **2.73** |
| *- per ADR* [(a)] [(b)] | (USD) | 5.81 | 6.26 | **7.49** |
| Adjusted net profit | | | | |
| *- per ordinary share* [(a)] | (euro) | 2.46 | 2.81 | **2.58** |
| *- per ADR* [(a)] [(b)] | (USD) | 6.12 | 7.07 | **7.07** |
| Return On Average Capital Employed (ROACE) | | | | |
| - reported | (%) | 19.5 | 20.3 | **20.5** |
| - adjusted | (%) | 20.5 | 22.7 | **19.3** |
| Leverage | | 0.27 | 0.16 | **0.38** |
| Dividend pertaining to the year | (euro per share) | 1.10 | 1.25 | **1.30** |
| Pay-out [(c)] | (%) | 46 | 50 | **47** |
| Total Shareholder Return (TSR) | (%) | 35.3 | 14.8 | **3.2** |
| Dividend yield [(d)] | (%) | 4.7 | 5.0 | **5.3** |

(a) Fully diluted. Ratio of net profit and average number of shares outstanding in the year.
Dollar amounts are converted on the basis of the average EUR/USD exchange rate quoted by the ECB for the periods presented.
(b) One American Depository Receipt (ADR) is equal to two Eni ordinary shares.
(c) 2007 pay-out ratio is estimated with reference to the amounts due on the payment of the dividend balance of 2007.
(d) Ratio of dividend for the period and average price of Eni shares in December.

| **Key market indicators** | | 2005 | 2006 | **2007** |
|---|---|---|---|---|
| Average price of Brent dated crude oil [a] | | 54.38 | 65.14 | **72.52** |
| Average EUR/USD exchange rate [b] | | 1.244 | 1.256 | **1.371** |
| Average price in euro of Brent dated crude oil | | 43.71 | 51.86 | **52.90** |
| Average European refining margin [c] | | 5.78 | 3.79 | **4.52** |
| Average European refining margin in euro | | 4.65 | 3.02 | **3.30** |
| Euribor - three-month euro rate | (%) | 2.2 | 3.1 | **4.3** |
| Libor - three-month dollar rate | (%) | 3.5 | 5.2 | **5.3** |

(a) In USD per barrel. Source: Platt's Oilgram.
(b) Source: ECB.
(c) In USD per barrel FOB Mediterranean Brent dated crude oil. Source: Eni calculations based on Platt's Oilgram data.

Contents



| Summary operating data | | 2005 | 2006 | **2007** |
|---|---|---|---|---|
| **Exploration & Production** | | | | |
| Estimated net proved reserves of hydrocarbons (at period end) | (mmboe) | 6,837 | 6,436 | **6,370** |
| - Liquids | (mmbbl) | 3,773 | 3,481 | **3,219** |
| - Natural gas | (bcf) | 17,591 | 16,965 | **18,090** |
| Average reserve life index | (year) | 10.8 | 10.0 | **10.0** |
| Production of hydrocarbons | (kboe/d) | 1,737 | 1,770 | **1,736** |
| - Liquids | (kbbl/d) | 1,111 | 1,079 | **1,020** |
| - Natural gas | (mmcf/d) | 3,595 | 3,964 | **4,144** |
| **Gas & Power** | | | | |
| Worldwide gas sales | (bcm) | 94.21 | 98.10 | **98.96** |
| - of which E&P sales [(a)] | (bcm) | 4.51 | 4.69 | **5.39** |
| LNG sales | (bcm) | 7.0 | 9.9 | **11.7** |
| Customers in Italy | (million) | 6.02 | 6.54 | **6.61** |
| Gas volumes transported in Italy | (bcm) | 85.10 | 87.99 | **83.28** |
| Electricity sold | (TWh) | 27.56 | 31.03 | **33.19** |
| **Refining & Marketing** | | | | |
| Refining throughputs on own account | (mm tonnes) | 38.79 | 38.04 | **37.15** |
| Conversion index | (%) | 56 | 57 | **56** |
| Refining throughputs of wholly-owned refineries | (mm tonnes) | 27.34 | 27.17 | **27.79** |
| Balanced capacity of wholly-owned refineries | (kbbl/d) | 524 | 534 | **544** |
| Retail sales of petroleum products in Europe | (mm tonnes) | 12.42 | 12.48 | **12.65** |
| Service stations in Europe at period end | (units) | 6,282 | 6,294 | **6,441** |
| Average throughput of service stations in Europe | (kliters) | 2,479 | 2,470 | **2,486** |
| **Petrochemicals** | | | | |
| Production | (ktonnes) | 7,282 | 7,072 | **8,795** |
| Sales of petrochemical products | (ktonnes) | 5,376 | 5,276 | **5,513** |
| Average plant utilization rate | (%) | 78.4 | 76.4 | **80.6** |
| **Engineering & Construction** | | | | |
| Orders acquired | (million euro) | 8,395 | 11,172 | **12,011** |
| Order backlog at period end | (million euro) | 10,122 | 13,191 | **15,390** |
| **Employees at period end** | (units) | 72,258 | 73,572 | **75,862** |

(a) E&P sales include volumes marketed by the Exploration and Production division in Europe for 3.59 bcm and in the Gulf of Mexico for 1.8 bcm for the full year 2007 (4.07 and 0.62 bcm for the full year 2006 respectively). It also includes volumes marketed in Europe for 4.51 bcm for the full year 2005.

**Contents**



# THE ENI SHARE

## Eni s Board of Directors

| Roberto Poli | Paolo Scaroni |
|---|---|
| *Chairman* | *CEO and General Manager* |

# To our Shareholders

2007 was another good year for Eni, in which we delivered excellent financial and operational results. In accordance with our strategy and objectives, we pursued projects that will enable us to achieve sector-leading growth and value creation. We completed a number of strategic and competitively-priced acquisitions and closed major agreements in our core areas, strengthening our position in key markets. We delivered solid results and distributed a total of euro 5.3 billion to our shareholders through dividends and share buy-backs.

## Financial performance

Eni s 2007 net profit was euro 10 billion. Adjusted net profit was euro 9.5 billion, a decrease of 9% compared to 2006 due to the significant appreciation of the euro against the US dollar (up 9.2%). Return on average capital employed was 19.3%.
Net cash generated from operating activities of euro 15.5 billion enabled us to finance euro 20.5 billion of investments. Of this, euro 10.6 billion was dedicated to organic growth projects, including exploration, and euro 9.9 billion to acquisitions. Our net debt to equity ratio was 0.38 at year end.
The results achieved in 2007 enable us to propose a dividend of euro 1.30 per share to our Annual General Shareholders Meeting, of which euro 0.60 was paid as an interim dividend in October 2007. This represents an increase of 4% compared to 2006 (euro 1.25 per share), confirming the Company s policy of distributing

## Sustaining growth and shareholder returns

Growth is at the centre of our strategy. We will achieve our short and long term growth targets through the development of our portfolio of assets, including those acquired in 2007, and by strengthening our leadership role in the European gas market.
Over the next four years, we will invest euro 49.8 billion, up 15% compared to our previous plan. More than two thirds of the increase refers to new capital projects which will drive the company's short and long-term growth strategy. The projected free cash flow in 2011 will allow us to sustain the current level of dividends in real terms, even with a Brent scenario lower than 40 $/bl.

The **Exploration & Production** division delivered a cash flow from operations of euro 11.6 billion confirming the record level of 2006, despite the euro s appreciation versus the US dollar, cost pressures and the adverse impact of disruptions and contingencies on production.
In 2007, the division s adjusted net profit was euro 6.5 billion, down 10.8% compared to 2006. Oil and gas production totalled 1,736 kboe/day, down 1.9% from 2006 with a price scenario of 72.5 $/bl (11% higher than 2006). At our forecast oil price of 55 $/bl, production would have been in line with 2006.
Our key priority in the E&P division remains the maximization of returns through production growth in the medium and long term, in the context of higher oil prices.

generous dividend flows to its shareholders.

Leveraging on the high quality of our portfolio and the integration of purchased assets, we target an average annual production increase of 4.5% in the 2008-2011 period and forecast an annual growth rate of

| | | | |
|---|---|---|---|
| Alberto Clô | Renzo Costi | Dario Fruscio | Marco Pinto |
| *Director* | *Director* | *Director* | *Director* |

approximately 3% in 2012-2014. In 2008, production will exceed 1.8 million boe/d, whilst in 2011 it will exceed 2.05 million boe/day based on Eni's 55 $/bl Brent scenario.
In 2007, we added 5.1 billion barrels to our hydrocarbon resource base of 28 billion barrels through focused acquisitions and successful exploration. These resources will enable us to deliver our ambitious long-term production growth targets.

In 2007 we also reached an agreement on the key Kashagan project which reflects the evolution in market conditions and increases the project s stability. The original PSA contract remains unchanged, ensuring the value of the project remains very satisfactory for Eni.

We are progressing with the global expansion of our LNG business, which will enable us to monetize our substantial gas reserves. In 2007 we acquired a 13.6% stake in the Angola LNG Ltd Consortium, which is building an LNG plant with an annual capacity of 5.2 million tonnes. New LNG projects will increase liquefaction capacity to 11.3 billion cubic meters in 2011 and 18.8 billion cubic meters in 2014. LNG sales will grow from 11.7 billion cubic meters in 2007 to 14.5 in 2011, and will reach 25.8 in 2014.

In the **Gas & Power** division, we achieved excellent operating and financial results. Gas sales reached 99 billion cubic meters, an increase of 4% compared to 2006 if we exclude the weather impact. Adjusted net profit for the year rose by 2.6% to euro 2.9 billion, supported by a 17.6% increase in volume sold in the European markets to 24.35 bcm (excluding gas sold by E&P of 3.6 bcm), partially offset by decreasing supplies to Italian importers (down 3.43 bcm to 10.67 bcm) and on the Italian market (down 0.96 bcm to 56.13 bcm). Adjusted free cash flow rose by 10%, from euro 1.9 billion in 2006 to euro 2.1 billion, underpinning around 40% of Eni s dividend.
Our strategy is based on further increasing our international sales, consolidating our domestic natural gas business, and effectively managing our regulated business. Eni can leverage on a unique portfolio of gas both equity and purchased under long term supply contracts, in-depth market knowledge and a large customer base to further strengthen its market leadership. We target gas sales of 110 billion cubic meters in 2011, including E&P North Sea and USA equity gas production, and average international sales growth of 9% per year between 2008 and 2011.

Our **Refining & Marketing** division reported an adjusted net profit of euro 319 million. This was 49.3% lower than in 2006 due to a reduction in heavy sour crude discounts in the market, the appreciation of the euro against the dollar and a decline in the profitability of marketing activities as the rapid increase in international crude prices was not fully reflected in product sale prices.
Our strategy in R&M aims to significantly increase profitability along the whole of the value chain, targeting a euro 400 million EBIT increase by 2011 at 2007 scenario. In Refining, we will increase the conversion rate to 60% to achieve a middle distillate yield of 43% by 2011, partly thanks to new hydrocrakers in Sannazzaro and Taranto. On both these measures, we see further improvements following the start-up of EST in

10

| | | |
|---|---|---|
| Marco Reboa<br>*Director* | Mario Resca<br>*Director* | Pierluigi Scibetta<br>*Director* |

Sannazzaro in 2012. Furthermore, an efficiency programme targeting maintenance, energy consumption and general expenses will provide cost savings of around euro 130 million by 2011.
In Marketing, we aim to consolidate our leadership in Italy, improving the quality and the range of our offer with premium products, new loyalty programs and non-oil formats. In Europe, we are focusing on those markets where we can leverage on scale, supply & logistic synergies and brand awareness.

In **Engineering & Construction**, adjusted net profit rose by 65% to euro 658 million, reflecting the strong competitive position held by Saipem and the favourable environment for engineering and construction activities. Saipem is planning to further expand the geographical reach and operational features of its world-class fleet to cope with rising demand for drilling equipment and oilfield services.

Our strategy in the **Petrochemicals** division, which reported an adjusted net profit of euro 57 million for 2007, is to improve efficiency and selectively develop those plants in areas of excellence (styrenes and elastomers) with competitive scale and a favourable geographic location.

Eni s efforts in the field of **Research and Innovation** are primarily aimed at reducing the costs of finding and recovering hydrocarbons, upgrading heavy oils, monetizing stranded gas and protecting the environment. Our significant research and innovation activities are coherent with our strategy, which posits technology as a key factor to increase our competitive advantage over the long term, promoting sustainable growth and profitable partnerships with producing countries.

We also raised our **efficiency target** by 50% to euro 1.5 billion in the 2006-2011 period, having already achieved a cost reduction of euro 500 million in 2006-2007.

## Sustainable development

With regards to sustainable development, 2007 was a landmark year for Eni. We were selected to join the FTSE4Good and Dow Jones Sustainability World indices, the most prestigious stock-market indices in the world in the field of corporate social responsibility. The two indices select companies on the basis of their performance in environmental sustainability, research and innovation and on the quality of their relationship with shareholders, suppliers, employees and local communities.
For Eni, sustainable development is part of a broad process of identifying and implementing concrete actions to manage the complexities of a large, integrated energy company. Admission of the Eni share to worldwide sustainability indices confirm to us that managing a company in a responsible manner is rewarded by investors and stakeholders.
We will continue to promote the development of the communities in which we operate, to increase investment in research and innovation, and to focus on reducing greenhouse gas emissions from industrial processes.

11

**Contents**



In conclusion, 2007 was an excellent year for Eni. As well as delivering impressive results, we have worked to create growth opportunities in all our businesses. We are confident that we will continue to deliver industry-leading growth and generate value for our shareholders.

March 14, 2008

In representation of the Board of Directors

*Chairman*

*Chief Executive Officer and General Manager*

**BOARD OF DIRECTORS** (1)

**Chairman**

Roberto Poli (2)

**Chief Executive Officer and General Manager**

Paolo Scaroni (3)

**Directors**

Alberto Clô, Renzo Costi, Dario Fruscio (4), Marco Pinto, Marco Reboa, Mario Resca, Pierluigi Scibetta

**BOARD OF STATUTORY AUDITORS** (8)

**Chairman**

Paolo Andrea Colombo

**Statutory Auditors**

Filippo Duodo, Edoardo Grisolia, Riccardo Perotta, Giorgio Silva

**Alternate Auditors**

Francesco Bilotti, Massimo Gentile

**GENERAL MANAGERS**

**Exploration & Production Division**

Stefano Cao (5)

**Gas & Power Division**

Domenico Dispenza (6)

**Refining & Marketing Division**

Angelo Caridi (7)

**MAGISTRATE OF THE COURT OF ACCOUNTS DELEGATED TO THE FINANCIAL CONTROL OF ENI**

Lucio Todaro Marescotti (9)

**Alternate**

Angelo Antonio Parente (10)

**External Auditors** (11)

PricewaterhouseCoopers SpA

The composition and powers of the Internal Control Committee, Compensation Committee and International Oil Committee are presented in the section Corporate Governance in the Report of the Directors.

(1) Appointed by the Shareholders Meeting held on May 27, 2005 for a three-year period. The Board of Directors expires at the date of approval of the financial statements for the 2007 financial year.
(2) Appointed by the Shareholders Meeting held on May 27, 2005.
(3) Powers conferred by the Board of Directors on June 1, 2005.
(4) On January 30, 2008 Dario Fruscio resigned from the Board of Directors.
(5) Appointed by the Board of Directors on November 14, 2000.
(6) Appointed by the Board of Directors on December 14, 2005, effective from January 1, 2006.
(7) Appointed by the Board of Directors on August 3, 2007 replacing Angelo Taraborrelli, appointed Chief Executive Officer and General Manager of Syndial SpA, in the same date.
(8) Appointed by the Shareholders Meeting held on May 27, 2005 for a three-year period, expiring at the date of approval ot the financial statements for the 2007 financial year.
(9) Duties assigned by resolution of the Governing Council of the Court of Accounts on July 19-20, 2006.
(10) Duties assigned by resolution of the Governing Council of the Court of Accounts on May 27-28, 2003.
(11) Appointed by the Shareholders Meeting of May 24, 2007 for the 2007-2009 three-year term.

Contents



| Key performance indicators | | 2005 | 2006 | 2007 |
|---|---|---|---|---|
| Net sales from operations [a] | (million euro) | 22,531 | 27,173 | **27,278** |
| Operating profit | | 12,592 | 15,580 | **13,788** |
| Adjusted operating profit | | 12,903 | 15,763 | **14,051** |
| Adjusted net profit | | 6,186 | 7,279 | **6,491** |
| Capital expenditures | | 4,965 | 5,203 | **6,625** |
| *of which: exploratory expenditures* [b] | | *656* | *1,348* | ***1,659*** |
| Adjusted capital employed, net | | 20,206 | 18,590 | **24,643** |
| Adjusted ROACE | (%) | 32.4 | 37.5 | **30.0** |
| Average realizations | | | | |
| - Liquids | ($/bbl) | 49.09 | 60.09 | **67.70** |
| - Natural gas | ($/mmcf) | 4.49 | 5.29 | **5.42** |
| - Total hydrocarbons | ($/boe) | 41.06 | 48.87 | **53.17** |
| Production [c] | | | | |
| - Liquids | (kbbl/d) | 1,111 | 1,079 | **1,020** |
| - Natural gas | (mmcf/d) | 3,595 | 3,964 | **4,114** |
| - Total hydrocarbons | (kboe/d) | 1,737 | 1,770 | **1,736** |
| Estimated net proved reserves [c] [d] | | | | |
| - Liquids | (mmbbl) | 3,773 | 3,481 | **3,219** |
| - Natural gas | (bcf) | 17,591 | 16,965 | **18,090** |
| - Total hydrocarbons | (mmboe) | 6,837 | 6,436 | **6,370** |
| Reserve life index | (year) | 10.8 | 10.0 | **10.0** |
| Reserve replacement ratio of subsidiaries (SEC criteria) | (%) | 43 | 38 | **38** |
| Reserve replacement ratio including equity-accounted entities [d] | (%) | 40 | 38 | **90** |
| Employees at year end | (units) | 8,030 | 8,336 | **9,334** |

(a) Before elimination of intragroup sales.

(b) Includes exploration bonuses.

(c) Includes Eni's share of equity-accounted entities.

(d) Includes a 30% stake of the reserves of the three equity-accounted Russian companies purchased as part of a bid procedure for assets of bankrupt Yukos and partecipated by Eni with a 60% interest, considering that it is probable that Gazprom will exercise a call option to acquire a 51% interest in these companies so as to dilute Eni's interest to 30%. Reserves of the 20% partecipated OAO Gazprom Neft were also excluded considering the call option attributed to Gazprom.

**Agreement for the development project of the Kashagan oilfield**

On January 14, 2008, all parties to the North Caspian Sea Production Sharing Agreement (NCSPSA) consortium and the Kazakh authorities signed a memorandum of understanding to settle a dispute commenced in August 2007 regarding conditions and rights for developing and exploiting the Kashagan field. The agreement establishes a renewed economic equilibrium of the contract in consideration of changed market conditions and provides stability for the project execution which will continue to play a fundamental role in Eni s future.

**Agreements in Venezuela**

On February 15, 2008 Eni and the Venezuelan Authorities reached a final settlement over the dispute regarding the expropriation of the Dación field which took place on April 1, 2006. Under the terms of the settlement, Eni will receive a cash compensation in line with the carrying value of the expropriated asset. Eni believes this settlement represents an important step towards improving and strengthening cooperation with PDVSA.

As part of improving cooperation with the Venezuelan State oil company PDVSA, on February 29, 2008 the two partners signed a strategic agreement for the development of the Junin Block 5 located in the Orinoco oil belt. This block covering a gross acreage of 670 square kilometers holds a resource potential estimated to be in excess of 2.5 bbbl of heavy oil. Once relevant studies have been performed and a development plan defined, a joint venture between PDVSA (60%) and Eni (40%) will be established to execute the project. Eni intends to contribute its experience and leading technology to the project in order to maximize the value of the heavy oil. In particular, it will make available its EST (Eni Slurry Technology) proprietary technology. This is a highly innovative technology for the complete conversion of heavy oils into high-quality light products.

**Financial results**

Adjusted net profit for the full year was euro 6,491 million, a decline of euro 788 million from 2006 (down 10.8%) reflecting a lower operating performance impacted by the appreciation of the euro over the dollar, rising costs and lower production volumes sold.

Return on average capital employed calculated on an adjusted basis was 30% in 2007, lower than in 2006 (37.5%).

Average liquids and gas realizations increased in dollar terms by 8.8% from 2006 due to slightly higher oil realizations as compared to the marker Brent which benefited from a reduction in sour crude discounts in the marketplace.

**Portfolio developments**

Made important transactions to acquire oil and gas assets in the Gulf of Mexico from Dominion Resources and in onshore Congo from Maurel & Prom with total expenditures amounting to euro 4.52 billion. In 2008 these assets are expected to produce approximately 100 kboe/d under Eni Brent price assumptions.

Purchased in partnership with Enel (Eni 60%, Enel 40%) a 100% interest in OAO Arctic Gas Company, ZAO Urengoil Inc, OAO Neftegaztechnologia as part of the liquidation procedure of bankrupt Russian company Yukos. The acquired entities are engaged in exploration and development of large predominantly gas reserves, amounting to approximately 2.5 bboe of resources net to Eni according to a 30% interest determined assuming Gazprom exercises its call option to acquire a 51% stake in the three companies. Through the same transaction Eni also purchased a 20% stake in the oil and gas company OAO Gazprom Neft. Eni granted Gazprom a call option to purchase the 20% stake in OAO Gazprom Neft. The cash consideration for these transactions amounted to euro 3.73 billion net to Eni.

Signed a major agreement with NOC, the Libyan National Oil Corporation. The agreement provides for the extension of the duration of Eni s mineral rights in Libya, for oil properties until 2042 and for gas properties until 2047, and the launch of large projects aiming at monetizing substantial gas reserves and overhauling offshore exploration activities. This deal further strengthens Eni s competitive position in Libya, reaffirming its leadership among the international oil companies engaged in this country. Relevant agreements are effective from January 1, 2008.

Announced in November 2007 the terms of recommended cash offer to acquire the entire issued share capital of the UK-based oil company Burren Energy Plc. Total cash consideration is expected to amount to approximately euro 2.4 billion. Burren holds producing assets in Congo and Turkmenistan flowing at a rate of over 25 kboe/d and partners Eni in the Congolese assets that Eni bought from Maurel & Prom. Burren also owns a number of exploration licenses in Egypt, Yemen and India. On January 11, 2008 Eni declared its recommended offer to be unconditional and at the end of February held a 96.9% stake in the company share capital.

Signed a gas sale agreement between the consortium conducting operations at the Karachaganak field (Eni is co-operator with a 32.5% stake) and KazRosGaz, a joint venture established by the Kazakh and Russian companies KazMunaiGaz and Gazprom. This agreement lays the foundations for the development of gas reserves of the field.

Acquired a 13.6% stake in Angola LNG Ltd Consortium responsible for the construction of an LNG plant. It will be designed with a processing capacity of 1 bcf/d of natural gas and produce 5.2 mmtonnes a year of LNG and related products.

Acquired a 70% interest in the Nikaitchuq oilfield in Alaska, in which Eni reached both the 100% ownership and the operatorship. Production start-up is expected at the end of 2009.

Awarded 26 new exploration licenses in Gulf of Mexico following an international bid procedure. The acquired acreage is estimated to have a significant mineral potential and is located near to Eni s production facilities in the area.

Signed an agreement to extend duration of the development and production licence for oilfield of Block 403 (Eni s interest 50%) with Sonatrach in Algeria. In 2007 production from this block represented approximately 14% of Eni s total production in the country.

**Production**

Oil and natural gas production for the full year averaged 1.736 mmboe/d, down by 1.9% compared with 2006. Production performance was impacted by mature field declines, price impacts in certain Production Sharing Agreements (PSAs)[1], disruptions and unplanned events in Nigeria, the North Sea and Venezuela. Partially offsetting these effects was the benefit of the acquired assets in the Gulf of Mexico and Congo as well as the organic growth achieved in Libya, Egypt and Kazakhstan. The production of liquids and natural gas was in line with 2006 under the assumption of Brent crude oil prices at $55 per barrel in determining volume entitlements in certain PSAs.

Leveraging on the contribution of the acquired assets and organic growth Eni expects to deliver a 4.5% compound average growth rate over the next four-year period, targeting a production level in excess of 2.05 mmboe/d by 2011 under Eni s Brent scenario at $55 per barrel.

**Estimated net proved reserves**

Estimated net proved reserves at December 31, 2007 were 6.37 bboe (down 1% from 2006) determined based on a year-end Brent price of $96.02 per barrel. The amount of proved reserves comprised 30% of quantities of the three equity accounted Russian companies purchased as part of a bid procedure for assets of bankrupt Yukos and participated by Eni with a 60% interest, considering that it is probable that Gazprom will exercise a call option to acquire a 51% interest in these companies. All sources reserve replacement ratio was 90% with an average reserve life index of 10 years. Eni s reserve replacement ratio calculated according to SEC criteria was 38% including only reserve additions of consolidated subsidiaries.

In the medium term, Eni expects to more than replace produced reserves leveraging on the contribution of acquired assets and the high mineral potential of Eni s assets located in core areas such as the Caspian Sea, West and North Africa and North Sea.

**Exploration and development expenditures**

In 2007, exploration expenditures amounted to euro 1,659 million (up 23% from 2006) to execute a very extensive campaign in well established areas of presence. A total of 81 new exploratory wells were drilled (43.5 of which represented Eni s share) in addition to 28 exploratory and development wells in progress. The overall commercial success rate was 40% (38% net to Eni). The main discoveries were made in: Angola, Brazil, Congo, Egypt, Indonesia, Nigeria, Norway, Pakistan, the United Kingdom, the Gulf of Mexico and Alaska. New acreage was acquired with an extension of 26,000 square kilometers (net to Eni, 95% operated).

Development expenditures were euro 4,788 million (up 32% from 2006), in particular in Kazakhstan, Angola, Egypt, Italy and Congo.

---

(1) For a definition of PSA see "Glossary" below.

# Reserves

### Reserve Governance

The Company has adopted comprehensive classification criteria for proved, proved developed and proved undeveloped oil and gas reserves in accordance with applicable U.S. Securities and Exchange Commission (SEC) regulations, as provided for in Regulation S-X, Rule 4-10. Proved oil and gas reserves are the estimated quantities of crude oil, natural gas and natural gas liquids which geologic and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under technical, contractual, economic and operating conditions existing at the time. Prices include consideration of changes in existing prices provided only by contractual arrangements, but not on escalations based upon future conditions. Net proved reserves exclude royalties and interests owned by others. Engineering estimates of the Company s oil and gas reserves are inherently uncertain. Although authoritative guidelines exist regarding engineering criteria that have to be met before estimated oil and gas reserves can be designated as proved , the accuracy of any reserve estimate is a function of the quality of available data and engineering and geological interpretation and judgment. Consequently, the estimated proved reserves of oil and natural gas may be subject to future revision and upward and downward revisions may be made to the initial booking of reserves due to analysis of new information concerning production, reservoir performance, commercial factors, acquisition and divestment activity and additional reservoir development activity. Field resources will only be categorized as proved reserves when all criteria for the attribution of proved status has been met, including technical, economic and commercial criteria. Proved reserves to which Eni is entitled under concession contracts are determined by applying Eni s share of production to total proved reserves of the contractual area, in respect of the duration of the relevant mineral right that normally coincides with the duration over which a field can be produced economically. Proved reserves to which Eni is entitled under Production Sharing Agreements or buy-back contracts are calculated so that the sale of production entitlements should cover expenses incurred by the Group to develop a field (cost oil) and on the profit oil set contractually. A similar scheme applies to buy-back and service contracts. In a high oil price environment, the volume of entitlements reporting directly to the General Manager, is entrusted with the task of continuously updating the Company s guidelines concerning reserve evaluation, classification and monitoring the periodic determination process. Company guidelines have been reviewed by DeGolyer and MacNaughton (D&M), an independent petroleum engineers company which has declared their compliance with applicable SEC rules. D&M has also stated that the company guidelines regulate situations for which the SEC rules lack details, providing a reasonable interpretation in line with the generally accepted practices in international markets. Eni estimates its proved reserves on the basis of the mentioned guidelines, also when participating in exploration and production activities operated by other entities. The process for evaluating reserves involves: (i) business unit managers (geographic units) and Local Reserve Evaluators (LRE), who perform the evaluation and classification of technical reserves (production profiles, capital expenditure, operating costs and costs related to asset retirement obligations); (ii) geographic area managers at head offices checking evaluations carried out by business unit managers; (iii) the Reserve Department, providing independent reviews of the fairness and correctness of classifications carried out by business units, who also aggregates worldwide reserve data and calculates equity volumes. Moreover, the Reserve Department has the following responsibilities: to ensure the periodic certification process of reserves, to perform economic assessment of reserves and to continuously update the Company guidelines on reserves evaluation and classification. All personnel involved in the process of reserve evaluation are knowledgeable on SEC guidelines for proved reserves classification and have professional abilities adequate to the complexity of the task, expressing their judgment independently and respectful of professional ethics. Since 1991, Eni has requested qualified independent oil engineering companies carry out and independent evaluation[2] of its proved reserves on a rotation basis. Eni believes these independent evaluators to be experienced and qualified in the marketplace. In the preparation of their reports, these independent evaluators relied, without independent verification, upon information furnished by Eni with respect to property interest, production, current cost of operation and development, agreements relating to future necessary to cover the same amount of expenditures is lower.

Eni has always exercised rigorous control over the booking process of proved reserves. The Reserve Department of the Exploration & Production division, operations and sale, prices and other factual information and data that were accepted as represented by the independent evaluators. This information was used by Eni in determining its proved reserves and included log, directional surveys, core and PVT analysis, maps, oil/gas/water monthly production/injection data of wells, reservoir and field; field studies, reservoir studies;

(2) From 1991 to 2002, DeGolyer and MacNaughton; from 2003, also Ryder Scott.

Contents



engineers comments relative to field performances, reservoir performances, development programs, work programs etc.; budget data for each field, long range development plans, future capital and operating costs, actual prices received from hydrocarbon sales, instructions on future prices, and other pertinent information to calculate NPV for the fields required to undertake an independent evaluation. Accordingly, Eni believes that the work performed by the independent evaluators is to be considered an evaluation of Eni s proved reserves as opposed to a determination. We also note that the work performed in evaluating our reserves may not be the same work that the independent evaluators perform when evaluating other companies reserves. Notwithstanding the above, the circumstance that the independent evaluations achieved the same results as those of the Company for the vast majority of fields supports the management s confidence that the company s booked reserves meet the regulatory definition of proved reserves and are reasonably certain to be produced in the future. Additionally, for those fields where a discrepancy arose, the Company has adopted the reserve estimate indicated by the independent evaluators, whenever the latter was lower than the Company s estimate. In any case, those differences were not significant.

In particular, in 2007, a total of 2.4 billion boe of proved reserves was evaluated, representing 37% of Eni s total proved reserves at December 31, 2007 (calculated including a 60% interest of the proved reserves of the three Russian gas companies). Outcomes of these independent evaluations confirmed Eni s evaluations, as they did in previous years. During the 2005-2007 three year period, independent evaluations covered 67% of Eni s total proved reserves. Further information on reserves is provided in notes to Eni consolidated financial statements - Supplemental oil and gas information for the exploration and production activities - Oil and natural gas reserves .

## Movements in estimated net proved reserves

Eni s estimated net proved reserves amounts were determined taking into account Eni s share of proved reserves of equity-accounted entities. The year end amounts comprised 30% of proved reserves of the three equity-accounted Russian companies purchased as part of a bid procedure for assets of bankrupt Yukos and participated by Eni with a 60% interest, considering that it is probable that Gazprom will exercise a call option to acquire a 51% interest in these companies. Based on this assumption, movements in Eni s 2007 estimated proved reserves were as follows:

| (mmboe) | | Consolidated subsidiaries | Equity-accounted entities | Total |
|---|---|---|---|---|
| **Estimated net proved reserves at December 31, 2006** | | **6,400** | **36** | **6,436** |
| Extensions, discoveries and other additions, revisions of previous estimates and improved recovery, gross of year-end price revision | | 429 | 24 | 453 |
| Year-end price revision in PSAs | | (348) | (2) | (350) |
| Reserve additions | | 81 | 22 | 103 |
| Proved property acquisitions | | 156 | 309 | 465 |
| Production for the year | | (627) | (7) | (634) |
| **Estimated net proved reserves pro-forma at December 31, 2007** | | **6,010** | **360** | **6,370** |
| Reserve replacement ratio, all sources | (%) | 38 | n.c. | 90 |
| | (%) | - | - | 145 |

| | | | |
|---|---|---|---|
| Reserve replacement ratio, all sources and gross of year-end price revision | | | |

Additions to proved reserves booked in 2007 were 103 mmboe deriving from: (i) extensions and discoveries (202 mmboe), with major increases booked in Angola, Congo, Egypt, Kazakhstan, Tunisia and United States; (ii) improved recovery (24 mmboe) mainly in Algeria and Angola. These increases were offset in part by a negative balance of 123 mmboe resulting from downward and upward revisions of previous estimates. Downward revisions of previous estimates related mainly to adverse price impacts in determining volume entitlements in certain PSAs (down 350 mmboe) resulting from higher year end oil prices (Brent price was $96.02 per barrel at December 31, 2007 compared to $58.925 per barrel at December 31, 2006). These negative revisions were recorded mainly in Kazakhstan, Libya and Angola, and were partly offset by upward revisions in Egypt, Italy, Nigeria and Norway. Acquisitions amounted to 465 mmboe reflecting a 30% stake of proved reserves of the three equity accounted Russian companies purchased as part of a bid procedure for assets of bankrupt Yukos, and contribution of purchased properties in the Gulf of Mexico and Congo.

During 2007, assuming a 30% stake of proved reserves of the three equity-accounted Russian companies purchased as part of a bid procedure for assets of bankrupt Yukos, Eni achieved an all sources reserve replacement ratio of 90% in spite of significant PSA effects associated with high oil prices. Excluding the impact of year end price revisions in certain PSAs, the replacement ratio would be 145%. The average reserve life index is 10 years (10 years at December 31, 2006).

Under SEC reporting standards, Eni s reserve replacement ratio[3] was 38% calculated based on reserve additions from Eni s consolidated subsidiaries.

At December 31, 2007, Eni s proved developed reserves stood at 3,925 mmboe (oil and condensates 1,974 mmbbl, natural gas 11,204 bcf) or 62% of total proved reserves (63% at December 31, 2006).

**Estimated net proved reserves pro-forma**

| | | Consolidated subsidiaries | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Italy | North Africa | West Africa | North Sea | Caspian Area (b) | Rest of world | Total consolidated subsidiaries | Equity-accounted entities | Total |
| **2005** | | | | | | | | | | |
| Liquids | (mmbbl) | 228 | 961 | 936 | 433 | 778 | 412 | 3,748 | 25 | 3,773 |
| Natural gas | (bcf) | 3,676 | 6,117 | 1,965 | 1,864 | 1,774 | 2,105 | 17,501 | 90 | 17,591 |
| **Hydrocarbons** | (mmboe) | **868** | **2,026** | **1,279** | **758** | **1,087** | **778** | **6,796** | **41** | **6,837** |
| **2006** | | | | | | | | | | |
| Liquids | (mmbbl) | 215 | 982 | 786 | 386 | 893 | 195 | 3,457 | 24 | 3,481 |
| Natural gas | (bcf) | 3,391 | 5,946 | 1,927 | 1,697 | 1,874 | 2,062 | 16,897 | 68 | 16,965 |
| **Hydrocarbons** | (mmboe) | **805** | **2,018** | **1,122** | **682** | **1,219** | **554** | **6,400** | **36** | **6,436** |
| **2007** (a) | | | | | | | | | | |
| Liquids | (mmbbl) | **215** | **878** | **725** | **345** | **753** | **211** | **3,127** | **92** | **3,219** |
| Natural gas | (bcf) | **3,057** | **5,751** | **2,122** | **1,558** | **1,770** | **2,291** | **16,549** | **1,541** | **18,090** |
| **Hydrocarbons** | (mmboe) | **747** | **1,879** | **1,095** | **617** | **1,061** | **611** | **6,010** | **360** | **6,370** |

The conversion rate of natural gas from cubic feet to boe is 1,000 cubic feet = 0.1742 barrels of oil.

(a) Includes a 30% stake of the reserves of the three equity-accounted Russian companies purchased as part of a bid procedure for assets of bankrupt Yukos and participated by Eni with a 60% interest, considering that it is probable that Gazprom will exercise 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. Eni s estimated proved reserves would be 6,678 mmboe including the proved reserves of three Russian gas companies on the basis of Eni s current 60% interest.

(b)

Eni's proved reserves of the Kashagan field were determined based on Eni working interest of 18.52% as of December 31, 2007. As part of the agreements defined with the Kazakh Republic, the change of Eni s interest to 16.81% in 2008 will determine a decrease of approximately 50 mmbbl in Eni s estimated net proved reserves of the Kashagan field with respect to December 31, 2007 (information on the Kashagan agreements is provided under the section Main exploration and development projects - Caspian Area on page 26).

---

(3) Ratio of changes in proved reserves for the year resulting from revisions of previously reported reserves, improved recovery, extensions, discoveries and sales or purchases of minerals in place, to production for the year. A ratio higher than 100% indicates that more proved reserves were added than produced in a year. The Reserve Replacement Ratio is a measure used by management to indicate the extent to which production is replaced by proved oil and gas reserves booked according with the Securities Exchange Commission (SEC) criteria under the S-X Regulation, Rule 4-10. The Reserve Replacement Ratio is not an indicator of future production because the ultimate development and production of reserves is subject to a number of risks and uncertainties. These include the risks associated with the successful completion of large-scale projects, including addressing ongoing regulatory issues and completion of infrastructure, as well as changes in oil and gas prices, political risks and geological and other environmental risks.

# Mineral right portfolio and exploration activities

As of December 31, 2007, Eni s mineral right portfolio consisted of 1,220 exclusive or shared rights for exploration and development in 36 countries on five continents for a total net acreage of 394,490 square kilometers (385,219 at December 31, 2006). Of these 37,642 square kilometers concerned production and development (48,273 at December 31, 2006). Outside Italy net acreage (373,826 square kilometers) increased by 11,103 square kilometers mainly due to the acquisition of assets in Angola, Congo, Russia and the Gulf of Mexico, as well as exploration property in Australia, India, Nigeria, Pakistan, the United Kingdom and Alaska. In Italy, net

**Oil and natural gas interests** [(a)]

| | December 31, 2006 | December 31, 2007 | | | |
|---|---|---|---|---|---|
| | Gross exploration and development acreage | Gross exploration and development acreage | Net exploration and development acreage | Net development acreage | Number of interest |
| **Italy** | **28,508** | **25,991** | **20,664** | **12,582** | **162** |
| **Outside Italy** | **673,631** | **731,292** | **373,827** | **25,060** | **1,058** |
| **North Africa** | | | | | |
| Algeria | 12,739 | 11,432 | 3,041 | 902 | 36 |
| Egypt | 23,214 | 24,443 | 14,469 | 3,011 | 56 |
| Libya | 39,569 | 37,749 | 33,289 | 796 | 16 |
| Tunisia | 6,464 | 6,464 | 2,274 | 1,558 | 11 |
| | **81,986** | **80,088** | **53,073** | **6,267** | **119** |
| **West Africa** | | | | | |
| Angola | 18,776 | 20,527 | 3,570 | 1,398 | 55 |
| Congo | 9,797 | 11,099 | 4,905 | 968 | 24 |
| Nigeria | 43,215 | 44,049 | 7,756 | 5,715 | 50 |
| | **71,788** | **75,675** | **16,231** | **8,081** | **129** |
| **North Sea** | | | | | |
| Norway | 18,851 | 15,335 | 5,390 | 123 | 49 |
| United Kingdom | 5,860 | 5,445 | 1,239 | 610 | 88 |
| | **24,711** | **20,780** | **6,629** | **733** | **137** |
| **Caspian Area** | **4,934** | **4,933** | **959** | **488** | **6** |
| **Rest of world** | | | | | |
| Australia | 24,143 | 62,510 | 31,544 | 891 | 19 |
| Brazil | 2,948 | 2,920 | 2,774 | | 4 |
| China | 866 | 632 | 103 | 103 | 3 |
| Croatia | 6,056 | 1,975 | 988 | 988 | 2 |
| East Timor | 12,224 | 12,224 | 9,779 | | 5 |
| Ecuador | 2,000 | 2,000 | 2,000 | 2,000 | 1 |
| India | 14,445 | 24,425 | 9,091 | | 3 |
| Indonesia | 28,438 | 27,999 | 16,047 | 656 | 10 |

| | | | | | |
|---|---|---|---|---|---|
| Iran | 1,456 | 1,456 | 820 | 820 | 4 |
| Pakistan | 29,790 | 38,426 | 21,155 | 601 | 22 |
| Russia | | 5,126 | 3,076 | 1,168 | 4 |
| Saudi Arabia | 51,687 | 51,687 | 25,844 | | 1 |
| Trinidad & Tobago | 382 | 382 | 66 | 66 | 1 |
| United States | 7,803 | 10,619 | 6,024 | 937 | 558 |
| Venezuela | 1,958 | 1,556 | 614 | 145 | 3 |
| | **184,196** | **243,937** | **129,925** | **8,375** | **640** |
| Other countries | 6,311 | 6,311 | 1,364 | 1,116 | 9 |
| Other countries with only exploration activity | 299,705 | 299,568 | 165,646 | | 18 |
| **Total** | **702,139** | **757,283** | **394,491** | **37,642** | **1,220** |

(a) Square kilometers.

19

acreage (20,664 square kilometers) declined by 1,832 square kilometers due to release.

In 2007, a total of 81 new exploratory wells were drilled (43.5 of which represented Eni s share), as compared to 68 exploratory wells completed in 2006 (35.9 of which represented Eni s share). Overall commercial success rate was 40% (38% net to Eni) as compared to 43% (49% net to Eni) in 2006.

# Production

Oil and gas production for the full year averaged 1,736 kboe/d, a decrease of 34 kboe/d, or 1.9%, from a year earlier mainly due to disruptions in Nigeria due to continuing social unrest (down 25 kboe/d), unplanned downtime and technical issues in the North Sea and mature field declines, particularly in Italy and the United Kingdom, as well as price impacts in certain PSAs. Production performance for the year was also impacted by Venezuela s expropriation of the Dación oilfield assets which took place on April 1, 2006 (down 15 kbbl/d). These negative factors were offset in part by the contribution of acquired assets in the Gulf of Mexico and Congo (up 45 kboe/d on annual average) and production increases in Libya, Egypt and Kazakhstan. Oil and natural gas production share outside Italy was 88% (87% in 2006).

Daily production of oil and condensates for the full year (1,020 kbbl/d) decreased by 59 kbbl/d, or 5.5%, from last year. Production decreases were reported mainly in Nigeria, Venezuela and the United Kingdom due to the above mentioned causes. The most significant increases were registered in: (i) the United States due to the contribution of purchased assets and the resumption of full activity at plants damaged by hurricanes in the second half 2005; (ii) Egypt, as a result of production rump-up at the el Temsah fields; (iii) Kazakhstan due to a better performance of the Karachaganak field.

Daily production of natural gas for the full year (4,114 mmcf/d) increased by 150 mmcf/d, or 3.6%, mainly in Libya, as a result of the build-up of the Western Libyan Gas Project, the Gulf of Mexico, due to the contribution

Contents



of acquired assets, Norway, particularly at the Aasgard (Eni s interest 14.81%) and Kristin (Eni s interest 8.25%) fields. Gas production decreased due to mature field declines in Italy and the United Kingdom.

Oil and gas production sold amounted to 611.4 mmboe. The 22.3 mmboe difference over production (633.7 mmboe) reflected volumes of gas consumed in operations (18.8 mmboe).
Approximately 61% of oil and condensates production sold (370.3 mmbbl) was destined to Eni s Refining & Marketing division; 37% of natural gas production sold (1,385 bcf) was destined to Eni s Gas & Power division.

**Daily production of oil and natural gas** (a) (b)

| | Liquids (kbbl/d) | Natural gas (mmcf/d) | Hydrocarbons (kboe/d) | Liquids (kbbl/d) | Natural gas (mmcf/d) | Hydrocarbons (kboe/d) | Liquids (kbbl/d) | Natural gas (mmcf/d) | Hydrocarbons (kboe/d) | Change Ch. | Change % |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2005 | | | 2006 | | | **2007** | | | 2007 vs 2006 | |
| **Italy** | **86** | **1,002.9** | **261** | **79** | **911.4** | **238** | **75** | **789.7** | **212** | **(26)** | **(10.9)** |
| **North Africa** | **308** | **988.8** | **480** | **329** | **1,299.1** | **555** | **337** | **1,474.2** | **594** | **39** | **7.0** |
| Egypt | 90 | 706.3 | 213 | 85 | 813.4 | 227 | **97** | **811.2** | **238** | 11 | 4.8 |
| Libya | 120 | 254.3 | 164 | 144 | 452.1 | 222 | **142** | **629.6** | **252** | 30 | 13.5 |
| Algeria | 86 | 14.1 | 88 | 88 | 19.4 | 91 | **85** | **18.8** | **88** | (3) | (3.3) |
| Tunisia | 12 | 14.1 | 15 | 12 | 14.2 | 15 | **13** | **14.6** | **16** | 1 | 6.7 |
| **West Africa** | **310** | **190.7** | **343** | **322** | **281.7** | **372** | **280** | **274.2** | **327** | **(45)** | **(12.1)** |
| Nigeria | 123 | 165.9 | 152 | 106 | 247.8 | 149 | **81** | **237.7** | **122** | (27) | (18.1) |
| Angola | 122 | 17.7 | 124 | 151 | 24.1 | 156 | **132** | **25.1** | **136** | (20) | (12.8) |
| Congo | 65 | 7.1 | 67 | 65 | 9.8 | 67 | **67** | **11.4** | **69** | 2 | 3.0 |
| **North Sea** | **179** | **600.4** | **283** | **178** | **597.0** | **282** | **157** | **594.7** | **261** | **(21)** | **(7.4)** |
| Norway | 96 | 243.7 | 138 | 98 | 245.2 | 140 | **90** | **271.1** | **137** | (3) | (2.1) |
| United Kingdom | 83 | 356.7 | 145 | 80 | 351.8 | 142 | **67** | **323.6** | **124** | (18) | (12.7) |
| **Caspian Area** | **64** | **222.5** | **102** | **64** | **227.6** | **103** | **70** | **237.9** | **112** | **9** | **8.7** |
| **Rest of world** | **164** | **589.8** | **268** | **107** | **647.4** | **220** | **101** | **743.2** | **230** | **10** | **4.5** |
| Australia | 21 | 3.5 | 22 | 18 | 47.9 | 26 | **11** | **41.5** | **18** | (8) | (30.8) |
| China | 7 | | 7 | 6 | 9.4 | 8 | **6** | **11.0** | **8** | | .. |
| Croatia | | 42.4 | 7 | | 66.8 | 12 | | **52.5** | **9** | (3) | (25.0) |
| Ecuador | 17 | | 17 | 15 | | 15 | **16** | | **16** | 1 | 6.7 |
| Indonesia | 3 | 137.7 | 27 | 2 | 118.1 | 23 | **2** | **105.4** | **20** | (3) | (13.0) |
| Iran | 35 | | 35 | 29 | | 29 | **26** | | **26** | (3) | (10.3) |
| Pakistan | 1 | 275.5 | 49 | 1 | 289.2 | 51 | **1** | **292.5** | **52** | 1 | 2.0 |
| Russia | | | | | | | **2** | | **2** | 2 | .. |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| United States | 19 | 74.2 | 33 | 21 | 64.3 | 32 | **37** | **181.4** | **69** | 37 | .. |
| Trinidad & Tobago | | 56.5 | 10 | | 51.7 | 9 | | **58.9** | **10** | 1 | 11.1 |
| Venezuela | 61 | | 61 | 15 | | 15 | | | | (15) | .. |
| **Total** | **1,111** | **3,595.1** | **1,737** | **1,079** | **3,964.2** | **1,770** | **1,020** | **4,113.9** | **1,736** | **(34)** | **(1.9)** |

(a) Includes own consumption of natural gas (296, 286, 247 mmcf/d, in 2007, 2006 and 2005 respectively)

(b) Includes Eni's share of production of equity-accounted entities.

Algeria - Bir Rebaa, Treatment plant

# Main exploration and development projects

### NORTH AFRICA

*Algeria* In October 2007, Eni and Sonatrach signed an agreement to extend the duration of the development and production licence for oil fields of Block 403 (Eni s interest 50%) including the BRN, BRW and BRSW fields, located in Algeria in the Bir Rebaa area in the south-eastern part of the Sahara desert. In 2007 production from this block was 12 kbbl/d net to Eni.
The main ongoing development projects are: (i) the Rom Integrated project, designed to develop the reserves of the ROM Main (Eni s interest 100%), ZEA (Eni s interest 75%) and ROM Nord fields. The project provides for the construction of a new oil treatment plant with a capacity of 32 kbbl/d. Production is expected to start in 2011; (ii) El Merk Synergy project, designed to jointly develop the reserves of Block 208 (Eni s interest 12.25%), 212 (Eni s interest 22.38%) and adjoining blocks (operated by other companies). Start-up is expected after 2011. In 2007, the basic engineering work was completed.
In 2006, the State oil company Sonatrach requested to renegotiate the economic terms of certain PSAs operated by Eni or Eni co-venture partners, in particular in Blocks 401a/402a (Eni s interest 55%), 404 (Eni's interest 12.25%) and 208 (Eni's interest 12.25%). According to Sonatrach the renegotiation of contractual terms was necessary to restore the initial economics of such contracts. At present, management is not able to foresee discovery well (Eni s interest 50%), showing the presence of significant amounts of gas at a depth of over 6,500 meters, as well as the Andaleeb-1 and Aten-1 discovery wells (Eni s interest 100%); b) the onshore area of the Western Desert with two near field discoveries in the Melehia (Eni s interest 56%) and West Razzak (Eni s interest 80%) development permits and in the East Obayed exploration permit (Eni s interest 100%) with in Faramid 1 exploration well; c) the Gulf of Suez with near field discoveries in the offshore Belayim Marine permit (Eni s interest 100%). These ongoing exploration activities aim at supporting the expansion plan of the Damietta LNG plant providing for the construction of a second train with a treatment capacity of 5 mmtonnes/y of LNG. The project is expected to be approved by the Egyptian authorities in the first half of 2008.
Development activities are underway in the offshore area of the Nile Delta: (i) in the North Port Said concession (Eni s interest 100%), production started at the Semman gas field. Production is expected to peak at 46 mmcf/d net to Eni. Development activities at the el Gamil plant progressed by increasing compression capacity to support the el Temsah and Ras el Barr production concessions; (ii) in the Ras el Barr concession (Eni s interest 50%), development activities of the Taurt field are underway. Production is expected to start in second half of 2008; (iii) in the el Temsah concession (Eni operator with a 50% interest), production started at the Denise A platform. The production build-up is expected to be completed in the first half of 2008.

the final outcome of such renegotiations.

Egypt Main discoveries for the year were achieved in: a) the offshore area of the Nile Delta with the Satis-1

The Taurt and Denise fields are expected to ensure natural gas supplies of 23 kboe/d to the first train of the Damietta LNG plant.

Libya - Mellitah, Treatment and gas compressor plant

*Libya* Main discoveries for the year were achieved in: a) offshore Block NC41 (Eni s interest 100%), where the U1-NC41 discovery well showed the presence of oil and natural gas at a depth of over 2,600 meters; b) onshore concession 82 (Eni s interest 50%), where the YY1-82 discovery well showed the presence of oil at a depth of about 5,000 meters.
In October 2007, Eni signed a major petroleum agreement with NOC, the Libyan National Oil Corporation. The agreement provides for the extension of the duration of Eni s mineral rights in Libya until 2042 and 2047 for the oil and gas properties respectively, and the launch of large projects in gas monetization and exploration. This agreement will enable Eni to develop its long-life producing fields over a longer time frame by applying its advanced techniques for maximizing the recoverability of hydrocarbons. The projects defined by the agreement regard: (i) overhauling the exploration activities in areas where Eni is already present; (ii) monetizing additional and substantial gas reserves through the upgrading of the GreenStream export pipeline achieving an additional transport capacity of 106 bcf/y and the construction of a new LNG plant near Mellitah designed to produce 177 bcf/y equivalent of LNG to be marketed worldwide.
In May 2007 the Government of Libya issued a tax law regarding that amends profit taxation for foreign oil companies operating under PSA schemes. In line with past practice Libya s National Oil Company (NOC) was designated as tax agent on behalf of foreign oil tax base recognized at January 1, 2008, that might result in an adjustment of the related deferred taxation, and detailed recognition criteria applied. The adoption of the new law is not expected to have a significant impact on the agreed oil profit share under PSAs currently existing between the Libyan state company and Eni.
As a part of the Western Libyan Gas project (Eni s interest 50%), ongoing upgrading facilities aim at increasing current natural gas production of 35 bcf/y and supporting current oil production plateau of the Wafa field. Export of natural gas leverages on the GreenStream pipeline which delivered 313 bcf in 2007. In addition, 29 bcf were sold on the Libyan market for power generation. In 2007 the production of the Wafa and Bahr Essalam fields was 160 kboe/d net to Eni (up 33% from 2006).
Main ongoing projects include the development of the A-NC118 field (Eni s interest 50%) through existing facilities at the Wafa and Mellitah plants and the monetization of gas volumes currently flared at the Bouri field (Eni s interest 50%) by processing at the Sabratha platform and exporting via the GreenStream pipeline.

*Tunisia* Main discoveries for the year were achieved in: a) the Adam concession (Eni operator with a 25% interest), where the Karma-1 and Ikhil-1 exploration wells found oil at a depth of approximately 3,500 meters and the Nadir-1 exploration well showed the presence of gas at a depth of approximately 3,600 meters. The three wells were linked to existing production facilities; b) the Bordj el Khadra permit (Eni s interest 50%), where the Nakhil-1 exploration well showed an oil formation at a depth of approximately 1,700 meters and was linked to existing production facilities; c) the Larich concession (Eni s interest 50%), where the Larich SW-1 exploration well showed the presence of oil and gas at a depth of approximately 4,000 meters.
In 2007 the development of Maamoura offshore field (Eni s interest 100%) was sanctioned. Production is expected to start in 2009 flowing at 7 kboe/d.

**WEST AFRICA**
*Angola* Main discoveries were made in Block 14 (Eni s interest 20%) where the Lucapa-1, Menongue-1 and

companies operating under PSA. The new tax regime is expected to become effective from 2008, after receiving instructions from NOC on the determination of the asset

Malange-1 wells showed the presence of oil.

In November 2007, Eni acquired a 13.6% stake in the Angola LNG Ltd Consortium responsible for the construction of an LNG plant in Soyo, 300 kilometers North of Luanda, with a yearly capacity of 5.2 mmtonnes/y. The project has been sanctioned by the Angolan Government and Parliament. It envisages the development of 10,594 bcf of gas reserves in 30 years. The project has a high environmental value since it allows the collection of the associated gas from offshore

**Contents**



Angola - Kizomba FPSO (Floating Production, Storage and Offloading)

production blocks, in compliance with the zero flaring policy. The LNG is expected to be delivered to the United States market at the re-gasification plant in Pascagoula, in the Gulf of Mexico, in which Eni, following this agreement, will acquire a re-gasification capacity equivalent to approximately 177 bcf/y.
In December 2007, Eni finalized another agreement to be part of a second gas consortium which will evaluate existing gas discoveries and explore further potential in the Angolan offshore to support the feasibility of a second LNG train. Eni is technical operator with a 20% interest.
Development activities at the Landana and Tombua oil fields in offshore Block 14 (Eni s interest 20%), progressed achieving early production at the Landana field which was linked to existing facilities at Benguela/Belize. Production is expected to peak in 2009 at 130 kbbl/d (23 net to Eni).
Development of the Banzala oil field in Block 0 in Cabinda (Eni s interest 9.8%) moved forward with the installation of the two scheduled production platforms which have already been started up in June 2007 and in January 2008, respectively. Production is expected to peak in 2009 at 27 kbbl/d (3 net to Eni).
As part of Phase C of the development of reserves in the Kizomba deep offshore area, development activities of the Mondo and Saxi/Batuque fields in Block 15 (Eni s interest 20%) are ongoing. A common development strategy is expected to be deployed in both projects, envisaging the installation of an FPSO vessel. In January 2008 the Mondo field has been started up. The Saxi/Batuque fields are expected to start-up in 2009. production started at the Marimba field by linking to existing facilities at Kizomba A. Production is expected to peak in 2008 at 13 kbbl/d (7 net to Eni). The projects outlined and other ongoing development activities aim at maintaining current oil production plateau in the area.

*Congo* Main oil discoveries were made in Mer Très Profonde Sud permit (Eni s interest 30%) with the Persée Nord Est-1 well, drilled at a depth between 2,700 and 3,500 meters, and the Cassiopea Est-1 well, drilled at a depth of 2,900 meters which yielded 5,300 bbl/d in test production.
In April 2007, an agreement was signed awarding to Eni the Marine XII exploration permit (Eni operator with a 90% interest) offshore Congo; the object of the initiative is to exploit the relevant gas potential and feeding a power plant.
In May 2007, Eni acquired exploration and production assets from the French company Maurel & Prom onshore Congo, for a cash consideration of approximately for euro 1 billion. Acquired properties brought in an additional production of approximately 17 kboe/d and proved and probable reserves amounting to 112 bbl equivalent to to an average purchase cost of 10.7 $/bl. Assets acquired include the producing fields of M Boundi (Eni s interest 43.1%) and Kouakouala A (Eni s interest 66.67%) and the Le Kouilou exploration permit (Eni s interest 48%); all assets are operated.
Development activities of the M Boundi field moved forward with the revision of the production schemes and layout and a design to reduce the amount of gas flared. Leveraging on the assets recently purchased from

Peak production at 100 kbbl/d (18 net to Eni) is expected in 2008 and 2009, respectively. In September 2007

Burren Energy plc and the development of acquired fields, Eni expects to increase its production in Congo from the current 69 kbbl/d level

Nigeria - Drilling unit

to approximately 135 kbbl/d in 2010.
Development activities at the Awa Paloukou (Eni s interest 90%) and Ikalou-Ikalou Sud (Eni s interest 100%) fields are underway. Production is expected to start in 2009 peaking at 13 kboe/d net to Eni in 2009.

*Nigeria* In March 2007, Eni signed a Production Sharing Contract (PSC) for the OPL 135 permit (Eni operator with a 48% interest) located in the Niger Delta. The plan envisages an exploration stage with a five-year term and a subsequent development phase of oil and natural gas reserves with a 25 year term in the proximity of existing facilities and the Kwale/Okpai power station where Eni is operator.
The Forcados/Yokri oil and gas fields (Eni s interest 5%) are currently under development offshore and onshore the Niger Delta. Development is expected to be completed in 2008 as part of the integrated project aiming at providing natural gas supplies to the Bonny liquefaction plant. Offshore production facilities have been installed. The onshore project provides for the upgrading of the Yokri and North/South Bank flowstations and the realization of a gas compressor plant.
Eni holds a 10.4% interest in the Bonny liquefaction plant located in the eastern Niger Delta, with a treatment capacity of approximately 1,236 bcf/y of feed gas corresponding to a production of 22 mmtonnes/y of LNG on 6 trains. The sixth train has been started in 2007. The seventh unit is being engineered with start-up expected in 2012. When fully operational total capacity will amount to approximately 30 mmtonnes/y of LNG, SPDC joint venture (Eni s interest 5%) and the NAOC JV of OMLs 60, 61, 62 and 63 (Eni s interest 20%). When fully operational in 2008, supplies will total approximately 3,461 mmcf/d (268 net to Eni, corresponding to approximately 46 kboe). In 2007, Eni supplies were 173 mmcf/d. LNG production is sold under long term contracts and exported to European and American markets by the Bonny Gas transport fleet, wholly-owned by Nigeria LNG Co.
Eni is operator with a 17% interest of the Brass LNG Ltd company for the construction of a natural gas liquefaction plant to be built near the existing Brass terminal. This plant is expected to start operating in 2012 with a treatment capacity of 10 mmtonnes/y of LNG corresponding to 618 bcf/y (approximately 64 net to Eni) of feed gas on 2 trains for twenty years. Supplies to this plant will derive from the collection of associated gas from nearby producing fields and from the development of gas fields in the OMLs 61 and 62 onshore blocks (Eni s interest 20%). The venture signed preliminary long term contracts to sell the whole LNG production capacity. Eni acquired 2 mmtonnes/y of LNG capacity. The front end engineering is underway and the final investment decision is expected in the first half of 2008.

**NORTH SEA**

*Norway* The main discovery was achieved in the Prospecting License 393 (Eni s interest 30%), near the Goliath discovery, where the 7125/4-1 Nucula exploration well showed the presence of hydrocarbons at a depth between 800 and 1,450 meters.
In the 229 Prospecting License (Eni operator with a 65% interest), the appraisal of the mineral potential of the large Goliath discovery is underway. The project is progressing in accordance with the program. The final investment decision is expected in 2008. Critical equipments to develop the field have already been booked. In the Prospecting License 122 (Eni s interest 20%), the appraisal of the Marulk discovery increased the recognized mineral potential.
In 2007, Eni sold a 30% stake of the Prospecting License 259 (Eni s interest 70%) and the whole interest of the Prospecting License 256.
Development activities were targeted to optimize of production from the Ekofisk field (Eni s interest 12.39%) and the hydrocarbon bearing structures located near the

corresponding to a feedstock of approximately 1,624 bcf/y. Natural gas supplies to the plant are provided under a gas supply agreement with a 20 year term from the

Kristin field. Development of the Tyrihans field (Eni s interest 6.23%) is expected to be profitable through synergies with the Kristin production facilities. Production is expected to start in 2009, in coincidence with the expected production decline of Kristin which will make spare capacity available to process production from Tyrihans.

Caspian Sea - Kashagan field

*United Kingdom* Exploration activity was successful in the Block 205/5a (Eni s interest 23%) with the Tormore discovery, at a depth of 610 meters, which yielded 32 mmcf/d of gas and 2,200 bbl/d of condensates. Production is expected to start through synergies with the adjoining Laggan discovery (Eni s interest 20%).
In September 2007, production started at the Blane (Eni s interest 18%) and West Franklin (Eni s interest 21.87%) fields. The Blane field was linked to existing production facilities with a peak production of 21 kboe/d (approximately 4 net to Eni) already reached.
The West Franklin field was linked to the production facilities of the nearby Elgin Franklin field (Eni s interest 21.87%) expected to peak at 20 kboe/d (4 net to Eni) in the second half of 2008 with the scheduled start-up of a second development well.
Appraisal of the large Jasmine discovery in the J-Block (Eni s interest 33%) is underway.

**CASPIAN AREA**

*Kazakhstan - Kashagan* Eni has been present in Kazakhstan since 1992. Eni is the single operator of the North Caspian Sea Production Sharing Agreement (NCSPSA) with a participating interest currently equal to 18.52% as of December 31, 2007. The other partners of this initiative are Total, Shell and ExxonMobil, each with a participating interest currently of 18.52%, ConocoPhillips currently with 9.26%, and Inpex and KazMunayGas each currently with 8.33%. Each partner s participating interest in the project will change according to the terms of the Memorandum of Understanding signed among the parties, including the The NCSPSA defines terms and conditions for the exploration and development activities to be performed in the area covered by the contract.
The Kashagan field was discovered in the northern section of the contractual area in the year 2000. Management believes this field to contain a large amount of hydrocarbon resources.

As of December 31, 2007, Eni s proved reserves booked for the Kashagan field amounted to 520 mmboe, recording a decrease of 76 mmboe with respect to 2006 mainly due to the impact of increased year-end oil prices on reserve entitlements in accordance with the PSA scheme. Proved reserves for the field as of December 31, 2007 are determined according to Eni s then current participating interest of 18.52%.
As of December 31, 2007, the aggregate costs incurred by Eni for the Kashagan project capitalized in the financial statements amount to $2.6 billion. This capitalized amount included: (i) $1.8 billion relating to expenditures incurred by Eni for the development of the oilfield; and (ii) $0.8 billion relating primarily to accrued finance charges and expenditures for the acquisition of interests in the North Caspian Sea PSA consortium from exiting partners upon exercise of pre-emption rights in previous years. The $2.6 billion amount was equivalent to euro 1.8 billion based on the 2007 year-end euro/US dollar exchange rate.
The development plan of the Kashagan field was originally sanctioned by the Kazakh authorities in February 2004, contemplating a three-phase development scheme including partial gas re-injection in

Kazakh authorities, on January 14, 2008. Information on this agreement is included below. The change in participating interests will apply retroactively as of January 1, 2008.

the reservoir to enhance the recovery factor of the crude oil.

The sanctioned plan budgeted expenditures amounting

to US $10.3 billion (in 2007 real terms) to develop phase-one, with a target production level of 300 kbbl/d. First oil was originally scheduled to be produced by the end of 2008. Eni was expected to fund these expenditures according to its participating interest in this project.
On June 29, 2007, Eni, as operator, filed with the relevant Kazakh authorities amendments to the sanctioned development plan. These amendments rescheduled the production start-up to 2010 and estimated development expenditures for phase-one at US $19 billion. The production delay and cost overruns were driven by a number of factors: depreciation of the US Dollar versus the Euro and other currencies; cost price escalation of goods and services required to execute the project; an original underestimation of the costs and complexity to operate in the North Caspian Sea due to lack of benchmarks; design changes to enhance the operability and safety standards of the off-shore facilities.
In July 2007, the Kazakh authorities rejected the proposed amendments to the sanctioned development plan. In August 2007, the Government of the Kazakh Republic sent to the companies forming the NCSPSA consortium a notice of dispute alleging failure on the part of the consortium to fulfil certain contractual obligations and violation of the Republic s laws. Negotiations commenced with a view to settle this dispute.
On January 14, 2008, all parties to the NCSPSA consortium and the Kazakh authorities signed a memorandum of understanding for the amicable solution of this dispute. The material terms of the agreement are: (i) the proportional dilution of the participating interest each be equal to 16.81%. These changes will be effective January 1, 2008. The Kazakh partner will pay to the other co-venturers an aggregate amount of US $1.78 billion; (ii) a value transfer package to be implemented through changes to the terms of the NCSPSA, the amount of which will vary in proportion to future levels of oil prices. Eni is expected to contribute to the value transfer package in proportion to its new participating interest in the project; (iii) an increased role of the Kazakh partner in operations and a new operating and governance model which will entail a greater involvement of the major international partners. Although the project continued during the negotiation process, its progress was delayed. The parties have therefore agreed that Eni as operator will file with the Kazakh authorities a revised expenditure budget and schedule for the execution of the phase one by the end of March 2008.
The magnitude of the reserves base, the results of the first four tests conducted on development wells and the subsurface studies completed so far support expectations for a full field production plateau of 1.5 mmbbl/d, which represents a 25% increase above the original plateau as presented in the 2004 development plan.
The achievement of the full field production plateau will require a material amount of expenditures in addition to the development expenditures needed to complete the execution of phase-one. However, taking into account that future development expenditures will be incurred over a long time horizon, management does not expect any material impact on the company s liquidity or its ability to fund these capital expenditures.
In addition to the expenditures for developing the field, further capital expenditures will be required to build the infrastructures needed for exporting the production to international markets, for which various options are currently under consideration by the consortium. These include: (i) the use of existing infrastructure, such as the Caspian Pipeline Consortium pipeline (Eni s interest 2%) and the Atyrau-Samara pipeline, both of which are expected to undergo a capacity expansion; and (ii) the construction of a new transportation system. In this respect, it is worth mentioning the project aimed at building a line connecting the onshore Bolashak production centre with the Baku-Tbilisi-Cehyan pipeline (where Eni holds an interest of 5% corresponding to the right to transport 50 kbbl/d).

of all the international members of the Kashagan consortium, following which the stake held by the national Kazakh company KazMunayGas and the stakes held by the other four major shareholders will

*Kazakhstan - Karachaganak* In June 2007, the Karachaganak Petroleum Operating Consortium (KPO), in which Eni is co-operator with a 32.5% interest, and KazRosGaz, a joint company established by KazMunaiGaz and Gazprom, signed a gas sale contract. According to

27

Australia - Darwin, LNG plant

the terms of this agreement, the consortium will deliver, from 2012, about 565 bcf/y of raw gas to the Orenburg plant, in Russia. This agreement creates the conditions for the start up of Phase 3 of the development project of the field entailing the development of over 2 bboe of natural gas recoverable reserves. The agreement was approved by the Boards of both parties.
As of December 31, 2007, Eni s proved reserves booked for the Karachagan field amount to 541 mmboe, recording a decrease of 82 mmboe with respect to 2006 resulting from downward and upward revisions of previous estimates. Downward revisions of previous estimates related mainly to adverse price impact in determining volume entitlements in accordance with the PSA scheme. These negative revisions were partly offset by upward revisions related mainly to the finalization of the gas sale contract.

**REST OF WORLD**

*Australia* In August 2007, Eni signed an agreement to purchase a 30% interest in four exploration blocks in the Exmouth Plateau, one of the richest gas producing areas in Australia. The four blocks are located at a maximum water depth of 2,000 meters. Eni s equity interest will increase by 10% after at least one exploration well is drilled. Eni will be the operator during the development phase.
In September 2007, Eni acquired a 40% interest and the operatorship of the JPDA 06-105 exploration permit, located in the international offshore cooperation zone between East Timor and Australia. Two oil discoveries are located in this permit. The exploration plan provides appraisal well of the Aster field (Eni s interest 66.25%) was drilled and yielded 5 kboe/d in test production.
In January 2007, Eni and Pertamina signed a Memorandum of Understanding aimed at identifying joint development opportunities for exploration and development activities.
The main ongoing project includes the joint development of the five discoveries in the Kutei Deep Water Basin area (Eni s interest 20%). Production will be treated at the Bontang LNG plant. The project has not yet been sanctioned by authorities.

*Pakistan* The main discoveries for the year were achieved in: a) the Gambat permit (Eni s interest 30%) where the Tajjal 1 exploration well showed the presence of gas at a depth of 3,845 meters; b) the Kadanwari permit (Eni operator with a 18.42% interest) where the Kadanwari 18 appraisal well confirmed the presence of gas at a depth of approximately 3,400 meters; c) the Latif permit (Eni s interest 33.3%) where the Latif 1 exploration well discovered a hydrocarbon formation at a depth of 3,520 meters.
In 2007, Eni and State oil company PPL signed an agreement providing for a swap of interests in the offshore Blocks M, N and C. Within this agreement, Eni holds 70% interest in the M and N blocks and 60% interest as operator in the C block.

*Russia* In April 2007, as part of Eni s strategic alliance with Gazprom, Eni, through the partnership in SeverEnergia (60% Eni, 40% Enel), former EniNeftegaz, acquired Lot 2 in the Yukos liquidation for the drilling of a well in 2008.

*Indonesia* Exploration activity was successful with the Tulip East offshore discovery (Eni s interest 100%) and an

procedure for a cash consideration of euro 3.73 billion net to Eni. Acquired assets included: (i) a 100% interest in three Russian companies operating in the exploration and development of natural gas reserves, United States (Gulf of Mexico) - Allegheny production platform

OAO Arctic Gas Co, ZAO Urengoil Inc and OAO Neftegaztechnologia as well as certain minor assets that are expected to be sold or liquidated. Eni and Enel granted to Gazprom a call option on a 51% interest in SeverEnergia to be exercisable within two years from the purchase date (for further details on this deal, see the discussion on the balance sheet section of the financial review); and (ii) a 20% interest in OAO Gazprom Neft which was purchased only by Eni. Eni granted to Gazprom a call option on this 20% interest in OAO Gazprom Neft to be exercisable within two years from the purchase date (for further details on this deal, see the discussion on the balance sheet section of the financial review). The three acquired companies own significant predominantly gas resources estimated at approximately 2.5 bboe net to Eni (assuming Gazprom exercises its call option) located in the Yamal Nenets region, the largest natural gas producing region in the world: (i) OAO Arctic Gas Company owns two exploration licences, Sambugurskii and Yevo-Yahinskii including seven fields currently in the appraisal/development phase. Main fields are Sambugorskoye currently under development and production testing and Urengoiskoye; (ii) ZAO Urengoil Inc owns exploration and development licences for the Yaro-Yakhinskoye gas and condensate field; (iii) OAO Neftegaztechnologia owns the exploration and development licence of the Severo-Chasselskoye field.
During the year, certain activities were executed in order to set up the operational organization and take control of existing assets. Ongoing development activities moved forward bringing the wells to a sufficient level of safety

*United States - Gulf of Mexico* In July 2007, Eni closed the acquisition of the Gulf of Mexico upstream activities of Dominion Resources, one of the major US energy companies, for a cash consideration of euro 3.5 billion. Acquired properties brought in an additional production of approximately 75 kboe/d and proved and probable reserves amounting to 222 mmbbl equivalent to an average purchase cost of 18.4$/bl. Assets acquired include production, development and exploration assets located in deepwater Gulf of Mexico and the continental shelf. Management believes that purchased leases hold significant volumes of resources. Around 60% of these leases are operated. Main producing fields are Devils Tower, Triton and Goldfinger (Eni operator with a 75% interest); purchased assets included also certain fields where appraisal and development activities are underway, among which the Front Runner (Eni s interest 37.5%) and Thunderhawk (Eni s interest 25%). Leveraging on this acquisition Eni expects to achieve a production level of 100 kboe/d in the Gulf of Mexico to in 2008.
Development of acquired assets in the year allowed the startup of production at the San Jacinto (Eni is operator with a 53.3% interest), Q (Eni s interest 50%) e Spiderman (Eni s interest 36.7%) fields. Joint development of these fields was performed by installing underwater facilities to link to the Independence Hub platform. Production of approximately 25 kboe/d has been reached at the end of 2007.
In October 2007, following an international bid procedure Eni was awarded 26 new exploration licenses in the Gulf of Mexico, covering a gross acreage of 606 square kilometers.
Main projects include the development of reserves at the Longhorn discovery (Eni s interest 75%) trough installing production platform. Production is expected to start in 2009 peaking at 28 kboe/d (approximately 19 net to Eni).

*United States - Alaska* In April 2007, Eni acquired 70% and the operatorship of the Nikaitchuq field, located offshore on the North Slope of Alaska. Eni, which already owned a 30% stake in the field, now retains the 100% working interest. Nikaitchuq will be the first development project operated by Eni in Alaska. In October 2007, the phased development plan was sanctioned by the authorities. Production is expected to and revising production and transportation facilities according to Western standards, as well as defining a seismographic activity. The final assessment of the gas sale contracts is underway.

start at the end of 2009 with production plateau at 25 kboe/d in 2014.

*Venezuela* In June 2007, Eni signed a Memorandum of Understanding with national state-owned company PDVSA which defines the terms for the transfer of the development activity of the Corocoro field in Venezuela to the new contractual regime of empresa mixta . Eni

29

will retain its 26% interest in this project. On December 5, 2007, the agreement was finalized.
In February 2008, Eni and the Venezuelan Authorities reached a final settlement over the dispute regarding the expropriation of the Dación field which took place on April 1, 2006. Under the terms of the settlement, Eni will receive a cash compensation in line with the carrying amount of the expropriated asset.
In February 2008, Eni and PDVSA signed a strategic agreement for the development of the Junin Block 5 located in the Orinoco oil belt. This block covering a gross acreage of 670 square kilometers holds a resource potential estimated to be in excess of 2.5 bboe of heavy oil. Once relevant studies have been performed and a development plan defined, a joint venture between PDVSA (60%) and Eni (40%) will be established to execute the project. Eni intends to contribute its experience and leading technology to the project in order to maximize the value of the heavy oil. In particular, it will make available its EST (Eni Slurry Technology) proprietary technology. This is a highly innovative technology for the complete conversion of heavy oils into high-quality light products.

*Italy* Exploration activity was successful in the onshore of the Abruzzi Region with Colle Sciarra 1 gas discovery well. In 2007, production started at: (i) Fiumetto and Pizzo Tamburino concessions in the onshore of Sicily, with a production at 600 boe/d and 1,000 boe/d, respectively; (ii) Tea/Arnica/Lavanda field in the Adriatic Sea with production peaking at 35 mmcf/d which was linked to Ravenna Mare power station; (iii) Candela field in the Puglia Region with a production at 3,351 cf/d. The first development phase was completed trough linking at existing facilities.
Development activities concerned in particular: (i) optimization of producing fields by means of sidetracking and infilling (Gela, Gagliano, Cervia, Barbara, Bonaccia and Emma); (ii) continuation of drilling and upgrading of producing facilities in the Val d Agri; (iii) development of the oil and natural gas reserves at the Miglianico field located in the onshore of the Abruzzi Region. Three development wells has been drilled. The projects provides for the construction of facilities to treat production volumes of oil, to be delivered to logistic structures of the Refining & Marketing division. The production volumes of gas shall be input into Italian natural gas transportation network. Production is expected to start in the second half of 2009 peaking at 7 kboe/d.

## Capital expenditures

Capital expenditures of the Exploration & Production division (euro 6,625 million) concerned development of oil and gas reserves directed mainly outside Italy, in particular Kazakhstan, Angola, Egypt and Congo. Development expenditures in Italy concerned in particular well drilling program and facility upgrading in Val d Agri and sidetrack and infilling interventions in mature fields. Important expenditures were directed to exploratory projects. About 94% of these expenditures were directed outside Italy in particular the Gulf of Mexico, Egypt, Brazil, Norway and Nigeria. In Italy, exploration activities were directed mainly to the offshore of Sicily.
Acquisition of proved and unproved property concerned mainly a 70% interest in the Nikaitchuq oilfield in Alaska, in which Eni reached a 100% ownership.
As compared to 2006, capital expenditures increased by euro 1,422 million, up 27.3%, due in particular to an increase in exploration expenditures in the Gulf of Mexico, Brazil, Egypt, Congo and East Timor, and higher development expenditures in Congo, Egypt, Italy, Angola and Kazakhstan.

| **Capital expenditure** (million euro) | 2005 | 2006 | **2007** | Change | % Ch. |
|---|---|---|---|---|---|
| **Acquisition of proved and unproved property** | **301** | **152** | **96** | **(56)** | **(36.8)** |
| Italy | | 139 | | | |
| North Africa | | 10 | **11** | | |
| West Africa | 60 | | | | |
| Caspian Area | 169 | | | | |
| Rest of World | 72 | 3 | **85** | | |
| **Exploration** | **656** | **1,348** | **1,659** | **311** | **23.1** |
| Italy | 38 | 128 | **104** | (24) | (18.8) |
| North Africa | 153 | 270 | **380** | 110 | 40.7 |
| West Africa | 75 | 471 | **239** | (232) | (49.3) |
| North Sea | 126 | 174 | **193** | 19 | 10.9 |
| Caspian Area | 15 | 25 | **36** | 11 | 44.0 |
| Rest of World | 149 | 280 | **707** | 427 | .. |
| **Development** | **3,952** | **3,629** | **4,788** | **1,159** | **31.9** |
| Italy | 411 | 403 | **606** | 203 | 50.4 |
| North Africa | 1,007 | 701 | **948** | 247 | 35.2 |
| West Africa | 889 | 864 | **1,343** | 479 | 55.4 |
| North Sea | 385 | 406 | **397** | (9) | (2.2) |
| Caspian Area | 593 | 593 | **733** | 140 | 23.6 |
| Rest of World | 667 | 662 | **761** | 99 | 15.0 |
| **Other expenditures** | **56** | **74** | **82** | **8** | **10.8** |
| | **4,965** | **5,203** | **6,625** | **1,422** | **27.3** |

# Storage

Natural gas storage activities are performed by Stoccaggi Gas Italia SpA ( Stogit ) to which such activity was conferred on October 31, 2001 by Eni SpA and Snam SpA, in compliance with Article 21 of Legislative Decree No. 164 of May 23, 2000, which provided for the separation of storage from other activities in the field of natural gas.

Storage services are provided by Stogit through eight storage fields located in Italy, based 10 storage concessions vested by the Ministry of Economic Development.

In 2007, the share of storage capacity used by third parties was 56%. From the beginning of its operations, Stogit markedly increased the number of customers served and the share of revenues from third parties; the latter, from a non significant value, passed to 43%.

| | | 2005 | 2006 | **2007** |
|---|---|---|---|---|
| Available capacity | | | | |
| Modulation and mineral | (bcm) | 7.5 | 8.4 | **8.5** |
| - share utilized by Eni | (%) | 44 | 54 | **44** |
| Strategic | (bcm) | 5.1 | 5.1 | **5.1** |
| Total customers | (number) | 44 | 38 | **44** |

31

| Key performance indicators | | 2005 | 2006 | 2007 |
|---|---|---|---|---|
| Net sales from operations [a] | (million euro) | 22,969 | 28,368 | **27,633** |
| Operating profit | | 3,321 | 3,802 | **4,127** |
| Adjusted operating profit | | 3,531 | 3,882 | **4,092** |
| Adjusted net profit | | 2,552 | 2,862 | **2,936** |
| EBITDA pro-forma adjusted | | 4,320 | 4,895 | **5,077** |
| Capital expenditures | | 1,152 | 1,174 | **1,366** |
| Adjusted capital employed, net | | 18,898 | 18,864 | **20,547** |
| Adjusted ROACE | (%) | 13.7 | 15.1 | **14.9** |
| Worldwide gas sales | (bcm) | 94.21 | 98.10 | **98.96** |
| *- of which: E&P sales* [b] | | *4.51* | *4.69* | ***5.39*** |
| LNG sales | | 7.0 | 9.9 | **11.7** |
| Customers in Italy | (million) | 6.02 | 6.54 | **6.61** |
| Gas volumes transported in Italy | (bcm) | 85.10 | 87.99 | **83.28** |
| Electricity sold | (TWh) | 27.56 | 31.03 | **33.19** |
| Employees at year end | (units) | 12,324 | 12,074 | **11,582** |

(a) Before the elimination of intragroup sales.
(b) E&P sales include volumes marketed by the Exploration & Production division in Europe for 3.59 bcm and in the Gulf of Mexico for 1.8 bcm for the full year 2007 (4.07 and 0.62 bcm for the full year 2006 respectively). It also includes volumes marketed in Europe for 4.51 bcm for the full year 2005.

### Agreement with Gazprom: South Stream project

Signed a framework agreement with Gazprom to build the South Stream pipeline system which is expected to import to Europe volumes of natural gas produced in Russia across the Black Sea.

**Expansion on the French market**

Acquired a significant stake in Altergaz, the main independent operator in the French gas market. Eni plans to support Altergaz development in the French retail and small enterprises segments, through a 10 years supply contract of 1.3 bcm gas volumes per year.

**Financial results**

The Gas & Power business confirmed its ability to generate strong and stable performances. The adjusted net profit was euro 2.94 billion up 2.6% from 2006, reflecting better operating performance.

Return on average capital employed on an adjusted basis was 14.9% in 2007 (15.1% in 2006).

Capital expenditures totalled euro 1.37 billion and mainly related to the development and upgrading of Eni s transport and distribution networks in Italy, the upgrading of international pipelines and the ongoing plan of building new electricity generation capacity.

**Operating results**

Natural gas sales of 98.96 bcm, including own consumption and sales by affiliates and E&P sales in Europe and in the Gulf of Mexico, increased by 0.86 bcm from 2006, or nearly 1%, reflecting growth achieved in the main markets in the rest of Europe (+17.6%, in Spain, Turkey, France and Northern Europe) and higher LNG volumes sold on the North American and Asian markets.

Management plans to achieve 110 bcm of sales volumes in 2011 leveraging on growth in international markets where sales are expected to increase by as much as 9% on average in the next four years.

Electricity volumes sold were 33.19 terawatthour, up 7% from 2006.

Natural gas volumes transported on the Italian network were 83.28 bcm, down 5.4% from 2006.

33

**Contents**



# NATURAL GAS
## Supply of natural gas

In 2007 Eni s consolidated subsidiaries supplied 83.80 bcm with a 5.47 bcm decrease from 2006, down 6.1%. Natural gas volumes supplied outside Italy (75.15 bcm) represented 90% of total supplies with a 3.91 bcm decrease from 2006, or 4.9%, due to generally mild climate in Europe with lower volumes purchased: (i) from the Netherlands (down 2.54 bcm); (ii) from Russia (down 2.51 bcm) also due to the implementation of agreements signed in 2006 with Gazprom providing for Gazprom s entrance in the market of supplies to Italian importers and the corresponding reduction in Eni offtakes; (iii) from Algeria via pipeline (down 2.29 bcm). Supplies from Libya increased by 1.54 bcm due to the build-up of gas production from Eni-operated fields. Also supplies from Russia to Turkey increased by 0.97 bcm, in line with the development Turkish market.

Supplies in Italy (8.65 bcm) declined by 1.56 bcm, down 15.3%, from 2006 due to mature fields declines.

Supplied gas volumes from equity production were 20 bcm representing approximately 20% of total volumes available for sales. Main equity volumes derived from: (i) Italian gas fields (7.87 bcm); (ii) the Wafa and Bahr Essalam fields in Libya linked to Italy through the GreenStream pipeline. In 2007 these two fields supplied 3.62 bcm net to Eni; (iii) fields located in the British and Norwegian sections of the North Sea (5.81 bcm); (iv) the Gulf of Mexico (1.8 bcm); (v) the Bonny s liquefaction plant in Nigeria.

| **Supply of natural gas** (bcm) | 2005 | 2006 | **2007** | Change | % Ch. |
|---|---|---|---|---|---|
| ***Italy*** | **10.73** | **10.21** | **8.65** | **(1.56)** | **(15.3)** |
| Russia for Italy | 21.03 | 21.30 | **18.79** | (2.51) | (11.8) |
| Russia for Turkey | 2.47 | 3.68 | **4.65** | 0.97 | 26.4 |
| Algeria | 19.58 | 18.84 | **16.55** | (2.29) | (12.2) |
| The Netherlands | 8.29 | 10.28 | **7.74** | (2.54) | (24.7) |
| Norway | 5.78 | 5.92 | **5.78** | (0.14) | (2.4) |
| Libya | 4.61 | 7.70 | **9.24** | 1.54 | 20.0 |
| United Kingdom | 2.28 | 2.50 | **3.15** | 0.65 | 26.0 |
| Hungary | 3.63 | 3.28 | **2.87** | (0.41) | (12.5) |
| Croatia | 0.43 | 0.86 | **0.54** | (0.32) | (37.2) |
| Algeria (LNG) | 1.45 | 1.58 | **1.86** | 0.28 | 17.7 |
| Others (LNG) | 0.69 | 1.57 | **2.32** | 0.75 | 47.8 |
| Other supplies Europe | 0.41 | 0.78 | **0.76** | (0.02) | (2.6) |
| Outside Europe | 1.18 | 0.77 | **0.90** | 0.13 | 16.9 |
| ***Outside Italy*** | **71.83** | **79.06** | **75.15** | **(3.91)** | **(4.9)** |
| **Total supplies of consolidated companies** | **82.56** | **89.27** | **83.80** | **(5.47)** | **(6.1)** |
| Offtake from (input to) storage | 0.84 | (3.01) | **1.49** | 4.50 | .. |
| Network losses and measurement differences | (0.78) | (0.50) | **(0.46)** | 0.04 | (8.0) |
| **Available for sale of Eni's own companies** | **82.62** | **85.76** | **84.83** | **(0.93)** | **(1.1)** |
| **Available for sale of Eni's affiliates** | **7.08** | **7.65** | **8.74** | **1.09** | **14.2** |
| **E&P volumes** | **4.51** | **4.69** | **5.39** | **0.70** | **14.9** |
| **Total available for sale** | **94.21** | **98.10** | **98.96** | **0.86** | **0.9** |

# Sales of natural gas

In 2007 natural gas sales (98.96 bcm, including own consumption, Eni s share of affiliates sales and E&P sales in Europe and in the Gulf of Mexico) were up 0.86 bcm from 2006, or 0.9%, due to growth achieved on international markets, in particular in the main consumption target areas in the rest of Europe (up 3.64 bcm) and outside Europe (up 0.91 bcm), offset in part by lower sales to Italian importers (down 3.43 bcm) and to the domestic market (down 0.96 bcm).

Natural gas sales in Italy (56.13 bcm, including own consumption) declined by 0.96 bcm from 2006, or 1.7%, primarily due to lower sales to industrial users (down 1.56 bcm), also owing to competitive pressure, and residential users (down 0.64 bcm) mainly due to unusually mild winter weather. Supplies to the power generation segment and wholesalers increased by 0.54 and 0.38 bcm respectively. Sales under the so-called gas release[1] (2.37 bcm) increased by 0.37 bcm from 2006, relating to a procedure settled between Eni and the Italian antitrust authority.

Sales to importers in Italy (10.67 bcm) declined by 3.43 bcm mainly due to a switch from supplies of Libyan gas to volumes directly sold in Italy to a number of clients in view of optimizing Eni equity production, as well as the expiration of supply contract with Promgas.

Gas sales in target markets in the Rest of Europe (24.35 bcm including affiliates) increased by 3.64 bcm, or 17.6%, reflecting also market share gains. Main increases were registered mainly in: (i) Spain (up 1.67 bcm), due to higher supplies to the power generations segment; (ii) Turkey (up 0.94 bcm), due to the progressive reaching of full operations of the Blue Stream pipeline; (iii) France (up 0.55 bcm) due to marketing initiatives targeting small businesses and residential customers; and (iv) Northern Europe (up 0.53 bcm).

Sales to markets outside Europe (2.42 bcm) grew by 0.91 bcm, or 60.3%, on the back of higher LNG volumes sold on the Asian and Northern American markets by the affiliate Unión Fenosa Gas (Eni s share 50%).

TAKE-OR-PAY

In order to meet the medium and long-term demand for natural gas, in particular in the Italian market, Eni entered into long-term purchase contracts with producing countries. Particularly, following the strategic agreement with Gazprom signed on November 14, 2006, effective from February 1, 2007, Eni extended the duration of its gas supply contracts with Gazprom until 2035, bringing the residual average life of its supply portfolio to approximately 22 years. Existing contracts, which generally contain take-or-pay clauses, will ensure a total of approximately 62.4 bcm/y of natural gas by 2010.

Despite the fact that an increasing portion of natural gas volumes purchased under said contracts has been sold outside Italy, management believes that in the long term unfavorable trends in the Italian demand and supply for natural gas, also due to the possible implementation of all publicly announced plans for the construction of new supply infrastructure, and the evolution of Italian regulations of the natural gas sector, represent risk factors to the fulfillment of Eni s obligations in connection with its take-or-pay supply contracts.

(1) In June 2004 Eni agreed with the Antitrust Authority to sell a total volume of 9.2 bcm of natural gas (2.3 bcm/y) in the four thermal years from October 1, 2004 to September 30, 2008 at the Tarvisio entry point into the Italian network. In March 2007 a new gas release programme was signed for a total volumes of 4 bcm of natural gas to sell in the two thermal years from October 1, 2007 to September 30, 2009 at the virtual exchange point.

| Natural gas sales by market (bcm) | 2005 | 2006 | 2007 | Change | % Ch. |
|---|---|---|---|---|---|
| **Italy** | **58.08** | **57.09** | **56.13** | **(0.96)** | **(1.7)** |
| Wholesalers | 12.05 | 11.54 | **11.92** | 0.38 | 3.3 |
| Gas release | 1.95 | 2.00 | **2.37** | 0.37 | 18.5 |
| Industries | 13.07 | 13.33 | **11.77** | (1.56) | (11.7) |
| Power generation | 17.60 | 16.67 | **17.21** | 0.54 | 3.2 |
| Residential | 7.87 | 7.42 | **6.78** | (0.64) | (8.6) |
| Own consumption | 5.54 | 6.13 | **6.08** | (0.05) | (0.8) |
| **Rest of Europe** | **29.91** | **34.81** | **35.02** | **0.21** | **0.6** |
| Importers in Italy | 11.53 | 14.10 | **10.67** | (3.43) | (24.3) |
| Target Market | 18.38 | 20.71 | **24.35** | 3.64 | 17.6 |
| *Iberian Peninsula* | *4.59* | *5.24* | ***6.91*** | *1.67* | *31.9* |
| *Germany-Austria* | *4.23* | *4.72* | ***5.03*** | *0.31* | *6.6* |
| *Turkey* | *2.46* | *3.68* | ***4.62*** | *0.94* | *25.5* |
| *Northern Europe* | *2.93* | *2.62* | ***3.15*** | *0.53* | *20.2* |
| *Hungary* | *3.39* | *3.10* | ***2.74*** | *(0.36)* | *(11.6)* |
| *France* | *0.15* | *1.07* | ***1.62*** | *0.55* | *51.4* |
| *Other* | *0.63* | *0.28* | ***0.28*** | | |
| **Outside Europe** | **1.71** | **1.51** | **2.42** | **0.91** | **60.3** |
| E&P in Europe and in the Gulf of Mexico | 4.51 | 4.69 | **5.39** | 0.70 | 14.9 |
| **Worldwide gas sales** | **94.21** | **98.10** | **98.96** | **0.86** | **0.9** |

| Gas sales by entity (bcm) | 2005 | 2006 | 2007 | Change | % Ch. |
|---|---|---|---|---|---|
| **Sales of consolidated companies** | **82.62** | **85.76** | **84.83** | **(0.93)** | **(1.1)** |
| Italy (including own consumption) | 58.01 | 57.07 | **56.08** | (0.99) | (1.7) |

| | | | | | |
|---|---|---|---|---|---|
| Rest of Europe | 23.44 | 27.93 | **27.86** | (0.07) | (0.3) |
| Outside Europe | 1.17 | 0.76 | **0.89** | 0.13 | 17.1 |
| **Sales of Eni s affiliates (net to Eni)** | **7.08** | **7.65** | **8.74** | **1.09** | **14.2** |
| Italy | 0.07 | 0.02 | **0.05** | 0.03 | .. |
| Rest of Europe | 6.47 | 6.88 | **7.16** | 0.28 | 4.1 |
| Outside Europe | 0.54 | 0.75 | **1.53** | 0.78 | .. |
| **E&P in Europe and in the Gulf of Mexico** | **4.51** | **4.69** | **5.39** | **0.70** | **14.9** |
| **Worldwide gas sales** | **94.21** | **98.10** | **98.96** | **0.86** | **0.9** |

| **LNG sales** (bcm) | 2005 | 2006 | **2007** | Change | % Ch. |
|---|---|---|---|---|---|
| **G&P sales** | **3.7** | **6.4** | **8.0** | **1.6** | **25.0** |
| Italy | 0.7 | 1.5 | **1.2** | (0.3) | (20.0) |
| Iberian Peninsula | 3.0 | 4.4 | **5.6** | 1.2 | 27.3 |
| Extra european markets | | 0.5 | **1.2** | 0.7 | .. |
| | | | | | |
| **E&P sales** | **3.3** | **3.5** | **3.7** | **0.2** | **5.7** |
| *Liquefaction plants:* | | | | | |
| Bontang (Indonesia) | 1.2 | 0.9 | **0.7** | (0.2) | (22.2) |
| Point Fortin (Trinidad & Tobago) | 0.6 | 0.4 | **0.6** | 0.2 | 50.0 |
| Bonny (Nigeria) | 1.5 | 1.8 | **2.0** | 0.2 | 11.1 |
| Darwin (Australia) | | 0.4 | **0.4** | | |
| | **7.0** | **9.9** | **11.7** | **1.8** | **18.2** |

# LNG

In 2007, LNG sales (11.7 bcm) increased by 1.8 bcm from 2006, up 18.2%, mainly reflecting higher volumes sold by the Gas & Power segment (8 bcm, included in the worldwide gas sales) due to higher volumes achieved by Eni s affiliate Unión Fenosa Gas (Eni 50%) in the Iberian Peninsula, in the Far East and in the United States.

# Electricity sales

In 2007 sales of electricity (33.19 TWh) increased by 2.16 TWh from 2006, up 7%, reflecting higher production availability due to full operations of the Brindisi plant and higher volumes bought from third parties in Italy and outside Italy. Sales of steam (10,849 ktonnes) increased by 562 ktonnes from 2006, up 5.5% and were directed to end customers.

Sales of electricity amounting to 33.19 TWh were directed to the free market (63%), the electricity exchange (26%), industrial sites (8%) and GSE/Cip 6 (3%). In 2007 Eni started to market electricity to the retail segment leveraging on the launch of an integrated offer of gas and electricity (dual offer) leading to the acquisition of approximately 120,000 customers.
To this end, in 2007 Eni implemented a project for reorganizating its activities of production and marketing of electricity. Effective from 1 January 2007, electricity marketing activity has been managed by Eni gas marketing function in order to better manage and integrate the marketing of gas and electricity. Power generation activity remained entrusted to Eni s subsidiary EniPower.

| **Electricity sales** (TWh) | 2005 | 2006 | **2007** | Change | % Ch. |
|---|---|---|---|---|---|
| Free market | 14.76 | 16.22 | **20.73** | 4.51 | 27.8 |
| Italian Exchange for electricity | 7.74 | 9.67 | **8.66** | (1.01) | (10.4) |
| Industrial plants | 2.71 | 2.70 | **2.81** | 0.11 | 4.1 |
| Electricity Services Operator | 2.35 | 2.44 | **0.99** | (1.45) | (59.4) |
| | **27.56** | **31.03** | **33.19** | **2.16** | **7.0** |
| Electricity production | 22.77 | 24.82 | **25.49** | 0.67 | 2.7 |
| Trading of electricity | 4.79 | 6.21 | **7.70** | 1.49 | 24.0 |

37

# Transport and regasification of natural gas

In 2007, volumes of natural gas input in the national grid (83.28 bcm) decreased by 4.71 bcm from 2006, down 5.4%, mainly due to lower volumes of natural gas input to storage for the rebuilding of stocks.

Eni transported 30.89 bcm of natural gas on behalf of third parties in Italy in line with 2006.
In 2007, the LNG terminal in Panigaglia (La Spezia) regasified 2.38 bcm of natural gas (3.13 bcm in 2006), discharging 73 tanker ships (96 in 2006).

| Gas volumes transported in Italy [a] (bcm) | 2005 | 2006 | 2007 | Change | % Ch. |
|---|---|---|---|---|---|
| **Eni** | **54.88** | **57.09** | **52.39** | **(4.70)** | **(8.2)** |
| **On behalf of third parties** | **30.22** | **30.90** | **30.89** | **(0.01)** | |
| Enel | 9.90 | 9.67 | **9.36** | (0.313) | (3.2) |
| Edison Gas | 7.78 | 8.80 | **7.16** | (1.64) | (18.6) |
| Others | 12.54 | 12.43 | **14.37** | 1.94 | 15.6 |
| | **85.10** | **87.99** | **83.28** | **(4.71)** | **(5.4)** |

(a) Include amounts destined to domestic storage.

# Development projects

MARKETING

**Marketing actions in France: agreement for the acquisition of a stake in Altergaz**

On June 28, 2007 Eni signed the agreement for the acquisition of a 27.8% stake in Altergaz, the main independent French operator in marketing natural gas to end users and small enterprises. The transaction entailed a cash consideration of euro 20.3 million. Eni acquired joint control of the company through a shareholders agreement with the founding partners. In 2010 Eni will also have the right to acquire the shares currently owned by the founding partners, thus acquiring direct control of Altergaz. In January Eni purchased a further 10% interest in the company from an institutional shareholder. Currently Altergaz supplies approximately 3,500 clients in the retail and commercial market, with sales of approximately euro 60 million. The company has the necessary rights and authorizations to access to the French transport, distribution and storage infrastructures and market gas to small industries, the public administration and residential and commercial customers. Eni intends to support Altergaz s development plan in the retail and small enterprises

The agreement is a part of Eni s international development strategy in marketing gas and will strengthen Eni s leadership in the European gas market.

LNG

**Egypt**

Eni, through its interest in Unión Fenosa Gas, owns a 40% stake in the Damietta liquefaction plant producing approximately 5 mmtonnes/y of LNG equal to a feedstock of 7.6 bcm/y of natural gas. In 2007, the Gas & Power segment withdrew 0.8 mmtonnes of LNG to be marketed in Europe.
The partners of the project (Unión Fenosa Gas, the state owned Egyptian company EGAS and oil producers Eni and BP) defined terms and conditions for doubling the plant capacity with an expected capital expenditure of approximately $2 billion.
The project is expected to be approved by the Egyptian authorities in the first half of 2008.

**Spain**

Eni through Unión Fenosa Gas holds a 21.25% interest in the Sagunto (Valencia) regasification plant with a capacity of 6.7 bcm/y. Eni s share of regasification capacity amounts to 1.6 bcm/y of gas. In 2007 the plant regasified 0.9 mmtonnes of LNG net to Eni, equivalent markets through a 10-year supply contract of 1.3 bcm/y. Due to the opening of the French gas market from July 1, 2007, the French retail market presents significant development opportunities representing more than 60% of overall gas volumes sold in France with a potential of 11.5 million customers.

to 1.4 bcm to be marketed in the Iberian Peninsula, particularly to power producers. A capacity upgrading plan is underway targeting a 0.8 bcm/y capacity increase by 2009 and the construction of a third storage tank. Eni through Unión Fenosa Gas also holds a 9.5% interest in the El Ferrol regasification plant, located in Galicia, that started operations in the second half of 2007. The plant has a treatment capacity of approximately 3.6 bcm/y, 0.4 bcm/y being Eni s share of capacity. Through Unión Fenosa Gas Eni acquired the Spanish company Nuelgas, which owns a few small natural gas field nearing depletion with the aim of turning them into storage sites.

**USA**

Eni is implementing a global development strategy of its LNG business aimed in particular at expanding its presence in the strategic US market where Eni holds a 40% interest in the regasification terminal under construction on the coast of Louisiana (with an initial outbound capacity of 15.5 bcm/y, 6 net to Eni). Eni is implementing certain initiatives to ensure its share of supplies to the plant, particularly: (i) in February 2007, an agreement was signed with Nigeria LNG Ltd, which operates the Bonny LNG plant in Nigeria, to purchase, over a twenty-year period, 1.375 mmtonnes/y of LNG, equivalent to 2 bcm/y of gas, deriving from the upgrade of the Bonny liquefaction plant ($7^{th}$ train) expected for 2012; (ii) negotiations are also progressing with Brass LNG Ltd for the purchase of 1.67 mmtonnes/y of LNG approximately equivalent to 2.3 bcm/y of gas.

In December 2007, Eni purchased a share of 5.6 bcm/y capacity of the Pascagoula regasification plant under construction in Mississippi. This transaction is related to the Angola LNG project in partnership with Sonangol (See Development initiatives in the Exploration & Production division) which provides construction of an LNG plant designed to produce 5.2 mmtonnes/year to be fed with natural gas produced in Angola. The LNG will be marketed in the Unites States at the Pascagoula site, for an amount corresponding to 7.3 bcm of gas. Under the agreement, Eni will also have the right to have its equity gas in Angola liquefied, shipped and regasified at Pascagoula by Angola LNG for a quantity equivalent to 0.94 bcm/y.

**Italy**

Eni plans to upgrade the existent regasification capacity at Panigaglia plant by 4.5 bcm/y with expected start up

TRANSPORT INFRASTRUCTURES

**Agreement with Gazprom: South Stream project**

On June 23, 2007, as part of the strategic alliance with Gazprom, Eni signed a Memorandum of Understanding for building the South Stream pipeline system that will transport Russian gas to European markets across the Black Sea. The agreement provides for a technical and economic feasibility study of the project, the necessary political and regulatory evaluations and approvals, and establishes the guidelines for the cooperation between both companies for the planning, financing, construction and technical and commercial management of the pipelines. The transport capacity of South Stream will be defined through feasibility studies on the basis of market analyses that will be carried out in the countries involved as well as in the end markets. To this end, the partners established a joint venture, South Stream AG which will execute the technical, economic and political feasibility study of the project by end of 2008. An evaluation by Saipem indicates expenditures required by this project to be similar to those required for the construction of a full LNG chain.

The South Stream pipeline is expected to be composed of two sections: (i) an offshore section crossing the Black Sea from the Russian coast at Beregovaya (where also the Blue Stream pipeline originates) to Varna on the Bulgarian coast for a total of 900 kilometers at maximum depths of 2,000 meters; (ii) an onshore section crossing Bulgaria with two alternatives: one directed to North-West crossing Serbia and Hungary linking with the gaslines from Russia and the other directed to South-West through Greece and Albania linking directly to the Italian network. This initiative will support Eni in extracting further value from the acquisition of ex-Yukos gas assets.

**GreenStream - Libya**

Eni plans to upgrade the GreenStream gasline from Libya targeting an expansion of transport capacity from 8 to 11 bcm/y by 2012.

**TAG - Russia**

The TAG gasline is undergoing an upgrade designed to increase the transport capacity by 6.5 bcm/y from the current 37 bcm/year. A first 3.2 bcm portion of the upgrade was assigned to third parties in February 2006 and is expected to be operating from October 1, 2008.

in 2014. In addition, preliminary studies are underway for the realization of a new regasification terminal in the Adriatic offshore aimed at identifying technical solutions.

The second portion of 3.3 bcm/y is expected to start operating in the fourth quarter of 2008 due to difficulties in authorization procedures. Its awarding will take place in 2008.

39

**TTPC - Algeria**

The transport capacity of the TTPC gasline from Algeria is expected to be increased by 6.5 bcm/y from the current 27 bcm/y. A 3.2 bcm/y portion is planned to come on line on April 1, 2008, and it was awarded to third parties in November 2005. A second 3.3 bcm/y portion due to come on line on October 1, 2008 has been awarded to third parties in February 2007.
A corresponding capacity on the TMPC downstream gasline is already available. TMPC crosses underwater the Sicily channel.

Eni is also planning to upgrade the capacity of its import trunklines from the Netherlands and Norway (Tenp and Transitgas pipelines).

**Galsi**

Snam Rete Gas is planning to build the Italian section of the new Galsi pipeline for importing Algerian gas to Italy through Sardinia with a capacity of 8 bcm/y.
The Italian section of this new infrastructure will be made up of an onshore section crossing Sardinia and an offshore section from Sardinia to Tuscany where it will link to the national network with a total length of 600 kilometers. Galsi is in charge for planning and engineering the project and obtaining all the required authorizations. Snam Rete Gas in charge for building the pipeline and managing gas transport once it starts operations.

Italy: Portovenere, LNG Lerici tanker

# Regulatory framework

**Legislative Decree No. 164/2000**

Legislative Decree No. 164/2000 imposed thresholds to operators until December 31, 2010 computed as a share of domestic consumption as follows: (i) effective January 1, 2002, operators are forbidden from transmitting into the national transport network imported or domestically produced gas volumes higher than a preset share of Italian final consumption. This share is 75% of total final consumption in the first year of regulation and then is to decrease by 2 percentage points per year to achieve a 61% threshold in terms of final consumption by 2009; and (ii) effective January 1, 2003, operators are forbidden from marketing gas volumes to final customers in excess of 50% of overall volumes marketed to final customers. Compliance with these ceilings is verified yearly by comparing the allowed average share computed on a three-year period for both volumes input and volumes marketed to the actual average share achieved by each operator in the same three-year period. Allowed shares are calculated net of losses (in the case of sales) and volumes of natural gas consumed in own operations. Particularly, 2007 closes the third three-year regulated period for natural gas volumes input in the domestic transport network, for which the allowed percentage was 67% of domestic consumption of natural gas, and the second three-year regulated period for sales volumes to the Italian market. Eni s presence on the Italian market complied with said limits.

# POWER GENERATION

Eni s electricity generation sites are located in Ferrera Erbognone, Ravenna, Livorno, Taranto, Mantova, Brindisi and Ferrara.
In 2007, electricity production sold was 25.49 TWh, up 0.67 TWh or 2.7% from 2006, due mainly to dull operation of the Brindisi plant. At December 31, 2007 installed capacity was 4.9 GW.
Eni expects to complete the upgrading plan of its power generation capacity in 2010, targeting an installed capacity of 5.5 GW. The development plan is underway at Ferrara (Eni s interest 51%), where in partnership with Swiss company EG Luxembourg AG the construction of two new 390 megawatt combined cycle units is nearing completion. This will bring installed capacity to 840 megawatt with start-up expected in 2008. The start-up of a new 240 megawatt combined cycle unit located in Taranto (current capacity 75 megawatt) is expected in 2008.

| | | 2005 | 2006 | **2007** | Change | % Ch. |
|---|---|---|---|---|---|---|
| **Purchases** | | | | | | |
| Natural gas | (mmcm) | 4,384 | 4,775 | **4,860** | 85 | 1.8 |
| Other fuels | (ktoe) | 563 | 616 | **720** | 104 | 16.9 |
| Electricity production sold | (TWh) | 22.77 | 24.82 | **25.49** | 0.67 | 2.7 |
| Steam | (ktonnes) | 10,660 | 10,287 | **10,849** | 562 | 5.5 |

## Capital expenditures

Capital expenditures in the Gas & Power segment totaled euro 1,366 million and mainly related to:
(i) developing and upgrading Eni s primary transport network in Italy (euro 691 million); (ii) the upgrading plan of international pipelines (euro 253 million); (iii) developing and upgrading Eni s natural gas distribution network in Italy (euro 195 million); (iv) ongoing construction of combined cycle power plants (euro 175 million), in particular at the Ferrara site.

| **Capital expenditures** | (million euro) | 2005 | 2006 | **2007** | Change | % Ch. |
|---|---|---|---|---|---|---|
| **Italy** | | **1,066** | **1,014** | **1,063** | **49** | **4.8** |
| **Outside Italy** | | **86** | **160** | **303** | **143** | **89.4** |
| | | **1,152** | **1,174** | **1.366** | **192** | **16.4** |
| **Market** | | **40** | **63** | **52** | **(11)** | **(17.5)** |
| Italy | | 2 | | **2** | 2 | |
| Outside Italy | | 38 | **63** | **50** | (13) | (20.6) |
| **Distribution** | | **182** | **158** | **195** | **37** | **23.4** |
| **Transport** | | **691** | **724** | **944** | **220** | **30.4** |

| | | | | | |
|---|---|---|---|---|---|
| Italy | 643 | **627** | **691** | 64 | 10.2 |
| Outside Italy | 48 | **97** | **253** | 156 | .. |
| **Power generation** | **239** | **229** | **175** | **(54)** | **(23.6)** |
| | **1,152** | **1,174** | **1,366** | **192** | **16.4** |

| Key performance indicators | | 2005 | 2006 | 2007 |
|---|---|---|---|---|
| Net sales from operations [a] | (million euro) | 33,732 | 38,210 | **36,401** |
| Operating profit | | 1,857 | 319 | **729** |
| Adjusted operating profit | | 1,214 | 790 | **329** |
| Adjusted net profit | | 945 | 629 | **319** |
| Capital expenditures | | 656 | 645 | **979** |
| Adjusted capital employed, net | | 5,326 | 5,766 | **7,149** |
| Adjusted ROACE | (%) | 18.2 | 10.7 | **5.0** |
| Refining throughputs on own account | (mmtonnes) | 38.79 | 38.04 | **37.15** |
| Conversion index | (%) | 56 | 57 | **56** |
| Refining throughputs of wholly-owned refineries | | 27.34 | 27.17 | **27.79** |
| Balanced capacity of wholly-owned refineries | (kbbl/d) | 524 | 534 | **544** |
| Retail sales of petroleum products in Europe | (mmtonnes) | 12.42 | 12.48 | **12.65** |
| Service stations in Europe at period end | (units) | 6,282 | 6,294 | **6,441** |
| Average throughput of service stations in Europe | (kliters) | 2,479 | 2,470 | **2,486** |
| Employees at year end | (units) | 8,894 | 9,437 | **9,428** |

(a) Before elimination of intragroup sales.

## Portfolio developments

Purchased 102 retail stations owned by ExxonMobil in the Czech Republic, Slovakia and Hungary. The agreement also includes the business of marketing fuels at the Prague and Bratislava airports and certain lubricants activities.

Purchased a 16.11% stake in the Czech Refining Company, increasing Eni s ownership interest to 32.4% equal to a refining capacity of 2.6 mmtonnes per year. This acquisition supports the selective growth in Europe.

42

In accordance with the agreement signed in December 2005 by majority shareholders (Eni 33.34%, Amorim Energia and Caixa Geral de Depósitos) Galp Energia exercised its call option to acquire Eni s Agip branded oil products marketing activities in the Iberian region both in the retail and wholesale markets. The transaction, subject to approval from antitrust authorities, includes 371 service stations. The closing is expected in 2008.

**Financial results**

In 2007, adjusted net profit was down euro 310 million to euro 319 million, or 49.3%, reflecting lower realized refining margins, mainly for complex refineries, and the appreciation of the euro over the dollar. The negative result was also influenced by a lower operating performance of marketing activities in Italy.

Eni s realized refining margins were sharply lower mainly due to narrowed sour crude discounts which reduced the competitive advantage of Eni s complex refineries to process low-cost feedstock.

Return on average capital employed on an adjusted basis was 5% (10.7% in 2006).

Capital expenditures totalled euro 979 million and related mainly to projects designed to improve the conversion rate and flexibility of refineries and upgrade the refined product retail network in Italy and in the rest of Europe.

**Operating results**

Refining throughputs on own account in Italy and outside Italy (37.15 mmtonnes) declined by 0.89 mmtonnes from 2006, down 2.3%, reflecting the expiry of a processing contract at the Priolo refinery owned by third parties. Excluding this effect, refining throughputs in Italy increased by 1.5% due to better performance of Livorno e Gela refineries.

Retail market share in Italy was 29.2%. Sales of refined products (8.62 mmtonnes) declined by 0.5% from 2006 particularly due to the decline in domestic consumption.

Retail sales of refined products in the rest of Europe (4.03 mmtonnes) were up 5.5%, particularly in Central Eastern Europe reflecting growth via acquisitions.

In 2007 Eni started/restructured at its service stations in Italy 89 stores for the sale of convenience items and car services. Non oil revenues in Europe amounted to euro 144 million, up 6% from 2006.

Italy - Livorno refinery

## Supply and trading

In 2007, a total of 59.56 mmtonnes of crude were purchased (65.70 mm in 2006), of which 31.57 mmtonnes from Eni s Exploration & Production[1] segment, 16.65 mmtonnes under long-term contracts with producing countries and 11.34 mmtonnes on the spot market. Some 24% of crude purchased came from West Africa, 22% from countries of the former Soviet Union, 18% from North Africa, 15% from the Middle East, 12% from the North Sea, 7% from Italy and 2% from other areas.

Some 25.82 mmtonnes of crude purchased were marketed, down 15.8% from 2006. In addition, 3.59 mmtonnes of intermediate products were purchased (3.18 mmtonnes in 2006) to be used as feedstock in conversion plants and 16.14 mmtonnes of refined products (16 mmtonnes in 2006) were purchased to be sold on markets outside Italy (13.87 mmtonnes) and on the Italian market (2.27 mmtonnes) as a complement to own production.

| **Supply of oil** (mmtonnes) | 2005 | 2006 | **2007** | Change | % Ch. |
|---|---|---|---|---|---|
| Production outside Italy | 32.86 | 32.76 | **27.47** | (5.29) | (16.1) |
| Production in Italy | 4.44 | 4.05 | **4.10** | 0.05 | 1.2 |
| **Total Eni production** | **37.30** | **36.81** | **31.57** | **(5.24)** | **(14.2)** |
| Spot markets | 14.33 | 10.73 | **11.34** | 0.61 | 5.7 |
| Long-term contracts | 14.85 | 18.16 | **16.65** | (1.51) | (8.3) |
| | **66.48** | **65.70** | **59.56** | **(6.14)** | **(9.3)** |

(1) The Refining & Marketing segment purchases approximately two-thirds of the Exploration & Production segment s liquid production and resold on the marketplace those crude and condensate qualities that are not fit for processing at Eni s refineries also considering the geographic area of production.

# Refining

In 2007, refining throughputs on own account in Italy and outside Italy were 37.15 mmtonnes, down 0.89 mmtonnes from 2006, or 2.3%, owing to the expiry of a processing contract at the Priolo refinery. Excluding this effect, refining throughputs in Italy increased by 1.5% due to better performance of Livorno e Gela refineries related to lower planned and unplanned downtime.
Total throughputs on wholly-owned refineries (27.79 mmtonnes) increased 0.62 mmtonnes from 2006, up 2.3%.
Approximately 30.2% of volumes of processed crude was supplied by Eni s Exploration & Production segment (35.9% in 2006), representing an over five percentage point decrease from 2006. Lower equity volumes of some 2.44 mmtonnes related to a reduction of supplies of the

| **Availability of refined products** (mmtonnes) | 2005 | 2006 | **2007** | Change | % Ch. |
|---|---|---|---|---|---|
| ***Italy*** | | | | | |
| ***Refinery throughputs*** | | | | | |
| At wholly-owned refineries | 27.34 | 27.17 | **27.79** | 0.62 | 2.3 |
| Less input on account of third parties | (1.70) | (1.53) | **(1.76)** | (0.23) | 15.0 |
| At affiliates refineries | 8.58 | 7.71 | **6.42** | (1.29) | (16.7) |
| ***Refinery throughputs on own account*** | ***34.22*** | ***33.35*** | ***32.45*** | ***(0.90)*** | ***(2.7)*** |
| Consumption and losses | (1.87) | (1.45) | **(1.63)** | (0.18) | 12.4 |
| **Products available for sale** | **32.35** | **31.90** | **30.82** | **(1.08)** | **(3.4)** |
| Purchases of refined products and change in inventories | 4.85 | 4.45 | **2.16** | (2.29) | (51.5) |
| Products transferred to operations outside Italy | (5.41) | (4.82) | **(3.80)** | 1.02 | (21.2) |
| Consumption for power generation | (1.09) | (1.10) | **(1.13)** | (0.03) | 2.7 |
| **Sales of products** | **30.70** | **30.43** | **28.05** | **(2.38)** | **(7.8)** |
| ***Outside Italy*** | | | | | |
| ***Refinery throughputs on own account*** | ***4.57*** | ***4.69*** | ***4.70*** | ***0.01*** | ***0.2*** |
| Consumption and losses | (0.24) | (0.32) | **(0.31)** | 0.01 | (3.1) |
| **Products available for sale** | **4.33** | **4.37** | **4.39** | **0.02** | **0.5** |
| Purchases of refined products and change in inventories | 11.19 | 11.51 | **13.91** | 2.40 | 20.9 |
| Finished products transferred from Italian operations | 5.41 | 4.82 | **3.80** | (1.02) | (21.2) |
| **Sales of products** | **20.93** | **20.70** | **22.10** | **1.40** | **6.8** |
| **Refining throughputs on own account** | **38.79** | **38.04** | **37.15** | **(0.89)** | **(2.3)** |
| **Total equity crude input** | **12.53** | **13.66** | **11.22** | **(2.44)** | **(17.8)** |
| **Total sales of refined products** | **51.63** | **51.13** | **50.15** | **(0.98)** | **(1.9)** |

Libyan Bu-Attifel crude processed at the Priolo refinery due to the above mentioned process contract expiry.

*Purchase of Ceska Rafinerska*

On September 1, 2007 Eni closed an agreement for the purchase of a 16.11% stake in the Czech Refining Company from ConocoPhillips, thus increasing Eni s ownership interest to 32.4% equal to a refining capacity of 2.6 mmtonnes per year. This acquisition supports the selective growth of marketing activities in Central-Eastern Europe.

45

**Contents**



# Marketing of refined products

In 2007, sales volumes of refined products (50.15 mmtonnes) were down 0.98 mmtonnes from 2006, or 1.9%, mainly due to lower volumes sold to oil companies and traders in Italy, lower volumes supplied to the petrochemical sector due to the expiry of a processing contract at the Priolo refinery and a decline in wholesale sales in Italy. These declines were partly offset by higher retail and wholesale sales on markets in the rest of Europe (up 0.41 mmtonnes, or 5.1%).

| Sales of refined products in Italy and outside Italy (mmtonnes) | 2005 | 2006 | 2007 | Change | % Ch. |
|---|---|---|---|---|---|
| **Italy** | | | | | |
| Retail marketing | 10.05 | 8.66 | **8.62** | (0.04) | (0.5) |
| *- Agip brand* | *8.75* | *8.66* | ***8.62*** | *(0.04)* | *(0.5)* |
| *- IP brand* | *1.30* | | | | |
| Wholesale marketing | 12.11 | 11.74 | **11.09** | (0.65) | (5.5) |
| Petrochemicals | 3.07 | 2.61 | **1.93** | (0.68) | (26.1) |
| Other sales | 5.47 | 7.42 | **6.41** | (1.01) | (13.6) |
| **Total** | **30.70** | **30.43** | **28.05** | **(2.38)** | **(7.8)** |
| **Outside Italy** | | | | | |
| Retail marketing rest of Europe | 3.67 | 3.82 | **4.03** | 0.21 | 5.5 |
| Wholesale marketing outside Italy | 4.50 | 4.60 | **4.96** | 0.36 | 7.8 |
| *of which wholesale marketing rest of Europe* | *4.10* | *4.19* | ***4.39*** | *0.20* | *4.8* |
| Other sales | 12.76 | 12.28 | **13.11** | 0.83 | 6.8 |
| **Total** | **20.93** | **20.70** | **22.10** | **1.40** | **6.8** |
| | **51.63** | **51.13** | **50.15** | **(0.98)** | **(1.9)** |

| Retail and wholesale sales of refined products (mmtonnes) | 2005 | 2006 | 2007 | Change | % Ch. |
|---|---|---|---|---|---|
| **Italy** | | | | | |
| **Retail sales** | **10.05** | **8.66** | **8.62** | **(0.04)** | **(0.5)** |
| Gasoline | 4.35 | 3.38 | **3.19** | (0.19) | (5.6) |
| Gasoil | 5.49 | 5.09 | **5.25** | 0.16 | 3.1 |
| LPG | 0.20 | 0.18 | **0.17** | (0.01) | (5.6) |
| Lubricants | 0.01 | 0.01 | **0.01** | | |
| **Wholesale sales** | **12.11** | **11.74** | **11.09** | **(0.65)** | **(5.5)** |
| Gasoil | 4.86 | 4.60 | **4.42** | (0.18) | (3.9) |
| Fuel oil | 1.50 | 1.27 | **0.95** | (0.32) | (25.2) |
| LPG | 0.46 | 0.41 | **0.37** | (0.04) | (9.8) |
| Gasoline | 0.16 | 0.15 | **0.15** | | |
| Lubricants | 0.13 | 0.13 | **0.13** | | |
| Bunker | 1.63 | 1.68 | **1.58** | (0.10) | (6.0) |
| Other | 3.37 | 3.50 | **3.49** | (0.01) | (0.3) |
| **Outside Italy (retail + wholesale)** | **8.17** | **8.42** | **8.99** | **0.57** | **6.8** |
| Gasoline | 2.14 | 2.06 | **2.29** | 0.23 | 11.2 |
| Gasoil | 4.71 | 4.90 | **5.16** | 0.26 | 5.3 |

| | | | | | |
|---|---|---|---|---|---|
| Jet fuel | 0.34 | 0.34 | **0.38** | 0.04 | 11.8 |
| Fuel oil | 0.12 | 0.23 | **0.25** | 0.02 | 8.7 |
| Lubricants | 0.10 | 0.10 | **0.09** | (0.01) | (10.0) |
| LPG | 0.44 | 0.46 | **0.49** | 0.03 | 6.5 |
| Other | 0.32 | 0.33 | **0.33** | | |
| | **30.33** | **28.82** | **28.70** | **(0.12)** | **(0.4)** |

**Retail sales in Italy**

Retail volumes of refined products marketed on the Italian network (8.62 mmtonnes) were down 39 ktonnes from 2006, or 0.5% mainly due to a decline in domestic consumption.

This decline mainly regarded gasoline volumes, while gasoil sales increased following the same pattern as national consumption trends. Market share of the Agip branded network went from 29.3% in 2006 to 29.2% in 2007; average throughput measured on gasoline and gasoil sales was 2,444 kliters, down 0.8% from 2006.

At December 31, 2007, Eni s retail network in Italy consisted of 4,390 service stations, 34 more than at December 31, 2006, resulting from the opening of new service stations (26 units) and the positive balance of acquisitions/releases of lease concessions (23 units), in addition to 13 service stations with other lease contracts, offset in part by the closing of service stations with low throughput (23 units) and the release of 5 service stations under highway concessions.

Retail volumes of BluDiesel a high performance and low environmental impact gasoil amounted to approximately 735 ktonnes (850 mmliters), up 1.2% from 2006 and represented 14% of gasoil sales on the Eni s retail network. At year-end, virtually all Agip branded service stations marketed BluDiesel (about 4,094 equal to 93%).

Retail volumes of BluSuper a high performance and low environmental impact gasoline, on sale since 2004 amounted to approximately 98 ktonnes (114 mmliters), in line with 2006 and covered 3% of gasoline volumes sold on the Eni s retail network. At year-end, service stations marketing BluSuper totaled 2,565 units (2,316 at December 31, 2006) covering to approximately 58% of Eni s network.

In March 2007, Eni launched its new You&Agip promotional programme designed to boost customer loyalty to the Agip brand. The three-year long initiative offers prizes to customers in proportion to purchases of fuels and convenience items at Agip s stores as well as at certain partners to the programme. At every purchase of fuels or mentioned items, clients are granted a proportional amount of points that are credited to a fidelity card. Clients are able to decide how to accumulate points and when to spend them. At year-end, the number of active cards was approximately 3.9 million. Volumes of fuel marketed under this initiative

**Retail sales outside Italy**

In recent years, Eni s strategy focused on selectively growing its market share, particularly by means of acquisition of assets in European areas with interesting profitability perspectives, mainly in Central-Eastern Europe (Southern Germany, Austria, the Czech Republic and Hungary) and in South-Eastern France. In implementing its growth strategy, Eni has been able to leverage on synergies ensured by the proximity of these markets to Eni s production and logistic facilities.

Over the last four years, retail volumes of refined products marketed in the rest of Europe have grown more than 33% (equal to a compound average growth rate of 7.5%). In 2007, retail sales were 4.03 mmtonnes, up 212 ktonnes from 2006, or 5.5%, reflecting the purchase of 102 service stations in the Czech Republic, Slovakia and Hungary effective from October 1, 2007 and higher volumes sold in Austria.

Volume growth was driven primarily by increased sales of gasoil and LPG, while gasoline volumes declined.

At December 31, 2007, Eni s retail network in the rest of Europe consisted of 2,051 units, an increase of 113 units from December 31, 2006. The network s evolution was as follows: (i) 106 service stations were acquired, of which 102 units in the Czech Republic, Slovakia and Hungary; (ii) 10 new outlets were opened in Spain and France; (iii) 25 low throughput service stations were closed in Spain and Austria; (iv) a positive balance of acquisitions/releases of lease concessions (up 3 units) was recorded, with positive changes in Spain, Hungary and the Czech Republic, and negative ones in Germany represented 40.1% of total volumes marketed on Eni s service stations joining the programme, and 39.4% of overall volumes marketed on the Agip network.

and France. Average throughput (2,578 kliters) was up 3.7%.

*Purchase of a retail network in the Czech Republic, Slovakia and Hungary*

On October 1, 2007 Eni closed an agreement with ExxonMobil for the purchase of a network of service station in the Czech Republic, Slovakia and Hungary and the business for marketing fuels at the Prague and Bratislava airports and certain lubricant activities. The retail network acquired included 102 service stations with an average throughput of 4.5 mml/y in addition to 15 service stations whose construction is being evaluated. This agreement is part of a strategy of selective development of the Refining & Marketing division in markets with interesting growth opportunities where Eni can leverage on the integration of its marketing activities with own refining and logistics operations and an established brand.

**Wholesale and other sales**

Sales volumes on wholesale markets in Italy (11.09 mmtonnes) were down 0.65 mmtonnes from 2006, or 0.5%, reflecting mainly a decline in domestic consumption of heating oil from the power generation sector, the exceptionally mild weather conditions that negatively influenced the sales of heating products (gasoil and to a lower degree LPG) in the first quarter and competitive pressure. These declines were offset only in part by the growth in aviation fuels sales reflecting a recovery in the airline industry.

Sales on wholesale markets in the rest of Europe (4.39 mmtonnes) increased 205 ktonnes, or 4.8%, mainly due to the contribution from assets acquired.

Supplies of feedstock to the petrochemical industry (1.93 mmtonnes) declined by 680 ktonnes due to the expiry of a processing contract at the Priolo refinery.

Other sales (19.52 mmtonnes) decreased by 0.86 mm tonnes, or 3.9%, mainly due to lower sales to oil companies and traders (down 1.01 mmtonnes) in Italy.

## Capital expenditures

In 2007, capital expenditures in the Refining & Marketing segment amounted to euro 979 million (euro 645 million in 2006) and regarded mainly: (i) refining, supply and logistics (euro 675 million) in Italy, with projects designed to improve the conversion rate and flexibility of refineries, in particular the start-up of construction of a new hydrocracking unit at the Sannazzaro refinery, and expenditures on health, safety and environment upgrades; (ii) upgrade and restructuring of the retail network in Italy (euro 176 million); (iii) upgrade of the retail network in the rest of Europe (euro 106 million). Expenditures on health, safety and the environment amounted to euro 141 million.

| **Capital expenditures** | (million euro) | 2005 | 2006 | **2007** | Change | % Ch. |
|---|---|---|---|---|---|---|
| Italy | | 585 | 547 | **873** | 326 | 59.6 |
| Outside Italy | | 71 | 98 | **106** | 8 | 8.2 |
| | | **656** | **645** | **979** | **334** | **51.8** |
| **Refining, supply and logistics** | | **349** | **376** | **675** | **299** | **79.5** |
| Italy | | 349 | 376 | **675** | 299 | 79.5 |
| **Marketing** | | **225** | **223** | **282** | **59** | **26.5** |
| Italy | | 154 | 125 | **176** | 51 | 40.8 |
| Outside Italy | | 71 | 98 | **106** | 8 | 8.2 |
| **Other activities** | | **82** | **46** | **22** | **(24)** | **(52.2)** |
| | | **656** | **645** | **979** | **334** | **51.8** |

| **Key performance indicators** | | **2005** | **2006** | **2007** |
|---|---|---|---|---|
| Net sales from operations [(a)] | (million euro) | 6,255 | 6,823 | **6,934** |
| Operating profit | | 202 | 172 | **74** |
| Adjusted operating profit | | 261 | 219 | **90** |
| Adjusted net profit | | 227 | 174 | **57** |
| Capital expenditures | | 112 | 99 | **145** |
| Production | (ktonnes) | 7,282 | 7,072 | **8,795** |
| Sales of petrochemical products | | 5,376 | 5,276 | **5,513** |
| Average plant utilization rate | (%) | 78.4 | 76.4 | **80.6** |
| Employees at year end | (units) | 6,462 | 6,025 | **6,534** |

(a) Before elimination of intragroup sales.

Adjusted net profit was euro 57 million, down euro 117 million from a year ago, or 67.2%, due to lower selling margins reflecting the sharp increase in cost of oil based feedstocks.

Sales of petrochemical products were 5,513 ktonnes, up 237 ktonnes from last year, or 4.5%, due to the outage of the Priolo cracker in 2006 and a better performance.

Petrochemical production volumes were 8,723 ktonnes, up 1,723 ktonnes from 2006, or 24.4%, mainly due to consolidation of operations at the Porto Torres plant.

Efficiency improvement plans implemented helped to partly offset the negative impact of the petrochemical cycle.

# Sales - production - prices

In 2007, sales of petrochemical products (5,513 ktonnes) increased by 237 ktonnes from 2006, up 4.5%, increasing in all business areas except for aromatics (down 2.9%). Increases reflect the fact that performance in 2006 was hit by an accident occurred at the Priolo refinery in April 2006 and a positive market scenario.

Petrochemical production (8,795 ktonnes) increased by 1,723 ktonnes from 2006, up 24.4% due to the transfer of the Porto Torres plant from the Other Activities segment (up 1,274 ktonnes) and and the effect on 2006 production of an accident occurred at Priolo. Excluding these effects production increased by 195 ktonnes, or 2.8%) due to a good performance at the Ravenna, Ragusa and Sarroch plants. Production was lower at Porto Marghera due to unplanned standstills in the second half of the year.

Nominal production capacity was in line with 2006. Excluding the impact of the consolidation of the Porto Torres plant, average plant utilization rate calculated on nominal capacity increased by 4 percentage points from 76.4% to 80.6%, due to the impact of the Priolo plant outage in 2006.

Approximately 48.9% of total production was directed to Eni s own productions cycle (35.2% in 2006).

Oil-based feedstock supplied by Eni s Refining & Marketing Division covered 21% of requirements (10% in 2005).

Prices of Eni s main petrochemical products increased on average by 4%; all business areas posted increases. The most relevant increases were registered in: (i) styrenes (up 6.0%), in particular compact polystyrene and ABS/SAN; (ii) elastomers (up 5.5%), in particular nytrilic, SBR and thermoplastic rubbers; (iii) polyethylene (up 4.9%) with increases in all products; (iv) intermediates (up 4.8%) in particular phenol and cycloexanone; (v) olefins (up 3.8%), in particular ethylene.

These increases were significantly lower than the increase in the cost of oil-based feedstocks (virgin naphtha up 20.4% in dollars, 10.3% in euro) in particular in the second half of the year and determined a decline in margins.

| **Product availability** | (ktonnes) | 2005 | 2006 | **2007** | Change | % Ch. |
|---|---|---|---|---|---|---|
| Basic petrochemicals | | 4,450 | 4,275 | **5,688** | 1,413 | 33.1 |
| Styrene and elastomers | | 1,523 | 1,545 | **1,632** | 87 | 5.6 |
| Polyethylene | | 1,309 | 1,252 | **1,475** | 223 | 17.8 |
| **Production** | | **7,282** | **7,072** | **8,795** | **1,723** | **24.4** |
| Consumption of monomers | | (2,606) | (2,488) | **(4,304)** | (1,816) | 73.0 |
| Purchases and change in inventories | | 700 | 692 | **1,022** | 330 | 47.7 |
| | | **5,376** | **5,276** | **5,513** | **237** | **4.5** |

| **Sales** | (ktonnes) | 2005 | 2006 | **2007** | Change | % Ch. |
|---|---|---|---|---|---|---|
| Basic petrochemicals | | 3,022 | 2,882 | **3,023** | 141 | 4.9 |
| Styrene and elastomers | | 1,003 | 1,000 | **1,041** | 41 | 4.1 |
| Polyethylene | | 1,351 | 1,394 | **1,449** | 55 | 3.9 |
| | | **5,376** | **5,276** | **5,513** | **237** | **4.5** |

# Business areas

**Basic petrochemicals**

Sales of basic petrochemicals of 3,023 ktonnes increased by 141 ktonnes from 2006, up 4.9%, mainly due to higher product availability due in particular to the fact that 2006 was affected by the outage of the Priolo cracker. Main increases were registered in olefins (up 5.8%) and intermediates (up 8.9%) while aromatics sales declined (down 3%), in particular xylene (down 12.5%) due to the shutdown of the paraxylene line at Priolo in April 2007, offset in part by higher sales of benzene (up 15.8%).
Basic petrochemical production (5,688 ktonnes) increased by 1,413 ktonnes, up 33.1%.

**Styrene and elastomers**

Styrene sales (594 ktonnes) were slightly higher from 2006 (up 1.2%). Increasing sales in ABS/SAN (up 34%) reflect the higher product availability due to the fact that 2006 was affected by technical problems at the Mantova plant. Increases of compact polystyrene (up 7.3%) were due to market recovery. Declines were registered in styrene (down 41%) due to lower availability reflecting unexpected outages.
Elastomers sales (447 ktonnes) increased by 8.3% from 2006 due to the consolidation of nytrilic rubbers sales following the purchase of the Porto Torres plant from Syndial. Excluding this effect elastomer sales were in line with 2006. Increases recorded in SBR (up 1.3%), BR (up 5.3%) and thermoplastic rubbers (up 5.5%) due to a positive market trend were offset by lower sales of EPR (down 3.6%) and lattices (down 5.1%).
Styrene production (1,117 ktonnes) increased by 2.7%. Elastomer production (515 ktonnes) increased by 12.7% due to the consolidation of the Porto Torres plant. Excluding this effect, elastomer production increased by 6%. Increases were registered in all products, except for EPR rubber (down 2.7%) reflecting lower availability of raw materials due to technical problems at the Porto Marghera plant and lattices (down 3.8%) due to technical problems at the Hythe plant.

**Polyethylene**

Polyethylene sales (1,449 ktonnes) were up 55 ktonnes or 3.9%, from 2006, reflecting positive market conditions for LPDE (up 6.7%) and EVA (up 3.6%). Production (1,475 ktonnes) increased by 223 ktonnes, or 17.8%, affecting all products, except for EVA (down 2%). HDPE production increased (up 78.7%) due to the consolidation of the Porto Torres plant, also LLDPE and LDPE increased by 9.8% and 8% respectively due to the fact that 2006 was impacted by the outage of the Priolo cracker.

# Capital expenditures

In 2007, capital expenditures (euro 145 million; euro 99 million in 2006) regarded mainly plant upgrades (euro 47 million), environmental protection, safety and environmental regulation compliance (euro 39 million), extraordinary maintenance (euro 29 million) and upkeeping (euro 28 million).

| Key performance indicators | | 2005 | 2006 | 2007 |
|---|---|---|---|---|
| Net sales from operations [a] | (million euro) | 5,733 | 6,979 | **8,678** |
| Operating profit | | 307 | 505 | **837** |
| Adjusted operating profit | | 314 | 508 | **840** |
| Adjusted net profit | | 328 | 400 | **658** |
| Capital expenditures | | 349 | 591 | **1,410** |
| Adjusted ROACE | (%) | 12.0 | 12.8 | **17.1** |
| Orders acquired | | 8,395 | 11,172 | **12,011** |
| Order backlog | | 10,122 | 13,191 | **15,390** |
| Employees at year end | (units) | 28,684 | 30,902 | **33,111** |

(a) Before elimination of intragroup sales.

Adjusted net profit was euro 658 million, up euro 258 million from a year ago or 64.5%, reflecting a better operating performance against the backdrop of favourable trends in the demand for oilfield services.

Return on average capital employed calculated on an adjusted basis was 17.1% in 2007, higher than 2006 (12.8%).

Orders acquired amounted to euro 12,011 million, up euro 839 million from 2006 (+7.5%), in particular in onshore activities.

Order backlog was euro 15,390 million at December 31, 2007 (euro 13,191 million at December 31, 2006).

Capital expenditures amounted to euro 1,410 million in 2007, up euro 819 million or 139% due mainly to the upgrade of the fleet.

# Activity for the year

Among the main orders acquired in 2007 were:

- An EPC contract for Qatar Fertilizer Co SAQ for the construction of two new plants for the production of ammonia and urea and related facilities in the Qafco industrial complex in Qatar;
- An EPC contract for Sonatrach for the construction of three oil stabilization and treatment trains with a capacity of 100 kbbl/d and transport and storage facilities within the development of the Hassi Messaoud onshore field in Algeria;
- An EPC contract for MEDGAZ for the installation of an underwater pipeline system for the transport of natural gas from Algeria to Spain;
- An EPC contract for Saudi Aramco for the construction of the nine sea water treatment modules for the expansion of the Qurayya plant within the development of the Khursaniyah field in Saudi Arabia;
- An EPC contract for Saudi Aramco for the construction and installation of 16 platforms, 80 kilometers of underwater pipelines and related facilities aimed at maintaining production capacity in Saudi Arabia;
- An EPC contract for Saudi Aramco for the construction of stations for pumping in fields the water from expansion of the Qurayya plant.

Orders acquired amounted to euro 12,011 million, of these projects to be carried out outside Italy represented 95%, while orders from Eni companies amounted to 16% of the total. Eni s order backlog was euro 15,390 million at December 31, 2007 (euro 13,191 million at December 31, 2006). Projects to be carried out outside Italy represented 95% of the total order backlog, while orders from Eni companies amounted to 22% of the total.

In October 2007, Saipem acquired almost total interest in Frigstad Discoverer Invest, listed on the Norweigen

| (million euro) | 2006 | Full year 2007 | Change | % Ch. |
|---|---|---|---|---|
| **Orders acquired** | **11,172** (b) | **12,011** | **839** | **7.5** |
| Offshore construction | 3,681 | **3,496** | (185) | (5.0) |
| Onshore construction | 4,923 | **6,236** | 1,313 | 26.7 |
| Offshore drilling | 2,230 | **1,644** | (586) | (26.3) |
| Onshore drilling | 338 | **635** | 297 | 87.9 |
| *of which:* | | | | |
| - Eni | 2,692 | **1,923** | (769) | (28.6) |
| - third parties | 8,480 | **10,088** | 1,608 | 19.0 |
| *of which:* | | | | |
| - Italy | 1,050 | **574** | (476) | (45.3) |
| - outside Italy | 10,122 | **11,437** | 1,315 | 13.0 |

| (million euro) | Dec. 31, 2006 | Dec. 31, 2007 | Change | % Ch. |
|---|---|---|---|---|
| **Order backlog** | **13,191** (b) | **15,390** | **2,199** | **16.7** |

| | | | | |
|---|---|---|---|---|
| Offshore construction | 4,283 | **4,215** | (68) | (1.6) |
| Onshore construction | 6,285 | **7,003** (a) | 718 | 11.4 |
| Offshore drilling | 2,247 | **3,471** | 1,224 | 54.5 |
| Onshore drilling | 376 | **701** | 325 | 86.4 |
| *of which:* | | | | |
| - Eni | 2,602 | **3,399** | 797 | 30.6 |
| - third parties | 10,589 | **11,991** | 1,402 | 13.2 |
| *of which:* | | | | |
| - Italy | 1,280 | **799** | (481) | (37.6) |
| - outside Italy | 11,911 | **14,591** | 2,680 | 22.5 |

(a) Net of the backlog of divested companies (Haldor Topsøe and Camom Group) for euro 181 million.
(b) Includes the Bonny project for euro 28 million in orders acquired and euro 101 million in order backlog.

Stock Exchange. This company is engaged in the ultra-deep offshore drilling activities by means of an ongoing project for the construction of the semisubmersible rig D90 capable of drilling to a maximum depth of 3,600 meters. The vessel is expected to start operations in the third quarter of 2009. Total outlay for the purchase of the company and completion of construction of the vessel totals euro 520 million.

# Capital expenditures

In 2007, capital expenditures in the Engineering & Construction division (euro 1,410 million) mainly regarded: (i) ongoing construction of the new semisubmersible platform Scarabeo 8 and a new pipelayer and a new deepwater drilling ship Saipem12000; (ii) the conversion of two tanker ships into FPSO vessels that will operate in Brazil on the Golfinho 2 field and in Angola.

| (million euro) | 2005 | 2006 | **2007** | Change | % Ch. |
|---|---|---|---|---|---|
| Offshore construction | 262 | 390 | **566** | 176 | 45.1 |
| Onshore construction | 20 | 53 | **76** | 23 | 43.4 |
| Offshore drilling | 46 | 101 | **478** | 377 | .. |
| Onshore drilling | 13 | 36 | **266** | 230 | .. |
| Other expenditures | 8 | 11 | **24** | 13 | .. |
| Capital expenditures | 349 | 591 | **1,410** | 819 | 138.6 |

Contents



# Financial Review

## PROFIT AND LOSS ACCOUNT

| 2005 | (million euro) | 2006 | **2007** | Change | % Ch. |
|---|---|---|---|---|---|
| 73,728 | Net sales from operations | 86,105 | **87,256** | 1,151 | 1.3 |
| 798 | Other income and revenues | 783 | **827** | 44 | 5.6 |
| (51,918) | Operating expenses | (61,140) | **(61,979)** | (839) | (1.4) |
| *(290)* | *of which non recurring items* | *(239)* | ***(8)*** | | |
| (5,781) | Depreciation, depletion, amortization and impairments | (6,421) | **(7,236)** | (815) | (12.7) |
| **16,827** | **Operating profit** | **19,327** | **18,868** | **(459)** | **(2.4)** |
| (366) | Financial income (expense) | 161 | **(83)** | (244) | .. |
| 914 | Net income from investments | 903 | **1,243** | 340 | 37.7 |
| **17,375** | **Profit before income taxes** | **20,391** | **20,028** | **(363)** | **(1.8)** |
| (8,128) | Income taxes | (10,568) | **(9,219)** | 1,349 | 12.8 |
| *46.8* | *Tax rate (%)* | *51.8* | ***46.0*** | *(5.8)* | |
| 9,247 | Net profit | 9,823 | **10,809** | 986 | 10.0 |
| | Attributable to: | | | | |
| **8,788** | **- Eni** | **9,217** | **10,011** | **794** | **8.6** |
| 459 | - Minority interest | 606 | **798** | 192 | 31.7 |

In 2007 Eni s **net profit** was euro 10,011 million, up euro 794 million from 2006, or 8.6%, primarily due to lower income taxes (down euro 1,349 million) mainly reflecting (i) an adjustment to deferred tax assets and liabilities for Italian subsidiaries relating to certain amendments to the Italian tax regime, including a lower statutory tax rate, enacted by the 2008 Budget Law; (ii) an increase in net income from investments, up euro 340 million, mainly due to net gains on the divestment of interests in certain associates of the Engineering & Construction division. These positive factors were partly offset by a lower reported operating profit (down euro 459 million) mainly in the Exploration & Production division and higher net finance charges (up euro 244 million).

| 2005 | (million euro) | 2006 | **2007** | Change | % Ch. |
|---|---|---|---|---|---|
| **8,788** | **Net profit attributable to Eni** | **9,217** | **10,011** | **794** | **8.6** |
| (759) | Exclusion of inventory holding (gain) loss | 33 | **(499)** | | |
| 1,222 | Exclusion of special items | 1,162 | **(42)** | | |

| | | | | | |
|---|---|---|---|---|---|
| | *of which.* | | | | |
| *290* | *- non recurring items* | *239* | ***35*** | | |
| *932* | *- other special items* | *923* | ***(77)*** | | |
| **9,251** | **Eni s adjusted net profit[a]** | **10,412** | **9,470** | **(942)** | **(9.0)** |

(a) For a detailed explanation of adjusted operating profit and net profit see page 68.

55

**Contents**



Eni s **adjusted net profit** for the year was euro 9,470 million, down euro 942 million, or 9% from 2006. Adjusted net profit is calculated by excluding an inventory holding gain of euro 499 million and special gains of euro 42 million (both amounts are net of the related fiscal effect) resulting in a downward adjustment to reported net profit (down euro 541 million).
Special gains of euro 42 million related mainly to: (i) certain **non recurring charges** amounting to euro 35 million and relating to risk provision on ongoing antitrust proceeding against European authorities, partly offset by a gain deriving from a reduction in the provision accrued for post-retirement benefits for Italian employees following changes in applicable regulation (the so called curtailment of the provision for post retirement benefits); and (ii) **special net gains** amounting to euro 77 million and relating to an adjustment to deferred tax assets and liabilities for Italian subsidiaries as outlined above (totalling euro 394 million) and gains on the divestment of certain interests. These positives were partly offset by mineral asset impairments, environmental charges and provisions for redundancy incentives.

**Return on Average Capital Employed** (ROACE) calculated on an adjusted basis for 2007 was 19.3% (22.7% for 2006). Assuming Gazprom exercises its call options to purchase a 20% interest in OAO Gazprom Neft held by Eni and a 51% interest in the three Russian gas companies purchased as part of a bid procedure for assets of bankrupt Yukos in which Eni held a 60% interest as of December 31, 2007, the Group ROACE would stand at 19.9%.

Eni s results were affected by the appreciation of the euro over the dollar (up 9.2%) and sharply lower realized refining margins reflecting a decrease in sour crude discounts that affected Eni s complex refineries, reducing the competitive advantage to process low-cost feedstock, and lower margins for the refining s secondary products (lubricants and bitumen). These negatives were partially offset by higher crude realizations (up 11.3% in dollar terms) supported by higher Brent prices averaging $72.52 per barrel in the year.

The break-down of **adjusted net profit** by division[1] is shown in the table below:

| 2005 | (million euro) | 2006 | **2007** | Change | % Ch. |
|---|---|---|---|---|---|
| 6,186 | Exploration & Production | 7,279 | **6,491** | (788) | (10.8) |
| 2,552 | Gas & Power | 2,862 | **2,936** | 74 | 2.6 |
| 945 | Refining & Marketing | 629 | **319** | (310) | (49.3) |
| 227 | Petrolchemicals | 174 | **57** | (117) | (67.2) |
| 328 | Engineering & Construction | 400 | **658** | 258 | 64.5 |
| (297) | Other activities | (301) | **(210)** | 91 | 30.2 |
| (142) | Corporate and financial companies | 54 | **(141)** | (195) | .. |
| (89) | Unrealized profit in inventory [(a)] | (79) | **(16)** | 63 | |
| **9,710** | | **11,018** | **10,094** | **(924)** | **(8.4)** |
| | *of which attributable to:* | | | | |
| 459 | Minority interest | 606 | **624** | 18 | 3.0 |
| **9,251** | **Eni** | **10,412** | **9,470** | **(942)** | **(9.0)** |

(a) This item concerned mainly intragroup sales of goods, services and capital assets recorded at period end in the equity of the purchasing business segment.

The decline in the Group **adjusted net profit** was owed to the reduction of adjusted net profit reported in:
- **Exploration & Production** was down euro 788 basis). These negatives were partly offset by higher realizations in dollars (oil up 12.7%; natural gas up 2.2%).

million, or 10.8%, reflecting a lower operating performance (down euro 1,712 million, or 10.9%) impacted by the appreciation of the euro over the dollar (9.2%), lower production volumes sold (down 14.7 mmboe) and higher operating costs and amortization charges particularly relating to higher exploratory expenses (an increase of euro 703 million; euro 840 million on a constant exchange rate

- **Refining & Marketing** was down euro 310 million, or 49.3%, reflecting lower realized refining margins, mainly for complex refineries, and the appreciation of the euro over the dollar. The negative result was also influenced by a lower operating performance in marketing activities in Italy.
- **Petrochemicals** was down euro 117 million, or 67.2%, reflecting a decline in operating performance (down

(1) For a detailed explanation of adjusted operating profit and net profit see page 68.

euro 129 million) resulting from lower selling margins of commodity chemicals.

These negatives were partly offset by the increased adjusted net profit reported in the:
- **Engineering & Construction** was up euro 258 million, or 64.5%, due to an improved operating performance (up euro 332 million) against the backdrop of favourable demand trends in oilfield services.
- **Gas & Power** was up euro 74 million, or 2.6%, due to a better operating performance (up euro 210 million, or 5.4%).

# Analysis of profit and loss account items

### Net sales from operations

| 2005 | (million euro) | 2006 | **2007** | Change | % Ch. |
|---|---|---|---|---|---|
| 22,531 | Exploration & Production | 27,173 | **27,278** | 105 | 0.4 |
| 22,969 | Gas & Power | 28,368 | **27,633** | (735) | (2.6) |
| 33,732 | Refining & Marketing | 38,210 | **36,401** | (1,809) | (4.7) |
| 6,255 | Petrochemicals | 6,823 | **6,934** | 111 | 1.6 |
| 5,733 | Engineering & Construction | 6,979 | **8,678** | 1,699 | 24.3 |
| 863 | Other activities | 823 | **205** | (618) | (75.1) |
| 1,239 | Corporate and financial companies | 1,174 | **1,313** | 139 | 11.8 |
| (19,594) | Consolidation adjustment | (23,445) | **(21,186)** | 2,259 | |
| **73,728** | | **86,105** | **87,256** | **1,151** | **1.3** |

Eni s **net sales from operations** (revenues) for 2007 (euro 87,256 million) were up euro 1,151 million, a 1.3% increase from 2006, primarily reflecting higher activity levels in the Engineering & Construction division and higher realizations on oil and natural gas in dollar terms, partially offset by the impact of the appreciation of the euro versus the dollar (up 9.2%), a decline in hydrocarbon production sold and lower products volumes sold, as well as the negative trends of energy parameters to which gas prices are contractually indexed in the Gas & Power division.

Revenues generated by the Exploration & Production division (euro 27,278 million) increased by euro 105 million, up 0.4%, mainly due to higher oil realizations in dollars (up 12.7%), partially offset by to the impact of the appreciation of the euro versus the dollar and lower hydrocarbon production sold (down 14.7 mmboe, or 2.2%).

Revenues generated by the Gas & Power division (euro

Revenues generated by the Refining & Marketing division (euro 36,401 million) declined by euro 1,809 million, down 4.7%, mainly due to the effect of the appreciation of the euro over the dollar and lower product volumes marketed (-0.98 mmtonnes), partly offset by higher international prices for oil and products.

Revenues generated by the Petrochemical division (euro 6,934 million) increased by euro 111 million from 2006, up 1.6%, reflecting mainly the fact that performance in 2006 was impacted by the unplanned downtime of the Priolo craker and downstream plants as a consequence of an accident that occurred at the nearby refinery in April 2006, resulting in a recovery in production volumes sold (up 4.5%). Commodity chemicals prices were also up by 4% on average.

Net sales from operations generated by the Engineering & Construction division (euro 8,678 million) increased by euro 1,699 million, up 24.3%, due to increased activity levels in the Offshore and Onshore construction

27,633 million) declined by euro 735 million, down 2.6%, mainly due to lower average natural gas prices reflecting negative trends in energy parameters to which gas prices are contractually indexed and a negative shift in the mix of volumes sold.

businesses.

Revenues generated by the Other activities division decreased by euro 618 million to euro 205 million, due to the intragroup divestment of the Porto Torres plant for the production of basic petrochemical products to Polimeri Europa, which occurred in 2007.

## Other income and revenues

The analysis of other income and revenues is provided in the table below:

| 2005 | (million euro) | 2006 | **2007** | Change | % Ch. |
|---|---|---|---|---|---|
| 114 | Contract penalties and other trade revenues | 61 | **181** | 120 | .. |
| 102 | Lease and rental income | 98 | **95** | (3) | (3.1) |
| 89 | Compensation for damages | 40 | **87** | 47 | .. |
| 71 | Gains from sale of assets | 100 | **66** | (34) | (34.0) |
| 422 | Other proceeds [(a)] | 484 | **398** | (86) | (17.8) |
| **798** | | **783** | **827** | **44** | **5.6** |

(*) Each individual amount included herein does not exceed euro 25 million.

## Operating expenses

| 2005 | (million euro) | 2006 | **2007** | Change | % Ch. |
|---|---|---|---|---|---|
| 48,567 | Purchases, services and other | 57,490 | **58,179** | 689 | 1.2 |
| | *of which:* | | | | |
| *290* | *- non-recurring items* | *239* | ***91*** | | |
| *1,300* | *- other special items* | *390* | ***470*** | | |
| 3,351 | Payroll and related costs | 3,650 | **3,800** | 150 | 4.1 |
| | *of which:* | | | | |
| | *- non-recurring items* | | ***(83)*** | | |
| *79* | *- provision for redundancy incentives* | *178* | ***198*** | | |
| **51,918** | | **61,140** | **61,979** | **839** | **1.4** |

**Operating expenses** for 2007 (euro 61,979 million) increased by euro 839 million from 2006, up 1.4%, mainly due to higher purchase prices for refinery and petrochemical feedstock, as well as rising operating costs in the upstream in dollar terms, partly offset by the appreciation of the euro.

**Purchases, services and other** include: (i) **non recurring charges** amounting to euro 91 million mainly related to risk provision on ongoing antitrust proceeding against European authorities. In 2006 non recurring charges of euro 239 million referred mainly to risk provisions on antitrust and regulatory proceedings; (ii) other **special charges** amounting to euro 470 million related mainly to environmental charges (euro 365 million), accounted in particular by Syndial and the Refining & Marketing division. In 2006 other special

**Payroll and related costs** (euro 3,800 million) increased by euro 150 million, up 4.1%, mainly due to higher unit labour costs in Italy and outside Italy and an increase in the average number of employees outside Italy in the Engineering & Construction division related to higher activity levels and the Exploration & Production division related to acquired assets. These increases were offset in part by exchange rate translation differences and a non-recurring gain (euro 83 million) deriving from the curtailment of the provision for post-retirement benefits existing at 2006 year-end related to obligations towards Italian employees. In fact, effective January 1, 2007, Italian laws modified Italian post-retirement benefits scheme from a defined benefit plan to a defined contribution one. Following this, the provision for Italian employees was reassessed to take account of the exclusion of future salaries and relevant charges were euro 390 million including environmental charges (euro 292 million) which were incurred mainly by Syndial and the Refining & Marketing division.

increases from actuarial calculations.

## Depreciation, depletion, amortization and impairments

| 2005 | (million euro) | 2006 | **2007** | Change | % Ch. |
|---|---|---|---|---|---|
| 3,945 | Exploration & Production | 4,646 | **5,483** | 837 | 18.0 |
| 684 | Gas & Power | 687 | **687** | | |
| 462 | Refining & Marketing | 434 | **433** | (1) | (0.2) |
| 118 | Petrochemicals | 124 | **116** | (8) | (6.5) |
| 176 | Engineering & Construction | 195 | **248** | 53 | 27.2 |
| 16 | Other activities | 6 | **4** | (2) | (33.3) |
| 112 | Corporate and financial companies | 70 | **68** | (2) | (2.9) |
| (4) | Unrealized profit in inventory | (9) | **(10)** | (1) | |
| **5,509** | **Total depreciation, depletion and amortization** | **6,153** | **7,029** | **876** | **14.2** |
| 272 | Impairments | 268 | **207** | (61) | (22.8) |
| **5,781** | | **6,421** | **7,236** | **815** | **12.7** |

**Depreciation, depletion and amortization** charges (euro 7,029 million) increased by euro 876 million, up 14.2%, mainly in the Exploration & Production division (up euro 837 million) related to higher exploratory expenditures (euro 703 million, euro 840 million on a constant exchange rate basis), the consolidation of activities acquired in the Gulf of Mexico and Congo and the impact on amortization charges of an estimated update of asset retirement obligations for certain Italian and U.S. fields carried out in the preparation of 2006 financial statements, offset in part by exchange rate differences.

**Impairment** charges for 2007 at euro 207 million regarded mainly mineral assets in the Exploration & Production division and plants and equipment in the Refining & Marketing division.

## Operating profit

An analysis of reported operating profits by division is provided below:

| 2005 | (million euro) | 2006 | **2007** | Change | % Ch. |
|---|---|---|---|---|---|
| 12,592 | Exploration & Production | 15,580 | **13,788** | (1,792) | (11.5) |
| 3,321 | Gas & Power | 3,802 | **4,127** | 325 | 8.5 |
| 1,857 | Refining & Marketing | 319 | **729** | 410 | .. |
| 202 | Petrochemicals | 172 | **74** | (98) | (57.0) |
| 307 | Engineering & Construction | 505 | **837** | 332 | 65.7 |
| (934) | Other activities | (622) | **(444)** | 178 | 28.6 |
| (377) | Corporate and financial companies | (296) | **(217)** | 79 | 26.7 |
| (141) | Impact of unrealized profit in inventory | (133) | **(26)** | 107 | |
| **16,827** | **Operating profit** | **19,327** | **18,868** | **(459)** | **(2.4)** |

## Adjusted operating profit

An analysis of adjusted operating profits by division is provided below:

| 2005 | (million euro) | 2006 | 2007 | Change | % Ch. |
|---|---|---|---|---|---|
| **16,827** | **Operating profit** | **19,327** | **18,868** | **(459)** | **(2.4)** |
| (1,210) | Exclusion of inventory holding (gains) losses | 88 | **(620)** | | |
| 1,941 | Exclusion of special items | 1,075 | **738** | | |
| | *of which:* | | | | |
| *290* | *- non recurring items* | *239* | ***8*** | | |
| *1,651* | *- other special items* | *836* | ***730*** | | |
| **17,558** | **Adjusted operating profit** | **20,490** | **18,986** | **(1,504)** | **(7.3)** |
| | **Break-down by division:** | | | | |
| 12,903 | Exploration & Production | 15,763 | **14,051** | (1,712) | (10.9) |
| 3,531 | Gas & Power | 3,882 | **4,092** | 210 | 5.4 |
| 1,214 | Refining & Marketing | 790 | **329** | (461) | (58.4) |
| 261 | Petrochemicals | 219 | **90** | (129) | (58.9) |
| 314 | Engineering & Construction | 508 | **840** | 332 | 65.4 |
| (296) | Other activities | (299) | **(207)** | 92 | 30.8 |
| (228) | Corporate and financial companies | (240) | **(183)** | 57 | 23.8 |
| (141) | Impact of unrealized profit in inventory | (133) | **(26)** | 107 | |
| **17,558** | | **20,490** | **18,986** | **(1,504)** | **(7.3)** |

**Adjusted operating profit** for 2007 was euro 18,986 million, down euro 1,504 million or 7.3% from 2006. Adjusted operating profit is arrived at by excluding an inventory holding gain of euro 620 million and special charges of euro 738 million net. The main factor affecting this decline was a weaker operating performance reported by:
- the **Exploration & Production** division (down euro 1,712 million from 2006, or 10.9%), primarily due to a 9.2% appreciation of the euro versus the dollar, lower production sold (down 14.7 mmboe), and rising operating costs and amortization charges taken in connection with exploratory activity. These negative factors were partly offset by higher realizations in dollars (oil up 12.7%; natural gas up 2.2%).
- **Refining & Marketing** division (down euro 461 million; or 58.4%) reflecting lower realized refining margins, mainly for complex refineries, and the appreciation of the euro over the dollar.
- **Petrochemicals** (down euro 129 million; or 58.9%), resulting from lower selling margins of commodity chemicals.

These negatives were partly offset by the increased adjusted net profit reported by the **Engineering & Construction** (up euro 332 million, or 65.4%) and **Gas & Power** (up euro 210 million or 5.4%) divisions.

## Financial income (expense)

| 2005 | (million euro) | 2006 | **2007** | Change |
|---|---|---|---|---|
| **(334)** | **Finance income (expense) related to net borrowings** | **(207)** | **(412)** | **(205)** |
| (419) | Finance expense on short and long-term debt | (463) | **(703)** | (240) |
| 60 | Net interest due to banks | 194 | **236** | 42 |
| 25 | Net income from receivables and securities for non-financing operating activities | 62 | **55** | (7) |
| **(386)** | **Income (expense) on derivatives** | **383** | **26** | **(357)** |
| **169** | **Exchange differences, net** | **(152)** | **(51)** | **101** |
| **26** | **Other finance income and expense** | **21** | **174** | **153** |
| | Income from equity instruments | | 188 | 188 |
| 123 | Net income from receivables and securities for financing operating activities and interest on tax credits | 136 | **127** | (9) |
| (109) | Finance expense due to the passage of time (accretion discount) | (116) | **(186)** | (70) |
| 12 | Other | 1 | **45** | 44 |
| **(525)** | | **45** | **(263)** | **(308)** |
| 159 | Finance expense capitalized | 116 | **180** | 64 |
| **(366)** | | **161** | **(83)** | **(244)** |

In 2007 **net finance expense** (euro 83 million) increased by euro 244 million from 2006 when a net finance income of euro 161 was recorded. This decrease was mainly due to: (i) the recognition of lower gains on the fair value evaluation of certain financial derivatives instruments which do not meet the formal criteria to be assessed as hedges under IFRS, including the ineffective portion of the change in fair value of certain derivatives designed as cash flow hedges. Eni entered into these instruments to hedge the exposure to variability in future cash flows in connection with the acquisitions of proved and unproved upstream properties executed in 2007 (for more details on this issues see the Balance sheet discussion under the paragraph net working capital); (ii) the increase in net finance expenses as a result of the increase registered in average net borrowings, as well as the impact of higher interest rates on euro (Euribor up 1.2 percentage points) and dollar loans (Libor up 0.1 percentage points).

These negatives were partly offset by a net gain of euro 188 million recognized in connection with fair value valuation through profit and loss account of both the 20% interest in OAO Gazprom Neft and the related call option guaranteed by Eni to Gazprom related to this interest. This net gain is equal to the remuneration of the capital employed according to the contractual arrangements between the two partners (for more details on this issues see the Balance sheet discussion under the paragraph net working capital).

### Net income from investments

The table below sets forth 2007 break-down of net income from investments by division:

| **2007** (million euro) | Exploration & Production | Gas & Power | Refining & Marketing | Engineering & Construction | Other | **Group** |
|---|---|---|---|---|---|---|
| Share of gains (losses) from equity-accounted investments | 23 | 449 | 216 | 79 | 6 | **773** |
| Dividends | 143 | 4 | 23 | | | **170** |

| | | | | | | |
|---|---|---|---|---|---|---|
| Net gains on disposal | 10 | | | 290 | | **300** |
| Other income (expense) | | (5) | | 1 | 4 | |
| | **176** | **448** | **239** | **370** | **10** | **1,243** |

**Net income from investments** in 2007 were euro 1,243 million and related mainly to: (i) Eni s share of income of affiliates accounted for with the equity method (euro 773 million), in particular in the Gas & Power, Refining & Marketing and Engineering & Construction divisions; (ii) net gains on the divestment of interests in Haldor Topsøe AS and Camom Group (totalling euro 290 million) in the Engineering & Construction division; (iii) dividends received by affiliates accounted for at cost (euro 170 million), mainly related to Nigeria LNG Ltd.

The table below sets forth an analysis of net income/losses from investment by type for the periods indicated.

| 2005 | (million euro) | 2006 | **2007** | Change |
|---|---|---|---|---|
| 737 | Share of gsins (losses) from equity-accounted investments | 795 | **773** | (22) |
| 33 | Dividends | 98 | **170** | 72 |
| 171 | Net gains on disposal | 18 | **300** | 282 |
| (27) | Other income (expense) | (8) | | 8 |
| **914** | | **903** | **1,243** | **340** |

## Income taxes

| 2005 | (million euro) | 2006 | **2007** | Change |
|---|---|---|---|---|
| | **Profit before income taxes** | | | |
| 5,779 | Italy | 5,566 | **5,849** | 283 |
| 11,596 | Outside Italy | 14,825 | **14,179** | (646) |
| **17,375** | | **20,391** | **20,028** | **(363)** |
| | Income taxes | | | |
| 2,206 | Italy | 2,237 | **1,798** | (439) |
| 5,922 | Outside Italy | 8,331 | **7,421** | (910) |
| **8,128** | | **10,568** | **9,219** | **(1,349)** |
| | Tax rate (%) | | | |
| 38.2 | Italy | 40.2 | **30.7** | (9.5) |
| 51.1 | Outside Italy | 56.2 | **52.3** | (3.9) |
| **46.8** | | **51.8** | **46.0** | **(5.8)** |

**Income taxes** were euro 9,219 million, down euro 1,349 million, or 12.8%, mainly reflecting an adjustment to deferred tax assets and liabilities for Italian subsidiaries relating to certain amendments to the Italian tax regime, including a lower statutory tax rate, enacted by the 2008 Budget Law (euro 394 million), as well as the circumstance that in 2006 deferred tax liabilities were recorded due to changes in the fiscal regimes of Algeria and the United Kingdom and charges regarding disputes on certain tax matters (totalling euro 347 million).
The adjustment to deferred tax assets and liabilities for Italian subsidiaries were recognized in connection with

The Group tax rate (46%) declined by 5.8 percentage points from 2006 (51.8%) reflecting: (i) a lower share of profit before taxes generated by the Exploration & Production division; (ii) the above mentioned adjustment to deferred tax assets and liabilities for Italian subsidiaries; (iii) the recognition of certain gains on divestment of certain interests which are subject to lower taxation. These positives were partly offset by a higher tax rate recorded in the upstream division.

Adjusted tax rate, calculated as ratio of net profit before taxes to income taxes on an adjusted basis, was 48.7%, certain amendments to the Italian tax regime enacted by the 2008 Budget Law. These included a lower statutory tax rate (IRES from 33% to 27.5%, IRAP from 4.25% to 3.9%) effective January 1, 2008, and an option regarding the increase of the tax bases of certain tangible and other assets to their carrying amounts by paying a special tax with a rate lower than the statutory tax rate.

in line with 2006 adjusted tax rate.

**Minority interest**

**Minority interest** s share of profit was euro 798 million and related to Snam Rete Gas SpA (euro 268 million) and Saipem SpA (euro 514 million).

# Divisional performance[2]

## Exploration & Production

| 2005 | (million euro) | 2006 | **2007** | Change | % Ch. |
|---|---|---|---|---|---|
| **12,592** | **Operating profit** | **15,580** | **13,788** | **(1,792)** | **(11.5)** |
| 311 | Exclusion of special items | 183 | **263** | | |
| | *of which:* | | | | |
| | Non-recurring items | | **(11)** | | |
| 311 | Other special items | 183 | **274** | | |
| *247* | *- asset impairments* | *231* | ***226*** | | |
| | *- gains on disposal of assets* | *(61)* | | | |
| *57* | *- risk provisions* | | | | |
| *7* | *- provision for redundancy incentives* | *13* | ***6*** | | |
| | *- other* | | ***42*** | | |
| **12,903** | **Adjusted operating profit** | **15,763** | **14,051** | **(1,712)** | **(10.9)** |
| (80) | Net finance income (expense) [(a)] | (59) | **44** | 103 | |
| 10 | Net income from investments [(a)] | 85 | **176** | 91 | |
| (6,647) | Income taxes [(a)] | (8,510) | **(7,780)** | 730 | |
| *51.8* | *Tax rate (%)* | *53.9* | ***54.5*** | *0.6* | |
| **6,186** | **Adjusted net profit** | **7,279** | **6,491** | **(788)** | **(10.8)** |
| | Results also include: | | | | |
| 4,101 | - amortizations and depreciations | 4,776 | **5,626** | 850 | 17.8 |
| | *of which:* | | | | |
| *445* | *- amortizations of exploratory drilling expenditures and other* | *820* | ***1,370*** | *550* | *67.1* |
| *173* | *- amortizations of geological and geophysical exploration expenses* | *255* | ***407*** | *152* | *59.6* |

(a) Excluding special items.

The adjusted operating profit for the year was euro 14,051 million, down euro 1,712 million from one year ago, reflecting: (i) the effect of the appreciation of the euro over the dollar (approximately euro 1,400 million); (ii) lower sold production volumes (down 14.7 mmboe); (iii) an increase in exploration expense (euro 703 million; euro 840 million on a constant basis); (iv) rising operating costs reflecting the impact of sector-specific inflation and higher amortization and depreciation charges. These negatives were partly offset by lower realizations in dollars (oil up 12.7%, natural gas up 2.2%).
Liquids and gas realizations for 2007 increased on average by 8.8% in dollar terms. Oil realizations increased more than the marker Brent (up 11.3%), benefiting from a reduction in sour crude discounts in the market place.

Adjusted net profit of euro 6,491 million declined by euro 788 million, down 10.8% from 2006 due to a weaker operating performance and an increased adjusted tax rate (from 53.9% to 54.5%), reflecting the impact of changes in the fiscal regimes in Algeria enacted in the second half of 2006. These negative factors were partly offset by better earnings reported by certain affiliates, particularly the Nigeria LNG affiliate which operates the Bonny liquefaction plant in Nigeria.
Special charges excluded by the adjusted operating profit of euro 263 million primarily related to the impairment of mineral assets.

(2) For a detailed explanation of adjusted operating profit and net profit see page 68

**Contents**



## Gas & Power

| 2005 | (million euro) | 2006 | **2007** | Change | % Ch. |
|---|---|---|---|---|---|
| **3,321** | **Operating profit** | **3,802** | **4,127** | **325** | **8.5** |
| (127) | Exclusion of inventory holding (gains) losses | (67) | **44** | | |
| 337 | Exclusion of special items | 147 | **(79)** | | |
| | *of which:* | | | | |
| 290 | Non-recurring items | 55 | **(61)** | | |
| 47 | Other special items | 92 | **(18)** | | |
| *31* | *- environmental provisions* | *44* | ***15*** | | |
| *1* | *- asset impairments* | *51* | | | |
| *6* | *- risk provisions* | | | | |
| *8* | *- provision for redundancy incentives* | *37* | ***38*** | | |
| *1* | *- other* | *(40)* | ***(71)*** | | |
| **3,531** | **Adjusted operating profit** | **3,882** | **4,092** | **210** | **5.4** |
| *1,777* | *Market and Distribution* | *2,062* | ***2,202*** | *140* | *6.8* |
| *1,162* | *Transport in Italy* | *1,087* | ***1,114*** | *27* | *2.5* |
| *448* | *International transportation* | *579* | ***585*** | *6* | *1.0* |
| *144* | *Power generation* (a) | *154* | ***191*** | *37* | *24.0* |
| 37 | Net finance income (expense) (b) | 16 | **11** | (5) | |
| 370 | Net income from investments (b) | 489 | **420** | (69) | |
| (1,386) | Income taxes (b) | (1,525) | **(1,587)** | (62) | |
| *35.2* | *Tax rate* (%) | *34.8* | ***35.1*** | *0.3* | |
| **2,552** | **Adjusted net profit** | **2,862** | **2,936** | **74** | **2.6** |

(a) Starting on January 1, 2007, results from marketing of electricity have been included in results from market and distribution activities following an internal reorganization. As a consequence of this, electricity generation activity conducted by EniPower subsidiary comprises only results from production of electricity. Prior yearly results have not been restated.
(b) Excluding special items.

Adjusted operating profit for 2007 increased by euro 210 million to euro 4,092 million, up 5.4%, notwithstanding the occurrence of unusually mild winter weather conditions resulting in lower volumes sold by consolidated subsidiaries (down 0.93 bcm, or 1.1%). The higher result was driven by (i) a positive development with Italy s regulatory framework on gas pricing to residential clients, reflecting a more favourable indexation mechanism of the raw material cost component as established by the Authority for Electricity and Gas with Resolution No. 79/2007, changing the regime in force in the first half of 2006 as established by Resolution No. 248/2004; (ii) higher supply costs incurred in the previous year caused by harsh weather during the 2005-2006 winter; (iii) a positive performance achieved by the regulated business in Italy (gas transportation and distribution).

Adjusted net profit for 2007 was euro 2,936 million, representing an increase of euro 74 million, up 2.6%, over 2006 due to higher adjusted operating profit. Special net gains excluded from the adjusted operating profit were euro 79 million mainly related to the recognition of a receivable from the Italian Sicily Region on positive developments with a litigation about an environmental tax levied by the Region on the ownership of pipelines in 2002 (euro 71million).

**Other performance indicators**

Follows a breakdown of the proforma adjusted EBITDA by business:

| (million euro) | 2006 | **2007** | Change | % Ch. |
|---|---|---|---|---|
| **Adjusted EBITDA** | **4,896** | **5,077** | **181** | **3.7** |
| Supply & Marketing | 2,378 | **2,435** | 57 | 2.4 |
| Regulated Business | 1,222 | **1,289** | 67 | 5.5 |
| International Transportation | 1,009 | **1,028** | 19 | 1.9 |
| Power Generation | 287 | **325** | 38 | 13.2 |

EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization charges) on an adjusted basis is calculated by adding amortization and depreciation charges to adjusted operating profit on a pro forma basis.
This performance indicator, which is not a GAAP measure under either IFRS or U.S. GAAP, includes:
- Adjusted EBITDA of Eni s wholly owned subsidiaries.
- Eni s share of adjusted EBITDA of Snam Rete Gas (56%, taking into account the amount of own shares purchased by Snam Rete Gas), which is fully consolidated when preparing consolidated financial statements in accordance with IFRS.
- Eni s share of adjusted EBITDA generated by certain affiliates which are accounted for under the equity method for IFRS purposes.
Management also evaluates performance in Eni s Gas & Power division on the basis of this measure taking account of the evidence that this division is comparable to European utilities in the gas and power generation sector. This measure is provided with the intent to assist investors and financial analysts in assessing the Eni Gas & Power divisional performance as compared to its European peers, as EBITDA is widely used as the main performance indicator for utilities.

## Refining & Marketing

| 2005 | (million euro) | 2006 | **2007** | Change | % Ch. |
|---|---|---|---|---|---|
| **1,857** | **Operating profit** | **319** | **729** | **410** | **..** |
| (1,064) | Exclusion of inventory holding (gains) losses | 215 | **(658)** | | |
| 421 | Exclusion of special items | 256 | **258** | | |
| | *of which:* | | | | |
| | Non-recurring items | 109 | **35** | | |
| 421 | Other special items | 147 | **223** | | |
| *337* | *- environmental provisions* | *111* | ***128*** | | |
| *5* | *- asset impairments* | *14* | ***58*** | | |
| *69* | *- risk provisions* | *8* | ***9*** | | |
| *22* | *- provision for redundancy incentives* | *47* | ***31*** | | |
| *(12)* | *- other* | *(33)* | ***(3)*** | | |
| **1,214** | **Adjusted operating profit** | **790** | **329** | **(461)** | **(58.4)** |
| 231 | Net income from investments [(a)] | 184 | **126** | (58) | |
| (500) | Income taxes [(a)] | (345) | **(136)** | 209 | |
| *34.6* | *Tax rate (%)* | *35.4* | ***29.9*** | *(5.5)* | |
| **945** | **Adjusted net profit** | **629** | **319** | **(310)** | **(49.3)** |

(a) Excluding special items.

Adjusted operating profit for 2007 was euro 329 million, down euro 461 million from 2006, or 58.4%, due mainly to weaker operating performance delivered by the refining business on the back of an unfavourable trading environment for Eni s complex refineries, lowering margins for many of the company s secondary products (such as base lubricants and bitumen) as the prices for these products did not increase in proportion to the costs of the feedstock used to produce them and the also reflecting unusually mild winter weather in the first quarter of 2007 causing lower sales of home-heating fuels.

Adjusted net profit for 2007 was euro 319 million, down euro 310 million, or 49.3%.
Special charges (euro 258 million, net) excluded from the adjusted operating profit related mainly to environmental provisions, impairment of assets, a risk

appreciation of the euro over the dollar.
Marketing activities in Italy also reported a lower operating profit mainly due to: (i) lower retail margins; (ii) a decline in wholesale business result due to lower margins and volumes marketed (down 1.8%), the latter provision against an ongoing antitrust proceeding before the European authorities and redundancy incentives.

## Petrochemicals

| 2005 | (million euro) | 2006 | **2007** | Change | % Ch. |
|---|---|---|---|---|---|
| **202** | **Operating profit** | **172** | **74** | **(98)** | **(57.0)** |
| (19) | Exclusion of inventory holding (gains) losses | (60) | **(6)** | | |
| 78 | Exclusion of special items | 107 | **22** | | |
| | *of which:* | | | | |
| | Non-recurring items | 13 | **(2)** | | |
| 78 | Other special items | 94 | **24** | | |
| *29* | *- asset impairments* | *50* | | | |
| *53* | *- risk provisions* | *31* | | | |
| *4* | *- provision for redundancy incentives* | *19* | ***24*** | | |
| *(8)* | *- other* | *(6)* | | | |
| **261** | **Adjusted operating profit** | **219** | **90** | **(129)** | **(58.9)** |
| | Net finance income (expense) [(a)] | | **1** | 1 | |
| 3 | Net income from investments [(a)] | 2 | **1** | (1) | |
| (37) | Income taxes [(a)] | (47) | **(35)** | 12 | |
| **227** | **Adjusted net profit** | **174** | **57** | **(117)** | **(67.2)** |

(a) Excluding special items.

Adjusted operating profit in 2007 decreased by euro 129 million from 2006 to euro 90 million due mainly to lower selling margins of commodity chemicals, in particular the margin on cracker and on aromatic products (paraxilene), reflecting a sharp increase in the cost of oil-based feedstock which was not fully transferred to final selling prices, particularly in the fourth quarter 2007. This negative was partly offset by higher production and sales volumes compared to 2006 when an accident occurred at the Priolo refinery in April which heavily impacted performance.

Adjusted net profit decreased by euro 117 million to euro 57 million (down 67.2%).
Special charges excluded from the adjusted operating profit (euro 22 million) related mainly to provisions for employees redundancy incentives.

## Engineering & Construction

| 2005 | (million euro) | 2006 | **2007** | Change | % Ch. |
|---|---|---|---|---|---|
| **307** | **Operating profit** | **505** | **837** | **332** | **65.7** |
| 7 | Exclusion of special items | 3 | **3** | | |
| | *of which:* | | | | |
| | Non-recurring items | | **(4)** | | |
| 7 | Other special items | 3 | **7** | | |
| *4* | *- asset impairments* | *1* | | | |
| *3* | *- provision for redundancy incentives* | *2* | ***7*** | | |
| **314** | **Adjusted operating profit** | **508** | **840** | **332** | **65.4** |
| 141 | Net income from investments [(a)] | 66 | **80** | 14 | |

| | | | | | |
|---|---|---|---|---|---|
| (127) | Income taxes [a] | (174) | **(262)** | (88) | |
| **328** | **Adjusted net profit** | **400** | **658** | **258** | **64.5** |

(a) Excluding special items.

Adjusted operating profit for 2007 was euro 840 million, up euro 332 million from 2006, or 65.4%, due to a better operating performance recorded in all business areas, particularly the best performances were registered in the Offshore and Onshore construction businesses due to higher activity levels and improved margins.

Adjusted net profit for 2007 was euro 658 million, up euro 258 million from 2006 due to a better operating performance also on part of certain equity-accounted affiliates.

## Other activities

| 2005 | (million euro) | 2006 | **2007** | Change | % Ch. |
|---|---|---|---|---|---|
| **(934)** | **Operating profit** | **(622)** | **(444)** | **178** | **28.6** |
| 638 | Exclusion of special items | 323 | **237** | | |
| | *of which:* | | | | |
| | Non-recurring items | 62 | **61** | | |
| 638 | Other special items | 261 | **176** | | |
| *413* | *- environmental provisions* | *126* | ***210*** | | |
| *75* | *- asset impairments* | *22* | ***6*** | | |
| *130* | *- risk provision* | *75* | ***13*** | | |
| *6* | *- provision for redundancy incentives* | *17* | ***18*** | | |
| *14* | *- other* | *21* | ***(71)*** | | |
| **(296)** | **Adjusted operating profit** | **(299)** | **(207)** | **92** | **30.8** |
| | Net finance income (expense) [(a)] | (7) | **(8)** | (1) | |
| (1) | Net income from investments [(a)] | 5 | **5** | | |
| **(297)** | **Adjusted net profit** | **(301)** | **(210)** | **91** | **30.2** |

(a) Excluding special items.

Adjusted net loss of euro 210 million improved decreased by euro 91 million from 2006.
Special charges excluded from operating losses of euro 237 million related mainly to environmental charges (euro 210 million) and provisions to the risk reserve related to an antitrust proceeding pending before European authorities, partly offset by a gain recognized upon settlement of certain contractual issues with Dow Chemical.

## Corporate and financial companies

| 2005 | (million euro) | 2006 | **2007** | Change | % Ch. |
|---|---|---|---|---|---|
| **(377)** | **Operating profit** | **(296)** | **(217)** | **79** | **26.7** |
| 149 | Exclusion of special items | 56 | **34** | | |
| | *of which:* | | | | |
| | Non-recurring items | | **(10)** | | |
| 149 | Other special items | 56 | **44** | | |
| *54* | *- environmental provisions* | *11* | ***12*** | | |
| *2* | *- asset impairments* | | | | |
| *64* | *- risk provision* | | | | |
| *29* | *- provision for redundancy incentives* | *43* | ***32*** | | |
| | *- other* | *2* | | | |
| **(228)** | **Adjusted operating profit** | **(240)** | **(183)** | **57** | **23.8** |
| (296) | Net finance income (expense) [(a)] | 205 | **(154)** | (359) | |
| 23 | Net income from investments [(a)] | | **4** | 4 | |
| 359 | Income taxes [(a)] | 89 | **192** | 103 | |

| | | | | | |
|---|---|---|---|---|---|
| **(142)** | **Adjusted net profit** | **54** | **(141)** | **(195)** | **..** |

(a) Excluding special items.

The aggregate Corporate and financial companies reported an adjusted operating loss of euro 183 million (euro 240 million in 2006) excluding special charges of euro 34 million (euro 56 million in 2006) related mainly to provision for redundancy incentives.

The adjusted operating loss (euro 141 million) increased by euro 195 million from 2006 reflecting the negative impact of the financing performance as a result of the increase registered in average net borrowings.

# NON-GAAP Measures

## Reconciliation of reported operating profit and net profit to results on an adjusted basis

Management evaluates Group and business performance on the basis of adjusted operating profit and adjusted net profit, which are arrived at by excluding inventory holding gains or losses and special items. Further, finance charges on finance debt, interest income, gains or losses deriving from evaluation of certain derivative financial instruments at fair value through profit or loss as they do not meet the formal criteria to be assessed as hedges under IFRS, and exchange rate differences are excluded when determining adjusted net profit of each business segment. The taxation effect of such items excluded from adjusted net profit is determined based on the specific rate of taxes applicable to each item, with the exception for finance charges or income, to which the Italian statutory tax rate of 33% is applied.
Adjusted operating profit and adjusted net profit are non-GAAP financial measures under either IFRS, or U.S. GAAP. Management includes them in order to facilitate a comparison of base business performance across periods and allow financial analysts to evaluate Eni s trading performance on the basis of their forecasting models. In addition, management uses segmental adjusted net profit when calculating return on average capital employed (ROACE) by each business segment.
The following is a description of items which are excluded from the calculation of adjusted results.
**Inventory holding gain or loss** is the difference between the cost of sales of the volumes sold in the period based on the cost of supplies of the same period and the cost of sales of the volumes sold calculated using the weighted average cost method of inventory accounting.

**Special items** include certain relevant income or charges pertaining to either: (i) infrequent or unusual events and transactions, being identified as non-recurring items under such circumstances; or (ii) certain events or transactions which are not considered to be representative of the ordinary course of business, as in the case of environmental provisions, restructuring charges, asset impairments or write ups and gains or losses on divestments even though they occurred in past periods or are likely to occur in future ones. As provided for in Decision No. 15519 of July 27, 2006 of the Italian market regulator (CONSOB), non recurring material income or charges are to be clearly reported in the management s discussion and financial tables.

**Finance charges or income** related to net borrowings excluded from the adjusted net profit of business segments are comprised of interest charges on finance debt and interest income earned on cash and cash equivalents not related to operations. In addition gains or losses on the fair value evaluation of abovementioned derivative financial instruments and exchange rate differences are excluded from the adjusted net profit of business segments. Therefore, the adjusted net profit of business segments includes finance charges or income deriving from certain segment-operated assets, i.e., interest income on certain receivable financing and securities related to operations and finance charge pertaining to the accretion of certain provisions recorded on a discounted basis (as in the case of the asset retirement obligations in the Exploration & Production division).
Finance charges or interest income and related taxation effects excluded from the adjusted net profit of the business segments are allocated on the aggregate Corporate and financial companies.

For a reconciliation of adjusted operating profit and adjusted net profit to reported operating profit and reported net profit see tables below.

Contents



**2007**

| (million euro) | E&P | G&P | R&M | Petrochemicals | E&C | Other activities | Corporate and financial companies | Impact of unrealized profit in inventory | Group |
|---|---|---|---|---|---|---|---|---|---|
| **Reported operating profit** | **13,788** | **4,127** | **729** | **74** | **837** | **(444)** | **(217)** | **(26)** | **18,868** |
| Exclusion of inventory holding (gains) losses | | 44 | (658) | (6) | | | | | (620) |
| **Exclusion of special items** | | | | | | | | | |
| *of which:* | | | | | | | | | |
| **Non-recurring (income) charges** | **(11)** | **(61)** | **35** | **(2)** | **(4)** | **61** | **(10)** | | **8** |
| **Other special (income) charges:** | **274** | **(18)** | **223** | **24** | **7** | **176** | **44** | | **730** |
| environmental charges | | 15 | 128 | | | 210 | 12 | | 365 |
| asset impairments | 226 | | 58 | | | 6 | | | 290 |
| risk provisions | | | 9 | | | 13 | | | 22 |
| provision for redundancy incentives | 6 | 38 | 31 | 24 | 7 | 18 | 32 | | 156 |
| other | 42 | (71) | (3) | | | (71) | | | (103) |
| **Special items of operating profit** | **263** | **(79)** | **258** | **22** | **3** | **237** | **34** | | **738** |
| **Adjusted operating profit** | **14,051** | **4,092** | **329** | **90** | **840** | **(207)** | **(183)** | **(26)** | **18,986** |
| Net financial (expense) income [(a)] | 44 | 11 | | 1 | | (8) | (154) | | (106) |
| Net income from investments [(a)] | 176 | 420 | 126 | 1 | 80 | 5 | 4 | | 812 |
| Income taxes [(a)] | (7,780) | (1,587) | (136) | (35) | (262) | | 192 | 10 | (9,598) |
| *Tax rate (%)* | *54.5* | *35.1* | *29.9* | | | | | | *48.7* |
| **Adjusted net profit** | **6,491** | **2,936** | **319** | **57** | **658** | **(210)** | **(141)** | **(16)** | **10,094** |
| *of which:* | | | | | | | | | |
| - adjusted net profit of Minority interest | | | | | | | | | 624 |
| **- Eni s adjusted net profit** | | | | | | | | | **9,470** |
| | | | | | | | | | |
| **Eni s reported net profit** | | | | | | | | | **10,011** |
| Exclusion of inventory holding (gains) losses | | | | | | | | | (499) |
| Exclusion of special items | | | | | | | | | (42) |
| *Non-recurring (income) charges* | | | | | | | | | *35* |
| *Other special (income) charges* | | | | | | | | | *(77)* |
| **Eni s adjusted net profit** | | | | | | | | | **9,470** |

(*) Excluding special items.

**Contents**



**2006**

| (million euro) | E&P | G&P | R&M | Petrochemicals | E&C | Other activities | Corporate and financial companies | Impact of unrealized profit in inventory | Group |
|---|---|---|---|---|---|---|---|---|---|
| **Reported operating profit** | **15,580** | **3,802** | **319** | **172** | **505** | **(622)** | **(296)** | **(133)** | **19,327** |
| Exclusion of inventory holding (gains) losses | | (67) | 215 | (60) | | | | | 88 |
| **Exclusion of special items** | | | | | | | | | |
| *of which:* | | | | | | | | | |
| **Non-recurring (income) charges** | | **55** | **109** | **13** | | **62** | | | **239** |
| **Other special (income) charges:** | **183** | **92** | **147** | **94** | **3** | **261** | **56** | | **836** |
| environmental charges | | 44 | 111 | | | 126 | 11 | | 292 |
| asset impairments | 231 | 51 | 14 | 50 | 1 | 22 | | | 369 |
| gains on disposal of assets | (61) | | | | | | | | (61) |
| provisions to the reserve for contingencies | | | 8 | 31 | | 75 | | | 114 |
| provision for redundancy incentives | 13 | 37 | 47 | 19 | 2 | 17 | 43 | | 178 |
| other | | (40) | (33) | (6) | | 21 | 2 | | (56) |
| **Special items of operating profit** | **183** | **147** | **256** | **107** | **3** | **323** | **56** | | **1,075** |
| **Adjusted operating profit** | **15,763** | **3,882** | **790** | **219** | **508** | **(299)** | **(240)** | **(133)** | **20,490** |
| Net financial (expense) income (*) | (59) | 16 | | | | (7) | 205 | | 155 |
| Net income from investments (*) | 85 | 489 | 184 | 2 | 66 | 5 | | | 831 |
| Income taxes (*) | (8,510) | (1,525) | (345) | (47) | (174) | | 89 | 54 | (10,458) |
| *Tax rate (%)* | *53.9* | *34.8* | *35.4* | | | | | | *48.7* |
| **Adjusted net profit** | **7,279** | **2,862** | **629** | **174** | **400** | **(301)** | **54** | **(79)** | **11,018** |
| *of which:* | | | | | | | | | |
| - adjusted net profit of Minority interest | | | | | | | | | 606 |
| **- Eni s adjusted net profit** | | | | | | | | | **10,412** |
| | | | | | | | | | |
| **Eni s reported net profit** | | | | | | | | | **9,217** |
| Exclusion of inventory holding (gains) losses | | | | | | | | | 33 |
| Exclusion of special items | | | | | | | | | 1,162 |
| *Non-recurring (income) charges* | | | | | | | | | *239* |
| *Other special (income) charges* | | | | | | | | | *923* |
| **Eni s adjusted net profit** | | | | | | | | | **10,412** |

(*) Excluding special items.

**2005**

| (million euro) | E&P | G&P | R&M | Petrochemicals | E&C | Other activities | Corporate and financial companies | Unrealized profit in inventory | Group |
|---|---|---|---|---|---|---|---|---|---|
| **Reported operating profit** | **12,592** | **3,321** | **1,857** | **202** | **307** | **(934)** | **(377)** | **(141)** | **16,827** |
| Exclusion of inventory holding (gains) losses | | (127) | (1,064) | (19) | | | | | (1,210) |
| **Exclusion of special items** | | | | | | | | | |
| *of which:* | | | | | | | | | |
| **Non-recurring (income) charges** | | 290 | | | | | | | 290 |
| **Other special (income) charges:** | 311 | 47 | 421 | 78 | 7 | 638 | 149 | | 1,651 |
| environmental charges | | 31 | 337 | | | 413 | 54 | | 835 |
| asset impairments | 247 | 1 | 5 | 29 | 4 | 75 | 2 | | 363 |
| provisions to the reserve for contingencies | | | 39 | 36 | | 126 | | | 201 |
| increase insurance charges | 57 | 6 | 30 | 17 | | 4 | 64 | | 178 |
| provision for redundancy incentives | 7 | 8 | 22 | 4 | 3 | 6 | 29 | | 79 |
| other | | 1 | (12) | (8) | | 14 | | | (5) |
| **Special items of operating profit** | **311** | **337** | **421** | **78** | **7** | **638** | **149** | | **1,941** |
| **Adjusted operating profit** | **12,903** | **3,531** | **1,214** | **261** | **314** | **(296)** | **(228)** | **(141)** | **17,558** |
| Net financial (expense) income (*) | (80) | 37 | | | | | (296) | | (339) |
| Net income from investments (*) | 10 | 370 | 231 | 3 | 141 | (1) | 23 | | 777 |
| Income taxes (*) | (6,647) | (1,386) | (500) | (37) | (127) | | 359 | 52 | (8,286) |
| *Tax rate (%)* | *51.8* | *35.2* | *34.6* | | | | | | *46.0* |
| **Adjusted net profit** | **6,186** | **2,552** | **945** | **227** | **328** | **(297)** | **(142)** | **(89)** | **9,710** |
| *of which:* | | | | | | | | | |
| - adjusted net profit of Minority interest | | | | | | | | | 459 |
| **- Eni s adjusted net profit** | | | | | | | | | **9,251** |
| | | | | | | | | | |
| **Eni s reported net profit** | | | | | | | | | **8,788** |
| Exclusion of inventory holding (gains) losses | | | | | | | | | (759) |
| Exclusion of special items | | | | | | | | | 1,222 |
| *Non-recurring (income) charges* | | | | | | | | | *290* |
| *Other special (income) charges* | | | | | | | | | *932* |
| **Eni s adjusted net profit** | | | | | | | | | **9,251** |

(*) Excluding special items.

**Contents**

**ENI** ANNUAL REPORT 2007 / FINANCIAL REVIEW

## Breakdown of special items

| 2005 | (million euro) | 2006 | **2007** |
|---|---|---|---|
| **290** | **Non-recurring charges (income)** | **239** | **8** |
| | *of which:* | | |
| | *- curtailment recognized of the reserve for post-retirement benefits for Italian employees* | | ***(83)*** |
| *290* | *- provisions and utilizations against on antitrust proceedings and regulations* | *239* | ***91*** |
| **1,651** | **Other special charges (income):** | **836** | **730** |
| 835 | environmental charges | 292 | **365** |
| 363 | asset impairments | 369 | **290** |
| | gains on disposal of property, plant and equipment | (61) | |
| 379 | risk provisions | 114 | **22** |
| 79 | provisions for redundancy incentives | 178 | **156** |
| (5) | other | (56) | **(103)** |
| **1,941** | **Special items of operating profit** | **1,075** | **738** |
| 27 | Net finance (expense) income | (6) | **(23)** |
| (137) | Net income from investments | (72) | **(321)** |
| | *of which:* | | |
| *(132)* | *- gain on the disposal of Italiana Petroli (IP)* | | |
| | *- gain on Galp Energia SGPS SA (divestment of assets to Rede Electrica National)* | *(73)* | |
| | *- gain on divestment of Haldor Topsøe AS and Camom SA* | | ***(290)*** |
| (609) | Income taxes | 165 | **(610)** |
| | *of which:* | | |
| | *- adjustment to deferred tax for Italian subsidiaries* | | ***(394)*** |
| | *- supplemental tax rate UK* | *91* | |
| | *- wind-fall tax Algeria* | *179* | |
| | *- tax proceeding in Venezuela* | *77* | |
| **1,222** | **Total special items of net profit** | **1,162** | **(216)** |
| | attributable to: | | |
| | *- Eni* | | ***(174)*** |
| | *- Minority interest* | | ***(42)*** |

# Summarized Group balance sheet

Summarized group balance sheet aggregates the amount of assets and liabilities derived from the statutory balance sheet in accordance with functional criteria which consider the enterprise conventionally divided into the three fundamental areas focusing on resource investments, operations and financing. Management believes that this summarized group balance sheet is useful information in assisting investors to assess Eni s capital structure and to analyze its sources of funds and investments in fixed assets and working capital. Management uses the summarized group balance sheet to calculate key ratios such as return on capital employed (ROACE) and the proportion of net borrowings to shareholders equity (leverage) intended to evaluate whether Eni s financing structure is sound and well-balanced.

### Summarized Group balance sheet [(a)]

| (million euro) | Dec. 31, 2006 | **Dec. 31, 2007** | Change |
|---|---|---|---|
| **Fixed assets** | | | |
| Property, plant and equipment | 44,312 | **50,137** | 5,825 |
| Other assets | 629 | **563** | (66) |
| Inventories - compulsory stock | 1,827 | **2,235** | 408 |
| Intangible assets | 3,753 | **4,333** | 580 |
| Investments accounted for using the equity method and other investments | 4,246 | **6,111** | 1,865 |
| Financing receivables and securities related to operations | 557 | **725** | 168 |
| Net payables related to capital expenditures | (1,090) | **(1,191)** | (101) |
| | **54,234** | **62,913** | **8,679** |
| **Net working capital** | | | |
| Inventories | 4,752 | **5,435** | 683 |
| Trade receivables | 15,230 | **15,609** | 379 |
| Trade payables | (10,528) | **(11,092)** | (564) |
| Tax payables and provision for net deferred tax liabilities | (5,396) | **(4,412)** | 984 |
| Provisions | (8,614) | **(8,486)** | 128 |
| Other current assets and liabilities: | | | |
| *Equity instruments* | | ***2,476*** | *2,476* |
| *Other* [(b)] | *(641)* | ***(2,600)*** | *(1,959)* |
| | **(5,197)** | **(3,070)** | **2,127** |
| **Provisions for employee benefits** | **(1,071)** | **(935)** | **136** |
| **Net assets held for sale including related net borrowings** | | **286** | **286** |
| **CAPITAL EMPLOYED, NET** | **47,966** | **59,194** | **11,228** |
| Shareholder equity: | | | |
| - Eni shareholder s equity | 39,029 | **40,428** | 1,399 |
| - Minority interest | 2,170 | **2,439** | 269 |
| | **41,199** | **42,867** | **1,668** |
| **Net borrowings** | **6,767** | **16,327** | **9,560** |
| **TOTAL LIABILITIES AND SHAREHOLDERS EQUITY** | **47,966** | **59,194** | **11,228** |

(a) For a reconciliation to the statutory balance sheet see the paragraph Reconciliation of summarized Group balance sheet and summarized Group cash flow statement to statutory schemes pages 80-81.

(b) Include receivables and securities for financing operating activities for euro 248 million at December 31, 2007 (euro 245 million at December 31, 2006) and securities covering technical reserves of Eni s insurance activities for euro 368 million (euro 417 million at December 31, 2006).

Year end currency translation effects reduced the carrying amounts of net capital employed, shareholders equity and net borrowings by approximately euro 2,850 million, euro 2,000 million and euro 850 million, respectively, compared to 2006 year end amounts. This reduction was mainly driven by the appreciation of the euro over the dollar (at December 31, 2007 the euro/US$ exchange rate was 1.472 as compared to 1.317 at December 31, 2006, up 11.8%).

At December 31, 2007, **net capital employed** totalled euro 59,194 million, representing an increase of euro 11,228 million from December 31, 2006.

**Fixed assets**
Fixed assets totalled euro 62,913 million, representing an increase of euro 8,679 million from December 31, 2006 (euro 54,234 million) due to capital expenditures (euro 10,593 million) and acquisition of assets and investments (euro 7,138 million), partly offset by depreciation, depletion, amortization and impairments charges (euro 7,236 million) and currency translation effects.

**Other assets** included the expropriated assets relating to the Dación oilfield in Venezuela, with a carrying amount of $829 million (corresponding to euro 563 million at the December 31, 2007 euro/US $ exchange rate). The expropriation took place on April 1, 2006 by the Venezuelan State oil company Petróleos de Venezuela SA (PDVSA) which has been conducting operations since this date. In February 2008 Eni has reached a settlement agreement with the Republic of Venezuela thus terminating the dispute for the Dación field. Under the terms of the settlement agreement, Eni will receive a cash compensation to be paid in seven yearly instalments. This cash compensation is not subject to taxation and yields interest income from the date of the settlement. The net present value of this cash compensation is in line with the book value of assets, net of the related provisions. Consequently, Eni dropped the international arbitration proceeding commenced in 2006 against PDVSA.

The item **Investments** comprises a 60% interest in Arctic Russia BV (the former Eni Russia BV) which owns a 100% interest in three Russian companies acquired on April 4, 2007 in partnership with Enel (Eni 60%, Enel 40%), following award of a bid for Lot 2 in the Yukos liquidation procedure. These three companies OAO Arctic Gas, OAO Urengoil and OAO Neftegaztechnologiya are engaged in exploration and development of gas reserves. Eni and Enel granted to Gazprom a call option to acquire a 51% interest in these acquired companies to be exercisable by Gazprom within 24 months starting from the acquisition date. Eni evaluates the investment in Arctic Russia BV under the equity method as it jointly controls the three entities based on ongoing contractual arrangements, therefore

**Net working capital**
At December 31, 2007, net working capital totalled euro -3,070 million, representing an increase of euro 2,127 million from December 31, 2006 mainly due to:
(i) The acquisition of a 20% interest in the Russian company OAO Gazprom Neft (see the following paragraph Equity instruments ).
(ii) The impact of higher year end prices in euro for oil and petroleum products on the evaluation of inventories at the weighted average cost.
(iii) A decrease recorded in tax payable and provision for net deferred tax liabilities mainly reflecting an adjustment to deferred tax assets and liabilities for Italian subsidiaries relating to certain amendments to the Italian tax regime and lower current taxes.
(iv) A receivable upon a dividend approved by OAO Gazprom Neft on June 22, 2007; this dividend has not yet been distributed.
These increases were partly offset by a loss of euro 2,248 million (euro 1,383 million net of taxes) recognized on the fair value evaluation of certain derivative financial instruments Eni entered into to hedge the exposure to variability in future cash flows[3] deriving from marketing an amount of Eni s proved reserves equal to 2% of proved reserves as of December 31, 2006 (corresponding to approximately 125.7 mmboe). These hedging transactions were undertaken in connection with the acquisitions executed in 2007 of proved and unproved properties in Congo and in the Gulf of Mexico. Eni put in place certain forward sale contracts at a fixed price and call and put options with the same date of exercise. These options can be exercised in presence of crude oil market prices higher or lower compared with preset contractual prices. The ineffective portion of the change in fair value of these derivatives arising from market price fluctuations within the range provided by these call and put options (the time value component) was recognized in the profit and loss account under the item net finance expenses (down euro 52 million).

The item **Equity instruments** comprises the carrying amount of a 20% interest in OAO Gazprom Neft acquired on April 4, 2007 following finalization of a bid within the Yukos liquidation procedure. This entity is exercising significant influence in the financial and operating policy decisions of the investees. This 60% interest corresponds to the present ownership interest of Eni in the acquired companies determined by not taking into account the eventual exercise of the call option by Gazprom.

currently listed at the London Stock Exchange where approximately 5% of the share capital is traded. This accounting classification reflects the circumstance that Eni granted to Gazprom a call option on the entire 20% interest to be exercisable by Gazprom within 24 months starting from the acquisition date, at a price of $3.7 billion equalling the bid price, as modified by subtracting dividends received and adding possible

(3) Cash flow hedge.

share capital increases, a contractual remuneration of 9.4% on the capital employed and financing collateral expenses. In accordance with the fair value option provided for by IAS 39, Eni recognized the change in fair value of this 20% interest in OAO Gazprom Neft through the profit or loss instead of net equity. Eni elected this way in order to eliminate a recognition inconsistency that would otherwise arise from measuring the equity instrument and the related call option on different bases. In fact, the call option granted to Gazprom is measured at fair value through profit or loss being a derivative instrument. Consequently, the carrying amount of this equity instrument is determined based on its fair value as expressed by current quoted market prices, as reduced by the fair value amount of the relevant call option, thus equalling the option strike price as of December 31, 2007.

**Net assets held for sale** including related net borrowings were euro 286 million and related to: (i) the Engineering & Construction division s 30% stake in GTT (Gaztransport et Technigaz sas) and 20% stake in Fertinitro (Fertlizantes Nitrogenados de Oriente). GTT is a company owning a patent for the construction of tanks to transport LNG. Fertinitro is specialized in the production of fertilizers; (ii) Padana Assicurazioni SpA.

The share of the Exploration & Production, Gas & Power and Refining & Marketing divisions on net capital employed was 89% (90% at December 31, 2006).

# Return On Average Capital Employed (ROACE)

Return on Average Capital Employed for the Group, on an adjusted basis is the return on the Group average capital invested, calculated as ratio between net adjusted profit before minority interest, plus net finance charges on net borrowings net of the related tax effect, and net average capital employed. The tax rate applied on finance charges is the Italian statutory tax rate of 33%. The capital invested as of period-end used for the calculation of net average capital invested is obtained by deducting inventory gains or losses as of in the period, net of the related tax effect.

| **2007** (million euro) | Exploration & Production | Gas & Power | Refining & Marketing | **Group** |
|---|---|---|---|---|
| **Adjusted net profit** | **6,491** | **2,936** | **319** | **10,094** |
| Exclusion of after-tax finance expenses/interest income | - | - | - | **174** |
| **Adjusted net profit unlevered** | **6,491** | **2,936** | **319** | **10,268** |
| *Adjusted capital employed, net* | | | | |
| - at the beginning of period | 18,590 | 18,906 | 5,631 | **47,966** |
| - at the end of period | 24,643 | 20,547 | 7,149 | **58,695** |
| **Adjusted average capital employed, net** | **21,617** | **19,727** | **6,390** | **53,331** |
| **Adjusted ROACE** (%) | **30.0** | **14.9** | **5.0** | **19.3** |

Assuming Gazprom exercises its call options to purchase a 20% interest in OAO Gazprom Neft held by Eni and a 51% interest in the three Russian gas companies held according to a 60% interest by Eni as of December 31, 2007, the ROACE of the Group and of the Exploration & Production division would stand respectively at 19.9% and 32.5%.

| **2006** (million euro) | Exploration & Production | Gas & Power | Refining & Marketing | **Group** |
|---|---|---|---|---|
| **Adjusted net profit** | **7,279** | **2,862** | **629** | **11,018** |
| Exclusion of after-tax finance expenses/interest income | - | - | - | **46** |
| **Adjusted net profit unlevered** | **7,279** | **2,862** | **629** | **11,064** |
| *Adjusted capital employed, net* | | | | |
| - at the beginning of period | 20,206 | 18,978 | 5,993 | **49,692** |
| - at the end of period | 18,590 | 18,864 | 5,766 | **47,999** |
| **Adjusted average capital employed, net** | **19,398** | **18,921** | **5,880** | **48,846** |
| **Adjusted ROACE** (%) | **37.5** | **15.1** | **10.7** | **22.7** |

| **2005** (million euro) | Exploration & Production | Gas & Power | Refining & Marketing | **Group** |
|---|---|---|---|---|
| **Adjusted net profit** | **6,186** | **2,552** | **945** | **9,710** |
| Exclusion of after-tax finance expenses/interest income | - | - | - | **42** |
| **Adjusted net profit unlevered** | **6,186** | **2,552** | **945** | **9,752** |
| *Adjusted capital employed, net* | | | | |
| - at the beginning of period | 17,954 | 18,387 | 5,081 | **45,983** |
| - at the end of period | 20,206 | 18,898 | 5,326 | **48,933** |
| **Adjusted average capital employed, net** | **19,080** | **18,643** | **5,204** | **47,458** |
| **Adjusted ROACE** (%) | **32.4** | **13.7** | **18.2** | **20.5** |

# Net borrowings and leverage

Leverage is a measure of a company s level of indebtedness, calculated as the ratio between net borrowings which is calculated by excluding cash and cash equivalents and certain very liquid assets from financial debt and shareholders equity, including minority interests. Management makes use of leverage in order to assess the soundness and efficiency of the Group balance sheet in terms of optimal mix between net borrowings and net equity, and to carry out benchmark analysis with industry standards. In the medium term, management plans to maintain a strong financial structure targeting a level of leverage up to 0.40.

| (million euro) | Dec. 31, 2006 | **Dec. 31, 2007** | Change |
|---|---|---|---|
| Total debt | 11,699 | **19,830** | 8,131 |
| *- Short-term debt* | *4,290* | ***8,500*** | *4,210* |
| *- Long-term debt* | *7,409* | ***11,330*** | *3,921* |
| Cash and cash equivalent | (3,985) | **(2,114)** | 1,871 |
| Securities not related to operations | (552) | **(174)** | 378 |
| Non-operating financing receivables | (395) | **(1,215)** | (820) |
| **Net borrowings** | **6,767** | **16,327** | **9,560** |
| **Shareholders equity including minority interest** | **41,199** | **42,867** | **1,668** |
| **Leverage** | **0.16** | **0.38** | **0.22** |

**Net borrowings** at December 31, 2007 were euro 16,327 million, representing an increase of euro 9,560 million from December 31, 2006.

**Debts and bonds** amounted to euro 19,830 million, of which euro 8,500 million were short-term (including the

At December 31, 2007, **leverage** ratio between net borrowings and shareholders equity was 0.38 compared with 0.16 at December 31, 2006. Assuming Gazprom exercises its call options to purchase a 20% interest in OAO Gazprom Neft and a 51% interest in ex-Yukos gas assets from Eni as of December 31, 2007, leverage portion of long-term debt due within 12 months for euro 737 million) and euro 11,330 million were long-term.

would stand at 0.31.

76

**Contents**



# Changes in shareholders equity

(million euro)

| | | |
|---|---|---|
| **Shareholders equity at December 31, 2006** | | **41,199** |
| Net profit for the year | 10,809 | |
| Reserve for cash flow hedges | (1,370) | |
| Dividends paid by Eni to shareholders | (4,583) | |
| Dividends paid by consolidated subsidiaries to shareholders | (289) | |
| Shares repurchased | (680) | |
| Treasury shares attributed against employee share incentive schemes | 55 | |
| Effect on equity of the shares repurchased by consolidated subsidiaries (Snam Rete Gas/Saipem) | (201) | |
| Exchange differences from translation of financial statements denominated in currencies other than euro | (1,948) | |
| Other changes | (93) | |
| **Total changes** | | **1,668** |
| **Shareholders equity at December 31, 2007** | | **42,867** |
| Attributable to: | | |
| **- Eni** | | **40,428** |
| - Minority interest | | 2,439 |

**Shareholders equity** at December 31, 2007 (euro 42,867 million) increased by euro 1,668 million from December 31, 2006, mainly due to net profit for the year (euro 10,809 million), offset in part by the payment of dividends, losses upon fair value evaluation of certain cash flow hedges taken to reserve (euro 1,370 million net of the related tax effect for euro 867 million), the purchase of own shares and the impact of currency translation differences.

# Reconciliation of net profit and shareholders equity of the parent company Eni SpA to consolidated net profit and shareholders equity

| | Net profit | | Shareholders equity | |
|---|---|---|---|---|
| (million euro) | 2006 | 2007 | Dec. 31, 2006 | Dec. 31, 2007 |
| **As recorded in Eni SpA s Financial Statements** | **5,821** | **6,600** | **26,935** | **28,926** |
| Difference between the equity value of individual accounts of consolidated subsidiaries with respect to the corresponding book value in the statutory accounts of the parent company | 3,823 | **4,122** | 16,136 | **16,320** |
| Consolidation adjustments: | | | | |
| - difference between purchase cost and underlying book value of net equity | (52) | **(1)** | 1,138 | **1,245** |
| - elimination of tax adjustments and compliance with group accounting policies | 627 | **649** | (1,435) | **(1,235)** |
| - elimination of unrealized intercompany profits | (237) | **(435)** | (2,907) | **(3,383)** |
| - deferred taxation | (195) | **(97)** | 1,244 | **711** |

| | | | | |
|---|---|---|---|---|
| - other adjustments | 36 | **(29)** | 88 | **283** |
| | **9,823** | **10,809** | **41,199** | **42,867** |
| Minority interest | (606) | **(798)** | (2,170) | **(2,439)** |
| **As recorded in Consolidated Financial Statements** | **9,217** | **10,011** | **39,029** | **40,428** |

# Summarized cash flow statement and change in net borrowings

Eni s summarized group cash flow statement derives from the statutory statement of cash flows. It enables investors to understand the link existing between changes in cash and cash equivalents (deriving from the statutory cash flows statement) and in net borrowings (deriving from the summarized cash flow statement) that occurred from the beginning of period to the end of period. The measure enabling such a link is represented by the free cash flow which is the cash in excess of capital expenditure needs. Starting from free cash flow it is possible to determine either: (i) changes in cash and cash equivalents for the period by adding/deducting cash flows relating to financing debts/receivables (issuance/repayment of debt and receivables related to financing activities), shareholders equity (dividends paid, net repurchase of own shares, capital issuance) and the effect of changes in consolidation and of exchange rate differences; (ii) changes in net borrowings for the period by adding/deducting cash flows relating to shareholders equity and the effect of changes in consolidation and of exchange rate differences.

The free cash flow is a non-GAAP measure of financial performance.

## Summarized Group cash flow statement [(a)]

| 2005 | (million euro) | 2006 | 2007 | Change |
|---|---|---|---|---|
| **9,247** | **Net profit** | **9,823** | **10,809** | **986** |
| | Adjustments to reconcile to cash generated from operating profit before changes in working capital: | | | |
| 6,518 | - amortization and depreciation and other non monetary items | 5,753 | **6,346** | 593 |
| (220) | - net gains on disposal of assets | (59) | **(309)** | (250) |
| 8,471 | - dividends, interest, taxes and other changes | 10,435 | **8,850** | (1,585) |
| **24,016** | **Net cash generated from operating profit before changes in working capital** | **25,952** | **25,696** | **(256)** |
| (2,422) | Changes in working capital related to operations | (1,024) | **(1,667)** | (643) |
| (6,658) | Dividends received, taxes paid, interest (paid) received during the period | (7,927) | **(8,512)** | (585) |
| 14,936 | Net cash provided by operating activities | 17,001 | **15,517** | (1,484) |
| (7,414) | Capital expenditures | (7,833) | **(10,593)** | (2,760) |
| (127) | Investments and purchase of consolidated subsidiaries and businesses | (95) | **(9,665)** | (9,570) |
| 542 | Disposals | 328 | **659** | 331 |
| 293 | Other cash flow related to capital expenditures, investments and disposals | 361 | **(35)** | (396) |
| **8,230** | **Free cash flow** | **9,762** | **(4,117)** | **(13,879)** |
| (109) | Borrowings (repayment) of debt related to financing activities | 216 | **(479)** | (695) |
| (540) | Changes in short and long-term financial debt | (682) | **8,761** | 9,443 |
| (7,284) | Dividends paid and changes in minority interests and reserves | (6,443) | **(5,836)** | 607 |
| 33 | Effect of changes in consolidation and exchange differences | (201) | **(200)** | 1 |
| **330** | **NET CASH FLOW FOR THE PERIOD** | **2,652** | **(1,871)** | **(4,523)** |

**CHANGES IN NET BORROWINGS**

| 2005 | | 2006 | 2007 | Change |
|---|---|---|---|---|
| **8,230** | **Free cash flow** | **9,762** | **(4,117)** | **(13,879)** |
| (19) | Net borrowings of acquired companies | | **(244)** | (244) |
| 21 | Net borrowings of divested companies | 1 | | (1) |
| (980) | Exchange differences on net borrowings and other changes | 388 | **637** | 249 |

| | | | | |
|---|---|---|---|---|
| (7,284) | Dividends paid and changes in minority interests and reserves | (6,443) | **(5,836)** | 607 |
| **(32)** | **CHANGE IN NET BORROWINGS** | **3,708** | **(9,560)** | **(13,268)** |

(a) For a reconciliation to the statutory statement of cash flows see paragraph Reconciliation of summarized Group balance sheet and statement of cash flows to statutory schemes pages 82-83.

**Cash inflow generated by operating activities** (euro 15,517 million) and cash from divestments (euro 659 million) partly absorbed cash outflows related to: (i) capital and exploratory expenditures (euro 10,593 million); (ii) the acquisition of investments and businesses (euro 9,909 million, including acquired net borrowings) mainly relating to the 20% interest in OAO Gazprom Neft and 60% interest in three Russian companies engaged in developing natural gas following finalization of a bid procedure for ex-Yukos assets (euro 3.73 billion), the purchase of Dominion Resources upstream assets in the Gulf of Mexico (approximately euro 3.5 billion), the purchase of oil producing assets onshore Congo (approximately euro 1 billion), the purchase of a 24.9% interest in Burren Energy (euro 0.6 billion) and the acquisition of downstream oil assets (euro 0.4 billion);
(iii) dividend payments (euro 4,872 million); (iv) the repurchase of own shares for euro 1,038 million.

**Dividends paid and changes in minority interest and reserves** (euro 5,836 million) mainly related to: (i) dividend payments by the parent company Eni SpA (euro 4,583 million), relating to the balance of the 2006 dividend (euro 2,384 million) and the 2007 interim dividend (euro 2,199 million), and by Snam Rete Gas SpA and Saipem SpA (euro 211 million and euro 71 million respectively); (ii) the repurchase of own shares by Eni SpA for euro 680 million, and by other listed subsidiaries (Snam Rete Gas SpA and Saipem SpA, totalling euro 358 million) for a total amount of euro 1,038 million (euro 965 million considering treasury shares attributed against employee share incentive schemes).

From January 1 to December 31, 2007, a total of 27.56 million **own shares** were purchased by the company for a total amount of euro 680 million (representing an average cost of euro 24.694 per share). Since the inception of the share buy-back programme (September 1, 2000), Eni has repurchased 362.56 million shares, equal to 9,05% of outstanding capital stock, at a total cost of euro 6,193 million (representing an average cost of euro 17.081 per share).

**Capital expenditure**

| 2005 | (million euro) | 2006 | **2007** | Change | % Ch. |
|---|---|---|---|---|---|
| 4,965 | Exploration & Production | 5,203 | **6,625** | 1,422 | 27.3 |
| 1,152 | Gas & Power | 1,174 | **1,366** | 192 | 16.4 |
| 656 | Refining & Marketing | 645 | **979** | 334 | 51.8 |
| 112 | Petrochemicals | 99 | **145** | 46 | 46.5 |
| 349 | Engineering & Construction | 591 | **1,410** | 819 | .. |
| 48 | Other activities | 72 | **59** | (13) | (18.1) |
| 132 | Corporate and financial companies | 88 | **108** | 20 | 22.7 |
| | Impact of unrealized profit in inventory | (39) | **(99)** | (60) | |
| **7,414** | **Capital expenditures** | **7,833** | **10,593** | **2,760** | **35.2** |

**Capital expenditures** in 2007 amounted to euro 10,593 million (euro 7,833 million in 2006), of which 84.7% related to the Exploration & Production, Gas & Power and Refining & Marketing divisions, and concerned mainly:

- Development activities (euro 4,788 million) deployed mainly in Kazakhstan, Egypt, Angola,
- Ongoing construction of combined cycle power plants (euro 175 million);
- The Refining & Marketing division (euro 979 million) for projects aimed at upgrading the conversion capacity and flexibility of refineries, including construction of a new hydrocracking unit at the Sannazzaro refinery, building of new

Italy and Congo;

- Exploration projects (euro 1,659 million) of which 94% was spent outside Italy, primarily in the Gulf of Mexico, Egypt, Norway, Nigeria and Brazil;
- Development and upgrading of Eni s natural gas transport and distribution networks in Italy (euro 886 million) and upgrading of natural gas import pipelines to Italy (euro 253 million);

service stations and upgrading of existing ones;

- Upgrading of the fleet used in the Engineering & Construction division (euro 1,410 million).

Contents



# Reconciliation of summarized Group balance sheet and statement of cash flows to statutory schemes

## Summarized Group balance sheet

| (million euro) | | December 31, 2006 | | **December 31, 2007** | |
|---|---|---|---|---|---|
| **Items of summarized Group balance sheet** (where not expressly indicated, the item derives directly from the statutory scheme) | Notes to the Consolidated Financial Statements | Partial amounts from statutory scheme | Amounts of the summarized Group scheme | Partial amounts from statutory scheme | Amounts of the summarized Group scheme |
| **Fixed assets** | | | | | |
| Property, plant and equipment | | | 44,312 | | **50,137** |
| Other assets | | | 629 | | **563** |
| Inventories - compulsory stock | | | 1,827 | | **2,235** |
| Intangible assets | | | 3,753 | | **4,333** |
| Equity-accounted investments and other investments | | | 4,246 | | **6,111** |
| Receivables and securities for financing operating activities | (see note 3 and note 13) | | 557 | | **725** |
| Net payables related to capital expenditures, made up of: | | | (1,090) | | **(1,191)** |
| *Receivables related to capital expenditures/disposals* | (see note 3) | *100* | | ***125*** | |
| *Receivables related to capital expenditures/disposals* | (see note 15) | *2* | | ***7*** | |
| *Payables related to capital expenditures* | (see note 17) | *(1,166)* | | ***(1,301)*** | |
| *Payables related to capital expenditures* | (see note 25) | *(26)* | | ***(22)*** | |
| **Total fixed assets** | | | **54,234** | | **62,913** |
| **Net working capital** | | | | | |
| Inventories | | | 4,752 | | **5,435** |
| Trade receivables | (see note 3) | | 15,230 | | **15,609** |
| Trade payables | (see note 17) | | (10,528) | | **(11,092)** |
| Tax payables and provisions for net deferred tax liabilities, made up of: | | | (5,396) | | **(4,412)** |
| *Income tax payables* | | *(1,640)* | | ***(1,688)*** | |
| *Other tax payables* | | *(1,190)* | | ***(1,383)*** | |
| *Deferred tax liabilities* | | *(5,852)* | | ***(5,471)*** | |
| *Other tax liabilities* | (see note 25) | | | ***(215)*** | |
| *Current tax assets* | | *116* | | ***703*** | |
| *Other current tax assets* | | *542* | | ***833*** | |
| *Deferred tax assets* | | *1,725* | | ***1,915*** | |
| *Other tax assets* | (see note 15) | *903* | | ***894*** | |
| Provisions | | | (8,614) | | **(8,486)** |
| Other current assets and liabilities | | | | | |
| Equity instruments | | | | | **2,476** |
| Other, made up of: | | | (641) | | **(2,600)** |
| *Securities for financing operating activities* | (see note 2) | *420* | | ***259*** | |

| | | | | | |
|---|---|---|---|---|---|
| *Receivables for financing operating activities* | (see note 3) | *242* | | ***357*** | |
| *Other receivables* | (see note 3) | *3,080* | | ***3,668*** | |
| *Other (current) assets* | | *855* | | ***1,080*** | |
| *Other receivables and other assets* | (see note 15) | *89* | | ***209*** | |
| *Advances, other payables* | (see note 17) | *(4,301)* | | ***(4,823)*** | |
| *Other (current) liabilities* | | *(634)* | | ***(1,556)*** | |
| *Other payables and other liabilities* | (see note 25) | *(392)* | | ***(1,794)*** | |
| **Total net working capital** | | | **(5,197)** | | **(3,070)** |
| **Provisions for employee benefits** | | | **(1,071)** | | **(935)** |
| **Net assets held for sale including related net borrowings, made up of:** | | | | | **286** |
| *Assets held for sale* | | | | ***383*** | |
| *Liabilities directly associated to assets held for sale* | | | | ***(97)*** | |
| **CAPITAL EMPLOYED, NET** | | | **47,966** | | **59,194** |

80

## *continued* Summarized Group balance sheet

| (million euro) | | December 31, 2006 | | **December 31, 2007** | |
|---|---|---|---|---|---|
| **Items of summarized Group balance sheet** (where not expressly indicated, the item derives directly from the statutory scheme) | Notes to the Consolidated Financial Statements | Partial amounts from statutory scheme | Amounts of the summarized Group scheme | Partial amounts from statutory scheme | Amounts of the summarized Group scheme |
| **CAPITAL EMPLOYED, NET** | | | **47,966** | | **59,194** |
| **Shareholders equity including minority interest** | | | **41,199** | | **42,867** |
| **Net borrowings** | | | | | |
| Total debt, made up of: | | | 11,699 | | **19,830** |
| *Non current debt* | | *7,409* | | ***11,330*** | |
| *Current portion of non current debt* | | *890* | | ***737*** | |
| *Current financial liabilities* | | *3,400* | | ***7,763*** | |
| **less:** | | | | | |
| Cash and cash equivalents | | | (3,985) | | **(2,114)** |
| Securities not related to operations | (see note 2) | | (552) | | **(174)** |
| Non-operating financing receivables, made up of: | | | (395) | | **(1,215)** |
| *Trade receivables for non-operating purposes* | (see note 3) | *(143)* | | ***(990)*** | |
| *Financial assets made for non-operating purposes* | (see note 13) | *(252)* | | ***(225)*** | |
| **Total net borrowings** [(a)] | | | **6,767** | | **16,327** |
| **TOTAL LIABILITIES AND SHAREHOLDERS EQUITY** | | | **47,966** | | **59,194** |

(a) For details on net borrowings see also Note No. 21 to the consolidated consolidated financial statements.

## Summarized Group cash flow statement

| (million euro) | 2006 | | **2007** | |
|---|---|---|---|---|
| **Items of summarized Group cash flow statement and confluence/reclassification of items in the statutory scheme** | Partial amount from statutory scheme | Amounts of the summarized Group scheme | Partial amount from statutory scheme | Amounts of the summarized Group scheme |
| **Net profit** | | **9,823** | | **10,809** |
| *Adjustments to reconcile to cash generated from operating profit before changes in working capital:* | | | | |
| amortization and depreciation and other non monetary items | | 5,753 | | **6,346** |
| amortization and depreciation | 6,153 | | **7,029** | |
| writedowns (revaluations) net | (386) | | **(494)** | |
| net change in the reserve for contingencies | (86) | | **(122)** | |
| net changes in the reserve for employee benefit | 72 | | **(67)** | |
| net gain on disposal of assets | | (59) | | **(309)** |
| dividends, interest, taxes and other non monetary items | | 10,435 | | **8,850** |
| dividend income | (98) | | **(170)** | |
| interest income | (387) | | **(603)** | |
| interest expense | 346 | | **523** | |
| exchange differences | 6 | | **(119)** | |
| current and deferred income taxes | 10,568 | | **9,219** | |
| **Net cash generated from operating profit before changes in working capital** | | **25,952** | | **25,696** |
| Changes in working capital related to operations | | (1,024) | | **(1,667)** |
| inventories | (953) | | **(1,117)** | |
| accounts receivable | (1,952) | | **(728)** | |
| other assets | (315) | | **(362)** | |
| trade and other accounts payable | 2,146 | | **433** | |
| other liabilities | 50 | | **107** | |
| Dividends received, taxes paid, interest (paid) received | | (7,927) | | **(8,512)** |
| dividend received | 848 | | **658** | |
| interest received | 395 | | **333** | |
| interest paid | (294) | | **(555)** | |
| income taxes paid | (8,876) | | **(8,948)** | |
| **Net cash provided by operating activities** | | **17,001** | | **15,517** |
| Capital expenditure | | (7,833) | | **(10,593)** |
| tangible assets | (6,138) | | **(8,532)** | |
| intangible assets | (1,695) | | **(2,061)** | |
| Investments and businesses | | (95) | | **(9,665)** |
| investments | (42) | | **(4,890)** | |
| consolidated subsidiaries and businesses | (46) | | **(4,759)** | |
| acquisition of additional interests in subsidiaries | (7) | | **(16)** | |
| Disposals | | 328 | | **659** |
| tangible assets | 237 | | **172** | |
| intangible assets | 12 | | **28** | |
| consolidated subsidiaries and businesses | 8 | | **56** | |
| investments | 36 | | **403** | |

| | | | | |
|---|---|---|---|---|
| sales of interest in consolidated subsidiaries | 35 | | | |
| Other cash flow related to capital expenditure, investments and disposals | | 361 | | **(35)** |
| securities | (49) | | **(76)** | |
| financing receivables | (516) | | **(1,646)** | |
| change in accounts receivable in relation to disposals | (26) | | **185** | |
| ***reclassification:*** *purchase of securities and financing receivables non related to operations* | 178 | | **1,045** | |
| sale of securities | 382 | | **491** | |
| sale of financing receivables | 794 | | **545** | |
| change in accounts receivable in relation to disposals | (8) | | **(13)** | |
| ***reclassification:*** *sale of securities and financing receivables non related to operations* | (394) | | **(566)** | |
| **Free cash flow** | | **9,762** | | **(4,117)** |

## *continued* Summarized Group cash flow statement

| (million euro) | 2006 | | 2007 | |
|---|---|---|---|---|
| **Items of summarized Group cash flow statement and confluence/reclassification of items in the statutory scheme** | Partial amount from statutory scheme | Amounts of the summarized Group scheme | Partial amount from statutory scheme | Amounts of the summarized Group scheme |
| **Free cash flow** | | **9,762** | | **(4,117)** |
| Borrowings (repayment) of debt related to financing activities | | 216 | | **(479)** |
| ***reclassification:*** *purchase of securities and financing receivables non related to operations* | (178) | | **(1,045)** | |
| ***reclassification****: sale of securities and financing receivables non related to operations* | 394 | | **566** | |
| Changes in short and long-term financial debt | | (682) | | **8,761** |
| proceeds from long-term debt | 2,888 | | **6,589** | |
| payments of long-term debt | (2,621) | | **(2,295)** | |
| additions (reductions) of short-term debt | (949) | | **4,467** | |
| Dividends paid and changes in minority interests and reserves | | (6,443) | | **(5,836)** |
| net capital contributions/payments by/to minority shareholders | 22 | | **1** | |
| dividends paid by Eni to shareholders | (4,610) | | **(4,583)** | |
| dividends paid by consolidated subsidiaries to shareholders | (222) | | **(289)** | |
| shares repurchased, net | (1,156) | | **(625)** | |
| shares repurchased by consolidated subsidiaries | (477) | | **(340)** | |
| Effect of changes in consolidation and exchange differences | | (201) | | **(200)** |
| effect of change in consolidation area | (4) | | **(40)** | |
| effect of exchange differences | (197) | | **(160)** | |
| **Net cash flow for the period** | | **2,652** | | **(1,871)** |

# Other Information

## Subsequent events

Main subsequent events are reported in the Operating Review above.

## Business trends

Management s expectations regarding key Eni s business trends for the year 2008 are as follows:

- **Production of liquids and natural gas** is forecast to increase (actual oil and gas production averaged 1.736 mmboe/d in 2007), under Eni s Brent price scenario. Full year contribution from the assets acquired in 2007 in the Gulf of Mexico and in Congo and, starting from January 2008, of Burren Energy, as well as the organic growth expected in Nigeria, Angola and Libya will sustain the production performance. Mature field declines are expected in the United Kingdom and in Italy;
- **Sales volumes of natural gas worldwide** are forecast to increase from 2007 level (actual sales volumes in 2007 were 98.96 bcm). Growth is expected to be achieved in the European target markets, mainly in France, Germany/Austria and Spain;
- **Sales volumes of electricity** are expected to increase over 2007 (actual volumes in 2007 were 33.19 TWh) due to the planned start-up of new production capacity at the Ferrara plant;
- **Refining throughputs** are expected slightly increase from 2007 (actual throughputs were 37.15 mmtonnes in 2007). Higher throughputs are expected at the Ceska Rafinerska as a result of the acquisition of a stake made in 2007. This will be offset by planned downtime at the Venice and Taranto refineries in order to execute certain activities intended to enhance plant performance;
- **Retail sales of refined products** are expected to increase from 2007 level, excluding expected divestments (12.65 mmtonnes in 2007). Sales in Italy are expected to remain stable, despite a decline in domestic consumption, counterbalanced by the effect of ongoing marketing initiatives. In Europe, when factoring in the impact of the planned divestment of retail activities in the Iberian region, sales are expected to increase mainly due to the full contribution of assets acquired in 2007 in Central-Eastern Europe.

In 2008 management expects to increase capital expenditures from 2007 (euro 10.59 billion in 2007). Major increases are expected in the development of oil and natural gas reserves, upgrading of construction vessels and rigs, and upgrading of natural gas transport infrastructure. Investments are also planned in order to complete the acquisition of Burren Energy.
On the basis of the expected cash outflows for planned capital expenditures and shareholders remuneration and also assuming Eni s scenario for Brent prices, management expects group leverage to achieve a level that will be lower or higher than the level of 0.38 reported in 2007, depending on the exercising of the already mentioned call options by Gazprom.

# Report on Corporate Governance

This report on corporate governance is designed to provide a complete overview of Eni s governance system. In order to comply with applicable listing standards, information is furnished regarding ownership and adherence to governance codes as established by institutional bodies and relevant commitments to observe them, as well as the options the company has elected in implementing its governance. This report is published in Eni s website **www.eni.it** in the corporate governance section and is transmitted to Borsa Italiana according to set rules and deadlines.

## Code of Ethics

The Board of Directors of Eni has deemed it appropriate to provide a clear definition of the value system that Eni recognizes, accepts and upholds and the responsibilities that Eni assumes internally and externally in order to ensure that all Group activities are conducted in compliance with laws, in a context of fair competition, with honesty, integrity, correctness and in good faith, respecting the legitimate interests of shareholders, employees, suppliers, customers, commercial and financial partners and the communities where Eni operates.

All those working for Eni, without exception or distinction, are committed to observing these principles within their function and responsibility and to ensure that others observe them. The belief of working for the advantage of Eni does not justify behaviours contrary to such principles. These values are stated in a Code of Ethics whose observance by employees is evaluated by the Board of Directors, based on an annual report by the Guarantor for the Code of Ethics.

In its meeting of March 14, 2008 Eni s Board of Directors resolved to update Eni s Code of Ethics in order to include regulatory developments, to better capture the issues of human rights and sustainability, to guarantee compliance with international best practices and make the necessary updates to take into account the changes undergone by Eni s organizational structure. The Code represents a general principle of Model 231 of which it is an integral part, that cannot be waived.

Eni s Code of Ethics is published on Eni s website **www.eni.it**.

## Corporate Governance Code

In its meeting of December 13, 2006, the Board of Directors resolved to adopt a new code of corporate governance by Borsa Italiana on March 14, 2006 ( Borsa Italiana Code [1])by adopting an Eni Code (the Code ). Certain recommendations of the Borsa Italiana Code have been adapted to the specific setup of Eni, while certain others have been clarified thus strengthening Eni s corporate governance. The aim of the Code is to clearly and fully disclose Eni s corporate governance system.

The Code takes into consideration the fact that Eni is a parent company, is not controlled by any other company and is not subject to direction and co-ordination by any Italian or foreign entity (company or body); hence, all the principles expounded in the Borsa Italiana Code not consistent with this status have been adjusted to avoid misunderstanding among Eni s

(1) The Corporate Governance Code issued by Borsa Italiana and adopted by Eni is available on Borsa Italiana Spa website, at Internet address: www.borsaitaliana.it.

shareholders and stakeholders.
Similarly, the By-Laws currently in force foresee a traditional administration and control model (removing the possibility to adopt a one-tier or a two-tier model of management and control system as foreseen in the Borsa Italiana Code), the separation of the roles of the Chairman and the CEO (making the appointment of a lead independent director unnecessary), and specific rules on the appointment and composition of the Board of Directors and of the Board of Statutory Auditors.
In view of guaranteeing more transparency and understanding, the Eni Code directly makes specific choices where the Borsa Italiana Code leaves this option to listed companies, making further resolutions of the Board of Directors on these matters unnecessary (e.g., the choice not to re-allocate or modify the Board s internal committees functions, the choice to entrust internal control responsibilities to only one managerial position, the provision that the internal control manager refers to the CEO and the choice not to entrust internal auditing activities to third parties).
Certain provisions of the Borsa Italiana Code regarding matters reserved to the Shareholders Meeting were merely indicated or suggested by the Eni Code as the Board of Directors cannot resolve on matters reserved to the Shareholders Meeting. All this notwithstanding, the Board is committed to ensure that the Shareholders and the Shareholders Meeting focus a fair deal of attention on such matters or otherwise promote integrations to Eni By-Laws.
Certain generic recommendations of the Borsa Italiana Code have been specified in the Eni Code, in particular criteria regarding the independence of directors, by clearly stating the levels of supplementary remuneration , which jeopardizes the independence requirement, and the meaning of close relatives .

The Eni Code establishes certain principles that enhance the level of governance recommended by the Borsa Italiana Code; in particular:

- in achieving the Company s purpose, the directors shall take into account the interests of all stakeholders as a guideline;
- directors holding proxies are due to report their activity to the Board of Directors every two months, compared to the three-month period
- the number of members of Board committees shall be lower than the majority of Board members in order not to interfere with the Board s decision-making process;
- the Internal Control Committee s opinion on corporate rules has been introduced, ensuring that all transactions carried out with related parties and transactions in which a director has an interest, are performed in a transparent way and according to the criteria of substantial and procedural fairness;
- the proposal of appointment of the manager delegated to internal control to the Board of Directors is drafted by the CEO, in agreement with the Chairman;
- at least two members of the Internal Control Committee must have adequate experience in accounting and finance (the Borsa Italiana Code foresees only one member with these skills).

The Board of Statutory Auditors was invited to expressly agree to the provisions of the Borsa Italiana Code on the Board of Statutory Auditors, and promptly adhered during its December 13, 2006 meeting.

In its mentioned meeting of December 13, 2006, the Board of Directors approved several rules regarding the implementation and specifying the provisions of the Code; in particular:

- the tasks of the Board of Directors have been redefined: the Board maintains an absolute central role in Eni s corporate governance system, with wide responsibilities that cover also Eni and its subsidiaries organization;
- the most important transactions of Eni and its subsidiaries, that require the approval of the Board of Directors, have been defined;
- the Board of Directors has a central role in defining sustainability policies and approving the sustainability report submitted also to the Shareholders Meeting;
- the subsidiaries with strategic relevance have been identified;
- the Board of Directors has expressed its position on the admissible maximum number of

prescribed by the Borsa Italiana Code;

- the Board s self-evaluation can be performed with the support of a specialized external consultant, to ensure its objectiveness;
- directors and auditors shall hold their positions only as long as they deem to be able to devote the necessary time to diligently perform their duties;

positions in other companies that can be held by Eni s directors to ensure a sufficient amount of time for the effective performance of their duties;

- the principle of the respect of managerial autonomy of subsidiaries listed on a regulated market (as Saipem and Snam Rete Gas) has been expressly stated as well as Eni s commitment to observing such principles as defined in the Borsa Italiana Code regarding persons holding significant positions in the share capital of listed companies.

In its meeting of March 16, 2007, the Board of Directors as prescribed by the Code and with the positive opinion of the Internal Control Committee, entrusted the Internal Audit Manager as manager delegated for the Internal control.
In its meeting of March 29, 2007, the Board of Directors approved changes in the regulations regarding the functioning and the tasks of the Internal Control Committee and the Compensation Committee, to align them to the prescriptions of the Eni Code. As a consequence, in its meeting of June 7, 2007, it reduced the number of members of the Internal Control Committee from five to four, lower than the majority of Board members.

* * *

Eni s corporate governance model, therefore, complies with the provisions of the Borsa Italiana Code and foresees certain provisions intended to improve the level of corporate governance. In compliance with the recommendations of the Code a procedure for transactions with related parties is currently being prepared and will be approved after Consob issues general principles as per Article 2391-*bis* of the Civil Code. Pending the publication of such rules by Consob, Eni s internal rules provide that transactions with related parties are submitted to the Board of Directors, even when amounting to less than the materiality threshold set for the transactions to be approved by the Board.

Eni s Code is published on Eni s website. The Comment included in the Borsa Italiana Code has not been published there, in order to not lengthen the document, however Eni took it into account in the implementation of provisions and criteria.

* * *

In accordance with the requirements and indications of Borsa Italiana SpA, in particular, the Guidelines for the preparation of the yearly report on corporate governance of February 12, 2003, follows information on Eni s corporate governance system. The Guide to the preparation of the report on corporate governance published by Assonime and Emittenti Titoli SpA in March 2004 has also been taken into account in company s purpose, thus representing the central element of Eni s corporate governance system. Monitoring functions are entrusted to the Board of Statutory Auditors and accounting control is entrusted to external auditors appointed by the Shareholders Meeting.
According to Article 25 of Eni s By-Laws, the Chairman and the CEO represent the company.
The Board of Directors established committees with consulting and proposing functions.
The Board of Directors also appointed three General Managers responsible for the three operational divisions of Eni SpA.
Certain organizational and management choices presented in this report have been made in application of the U.S. law to which Eni must conform due to the listing of its shares on the New York Stock Exchange.

# The Board of Directors

**Tasks**

On June 1, 2005, the Board of Directors appointed Mr. Paolo Scaroni as Chief Executive Officer (and General Manager) and delegated all necessary powers for the administration of the Company to him, with the exception of those powers that cannot be delegated in accordance with current legislation (Article 2381 of the Italian Civil Code) and those retained by the Board of Directors (as amended by the Board of Directors in its meeting of October 11, 2005). Eni s CEO is assisted by a Steering Committee made up of Corporate Senior Vice Presidents and General Managers of Eni Divisions, who hold a function of consultancy.
As mentioned above, in its meeting of December 13, 2006, the Board of Directors modified these resolutions in order to update their contents to the Code s prescriptions, implement a more effective coordination with the By-Laws and entrust the Board of Directors with a central role in the Group s sustainability policies.
Further changes were approved by the Board in its meeting of April 17, June 7 and July 4, 2007.
The Board, in accordance to these rules, retained the following powers, in addition to those that cannot be delegated under applicable laws:
1. Establishes the Company and Group Corporate Governance system and rules. In particular, after consulting the Internal Control Committee, the Board

preparing this report.

# Eni s organizational structure

Eni s organizational structure follows the traditional model of companies in which the Board of Directors is entrusted with the fullest power to manage the company in view of implementing and achieving the

approves the rules that ensure the substantial and procedural transparency and correctness of the transactions carried out with related parties and those in which a director holds an interest, on his behalf or on behalf of third parties. The Board adopts a procedure for the management and disclosure to third parties of documents and information concerning the Company, having special regard to price sensitive information.

2. Establishes among its members one or more committees with proposing and consulting functions, appoints their members, establishes their responsibilities, determines their compensation and approves their regulations.

3. Appoints and revokes the powers of the Chief Executive Officer and the Chairman; establishes the terms, limits and operating methods of the exercise of such powers and determines the compensation related to the powers, on the basis of proposals from the Compensation Committee and after consulting the Board of Statutory Auditors. The Board may issue instructions to the Chief Executive Officer and the Chairman and reserve to itself any operations that pertain to its powers.

4. Establishes the guidelines of the organizational, administrative and accounting structure of the parent company, of the most important subsidiaries and of the Group; evaluates the adequacy of the organizational, administrative and accounting structure set up by the Chief Executive Officer in particular with regard to the management of conflicts of interest.

5. Establishes, in particular, based on the recommendations of the Internal Control Committee, the guidelines of the internal control system, in order to ensure the identification, measurement, management and monitoring of the main risks faced by the Company and its subsidiaries. Evaluates the adequacy, effectiveness and effective functioning of the internal control system managed by the Chief Executive Officer on an annual basis.

6. Establishes, based on the recommendation of the Chief Executive Officer, Company and Group strategies and objectives, including Sustainability policies. Examines and approves the Company s and Group s strategic, operational and financial plans and the strategic agreements to be signed by the Company.

7. Examines and approves annual budgets for Eni s Divisions and the Company, as well as the Group s consolidated budget.

8. Evaluates and approves interim quarterly and half-yearly reports, as per current regulations. Evaluates and approves the sustainability report, submitted also to the Shareholders Meeting.

exercising the powers attributed as well as updates on activities carried out by the Group and on atypical or unusual transactions or transactions with related parties that were not previously submitted to the evaluation and approval of the Board.

10. Receives half-year updates on the Board Committees activities.

11. Evaluates the general performance of the Company and the Group, on the basis of information received from Board members with powers, with particular attention to situations of conflicts of interest and compares results achieved as contained in the annual report and interim financial statements, as per current regulations with the budget.

12. Evaluates and approves any transaction executed by the Company and its subsidiaries that have a significant impact on the company s results of operations and liquidity. Particular attention is paid to situations in which Board members hold an interest on their own behalf or on behalf of third parties, and to related parties transactions. The Board ensures the principle of operational autonomy with specific regard to the listed companies of the Eni Group. It also ensures the confidentiality of trade relations between said subsidiaries and Eni or third parties for the protection of the subsidiaries interests.

Transactions with a significant impact on the company s results of operations and liquidity include the following:

a) acquisition and disposal of shareholdings, investments, businesses and individual properties, contributions in kind, mergers and de-mergers exceeding euro 50 million, notwithstanding Article 23.2 of the By-Laws;

b) investments in fixed assets exceeding euro 200 million, or less if of particular strategic importance or particularly risky;

c) any exploration initiatives and portfolio operations in the E&P sector in new areas;

d) sale and purchase contracts relating to goods and services other than investments, for an amount exceeding euro 1 billion or a duration exceeding twenty years;

e) financing to entities other than subsidiaries: i) for amounts exceeding euro 50 million or, ii) in any case, if the amount is not proportionate to the interest held;

f) issuing by the Company of personal and real guarantees to entities other than subsidiaries: i) for

9. Receives from Board members with powers, at every Board meeting or at least every two months, reports informing the Board of activities carried out in

amounts exceeding euro 200 million, if in the interest of the Company or of Eni subsidiaries, or ii) in any case, if the guarantees are issued in the interest of non-controlled companies and the amount is not proportionate to the interest held. In order to issue the guarantees indicated in section i) of letter f), if the amount is between euro 100 million and euro 200 million, the Board confers powers to the Chief Executive Officer and the Chairman, to be exercised jointly in case of urgency.

13. Appoints and revokes, on recommendation of the Chief Executive Officer and in agreement with the Chairman, the General Managers of Divisions and attributes powers to them.

14. Appoints and revokes, on recommendation of the Chief Executive Officer and in agreement with the Chairman, and with the approval of the Board of Statutory Auditors, the Manager charged with preparing the Company s financial reports as per Legislative Decree No. 58/1998 delegating to him adequate powers and resources.

15. Appoints and revokes, on recommendation of the Chief Executive Officer and in agreement with the Chairman, after consulting the Internal Control Committee, the person in charge of internal control and determines his/her compensation in line with the Company s remuneration policies.

16. Ensures a person is identified as responsible for handling the relationships with the Shareholders.

17. Establishes, on the basis of the proposals received from the Compensation Committee, the criteria for top management compensation and implements the stock incentive plans approved by the Shareholders Meeting.

18. Examines and decides on proposals submitted by the Chief Executive Officer with respect to voting powers and to the appointment of members of the management and control bodies of the most important controlled subsidiaries. With specific regard to the shareholders meetings of listed companies of the Eni Group, the Board ensures the observance of the Corporate Governance Rules regarding the shareholders meetings.

19. Prepares the proposals to be submitted to the Shareholders Meeting.

20. Examines and resolves on other matters that the Chief Executive Officer deems appropriate to submit to the Board because of their importance and sensitivity.

On July 4, 2007 the Board of Directors determined the criteria under which the Board of Directors approves for a second time certain projects the terms and conditions of which have significantly changed with respect to the demergers of at least 90% directly owned subsidiaries; establishment and winding up of branches; amendments to the By-Laws in order to comply with applicable legislation.

On June 1, 2005, the Board of Directors entrusted the Chairman Roberto Poli with powers to conduct strategic international relations, pursuant to Article 24.1 of Eni s By-Laws.

In accordance with Article 27 of Eni s By-Laws, the Chairman chairs Shareholders Meeting and oversees the implementation of decisions made by it.

In its meeting of January 15, 2008 the Board of Directors evaluated as adequate the organizational, administrative and accounting setup of the company.

In its meeting of March 14, 2008 the Board of Directors evaluated the internal control system of the company to be adequate and effective.

**Appointment**

In accordance with Article 17 of Eni s By-Laws, the Board of Directors is made up of three to nine members. The Shareholders Meeting determines the number within said limits.

As per Article 6, paragraph 2, letter d) of Eni s By-Laws the Minister for Economy and Finance, in agreement with the Minister of Economic Development, may appoint one member of the Board without voting rights in addition to those appointed by the Shareholders Meeting.

The Minister for Economy and Finance chose not to appoint such member.

In order to allow for the presence of representatives elected by minority shareholders, as provided for by Legislative Decree No. 58 of February 24, 1998 (Testo Unico della Finanza - TUF), the appointment of the Board of Directors calls for a list vote. According to article 17 of Eni s By-Laws and the provisions of Law No. 474 of 1994, shareholders representing at least 1% of voting shares, alone or together with other shareholders, and the Board of Directors have the right to present lists for the appointment of directors. Each shareholder can present or participate in presenting only one list.

Entities controlling a shareholder and companies controlled by a common entity are forbidden from presenting or otherwise concurring to the presentation of additional lists.

first approval.
Pursuant to Article 23.2 of the By-Laws, the Board resolves on: mergers by incorporation and proportional

Lists are to be filed at Eni s headquarters at least ten days before the date set for the Shareholders Meeting on first call (20 days in case of the Board of Directors presenting a list) and published in at least three national (two economic) newspapers. Lists must be also be filed with Borsa Italiana and published on Eni s Internet site. These lists must include the specification of which candidates are independent. All candidates must possess the

honorability requirements as provided for by the applicable legislation and Eni s By-Laws. Lists must include a professional curriculum of each candidate and statements in which each candidate attests the possession of the honorability and independence requirements, lest the lists be considered inadmissible. The list vote is applied only when the whole Board is re-elected.
After the votes are cast, appointments take place by extracting seven tenths of directors from the majority list in the order in which they are listed and the remaining directors from the other lists that must not be directly or indirectly connected with the members that filed or voted the list that collected the majority of votes.
In case of appointment of directors that for whatever reason have not been voted according to the described procedure, the Shareholders Meeting decides with the majorities set by the law, provided that the composition of the Board complies with the law and Eni s By-Laws.

**Composition**
The Board of Directors presently in office is made up of nine members appointed by the Shareholders Meeting of May 27, 2005, for a three-year term; their mandate expires with the Meeting convened to approve financial statements for fiscal year 2007.
The current Board of Directors is formed by the Chairman, Roberto Poli, the CEO, Paolo Scaroni, and directors, Alberto Clô, Renzo Costi, Dario Fruscio (until January 30, 2008)[2], Marco Pinto, Marco Reboa, Mario Resca, and Pierluigi Scibetta.
Roberto Poli, Paolo Scaroni, Dario Fruscio, Marco Pinto, Mario Resca and Pierluigi Scibetta were candidates included in the list of the Ministry for Economy and Finance.
Alberto Clô, Renzo Costi and Marco Reboa were in the list presented by institutional investors coordinated by Fineco Asset Management SpA.
Since June 1, 2006, the Secretary of the Board of Directors is Roberto Ulissi, the Group s senior vice president for Corporate Affairs and Governance.

**Positions held by directors in other Boards**
Based on information received, follows information on positions held in other Boards of Directors or Boards of Statutory Auditors of companies listed in regulated markets also outside Italy, financial, banking or

ROBERTO POLI
Board member of Mondadori SpA, Fininvest SpA, Coesia SpA, Maire Technimont SpA, Perennius Capital Partners SGR SpA, Merloni Termosanitari SpA.

PAOLO SCARONI
Board member of Assicurazioni Generali, LSEG plc (London Stock Exchange Group), Veolia Environment SA.

ALBERTO CLÔ
Board member of ASM Brescia SpA (until December 31 2007), Atlantia SpA, Italcementi SpA, De Longhi SpA.

MARCO REBOA
Board member of Seat PG SpA, Interpump Group SpA, IMMSI SpA, Intesa Private Banking SpA. Chairman of the Board of Statutory Auditors of Luxottica Group SpA.

MARIO RESCA
Chairman of Italia Zuccheri SpA, Board member of Mondadori SpA, ARFIN SpA, Finance Leasing SpA.

PIERLUIGI SCIBETTA
Board member of Gestore del Mercato Elettrico SpA.

**Board s opinion on the matter of the admissible number of positions held by directors in other companies**
In its meeting of December 13, 2006, the Board of Directors expressed its opinion on the matter of the admissible number of positions held by directors in other companies, as required by the Eni Code, and following the resolution of the meeting held on June 20, 2007:

- an executive director should not hold: i) the position of executive director in any other Italian or foreign listed company, or in any finance, banking or insurance company or any company with a net equity exceeding euro 10 billion and ii) the position of non-executive director or statutory auditor (or member of any other advisory committee) in more than three of said companies;

insurance or large companies by members of Eni s Board of Directors. The personal and professional curriculum of Directors is available on Eni s website.

- a non-executive director, should not hold further positions than the one held in Eni, as: i) executive director in more than one of the companies mentioned above and non-executive director or statutory auditor (or member of any other control body) in more than three of the mentioned companies, or as ii) non-executive director or statutory auditor in more than six of the mentioned companies.

(2) On January 30, 2008, the Director Dario Fruscio resigned from the Board of Directors.

All the positions held in Eni s subsidiaries are excluded for the purposes described above.
In case a director exceeds said limits in terms of positions held, he should timely inform the Board, who shall judge the situation taking into account the interest of the Company and call upon the interested director to make a decision on the matter. In any case, before accepting the office of director or statutory auditor (or member of any other control entity) of a company not related to Eni, the executive director informs the Board of Directors that evaluates its compatibility with his office at Eni and the interests of Eni. This rule applies also to the General Managers of Eni s divisions.
On the basis of available information, in its meeting of February 15, 2008, the Board of Directors verified that the number of positions held in other companies complies with these limits.

**Independence and honorability requirements, causes for ineligibility and incompatibility**

Legislative Decree No. 58 of February 24, 1998 (TUF), as amended by Legislative Decree No. 303 of December 29, 2006 states that at least one member, or two members if the Board is composed by more than seven members must possess the independence requirements provided for Statutory Auditors of listed companies.
Article 17.3 of Eni s By-Laws states that at least one member, if the Board is made up by up to five members, or three Board members, in case the Board is made up by more than five members, shall have the independence requirement. This rule actually increases the number of independent directors in Eni s Board, as compared to what is required by the law. In addition Eni s By-Laws provides for a substitution mechanisms that guarantees in any case the presence of the minimum number of independent directors in the Board.
Eni s Code foresees further independence requirements, in line with the ones provided by the Borsa Italiana Code. The TUF, as implemented in Article 17.3 of Eni s By-Laws, provides that the persons acting as directors and managers of listed companies possess the honorability requirements prescribed for the member of control entities of listed companies. Directors must comply with additional requirements specifically determined for them.
In accordance with Article 17.3 of Eni s By-Laws, the Board periodically evaluates independence and application of criteria and procedures adopted by the Board to evaluate the independence of its members.
In accordance with Article 17.3 of Eni s By-Laws, should the independence and honorability requirements be impaired or cease or the minimum number of independent directors diminish below the threshold set by Eni s By-Laws, the Board declares the termination of office of the member lacking said requirements and provides for his substitution. Board members are expected to inform the company if they lose their independence and honorability requirements or any reasons for ineligibility or incompatibility that might arise.
On February 15, 2008, Eni s Board of Directors, in accordance with the provisions of Eni s By-Laws and Code, determined that five out of its eight members are independent, specifically: non-executive directors Alberto Clô, Renzo Costi, Marco Reboa, Mario Resca and Pierluigi Scibetta[3].
Renzo Costi was confirmed to be independent notwithstanding his permanence as board member for a period longer than nine years, due to the fact that he has been nominated by minority shareholders (specifically institutional investors) and has demonstrated ethical and professional qualities and independence when expressing his opinion during this period.
The Board of Statutory Auditors verified the proper application of criteria and procedures adopted by the Board to evaluate the independence of its members.
In the same meeting, based on the statements received, the Board of Directors verified that all its members possess the honorability requirements.

**Meetings and functioning**

The general public is informed, with advance notice normally before the closing of the year, of the dates of meetings convened for the approval of annual, semi-annual, preliminary and quarterly accounts, to announce the amount of interim dividends and final dividends, and related ex-dividend and payment dates, and the general Shareholders Meeting approving the annual financial statements. The financial calendar is available on Eni s website.
In its meeting of June 1, 2005, the Board of Directors defined the rules for the calling of its meetings. In particular, the Chairman convenes Board meetings, and, in agreement with the CEO, defines agenda items.

honorability of directors and the absence of reasons for ineligibility and incompatibility. Eni Code also provides for the Board of Statutory Auditors to verify the proper

Notice is sent to the Directors, Statutory Auditors and the Magistrate of the Court of Accounts within five days of the meeting s date, at least 24 hours in advance in case of urgency.

(3) As mentioned above, Dario Fruscio resigned from the Board of Directors on January 30, 2008. In its meeting of February 22, 2007, the Board of Directors determined Dario Fruscio as independent director.

Eni s By-Laws allow meetings to be held by video or teleconference.
Board members, Statutory Auditors and the Magistrate of the Court of Accounts receive in advance adequate and thorough information on all issues subject to Board evaluation and resolutions, except when confidentiality is deemed necessary.
During meetings, directors can meet managers of Eni and its subsidiaries in order to obtain information on specific matters of the agenda items.
In 2007, the Board of Directors met 25 times (of which 17 ordinary meetings and 8 extraordinary meetings) for an average duration of two hours and twenty minutes (the average duration of ordinary meetings was about three hours). The average attendance rate to Board meetings was 91%, the attendance rate of independent non-executive Board members was 87%.
In the attached table, the percentage of attendance of each member of the Board to the Board of Directors and Board committees meetings is presented.
Until this date, non-executive and independent members have always met in presence of the other members of the Board; Eni s By-Laws allow them to decide whether it is necessary to hold meetings attended exclusively by non-executive and independent members.
Following the self evaluation performed in 2007, the Directors also agreed upon holding informal meetings to gain more insight on specific managerial and business matters, in order to better perform assigned duties.

**Board self evaluation**

The Board of Directors performed its self assessment of size, composition and functioning for the second year, in accordance with Eni s and Borsa Italiana Codes.
In accordance with Eni s Code, the Board of Directors has been supported by a specialized consulting firm, Egon Zehnder, the same company of the preceding year, to guarantee not only the maximum objectiveness of its assessment, but also continuity and homogeneity of analyses.
Egon Zehnder s work was focused on: a) the level of functioning and efficiency of the Board; b) identifying areas of improvement or weakness in the functionality and efficacy of the Board; c) efficiency of improvement actions decided after the previous board review and the related level of satisfaction of Board members; d) assessing Eni s Board efficiency by benchmarking it Directors, that discussed and confirmed them in its meeting of February 28, 2008. The review was substantially positive, even better than that of the previous year.
As concerns the Board, whose size was considered adequate, the main items highlighted were: greater engagement of members; the satisfying level of quantity and quality of information provided even in the periods between meetings; the transparency in presenting issues to the Board.
These factors and a proper and constructive climate contributed to a more active participation and higher quality of interventions.
As concerns the Committees, the Board considers their size and composition optimal and appreciates their activities. The Board also stressed the cohesion, the cooperation between the Internal Control Committee, the Board of Statutory Auditors and the Internal Audit department.

**Project for the training of Board Members**

Eni prepared a training plan for the Board of Directors that shall be appointed at the date of approval of Eni s financial statements for 2007, aimed at providing Board members with a precise knowledge of Eni s activities, business segments and organization and the role the Board is expected to play in relation to the company s specific features. This training plan should involve also Statutory Auditors and later on, members of the Board Committees, for specific matters.

**Remuneration**

Board members emoluments are determined by the Shareholders Meeting, while the emoluments of the Chairman and CEO, in relation to the powers attributed to them, are determined by the Board of Directors, based on proposals of the Compensation Committee and after consultation with the Board of Statutory Auditors.
On May 27, 2005 the Shareholders Meeting resolved to determine the annual emolument of the Chairman in euro 265,000 and of Board members in euro 115,000. It also resolved a bonus up to a maximum of euro 80,000 for the Chairman and euro 20,000 for each Board member. The amount of the bonus is determined in accordance with the performance of Eni shares in the reference year as compared with the performance of the seven largest international oil companies for market

against national companies of comparable size, complexity and scope.
Consultants performed an in-depth interview of each member and presented the results to the Board of

capitalization. The share performance takes account of the dividend paid. Said bonus amounts to euro 80,000 or euro 40,000, and euro 20,000 or euro 10,000 for the Chairman and each Board member, respectively, depending on whether the performance of Eni shares is rated first or second, or

third or fourth in the reference year, respectively. No bonus is paid in case Eni scores a position lower than the fourth one.
In the meeting of March 29, 2007, the Board verified that Eni rated third in the mentioned positioning in 2006.
In the meeting of July 27, 2006, the Board of Directors, as proposed by the Compensation Committee and advised by the Board of Statutory Auditors, determined an additional element of remuneration for the Board members holding positions in Board s committees, with the exclusion of the Chairman and CEO. Said fee amounts to euro 30,000, and euro 20,000 for the position of chairman of a committee and of member of a committee, respectively. This amount decreases to euro 27,000 and euro 18,000 in case a member holds positions in more than one committee.
The remuneration of the Chairman is made up of a fixed emolument and a bonus in relation to the powers delegated to him by the Board. The remuneration of the CEO, the general managers and other managers with strategic responsibilities[4] is made up of a base salary, an annual bonus, and long term incentives.
The Chairman and CEO fixed emolument and is set taking into account the powers delegated to them by the Board.
The base salary of the three General Managers of Eni divisions and of other key managers is set considering the position held and their specific responsibilities, with reference to appropriate market levels as benchmarked against national and international companies of comparable size, complexity and scope in the oil and gas, industrial and service sectors. Base salaries are reviewed and adjusted on a yearly basis considering individual performance and career progression.
Management s bonuses are paid yearly, based on the achievement of both financial, operational and strategic company targets and individual performance targets pertaining to each business or functional unit. The bonuses of the Chairman and CEO are determined based on the achievement of the Company s targets.
Bonuses paid in 2007 were determined based on the achievement of Eni s target for 2006 as approved by the Board of Directors on proposal of the Compensation Committee and defined consistently with the targets of the strategic plan and yearly budget. These targets include a set level of profitability and cash flow from operations (with a 40% weight), divisional operating have been verified by the Compensation Committee and approved by the Board of Directors. Based on these results, bonuses equalled 116% of the target level, within an interval ranging from 85% to 130% of said target level.
In March 2006, the Board of Directors approved a new long-term incentive plan for senior managers of Eni and its subsidiaries (excluding listed subsidiaries), as proposed by the Compensation Committee. This new scheme is intended to motivate more effectively and retain managers, linking incentives to targets and performance achieved in a tighter way than previous incentives schemes. This new incentive scheme applies to the 2006-2008 three year period and is composed of a deferred monetary incentive, linked to the achievement of certain business growth and operating efficiency targets, replacing the previous stock grant plan, and of a stock option incentive focused on the achievement of certain targets of total shareholder return.
This scheme is intended to balance the monetary and stock-based elements of the remuneration, as well as links financial and operating results to share performance in the long term. The deferred monetary incentive granted in 2007 is paid after three years from the grant depending on the achievement of the annual EBITDA targets preset for the 2007-2009 period. Results in terms of EBITDA are assessed by comparing actual results with set targets under a constant trading environment for each year. Stock options granted in 2007 can be exercised after three years from the grant in a percentage depending on the performance of Eni shares measured in terms of Total Shareholder Return[5] as compared to that achieved by a panel of major international oil companies over the 2007-2009 three-year period.
At the end of the three year period, the results of the long term incentive plan are reviewed by the Compensation Committee and approved by the Board of Directors.
The CEO, being the General Manager of the company, is entitled to take part to both legs of this scheme, adding also a deferred bonus linked to the increase in the Eni share price, to be paid after three years (see the paragraph Stock options and other share-based compensation , below).
Upon expiry of the contract as employee of Eni, the CEO in his quality of General Manager of the parent

performance (30%), strategic projects (20%) and corporate efficiency (10%). Results achieved have been assessed assuming a constant trading environment and

company is entitled to receive an indemnity that is accrued along the service period with an annual provision of euro 240,737.93. This provision is determined by taking

(4) These members together with the CEO and the General Managers are permanent members of Eni s Management Committee.
(5) For a definition of TSR see Glossary .

into account social security contribution rates and post-retirement benefit computations applied to the CEO base salary and 50% of the bonuses earned as a Director. In case the work contract of the CEO is terminated at or before the expiry of his office, the CEO will receive a payment of euro 7 million in lieu of notice thus waiving both parties from any obligation related to notice. This payment is not applicable in case the work contract is terminated upon due cause, death or resignation from office other than as a result of a reduction in powers currently attributed to the CEO.

Eni s Shareholders Meeting of May 25, 2006, determined to extend to all Board Directors and to Statutory Auditors the insurance against professional risks included in agreements for Eni managers. This insurance reflects market terms and standard conditions.
Follows the breakdown of the 2007 remuneration of the Chairman, the CEO, the divisional General Managers and other managers with strategic responsibilities:

| (%) | Chairman | CEO | Divisional General Managers | Other managers with strategic responsibility |
|---|---|---|---|---|
| Base salary | 66 | 30 | 42 | 43 |
| Bonuses (linked to performance) | 34 | 27 | 27 | 32 |
| Long term incentive (linked to performance) (*) | - | 43 | 31 | 25 |
| Total | 100 | 100 | 100 | 100 |

(*) Evaluation of the deferred bonus (discounted) and the fair value of stock options assigned for target result; for the CEO the deferred bonus comprises also the deferred bonus linked to the market performance of Eni shares.

**Remuneration earned by members of the Board of Directors, Statutory Auditors, General Managers, and other managers with strategic responsibilities**
Pursuant to Article 78 of Consob Decision No. 11971 of May 14, 1999, and to its subsequent modifications, remuneration earned by members of the Board of Directors, Statutory Auditors, General Managers and other managers with strategic responsibilities is reported in the table below. Remuneration earned by managers who held a position in 2007 for a fraction of the year is reported too.
Pursuant to Consob decisions:

- in the column Emoluments for service at Eni SpA are reported fixed fees paid to non-executive and executive directors, fixed fees paid to Directors attending the Committees formed by the Board of Directors, and fees paid to Statutory Auditors. Fixed fees earned by the Chairman and the CEO include also fees earned
- in the column Non-cash benefits are reported amounts referring to all fringe benefits, including insurance policies;
- in the column Bonuses and other incentives are reported the portion of fees linked to performances which was awarded in the year to both non-executive directors and executive directors, and the portion of salaries linked to performances which was awarded in the year to the CEO, the General Managers of Eni s divisions and other managers with strategic responsibilities;
- in the column Salaries and other elements are reported base salaries paid to the CEO, the General Managers of Eni s divisions and other managers with strategic responsibilities, and indemnities paid upon termination of the employment contract. Referring to the Statutory Auditors, fees paid for positions held on the

for the powers delegated to them by the Board;

Board of Statutory Auditors in Eni s subsidiaries are also reported.

(thousand euro)

| Name | Position | Term of office | Expiry date of the position [a] | Emoluments for service at Eni SpA | Non-cash benefits | Bonuses and other incentives [b] | Salaries and other elements | Total |
|---|---|---|---|---|---|---|---|---|
| **Board of Directors** | | | | | | | | |
| Roberto Poli | Chairman | 01.01-12.31 | 04.29.08 | 765 | 16 | 388 | | 1,169 |
| Paolo Scaroni | CEO | 01.01-12.31 | 04.29.08 | 430 | 62 | 1,277 | 1,016 | 2,785 |
| Alberto Clô | Director | 01.01-12.31 | 04.29.08 | 138 | | 10 | | 148 |
| Renzo Costi | Director | 01.01-12.31 | 04.29.08 | 134 | | 10 | | 144 |
| Dario Fruscio | Director | 01.01-12.31 | 01.30.08 [c] | 126 | | 10 | | 136 |
| Marco Pinto | Director | 01.01-12.31 | 04.29.08 | 133 | | 10 | | 143 |
| Mario Resca | Director | 01.01-12.31 | 04.29.08 | 130 | | 10 | | 140 |
| Marco Reboa | Director | 01.01-12.31 | 04.29.08 | 148 | | 10 | | 158 |
| Pierluigi Scibetta | Director | 01.01-12.31 | 04.29.08 | 134 | | 10 | | 144 |
| **Board of Statutory Auditors** | | | | | | | | |
| Paolo Andrea Colombo | Chairman | 01.01-12.31 | 04.29.08 | 115 | | | 88 [d] | 203 |
| Filippo Duodo | Auditor | 01.01-12.31 | 04.29.08 | 80 | | | 72 [e] | 152 |
| Edoardo Grisolia [f] | Auditor | 01.01-12.31 | 04.29.08 | 80 | | | | 80 |
| Riccardo Perotta | Auditor | 01.01-12.31 | 04.29.08 | 80 | | | 38 [g] | 118 |
| Giorgio Silva | Auditor | 01.01-12.31 | 04.29.08 | 80 | | | 45 [h] | 125 |
| **General Managers** | | | | | | | | |
| Stefano Cao | Exploration & Production | 01.01-12.31 | | | 1 | 551 | 935 | 1,487 |
| Domenico Dispenza | Gas & Power | 01.01-12.31 | | | 1 | 457 | 654 | 1,112 |
| Angelo Taraborrelli | Refining & Marketing | 01.01-08.02 [i] | | | 1 | 386 | 340 | 727 |
| Angelo Caridi | Refining & Marketing | 08.03-12.31 [l] | | | 1 | | 210 | 211 |
| **Other managers with strategic responsibilities** [m] | | | | | 10 | 2,570 | 3,529 | 6,109 |

(a) The term of position ends with the Meeting approving financial statements for the year ending December 31, 2007.
(b) Based on performance achieved in 2006.
(c) Resigned from the Board of Directors.
(d) Includes the compensation obtained as Chairman of the Board of Statutory Auditors of Saipem and EniServizi.
(e) Includes the compensation obtained as Statutory Auditor in Snamprogetti SpA and in Polimeri Europa and as Chairman of the Board of Statutory Auditors of CEPAV Uno and CEPAV Due.
(f) Compensation for the service is paid to the Ministry for Economy and Finance.
(g) Includes the compensation obtained as Chairman of the Board of Statutory Auditors of Snam Rete Gas SpA.
(h) Includes the compensation obtained as Statutory Auditor in Snamprogetti SpA and as Chairman of the Board of Statutory Auditors of TSKJ Italia Srl.
(i) In office until August 2, 2007.
(l) Appointed by the Board of Directors on August 3, 2007.
(m) Managers, who during the year with the CEO and the General Managers of Eni divisions, have been member of the Eni Directors Committee (seven managers).

## Deferred bonus awarded to the CEO, the General Managers and managers with strategic responsibilities

established for the target performance in relation to the performances achieved in a three-year period as approved by the Board of Directors.

The deferred bonus plan approved for the 2006-2008 three-year period envisages a basic bonus paid after three years according to a variable amount equal to a percentage ranging from 0 to 170% of the amount

The following table sets out the basic bonus awarded in the year 2007 to the CEO and to the General Managers of Eni s Divisions, and the total amount awarded to other managers.

(thousand euro)

| Name | | Deferred bonus awarded |
|---|---|---|
| Paolo Scaroni | CEO and General Manager of Eni | 787 |
| Stefano Cao | General Manager of the E&P Division | 380 |
| Domenico Dispenza | General Manager of the G&P Division | 268 |
| Angelo Taraborrelli | General Manager of the R&M Division [(a)] | 236 |
| Angelo Taraborrelli | General Manager of the R&M Division [(b)] | 140 [(c)] |
| Other managers with strategic responsibilities [(d)] | | 1,126 |

(a) Position held until August 2, 2007.
(b) Appointed on August 3, 2007.
(c) Assigned on July 25, 2007, to Angelo Caridi who held the position of CEO of Snamprogetti until August 2, 2007.
(d) No. 7 managers.

**Stock options and other share-based compensation**

STOCK GRANTS

In 2003 Eni started a stock grant incentive scheme intended to motivate and retain managers. This scheme provided the offering of treasury shares purchased under Eni s buy back program for no consideration to a number of Eni managers who achieved corporate and individual targets. Said scheme applied to the three year-period 2003-2005 and was subsequently discontinued.

Under this stock grant plan, on December 31, 2007, a total of 902,800 grants were outstanding for the assignment of an equal amount of treasury shares (equal to 0.05% of capital stock) pertaining to 2003, 2004 and 2005 assignments as follows: (i) a total of 2,500 grants (fair value euro 11.20 per share) related to 2003, (ii) a total of 798,700 grants (fair value euro 14.57 per share) related to 2004 and (iii) a total of 1,072,400 grants (fair value euro 20.08 per share) related to 2005.

STOCK OPTIONS

Eni offers managers of Eni SpA and its subsidiaries as defined in the Article 2359 of the Civil Code holding positions of significant responsibility for achieving profitability or strategic targets, the opportunity to acquire a shareholding in the company as an element of remuneration through the award of options for purchasing Eni treasury shares.

On May 25, 2006, the Shareholders' Meeting approved the 2006-2008 stock option plan and authorized the Board of Directors to make available a maximum amount of 30 million treasury shares (equal to 0.749% of the share capital) for the stock option plan.

This stock option plan foresees three annual awards. Unlike previous schemes, the 2006-2008 stock option plan introduced a performance condition upon which options can be exercised. At the end of each vesting period with a three-year duration, the Board of Directors determines the number of exercisable options, in a percentage ranging from 0% to 100% of the total amount awarded for each year of the plan, depending on the performance of Eni shares measured in terms of Total Shareholder Return as compared to that achieved by a panel of major international oil companies in terms of capitalization. In 2006 and 2007, the Board of Directors approved: (i) the award pertaining to 2006 and 2007 within the three-year period covered by the plan; (ii) its regulation; and (iii) the criteria to be followed in the identification of managers to whom the option will be assigned. The Board of Directors delegated to the CEO the task to identify eligible managers by the end of each year covered by the plan. Under this plan, 6,128,500 options were awarded pertaining to 2007 with a strike price of euro 27.451. Previous stock option plans provided that grantees had the right to purchase treasury shares in a 1 to 1 ratio after three years from the award, with a strike price calculated as the arithmetic average of official prices registered on the Mercato Telematico Azionario in the month preceding award or, if greater, as the average carrying cost of treasury shares held by Eni as of the date preceding the award.

At December 31, 2007, a total of 17,699,625 options were outstanding for the purchase of an equal amount of ordinary shares nominal value euro 1 of Eni SpA, carrying an average strike price of euro 23.822.

The weighted average remaining contractual life of options outstanding at December 31, 2006 and 2007 was 4 years and 7 months and 5 years and 7 months respectively.

The following is a summary of stock option activity for the years 2006 and 2007:

| | 2006 | | | 2007 | | |
|---|---|---|---|---|---|---|
| | Number of shares | Weighted average exercise price | Market price in euro (a) | Number of shares | Weighted average exercise price | Market price in euro (a) |
| **Options as of January 1** | **13,379,600** | **17.705** | **23.460** | **15,290,400** | **21.022** | **25.520** |
| New options granted | 7,050,000 | 23.119 | 23.119 | 6,128,500 | 27.451 | 27.447 |
| Options exercised in the period | (4,943,200) | 15.111 | 23.511 | (3,028,200) | 16.906 | 25.338 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Options cancelled in the period | (196,000) | 19.119 | 23.797 | (691,075) | 24.346 | 24.790 |
| **Options outstanding as of December 31** | **15,290,400** | **21.022** | **25.520** | **17,699,625** | **23.822** | **25.120** |
| **of which exercisable at December 31** | **1,622,900** | **16.190** | **25.520** | **2,292,125** | **18.440** | **25.120** |

(1) Market price relating to new rights assigned, rights exercised in the period and rights cancelled in the period corresponds to the average market value (arithmetic average of official prices recorded on Mercato Telematico Azionario in the month preceding: (i) the date of assignment; (ii) the date of the recording in the securities account of the managers to whom the options have been assigned; (iii) the date of the unilateral termination of employment for rights cancelled. Market price of shares referring to options as of the beginning and the end of the year, is the price recorded at December 31.

The fair value of stock options granted during the years ended December 31, 2006 and 2007 of euro 2.89 and euro 2.98 respectively, was calculated applying the Black-Scholes method using the following assumptions:

| | | 2006 | 2007 |
|---|---|---|---|
| Risk free interest rate | (%) | 4.0 | **4.7** |
| Expected life | (years) | 6 | **6** |
| Expected volatility | (%) | 16.8 | **16.3** |
| Expected dividends | (%) | 5.3 | **4.9** |

The following table presents the amount of stock options awarded to Eni s CEO, general managers and other managers with strategic responsibilities.

| | | **CEO** | **General Manager E&P Division** | **General Manager G&P Division** | | **General Manager R&M Division** | **General Manager R&M Division** | | **Other Managers with strategic responsibilities** [a] |
|---|---|---|---|---|---|---|---|---|---|
| | | Paolo Scaroni [b] | Stefano Cao | Domenico Dispenza | | Angelo Taraborrelli [c] | Angelo Caridi [d] | | |
| Options outstanding at the beginning of the period: | | | | | | | | | |
| - number of options | | 1,380,000 | 314,500 | 137,000 | 269,500 [e] | 238,000 | 54,500 | 73,500 [f] | 926,500 |
| - average exercise price | (euro) | 22.801 | 21.641 | 22.244 | 3.988 | 20.624 | 19.896 | 17.519 | 21.709 |
| - average maturity in months | | 73 | 70 | 65 | 73 | 68 | 74 | 67 | 69 |
| Options granted during the period | | | | | | | | | |
| - number of options | | 573,000 | 155,500 | 110,000 | - | 96,500 | - | 48,500 [f] | 472,500 |
| - average exercise price | (euro) | 27.451 | 27.451 | 27.451 | - | 27.451 | - | 26.521 | 27.451 |
| - average maturity in months | | 72 | 72 | 72 | - | 72 | - | 72 | 72 |
| Options exercised at the end of the period | | | | | | | | | |
| - number of options | | - | 63,500 | 14,500 | - | 73,000 | 24,000 | - | 46,000 |
| - average exercise price | (euro) | - | 16.576 | 15.013 | - | 15.431 | 16.576 | - | 13.743 |
| - average market price at date of exercise | (euro) | - | 27.529 | 24.721 | - | 25.774 | 25.306 | - | 24.756 |
| Options outstanding at the end of the | | | | | | | | | |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| period | | | | | | | | | |
| - number of options | | 1,953,000 | 406,500 | 232,500 | 269,500 (e) | 261,500 | 30,500 | 122,000 (f) | 1,353,000 |
| - average exercise price | (euro) | 24.165 | 24.655 | 25.159 | 3.988 | 24.593 | 22.509 | 21.098 | 23.985 |
| - average maturity in months | | 63 | 62 | 60 | 61 | 62 | 67 | 60 | 61 |

(a) No. 7 managers.
(b) The assignment to the CEO has been integrated by a monetary incentive to be paid after three-year in relation to the performance of Eni shares, and is equal to 96,000 options granted in 2006, with a strike price of euro 23.100 and 80,500 options granted in 2007, with a strike price of euro 27.451.
(c) In office until August 2, 2007.
(d) Appointed on August 3, 2007.
(e) Options on Snam Rete Gas shares: assigned by the company to Domenico Dispenza who held the position of Chairman of Snam Rete Gas until December 23, 2005.
(f) Options on Saipem shares: assigned by the company to Angelo Caridi who held the position of CEO of Snamprogetti until August 2, 2007.

**Overall remuneration of key management personnel**

On the whole, remuneration of persons responsible of key positions in planning, direction and control functions of Eni Group companies, including executive and non-executive directors, general managers and other managers holding strategic responsibilities amounted to euro 25 million for 2007 consisting of: (i) fees and salaries for euro 17 million; (ii) post-employment benefits for euro 1 million; (iii) other long term benefits for euro 3 million; and (iv) fair value of stock grant/option for euro 4 million.

## Board Committees

The Board has instituted three committees with proposal and advisory functions. Their composition, tasks and functioning are defined by the Board of Directors in respect of the criteria established by the Eni Code. They are: a) the Internal Control Committee, b) the Compensation Committee and c) the International Oil Committee, composed almost exclusively of independent Directors.

In its meeting of June 1, 2005, the Board appointed the following directors as members of the Committees:

- *Internal Control Committee:* Marco Reboa (Chairman, independent), Alberto Clô (independent), Renzo Costi (independent), Marco Pinto (non-executive) and Pierluigi Scibetta (independent); on June 7, 2007 the number of directors in the Internal Control Committee declined from five to four due to the resignation of Marco Pinto, non executive director, in accordance with the provisions of Eni s Code. All members of this committee are currently independent and the chairman is a director elected by minority shareholders;
- *Compensation Committee:* Mario Resca (Chairman, independent), Renzo Costi (independent), Marco Pinto (non-executive) and Pierluigi Scibetta (independent);
- *Oil & Gas Committee:* Alberto Clô (Chairman, independent), Paolo Scaroni (CEO), Dario Fruscio (independent, until January 30, 2008) and Marco Reboa (independent).

The Code, in line with the Borsa Italiana Code, suggests the creation of a Nominating Committee . The Board of Directors has not formed this Committee in consideration of the shareholding characteristics of Eni.

**Internal Control Committee**

The Internal Control Committee is entrusted with advisory and consulting tasks in respect of the Board in the area of monitoring general management issues.
In its meeting of March 29, 2007, the Board of Directors approved the new chart of the Internal Control Committee (the text is available on Eni s website) following adoption of a new version of the self-discipline code by Eni in order to adhere with the governance code adopted by Borsa Italiana.
In 2007, the Internal Control Committee convened 14 times, with an average attendance rate of 77%, and reviewed the following items: (i) the 2006 activities report (operational audit, Watch Structure activity as required by Legislative Decree No. 231/2001, implementation of SOA activities and other non recurring activities) and the 2007 audit plan and its progress; (ii) the 2006 activities report and 2007 audit Audit Manager as manager delegated for internal control; (ix) disclosures on certain inquiries conducted by both judicial and administrative authorities belonging to Italy and foreign states related to crimes which were allegedly committed by Eni or its subsidiaries and their managers; (x) the essential features of the 2006 financial statements, through meetings with top level representatives of administrative functions of main Eni subsidiaries, Chairmen of Boards of Statutory auditors and responsible partners from independent audit companies for each subsidiary; the draft 2007 half year report and the report on interim dividends; Eni s policies regarding risk management; (xi) change in the methodology for assessing the recoverability of the carrying amounts of tangible and intangible assets; (xii) the report on the progress of implementation of SOA activities; (xiii) the essential features of Eni s Annual Report on Form 20-F, updating on programs and controls to prevent and detect fraudes and review of information furnished by management in response to SEC comment letters; (xiv) the report on the administrative and accounting setup of the parent company and the proposal to appoint the Chief Financial Officer as manager responsible for the preparation of the company s financial report, in accordance with Italian listing standards, the verification of the adequacy of his powers and means for the fulfilment of this task; (xv) the recommendations on the company s internal control over financial reporting presented by Eni s independent auditors in coincidence with the auditing activity regarding 2005 financial statements; (xvi) the report on the Internal Control System, to be included in the Corporate Governance section of the 2006 Annual Report; (xvii) reporting on the team work on the fulfilment as Article 18-*ter* and Article 18-*sexies* of Consob Regulation No. 11971; (xviii) the situation of appointments of external auditors as per December 31, 2006 filed with Consob; (xix) the report on audit reports for 2006 prepared by external auditors, their costs and the final report on the fees paid in 2006 to external auditors and companies in their network; (xx) the report presented by the Watch Structure established as required by Legislative Decree No. 231/2001; (xxi) Eni s policy on managing exposure to market risks; (xxii) the main aspects of the reorganization of the Group procurement activities and the procedures for reviewing suppliers selection following detection of illegal behaviours;

plan prepared by Saipem and Snam Rete Gas functions; (iii) outcomes of planned and unplanned Eni s internal audit activities, as well as results of monitoring activities on progresses made by operating units in implementing planned remedial actions in order to eliminate deficiencies highlighted by internal audit activities; (iv) outcomes from Eni s internal auditing interventions as required by Eni s control bodies; (v) the periodic reports concerning complaints collected; (vi) the Eni Internal Audit operating handbook and the new procedure for evaluating auditing activities (Risk Scoring Index); (vii) the new organization structure of Eni Internal Audit department; (viii) the proposal to entrust the Internal (xxiii) the procedure for the Ascertainment of alleged illicit behaviour on the part of Eni employees ; (xxiv) the issue of the recruiting of personnel outside Italy in the E&P division.

**Compensation Committee**

The Committee, established in 1996, is entrusted with proposing tasks on the matters of compensation of the Chairman and CEO as well as of the Board Committees members, and following the indications of the CEO, on the following: (i) long term incentive plans including stock-based compensation; (ii) criteria for the compensation of top managers of the Group; (iii) the setting of objectives and the assessment of results of performance and incentive plans.

In 2007, the Compensation Committee met four times with an average attendance of 88%, and accomplished the following: (i) reviewed the chart of the Committee, in accordance with the Self Discipline code for listed companies approved by Borsa Italiana and the Eni Code. This new chart was approved by the Board of Directors in March 2007 (available on Eni s website); (ii) examined the 2006 results and the objectives for 2007 in view of defining annual and long term incentives; (iii) reviewed the bonuses of the Chairman and CEO based on 2006 performance; (iv) reviewed the benchmarks for top management remuneration and the criteria of the annual remuneration policy; (v) the implementation of the long term incentive plans for the year 2007 and relevant grants to the CEO.

**Oil & Gas Committee**

The Committee is entrusted with the monitoring of trends in oil markets and the study of their aspects. In 2007 the International Oil Committee met 4 times with a 75% participation of its members.

In their meetings the members discussed Eni s 2008-2020 Master Plan  a key document in the planning process defining Eni industrial strategies. The first meeting concerned the analysis of worldwide energy market prospects to 2020, in particular world demand of oil and the evolution of the world s refining system (as a conclusion of the work started in late 2006). The other meetings concerned the main challenges of the energy industry, Eni s position in this industry, Eni s vision and long term strategy and the possible strategic options to respond to these challenges.

**General Managers**

In accordance with Article 24 of Eni s By-Laws, the Board of Directors can appoint one or more general managers defining their powers on proposal of the CEO immediate termination of office. The general managers must also observe what resolved by the Board of Directors on the issue of other offices held.

The Board of Directors appointed three General Managers responsible of Eni s three operating divisions:

- Stefano Cao, General Manager of the Exploration & Production division;
- Domenico Dispenza, General Manager of the Gas & Power division;
- Angelo Caridi, General Manager of the Refining & Marketing[6] division.
- In its meeting of February 15, 2008, the Board of Directors, based on the statements presented, confirmed that the General Managers possess the honorability requirements and respect the limits to the number of offices held for Directors. In particular, Stefano Cao is also member of the Board of Directors of Telecom SpA.

# Controls

**Board of Statutory Auditors**

The Board of Statutory Auditors, in accordance with Legislative Decree No. 58/1998 (TUF), monitors: (i) the respect of laws and of Eni s memorandum of association; (ii) the respect of the principles of fair administration; (iii) the adequacy of the company s organizational structure, for the parts covered by the Board s responsibility, of its internal control system and financial reporting system as well as the reliability of the latter in fairly representing the Company s transactions; (iv) the actual implementation of corporate governance rules foreseen by codes prepared by market regulators and company associations to which the company publicly declares to adhere; (v) the adequacy of instructions conveyed by the parent company to its subsidiaries according to Article 114, paragraph 2 of the above mentioned decree.

In accordance with the Eni Code, in line with the Borsa Italiana Code, the Board of Statutory Auditors monitors the independence of the principal external auditors, verifying both the compliance with the provisions of applicable laws and regulations governing the matter, and the nature and extent of services other than the audit services provided to Eni by the auditing firm and the entities belonging to its network.

According to the TUF, the Board of Statutory Auditors in agreement with the Chairman, after ascertaining the honorability requirements provided for by the law. The Board periodically reviews the honorability of general managers, any default in said requirements entail

drafts a proposal regarding the appointment of the principal external auditors and their fee to be submitted to the Shareholders Meeting for approval.

The Board of Directors, in its meeting of March 22,

(6) Angelo Caridi was appointed in August 2007, replacing Angelo Taraborrelli.

2005, in accordance with the provision of the SEC Rule 10A-3 for non-US companies listed on US stock exchanges, elected the Board of Statutory Auditors to fulfil the role performed by the audit committee in US companies under the Sarbanes-Oxley Act and SEC rules, within the limits set by Italian legislation from June 1, 2005. On June 15, 2005, the Board of Statutory Auditors approved its chart for carrying out the tasks attributed to the audit committee under US laws[7]. This chart is published on Eni s website.

**Composition and appointment**

The Board of Statutory Auditors is comprised of five auditors and two alternate auditors, appointed by the Shareholders Meeting for a three-year term.
Statutory Auditors are appointed by means of a list vote; at least two auditors and one substitute are elected from minority candidates. Eni applies the special norms provided for by Law No. 474 of 1994 as concerns timing and modes for filing lists which are slightly different from Consob rules. Eni, however, endorses Consob rules as well and implemented them in its By-Laws.
According to Article 28.2 of Eni s By-Laws, as revised by the Shareholders Meeting of May 25, 2006, to implement the provision of Law No. 262 of December 28, 2005 (Law on the protection of savings), the Shareholders Meeting shall elect Chairman of the Board of Statutory Auditors a member elected from a list other than the one obtaining the majority of votes; this prescription will be effective in the next appointment of the Board of Statutory Auditors due on the Shareholders Meeting approving 2007 financial statements.
The lists of candidates include declarations made by the candidates on the possession of honorability, expertise and independence requirements prescribed by applicable regulation and a professional resume of each candidate. Lists must be filed at the company s headquarters at least 10 days before the date of the Shareholders Meeting on first call and are published in three national newspapers, two of which shall be economic newspapers. Lists are also filed with Borsa Italiana and published on Eni s website.
On May 27, 2005, Eni s Shareholders Meeting appointed the following statutory auditors for a three-year period and however until the Shareholders Meeting approving financial statements for fiscal year 2007: Paolo Andrea Colombo (Chairman), Filippo Duodo, Edoardo Grisolia, alternate auditors. The same Meeting also determined the yearly compensation of the Chairman of the Board of Statutory Auditors and each Auditor amounting to euro 115,000 and euro 80,000 respectively.
Paolo Andrea Colombo, Filippo Duodo, Edoardo Grisolia and Francesco Bilotti were candidates in the list presented by the Ministry for Economy and Finance; Riccardo Perotta, Giorgio Silva and Massimo Gentile were candidates in the list presented by institutional investors coordinated by Fineco Asset Management SpA.
The personal and professional curriculum of these auditors is published on Eni s website.

**Expertise, honorability and independence, reasons for ineligibility and incompatibility**

As reported in the Code, the Statutory Auditors shall act with autonomy and independence also towards the shareholders who elected them.
In accordance with the TUF, Statutory Auditors shall possess specific requirements of independence, and the professional and honorability requirements as prescribed by a regulation of the Minister of Justice.
As for professional qualifications of the candidates, Article 28 of Eni s By-Laws, in line with the said Decree of the Minister of Justice, foresees that the professional requirements can also be acquired with at least three years of professional experience or by teaching business law, business administration and finance, as well as at least a three year experience in a managerial position in geological or engineering businesses.
Eni s auditors are all chartered auditors.
Article 28 of Eni s By-Laws also allows statutory auditors to assume other appointments in control entities according to the limits set by Consob coming in force on June 30, 2008. Until that date Eni s By-Laws prohibits the appointment as statutory auditor of persons that are statutory auditors or members of the supervisory board or members of the management control committee of at least five companies with registered securities in regulated markets not subsidiaries of Eni SpA.
Statutory Auditors declared to possess independence and honorability requirements as foreseen by the law.
In its meeting of March 12, 2008 the Board of Statutory Auditors verified that all its members comply with the independence criteria prescribed.

Riccardo Perotta and Giorgio Silva. Francesco Bilotti and Massimo Gentile are

**Meetings and functioning**

Statutory auditors receive information on all issues on the agenda of the Board of Directors at the same time as the Directors.

In line with the provisions of the Eni Code, an Auditor

(7) The chart was amended on March 30, 2007, taking into account changes introduced by the TUF, Eni Code, and a different organization structure compared to the one existing on June 15, 2005, when the previous chart was approved.

who has an interest, either own or on behalf of third parties, in a certain transaction of the issuer, shall inform the Board of Directors and the other Auditors. Meetings can be held by video or telephone conference.
In 2007, the Board met 18 times with an average participation of 89% of its members and an average duration of 2 hours and 40 minutes.
The table attached at the end of this section indicates, the percentage of participation of each auditor to the Board of Auditors meetings.

**Further Auditors appointments**
Based on information received, information on positions held by the members of Eni s Board of Statutory Auditors in other Boards of Directors and Boards of Statutory Auditors of listed companies, also abroad, financial, banking, insurance or large companies is provided below.

PAOLO ANDREA COLOMBO
Independent Director of Mediaset SpA, Interbanca SpA. Iniziative Gestione Investimenti SGR SpA, SIAS SpA. Director of Versace SpA. Chairman of the Board of Statutory Auditors of Ansaldo STS and Saipem SpA. Auditor of Aviva SpA, Lottomatica SpA and Sirti SpA.

FILIPPO DUODO
Chairman of the Board of Statutory Auditors of Banca Meridiana SpA. Auditor of Benetton Group SpA.

RICCARDO PEROTTA
Chairman of the Board of Statutory Auditors of Gewiss SpA. Auditor of Snam Rete Gas SpA, Mediaset SpA and ECS International Italia SpA.

GIORGIO SILVA
Chairman of the Board of Statutory Auditors of Trevisan Cometal SpA. Auditor of Luxottica SpA and RCS Mediagroup SpA.

# Other controls

**External Auditors**
As provided for by Italian law, the auditing of financial statements is entrusted to external auditors registered on the register held by Consob. The principal external to renew the appointment for the 2007-2009 period, as it did not yet complete the maximum nine year period allowed by the TUF.
Financial statements of Eni subsidiaries are audited mainly by PricewaterhouseCoopers. In order to express its opinion on Eni s consolidated financial statements PricewaterhouseCoopers took the responsibility of the audit activities performed by other auditors on certain Eni fully consolidated subsidiaries representing, however, a negligible part of Eni s consolidated assets and revenues.
Eni group companies are forbidden from engaging the principal external auditor and its affiliates for services other than audit and audit-related services. Certain services that are not prohibited by Consob and SOA can be awarded subject to approval by the Board of Directors of said company upon favorable opinion of their respective Board of Statutory Auditors and of Eni s Board of Statutory Auditors in case of direct subsidiaries. Eni s Board of Statutory Auditors must be informed of all engagements of the principal external auditors by Eni Group companies.

*Italian Court of Accounts*
The accounts of the parent company Eni SpA are subject also to the review of the Italian Court of Accounts. The relevant activity is performed by the Magistrate delegated to control, Lucio Todaro Marescotti (alternate Magistrate Angelo Antonio Parente), as decided on July 19-20, 2006, by the Governing Council of the Italian Court of Accounts.
The Magistrate delegated to control attends the meetings of the Board of Directors, the Board of Statutory Auditors and the Internal Control Committee.

**Model 231**
According to Italian laws regarding the Liability of legal entities for administrative crimes as defined in Legislative Decree No. 231 of June 8, 2001, legal entities, among them corporations, may be considered liable and therefore be subject to sanctions for crimes committed or attempted in Italy and abroad on their behalf or to their advantage. Legal entities can adopt organizational, management and control models adequate for preventing such crimes.
In its meetings of December 15, 2003 and January 28, 2004 the Board of Directors approved a Model for

auditor is appointed by the Shareholders Meeting. Eni s external auditor, PricewaterhouseCoopers SpA, was appointed for the first time on June 1, 2001 and was reappointed by the Shareholders Meeting of May 28, 2004 for a three-year term. The Shareholders Meeting of May 24, 2007 under proposal of the Board of Statutory Auditors, as foreseen by Eni s By-Laws, resolved organizational, management and control according to Legislative Decree No. 231/2001 and established a Watch Structure. In its meeting of June 5, 2007 the Board of Directors resolved to change the structure of the Watch Structure, originally comprising three members, by including two external members, one of

them appointed as chairman of the Watch Structure.
Subsequently, due to new laws relating to the field of application of Legislative Decree No. 231, the CEO provided for the implementation of three Addenda, dedicated to Crimes with terroristic aims or intended to subvert democracy and crimes against individuals, market abuse, protection of savings and discipline of financial market, and transnational crimes, respectively.
On March 14, 2008 the Board of Directors approved an updating of the model intended to adapt it to changes in Eni s organizational setup, recent developments in courts decisions, studies on this matter and laws and regulations, experience gained from the application of the model, including experiences made in legal proceedings, the practice of Italian and foreign companies in these kinds of models, outcomes of audit and control activities.
The new Code of Ethics of Eni derives directly from the updating of the model 231 and is an integral part of it, that cannot be waived.
The Watch structure reports on the implementation of model 231, the emergence of any issues and on the outcomes of activities performed in executing its tasks.
It reports to the Chairman, the CEO, who in turn informs the Board of Directors while reporting on the exercise of powers entrusted to him, the Internal Control Committee and the Board of Statutory Auditors.
The updates of model 231 are transmitted to Group companies so that they too adopt and/or update their respective models and establish their own watch structures.
Representatives nominated by Eni in the management bodies of subsidiaries, consortia and joint ventures promote the principles and contents of model 231 in their respective areas.
The principles of the 231 model are published on Eni s website.

**Manager in charge of the preparation of financial reports**

In accordance with Article 24 of Eni s By-Laws, as provided for by the TUF, the Board of Directors under proposal of the CEO in agreement with the Chairman and with the approval of the Board of Statutory Auditors appoints a manager in charge of the preparation of financial reports. The appointed person must be chosen among persons who for at least three years:

c) have performed professional activities or teaching at university level in accounting and finance, or
d) have held managerial positions in private or public entities engaged in finance, accounting and control.
The Board of Directors verifies the adequacy of his powers and means in order to fulfil this task and the respect of relevant administrative and accounting procedures.
In its meeting of June 20, 2007, the Board of Directors, with the approval of the Board of Statutory Auditors, appointed Eni s Chief Financial Officer, Marco Mangiagalli, as Manager in charge of the preparation of financial reports, in accordance with Article 154-*bis* of Legislative Decree No. 58/1998 verifying the adequacy of his powers and means in order to fulfil this task. In the same meeting, the Board of Directors approved the Guidelines on Eni internal control system over financial reporting prepared by the manager in charge of the preparation of financial reports, defining rules and methodologies on the implementation and maintenance of the internal control system over financial reporting, as well as on the evaluation of the system s effectiveness. In its meeting of January 18, 2006 the Board of Director assessed the means available to the CFO in his quality of manager in charge of the preparation of financial reports as adequate.

**Internal Control System**

Eni has long established an internal control system designed to address main company risks.
Internal control rules, processes and structures are supported by the Eni s Code of Ethics which states that Eni employees at every organizational level shall comply with behavioural standards of legitimacy from a formal and substantial standpoint when executing their tasks. The Code also affirms the values of the transparency of accounts and disclosures and the spreading of a control oriented attitude. Eni is aware that investors trust that Eni s Bodies, management and employees observe the rules of the internal control system.
The Board of Directors assesses the consistency of the internal control system with the company size, complexity and scope. The Board of Directors in the resolution of December 13, 2006, confirming the provisions of the Eni Code, reserved to itself the responsibility of designing, having reviewed

a) have been in charge of financial reporting or control activities or business administration for listed Italian or European or OECD companies with share capital of at least one million euro, or
b) have acted as external auditors of the same companies described above, or

assessments from the Internal Control Committee, Guidelines for the company s internal control system so as to ensure that the main Group companies risks are correctly identified, measured, managed and monitored. To this end the Internal Control Committee reports to the Board at least every six months at the date of the approval of the annual and semi-annual financial statements on the activity performed as well as on the adequacy of the internal control system. The Committee, in addition to assisting the Board in performing its tasks in the area of internal control, among other things: (i) assesses in conjunction with the Manager entrusted with the preparation of financial reports and the External Auditors the proper use of accounting principles and their homogeneity for the preparation of the consolidated financial statements; (ii) examines the integrated audit plan, the periodical Internal Audit reports on activities performed and their outcomes; (iii) assesses the outcomes of Eni s internal auditing ordinary operating activity, review activity performed by Eni Internal Audit also to account of complaints, reports from the Board of Statutory Auditors and individual Statutory Auditors, reports and management letters of External Auditors, the annual report of the Guarantor of the Code of Ethics, reports of the Watch Structure, reports of the Manager responsible for internal audit and reports and investigations from third parties. The activities of the Internal Control Committee are described in the specific paragraph above.

The CEO is entrusted with the task of implementing the Guidelines designed by the Board and oversighting the functioning of the internal control system with the assistance of the manager in charge of the internal control and of the internal audit department.

The Internal Audit manager has been appointed as manager responsible of internal control by the Board of Directors in its meeting of March 16, 2007 on proposal of the CEO and in agreement with the Chairman, after consultation with the Internal Control Committee. The internal control manager is entrusted with the task of monitoring that the internal control system is adequate and fully operating, does not hold any responsibility over operating areas, reports directly to the CEO, the Internal Control Committee and the Board of Statutory Auditors and assesses the ability of the internal control system to achieve a tolerable company risk profile.

Among the actors of the internal control system, an important role is played by the Internal Audit department, directly reporting to the CEO and the Board of Statutory Auditors acting as Audit Committee under the SOA. The Internal Audit department is entrusted with the task to provide an independent and objective activity aimed at promoting improvement of efficiency line with the role assigned to the parent company in defining guidelines and assessing the adequacy, efficacy and actual operations of the internal control system as a whole. Eni SpA s Internal Audit department monitors the internal control systems by means of: (i) an integrated audit plan prepared annually with a top-down-risk-based approach, preventatively examined by the Internal Control Committee and the Board of Statutory Auditors and approved by the Board of Directors and for the aspects relevant to Legislative Decree No. 231/2001 by the Watch Structure; (ii) planned and unplanned internal audit activities decided upon request of management, top management, the Internal Control Committee, the Board of Statutory Auditors, the Watch Structure and complaints received (also anonymous) under current company s rules and procedures; (iii) independent monitoring activities performed for periodic financial reporting as explained below. The Internal Audit function reports periodically to the control bodies and the top management on the outcomes of its activities and monitoring and corrective actions designed to take account of internal audit s outcomes. The Internal Audit Manager, the Internal Audit department and the external auditors have the fullest access to data, information and documentation which can support the performance of auditing activities.

*Periodic financial reporting*

Eni has long adopted controls and procedures as to ensure that information required to be disclosed in periodic reports be recorded, processed, summarized and reported. These controls and procedures support the Group companies in the preparation of financial statements and the collection of information to be disclosed in accordance with generally accepted accounting standards and policies, uniformity of behavior, the disclosure of timely, complete and accurate financial information on the Group.

Eni s disclosure controls and procedures have been designed in accordance with the provisions of the Sarbanes-Oxley Act of 2002 (SOA) which Eni has to comply with as its securities are listed on the New York Stock Exchange.

In application of U.S. laws, on March 22, 2005 Eni s Board of Directors, make use of the option assigned by the SEC to foreign issuers listed on regulated U.S. markets, identified the Board of Statutory Auditors as and efficacy of the internal control system and of the company s organization. In 2007 Eni completed the unification of the Group s internal audit functions in the Corporate Internal Audit department, except for the listed subsidiaries and those subsidiaries due to be unbundled. This organizational setup was adopted in the body performing, within the limitations of Italian law, the tasks attributed to the Audit Committee by the SOA and SEC rules.

In application of Italian laws on June 20, 2007, Eni s Board of Directors appointed Eni s CFO as manager

responsible of the preparation of financial statements and approved Guidelines on Eni s control system of financial reporting that define norms and procedures for the establishment, maintenance and assessment of said system, specifying tasks and responsibilities of group managers and departments.
Such control system was designed in accordance with two fundamental principles:

- to extend control to all the levels of the organizational structure, consistently with the operating task entrusted to each level;
- sustainability of controls in the long term, so as to ensure that the performance of controls is increasingly integrated in and compatible with operating needs; for this purpose, specific controls have been selected in order to identify such critical controls as to mitigate the level of risk.

The objectives of the internal control system have been defined consistently with applicable provisions of US rules distinguishing two systemic components:

- disclosure controls and procedures;
- internal control over financial reporting.

Disclosure controls and procedures are defined as controls and other procedures of the company that are designed to ensure that information required to be disclosed by the company in its reports is collected and communicated to Eni management, including Eni s CEO and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.
Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.
Eni s internal control over financial reporting has been designed to be consistent with the Internal Control-Integrated Framework created and published by the Committee of Sponsoring Organizations of the Tradeway Commission and comprises five interrelated components: control environment, risk assessment, control activities, information and communication, and monitoring. Such components in relation to their own measures and controls have been designed.
Management has developed its own assessment procedures to evaluate the design of Eni s internal control over financial reporting and its operating effectiveness. To that end, management has implemented ongoing monitoring activities entrusted to managers who are responsible of conducting primary processes or activities, and separate evaluations have been entrusted to Eni s Internal Audit department. This department operates according to a preset plan of interventions defining scope and objectives of each intervention.
Outcomes from all monitoring activities are reported periodically in order to ascertain the state of Eni s internal control over financial reporting. All levels of Eni s organizational structure are involved in this reporting process.
In 2007 simplification actions have been performed according to a risk based approach that lead to the reduction in the number of processes and controls while engaging the same number of subsidiaries.

**Transactions in which a director has an interest and transactions with related parties**

In accordance with the TUF and with Article 23.3 of Eni s By-Laws, the Directors shall timely inform the Board of Statutory Auditors on transactions in which they have an interest.
During each Board of Directors  meeting, the Chairman expressly asks the Directors to declare any of their potential interest in transactions on the agenda.
The Eni Code, in accordance with the Borsa Italiana Code, foresees the adoption, by the Board of Directors, of measures ensuring that transactions in which a director has an interest, directly or on behalf of third parties, and all transactions carried out with related parties, are performed in a transparent way and meet criteria of substantial and procedural fairness. In addition, the Eni Code foresees a specific opinion of the Internal Control Committee on the rules adopted by the Board of Directors.
Preparation of a procedure regarding transactions with related parties is underway; however its finalization is stalling due to the circumstance that Italian listed companies are awaiting the emission on part of Consob of certain Guidelines as provided for by Article 2391-*bis* of the Italian Civil Code. Pending the emission of such

features operate at entity level (Group, business segment, divisions, subsidiary) and/or at a process level, including both operational and financial administration process (transaction, evaluation processes and closing the books).

The key objective of internal control over financial reporting is to mitigate risks due to negligence and risks of fraud, significantly impacting financial statements. In addition, a specific risk assessment has been performed on fraud risks, and from this anti-fraud

Guidelines, Eni s internal rules provide that transactions with related parties be submitted to the Board of Directors, also in case amounts are lower than the materiality threshold set for the transactions to be approved by the Board. The Board of Directors resolution defining the matters reserved to the Board

104

itself requires to pay particular attention to those transactions in which a director has an interest and to transactions with related parties.
Moreover, Eni is committed to observing principles as defined in the Borsa Italiana Code regarding such persons holding significant positions in the share capital of listed companies and in particular respecting their managerial autonomy.
In the ordinary course of its business, Eni enters into transactions concerning the exchange of goods, provision of services and financing with related parties as defined by IAS 24. These include non consolidated subsidiaries and affiliates as well other entities owned or controlled by the Italian Government.
All such transactions are conducted on an arm s length basis and in the interest of Eni Group companies.
Eni s Directors, General Managers and managers with strategic responsibilities disclose every six months any transactions with Eni SpA and its subsidiaries that require disclosure under IAS 24.
Amounts and types of trade and financial transactions with related parties and their impact on consolidated results and cash flow, and on the Group s assets and liquidity are reported in Note 19 to the consolidated financial statements.

# Shareholders and information on shareholding structure[8]

**Share capital and main shareholders**
Eni SpA s share capital issued at December 31, 2007, amounted to euro 4,005,358,876 fully paid and was represented by 4,005,358,876 ordinary shares, at a nominal value euro 1 each. Shares are not divisible and give right to one vote. Shareholders can exercise the rights to participate in profits or assets and to vote as provided by the law and subject to any applicable legal limitations.
In 1995 Eni issued a sponsored ADR (American Depositary Receipts) program directed to US investors. An ADR is a certificate issued by a US depositary bank which represents shares of a non US company and are held and traded on US stock markets. One ADR is equal to two Eni ordinary shares; ADRs are listed on the New York Stock Exchange.
On May 24, 2007 Eni s Shareholders meeting authorized the Board of Directors to purchase up to 400 million Eni shares, nominal value euro 1 within 18 months of the Shareholders Meeting date, and within an authorized plafond of euro 7,400 million. The purchase price shall not be lower than the nominal value and not higher than the reference price recorded on the day preceding each purchase increased of 5%.
Eni is not aware of any pact involving shareholders.
Based on information available and received in accordance with Consob Decision No. 11971/1999, as of December 31, 2007, shareholders holding more than 2% of Eni s share capital were the following:

| Shareholders | Shares held | % of capital |
|---|---|---|
| Ministry of Economy and Finance | 813,443,277 | 20.31 |
| Cassa Depositi e Prestiti SpA [(a)] | 400,288,338 | 9.99 |
| Barclays Global Investor Group | 80,267,278 | 2.01 |
| Eni SpA (own shares) | 348,525,005 | 8.70 |

(a) Cassa Depositi e Prestiti SpA is controlled by the Ministry of Economy and Finance.

**Shareholders by area**

| Shareholders | Number of shareholders | Number of shares | % of capital (a) |
|---|---|---|---|
| Italy | 314,517 | 2,512,562,966 | 62.73 |
| UK and Ireland | 1,056 | 140,946,897 | 3.52 |
| Other EU | 4,138 | 507,550,360 | 12.67 |
| USA and Canada | 1,857 | 343,761,345 | 8.58 |
| Rest of world | 1,425 | 135,500,715 | 3.39 |
| Own shares at the dividend date | | 336,892,397 | 8.41 |
| Other | | 28,144,196 | 0.70 |
| **Total** | | **4,005,358,876** | **100.00** |

(a) At the dividend payment date, June 21, 2007 (ex-dividend date was June 18, 2007).

(8) Under Italian listing standards, information on indemnities to be paid in case of termination of the office of Directors is provided under the Item Remuneration earned by members of the Board of Directors, Statutory Auditors, General Managers and other managers with strategic responsibilities .

**Shareholders by amount of shares held**

| Shareholders | Number of shareholders | Number of shares | % of capital (a) |
|---|---|---|---|
| >10% | 1 | 813,443,277 | 20.31 |
| 3%-10 | 1 | 400,288,338 | 9.99 |
| 2%-3% | 0 | 0 | 0 |
| 1%-2% | 11 | 718,332,508 | 17.93 |
| 0.5%-1% | 4 | 99,289,018 | 2.48 |
| 0.3%-0.5% | 16 | 247,086,313 | 6.17 |
| 0.1%-0.3% | 54 | 355,070,012 | 8.87 |
| <= 0.1% | 322,906 | 1,006,812,817 | 25.14 |
| Own shares at the dividend date | | 336,892,397 | 8.41 |
| Other | | 28,144,196 | 0.70 |
| **Total** | | **4,005,358,876** | **100.00** |

(1) At the dividend payment date, June 21, 2007 (ex-dividend date was June 18, 2007).

**Limitation of ownership and voting rights**
In accordance with Article 6 of Eni s By-Laws, no shareholder, excepted the Italian Government, can directly or indirectly own more than 3% of Eni SpA s share capital; the shares held above this limit do not allow to exercise the relevant rights.

**Special powers of the State - golden share**
Eni s By-Laws in Article 6.2 attribute to the Minister of Economy and Finance, in agreement with the Minister of Economic Development, the following special powers to be used in compliance with the criteria indicated in the Decree of the President of the Council of Ministers of June 10, 2004: (a) opposition with respect to the acquisition of material shareholdings representing 3% of the share capital of Eni SpA having the right to vote at ordinary Shareholders Meetings. Such opposition is required to be expressed within 10 days of the date of the notice to be filed by the Board of Directors at the time a request is made for registration in the Shareholder register, should the transaction be considered prejudicial to vital interests of the State; (b) opposition with respect to the subscription of shareholders agreements or other arrangements (as defined by Article 122 of Legislative Decree No. 58 of February 24, 1998) whereby 3% or more of the share capital of Eni SpA having the right to vote at ordinary Shareholders Meetings is involved; (c) veto power duly motivated by the case of prejudice to

**Shares and equity instruments - Law No. 266 of December 23, 2005**
Law No. 266 of December 23, 2005 (Budget Law) in Article 1, paragraphs 381 to 384 in order to favor the process of privatization of and the diffusion among the public of shareholdings in companies in which the State holds significant stakes, introduced the option to include in the by-laws of listed companies formerly entirely owned by the State, as in the case of Eni SpA, provisions for the issuance of shares and securities bearing the same characteristics as shares which give to the special meeting of relevant holders the right to request the issuance on their behalf of new shares, also at par value, or securities bearing the right to vote at both ordinary and extraordinary meetings. The introduction of these norms in Eni s By-Laws would entail the cancellation of the 3% threshold to individual shareholdings, except for the State, as contained in Article 6.1 of Eni s By-Laws. To date Eni s By-Laws have not yet been modified to adopt this provision.

**Significant agreements that come into force, are modified or expire in case of a change in the control of Eni**
Except for what explicitly indicated, Eni SpA and its subsidiaries are not party to any material agreement that can be disclosed without serious prejudice to the company, that come into force, are modified or expire in

the interests of the State with respect to shareholders resolutions to dissolve Eni SpA, to transfer the business, to merger or to demerger, to transfer the registered office of Eni SpA outside Italy, to change the corporate purposes or to amend or modify any of the special powers described in this section; (d) appointment of a Board member without voting right.

case of a change in the shareholders currently controlling Eni SpA. Material agreements are deemed to be those that require to be examined and approved by the Board of Directors as they fall without the matters reserved to the Board itself.
In particular, the agreements that fall in this category concern: (i) provisions of the agreement existing between Eni, Amorim Energia, and Caixa Geral de Depósitos for the joint management of Galp Energia

SGPS SA, that provide that in case of change of control of any participating company, the option for the other partners to purchase the Galp shareholding held by the party whose controlling entity has modified; (ii) any expiry of the natural gas distribution licence of the subsidiary Distribuidora de Gas Cuyana SA, due to the provisions of applicable laws if the company were controlled by a shareholder active in Argentina, directly or thought subsidiaries in the activities of production, storage or distribution of natural gas.

**The Shareholders Meeting**

During meetings, shareholders can request information on issues in the agenda. Information is provided within the limits of confidentiality, taking account of applicable rules regulating the matter of price sensitive information.
With the aim of facilitating the attendance of shareholders, calls for meetings are published in the Official Gazette of the Italian Republic and in the Il Sole 24 Ore , Corriere della Sera and Financial Times newspapers. Eni s By-Laws allow vote by correspondence and the collection of powers of attorney in Articles 13 and 14. Shareholders representing alone or jointly one fortieth of the share capital may request, within five days from the publication of the call for meeting, an integration to the items on the agenda.
In addition, as provided by Article 14 of Eni s By-Laws, in order to facilitate the collection of powers of attorney of shareholders that are also employees of Eni and Group companies and members of associations of shareholders that comply with current regulations, Eni provides areas for communicating and collecting proxies to said associations in ways to be agreed from time to time with their legal representatives.
On December 4, 1998, Eni approved a regulation for its shareholders meetings, available on Eni s website, in order to guarantee an efficient deployment of meetings, in particular the right of each shareholder to express his opinion on the items in the agenda[9].

**Shareholder and investor relations**

In concert with the launch of its privatization process, Eni adopted a communication policy, confirmed by the Code of Ethics, aimed at promoting an ongoing dialogue with institutional investors, shareholders and the markets to ensure systematic dissemination of exhaustive made available to investors, markets and the press is provided in the form of press releases, regular meetings with institutional investors and the financial community and the press, in addition to general documentation released and constantly updated on Eni s website.
Withing the month of December Eni disseminates and publishes on its Internet site its financial calendar detailing events for the following year. It also publishes all its annual and quarterly reports, its Code and the procedures concerning corporate governance, its By-Laws, the information to shareholders and bondholders, shareholders meeting agenda and proceedings of meetings. Documents are free and can be requested filling in the relevant form on Eni s website.
Relations with individual investors, institutional investors, shareholders and the press are handled by dedicated Eni departments.
Relations with investors and financial analysts are held by the Investor Relations manager. Information is available on Eni s website and can be requested by sending an email to investor.relations@eni.it.
Relations with the press are held by the press manager.
Relations with shareholders are held by the Corporate Secretary office. Information is available on Eni s website and can be requested by sending an email to segreteriasocietaria.azionisti@eni.it or calling the toll-free number 800.940.924 (Outside Italy 800.11.22.3456).

## Handling of company information

On February 28, 2006, Eni s Board of Directors updated the Procedure for the disclosure of information to the market concerning Group activities approved on December 18, 2002 and published on Eni s website. The procedure acknowledges Consob Guidelines and the Guidelines for information to the market issued in June 2002 by the Ref Forum on company information and those included in the laws implementing the European directive on market abuse, defines the requirements for disclosure to the public of price sensitive events (materiality, clarity, homogeneity, information symmetry, consistency and timeliness) and the information flows for acquiring data from Group companies and providing adequate and timely information to the Board and the market on price sensitive events. It also contains sanctions applied in case of violation of its rules in accordance with the complete, selective and timely information on its activities, with the sole limitation imposed by the confidential nature of certain information. Information crimes identified and sanctioned by the new law on the protection of savings. This procedure has been updated on September 29, 2006 to take into consideration the

(9) As far as rules on the appointment and replacement of Directors, see the specific item Board of Directors of this report. Information on changes on Eni By-Laws, the Company applies the ordinary rules, except for information reported in item Special powers of the State - golden share . Article 23.2 of Eni By-Laws entrusts the Board of Directors to amend the By-Laws in accordance to new laws.

Consob interpretation expressed on March 28, 2006.
Eni s Code of Ethics defines confidentiality duties upheld by Group employees relating to the treatment of sensitive information.
Directors and Auditors ensure the confidentiality of documents and information acquired in performing these tasks and observe the procedure adopted by Eni for the internal treatment of these information and documents and for the timely disclosure to the market.

**Register of the persons having access to privileged information**

On February 28, 2006, the Board of Directors approved a procedure for establishing and maintaining a register of persons with a right to access privileged information, as provided for by Article 115-*bis* of Legislative Decree No. 58 of February 24, 1998.
The procedure implementing Consob Decision on listed companies, states: (i) terms and procedures for the recording and possible cancellation of the persons that, due to their professional activity or tasks performed on behalf of Eni, have access to privileged information; (ii) terms and procedures to inform said persons of their recording or cancellation and relevant reasons.
The procedure is in force from April 1, 2006 and was updated on September 29, 2006 to take into account the Consob position expressed on March 28, 2006. The procedure is published on Eni s website.

**Internal Dealing**

On February 28, 2006, the Board of Directors approved the Internal dealing procedure for the identification of relevant persons and the communication of transactions involving securities issued by Eni SpA and its listed subsidiaries made by these persons, replacing the Internal Dealing Code approved by the Board on December 18, 2002.
The procedure implements the provisions of Article 114, paragraph 7 of Legislative Decree No. 58 of February 24, 1998.
Eni s procedure, implementing Consob Decision on listed companies: (i) identifies relevant persons: (ii) defines the transactions involving securities issued by Eni SpA; (iii) determines the terms and conditions for the disclosure to the public of such information.
The procedure states that managers having regular access to privileged information, during specific periods of the year (blocking periods), are not allowed to buy or sell shares.
The procedure was updated on September 29, 2006 to take into account the Consob position expressed on March 28, 2006. The procedure is published on Eni s website.

* * *

Follow the tables included in the Handbook for the preparation of the report on corporate governance issued by Assonime and Emittente Titoli SpA in March 2004.

**Structure of the Board of Directors and its Committees**

| Board of Directors | | | | | | Internal Control Committee | | Compensation Committee | | International Oil Committee | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Members | executive | non executive | independent | % attendance | other appointments (1) | members | % attendance | members | % attendance | members | % attendance |
| **Chairman** | | | | | | | | | | | |
| Roberto Poli | | X | X | 100 | 4 | | | | | | |
| **CEO** | | | | | | | | | | | |
| Paolo Scaroni | X | | | 100 | 4 | | | | | X | |
| **Directors** | | | | | | | | | | | |
| Alberto Clô (*) | | X | X | 92 | 4 | X | 64 | | | X | 100 |
| Renzo Costi (*) | | X | X | 84 | | X | 79 | X | 75 | | |
| Dario Fruscio | | X | X | 68 | | | | | | X | 100 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Marco Pinto | X | | 92 | | (b) | | X | 75 | | |
| Marco Reboa (*) | X | X | 96 | 5 | X | 100 | | | X | 100 |
| Mario Resca | X | X | 92 | 3 | | | X | 100 | | |
| Pierluigi Scibetta | X | X | 92 | 1 | X | 71 | X | 100 | | |
| **Number of meetings in 2007** | **25** | | | | **14** | | **4** | | **4** | |

(*) Appointed by the minority list.

(a) Appointments as director or statutory auditor in other listed companies, also outside Italy, in financial, banking, insurance or large companies.

(b) In June 2007, Marco Pinto resigned from the Internal Control Committee: until June, he participated to five meeting of the Committee, with a percentage of attendance equal to 71%.

The Corporate Governance Code issued by Borsa Italiana foresees the possibility to form, within the Board, a Committee for the proposal on the entrustment of Directors "especially in those case the Board of Directors notices the difficulty of the shareholders in organising the proposal for the appointment, as being in listed companies". The Board of Directors has not formed this Committee in consideration of the shareholding characteristics of Eni.

## Board of Statutory Auditors

| Members | % attendance Meeting of the Board of Statutory Auditors | % attendance Meeting of the Board of Directors | Number of other appointments (a) |
|---|---|---|---|
| **Chairman** | | | |
| Paolo Andrea Colombo | 100 | 100 | 6 |
| **Auditors** | | | |
| Filippo Duodo | 89 | 84 | 1 |
| Edoardo Grisolia | 72 | 72 | |
| Riccardo Perotta (*) | 100 | 96 | 3 |
| Giorgio Silva (*) | 83 | 92 | 3 |
| **Number of meetings in 2007** | **18** | **25** | |

(a) Appointments as director or statutory auditor in other listed company, also outside Italy, or in financial, banking, insurance or large companies.

(*) Appointed by the minority list.

For presenting a list shareholder or group of shareholders must hold at least 1% of voting shares in an ordinary shareholders' meeting.

## Other information to be disclosed under the Corporate Governance Code published by Borsa Italiana in 2002

| | Yes | No |
|---|---|---|
| **System of delegated powers and transactions with related parties** | | |
| The Board of Directors delegated powers defining: | | |
| a) limitations | X | |
| b) exercise | X | |
| c) periodicity of information | X | |
| The Board of Directors reserved examination and approval of relevant transactions (including transactions with related parties) | X | |
| The Board of Directors defined guidelines for identifying relevant transactions | X | |
| Such guidelines are described in the report | X | |
| The Board of Directors defined procedures for examination and approval of transactions with related parties | | X (*) |
| Such procedures are described in the report | | X (*) |
| **Procedures for the latest appointment of Directors and Statutory Auditors** | | |
| Lists of candidate directors were deposited at least 10 before the date set for appointment | X | |
| Lists were accompanied by sufficient information on candidates | X | |
| Candidates to the role of director disclosed information that qualified them as independent | X | |
| Lists of candidate auditors were deposited at least 10 before the date set for appointment | X | |
| Lists were accompanied by sufficient information on candidates | X | |
| **Meetings** | | |
| The company approved regulations of meetings | X | |
| The regulations are attached to the report (indication of where to find it online is provided) | X | |
| **Internal Control** | | |
| The company appointed persons responsible for internal control | X | |

| | | |
|---|---|---|
| Such persons do not report to managers of operating divisions | X | |
| Internal office responsible of internal control (Article 9.3 of the code) | | Internal Audit |

**Investor relations**

| | | |
|---|---|---|
| The company appointed an investor relations manager | X | |
| Information on investor relations manager (telephone, address, e-mail) and unit | | Investor Relations (**) |

(*) Procedures will be prepared after the publication by Consob of the general principles as per Article 2391-*bis* of the Civil Code. Following the new procedure, the operations are submitted to the Board of Directors, even when the amount is lower than the defined relevant threshold.

(**) Eni SpA - Piazza Vanoni, 1 - San Donato Milanese (Milan) 20097 Italy - Tel. 02 52051651 - Fax 02 52031929.

# Commitment to sustainable development

## INTRODUCTION

Sustainability is an integral part of Eni s culture and represents the engine of a process of continuous internal improvement. Eni s actions are oriented to value people, contributing to the development and welfare of communities where it operates, respecting the environment, investing in R&D, pursuing energy efficiency and mitigating the risks of climate change.
As a result of Eni s renewed commitment to sustainability, 2007 marked Eni s entry in the Dow Jones Sustainability World Index, in the FTSE4Good Index, in the CDP5 Climate Disclosure Leadership Index. In addition, Eni greatly improved its ranking in the GS SUSTAIN Focus List of Goldman Sachs (from the third to the second quartile) and in Fortune s annual list of the 100 most sustainable companies (from the 28th to the 3th place).
In its Shareholders Meeting of May 2007, in addition to its Annual Report Eni presented for the first time its Sustainability Report, which was prepared and certified also by means of a new sustainability reporting system.
In July 2007 Eni completed and formalized its sustainability organizational model by publishing strategic guidelines that identify the processes of planning, control, reporting, communication and stakeholders engagement.
In 2007 Eni also issued guidelines for the protection and promotion of human rights and promoted the adoption of operating procedures in some operating sites outside Italy. Eni also performed initiatives in favour of local communities related to development projects, the main ones were achieved in Libya, Kazakhstan, Ecuador and Nigeria.
Eni obtained significant reductions in GHG emissions in Russia and started interventions for further reductions to be achieved in Nigeria, Congo and Libya. In the areas of refining and power generation Eni started new projects and completed current projects for the improvement of energy efficiency.
The Along with Petroleum program addressing innovation in the area of renewable energy sources, alternative energy sources and systems for energy efficiency financed projects in innovative photovoltaic solar energy (for euro 12 million) and biofuels (for euro 7 million).
As concerns information and communication, Eni achieved the **ENI 30PERCENTO** information campaign that suggests the diffusion of virtuous behaviours among families, that can save up to 30% of their energy bills and contribute to environmental protection by following 24 simple and efficient suggestions. With this campaign Eni intends to appear as a catalyst for the debate on energy efficiency, engaging various actors in the economic, industrial and social world. A panel of 100 households following the 24 suggestions and 100 households that continue with their usual behaviours are going to be monitored until May 2008 in order to compare the actual consumption of the two classes of users.
In March 2007 Eni started its **Welfare Project**, aimed at identifying and applying actions for the improvement of the quality of life and the wellbeing of Eni people, increasing their satisfaction with the company they work for. The main intervention areas are psycho-physical wellbeing, conciliation of personal life and work life, creation of opportunities for leisure time and health. In the latter area Eni started its **Health Project** aimed at improving the general health of the company, making available to all Eni employees the training and information tools for a proper management of stress

factors. Eni also launched a Sustainability Intranet site aimed at informing and engaging Eni people in the various aspects of sustainable development reinforcing Eni s culture and providing users with various degrees of knowledge of relevant information.
Eni also started experimental and research projects for the promotion of an innovative management of cross-sectional issues strategically relevant for the company:

- Human Rights Compliance Assessment: testing a tool for the evaluation of the implementation of Eni guidelines in this area;
- Diversity: analysis of the various kinds of diversities present in Eni with special attention to those deriving from cultural differences (internationalization dynamics), gender difference and the so called age diversity (intergenerational differences).

# PEOPLE

To Eni people working in its production system represent an asset to be safeguarded and enhanced with careful career paths. This path, made up of accurate development and training initiatives customized to roles and persons, along with the respect of shared ethical values, represents a key factor for the creation of sustainable value in the long term.
Eni s main objectives for its human resources are:

- to preserve, share and develop know-how for the development of Eni s businesses;
- to develop its managers leadership and ability to understand and interpret economic-financial events;
- to invest in young people in terms of development and retention;
- to improve the overall efficacy of management and development with particular attention to Eni s international role and its relations with competitors;
- to support employees engagement as element related to the overall company performance.

More detailed information on the management of human resources is found on Eni s website in the area Sustainability and in the Report on Sustainability.

## Employees

At December 31, 2007, Eni s employees totaled 75,862, with an increase of 2,290 employees from December 31, 2006, up 3.1%, reflecting a 2,628 increase in employees hired and working outside Italy and a decline of 338 employees hired in Italy.
Employees hired in Italy were 39,427 (52% of all Group employees). Of these, 36,300 were working in Italy, 2,940 outside Italy and 187 on board of vessels, with a 338 unit decline from 2006; of these 40 persons left the group due to changes in consolidation.
The process of improvement in the quality mix of employees continued in 2007 with the hiring of 2,632 persons, of which 726 with open-end contracts. A total of 1,906 persons were hired with this type of contract and with apprenticeship contracts, most of them with university qualifications (1,117 persons of which 759 are engineers) and 733 persons with a high school diploma. During the year 2,943 persons left their job at Eni, of these 2,189 had an open-end contract and 754 a fixed-term contract.
Employees hired and working outside Italy at December 31, 2007 were 36,435 (48% of all Group employees), with a 2,628 persons increase due to the positive

| **Employees at year-end** | (units) | 2005 | 2006 | **2007** | Change | % Ch. |
|---|---|---|---|---|---|---|
| Exploration & Production | | 8,030 | 8,336 | **9,334** | 998 | 12.0 |
| Gas & Power | | 12,324 | 12,074 | **11,582** | (492) | (4.1) |
| Refining & Marketing | | 8,894 | 9,437 | **9,428** | (9) | (0.1) |
| Petrochemical | | 6,462 | 6,025 | **6,534** | 509 | 8.4 |
| Engineering & Construction | | 28,684 | 30,902 | **33,111** | 2,209 | 7.1 |
| Other activities | | 2,636 | 2,219 | **1,172** | (1,047) | (47.2) |
| Corporate and financial companies | | 5,228 | 4,579 | **4,701** | 122 | 2.7 |
| | | **72,258** | **73,572** | **75,862** | **2,290** | **3.1** |

balance of new hires with fixed-term contracts and persons leaving their job in the Engineering & Construction segment (approximately 1,800 employees) due mainly to new contracts in Saudi Arabia and the sale of Camom SA and 736 persons in the Exploration & Production segment, of these approximately 400 following the purchase of Dominion and Maurel & Prom.

# Organization

In 2007 Eni continued to upgrade its structures and processes along guidelines consistent with the new integrated corporation model adopted by Eni which includes:

- a constant upgrading of organizational structures to corporate strategies and streamlining of the organizational and company set-up of Eni;
- the full accountability of business and functional units and their integration around Group initiatives.
- the strengthening of Eni Corporate s role of orientation and coordination;
- improved coordination of the ways to represent Eni outside Italy aimed at developing its businesses and international relations;
- the centralization and optimization of services to support the business with the aim of achieving
- the sustainability project designed to implement a structured system for planning and executing Eni activities in Italy and outside Italy under principles of sustainability. The first sustainability report was issued to fully disclose the activities performed by Eni divisions and subsidiaries in this area;
- the process for centralizing various staff activities (procurement, finance, insurance, ICT and documentation) while rationalizing and improving efficiency in certain projects (centralization of the management of employees of Eni Spa and its subsidiaries in EniServizi);
- certain reengineering processes of business activities in the upstream, downstream (in particular shipping and trading), construction and engineering, environmental and R&D.

# Management and development of human resources

Eni continued various initiatives aimed at making the evaluation and development of human resources more efficient. In particular, the integration of the tools dedicated to managers management and development (evaluation of abilities, performance assessment and positions) required to support the top management in its decisions of succession planning relevant to positions of major importance to the company, allowed to accelerate the growth of young managers to higher responsibility positions.

Eni continued its plan of rejuvenation of management which determined a significant decrease in average age at all levels of management, which lead to management style more appropriate to the new challenges of a very competitive market.

Eni updated the tools for the recruitment of personnel, evaluation of the development potential of resources in order to guarantee transparency and traceability of processes thereby integrating in them the issues of sustainability.

In 2007 Eni continued its evaluation activities that lead to an overall mapping of management roles in Italy and outside Italy aimed at supporting development and compensation decisions and favouring compensation

greater efficiency and quality of services provided;
- the compliance of processes and control systems to laws and regulations.

Among the most significant upgrading processes completed in 2007, the following are worth mentioning:

- the role played by Eni Corporate in guiding and controlling Group activities has been strengthened also by means of a new planning and control model designed to measure the performance of line and staff activities and reinforcing internal control structures (watch structure, centralization of the internal audit function);

benchmarking with competitors.

Eni started its first project of climate evaluation, called Eni secondo te addressing questionnaires to employees of Eni and main subsidiaries for a total of 37,000 persons.

113

# Training

Eni considers training one of key drivers in managing human resources.
Eni s significant commitment to training is underpinned by the number of employees participating in training initiatives and the number of hours dedicated to it in Italy and outside Italy.
In 2007, expenditure for training amounted to euro 88 million, of which euro 28 million in Italy and euro 60 million outside Italy. A total of about 3,428,000 training hours were provided (1,430,000 in Italy and 1,998,000 outside Italy).
Eni Corporate University, a subsidiary of Eni, offering services in recruiting and personnel selection, is fostering the quality of Eni s human resources and the company s strategies, covering the whole knowledge cycle from planning the requirements of critical skills to the construction of integrated academic curricula in cooperation with universities in Italy, up to the selection of new talents and their training during their professional lives.
In 2007, the first edition of the master course in general manager was launched in cooperation with SDA Bocconi and the Milan Polytechnic. This course is addressed to 30 young Eni managers that will receive a second degree master diploma and is part of a wider training and development program of Eni managers.
In 2007, ECU prepared a thorough survey of the knowledge management issue in Eni s business units and in this area the E&P Division received the Giorgio Sacerdoti Award established by the Università Cattolica del Sacro Cuore, the Fondazione Politecnico and AICA (Italian association for information technology and automatic computing).
In early 2007, Eni celebrated the 50th anniversary of the establishment of the Scuola Mattei operating in research and post-graduate training. From its foundation in 1957, the school trained nearly 2,570 young talents, of which 1,415 came from nearly 100 countries of the world. In 2007-2008 three new curricula were introduced involving 81students (33 from Italy and 48 from the rest of the world).

# Industrial relations

most recent employees), in social activities (increased payments by the company to workers organizations) and in professional training (new training activities under the sponsorship of Fondimpresa) as well as a successful plan for allowing early retirement (491 employees).

In 2007 Eni defined integrations to collective contracts for the segments of energy and oil and chemicals. Eni also signed an agreement for the establishment of a fund integrating public health assistance for employees operating in the energy and oil industry.
Internationally, Eni continued its dialogue with workers unions in specific forums such as the European Works Council.

# Health

Eni is committed at protecting the health of its people, of the communities living in the areas where its plants are located and of all those that get in touch at various times with its production, distribution and marketing activities. Eni s activities for the protection of health aim at the continuous improvement of work conditions are developed along the following lines:

- continuous improvement of efficiency and reliability of plants;
- adoption of best practices and operating management based on advanced criteria of protection of health and the internal and external environment;
- research and innovation, with specific reference to the issues related to health and to the exposure of workers to working risks;
- results of audits for a continuous improvement;
- identification and monitoring of indicators and guidelines for analysis and intervention areas;
- programs of certification of management systems for production sites and operating units;
- definition and development of programs related to sustainability.

In 2007 Eni continued the activities started in 2006 and defined new ones. In particular, the following activities were realized:

Within a consolidated and structured system industrial relations represented an efficient and consistent support to Eni s strategic choices.

Leveraging on a constant dialogue with workers unions Eni reached significant agreements to implement a reorganization program in the Gas & Power and Refining & Marketing Divisions, to progress in the area of additional pension payments (applied also to the

- mapping and rationalization of doctors working for Eni in Italy and outside Italy, of paramedics and contracts entered by Eni divisions and subsidiaries in the area of health with universities or institutions aimed at increasing their efficiency and service level;
- definition of a standard contract to be used in new instances or renewals;
- preparation of a procedure on issues related to HIV on workplaces;

114

- preparation of a procedure for facing the consequences on workplaces of a possible influenza pandemics, with specific reference to the transmission of contagion and the protection of continuity of operations;
- updating of norms and promotion of health and medical support. With this aim since December a website has been dedicated to health prevention in Eni s Intranet;
- start up of the Health card project and opening of a health care center in Rome and support to the initiative of the Italian league against cancer in Rome within a project for early diagnosis of cancer;
- development of telemedicine program and opening of a center in Gela;
- support to the FASEN for the realization of a screening of cardiologic risk.

In the definition of choices, risk prevention has been considered a priority and has been implemented in all operating sites by means of an integrated HSE management system.
In 2007 Eni extended the application of this health management system to its activities outside Italy and continued the certification process to 28 entities. Particular attention has been paid to the implementation of prevention standards for working risks such as chemical, physical and biological risks and also to those related to local contexts such as climate, infectious diseases, food problems that are constantly updated and monitored by means of specific surveys, the implementation of socio-hygienic projects and Health Impact Assessments (32 HIA).

Eni has a network of 296 own health care centers located in its main operating areas of these 203 centers are outside Italy and are managed by expatriate and local staff. A set of international agreements with the best local and international health centers guarantees efficient service and timely reactions to emergencies.

# Safety

Eni has always been deeply engaged in the issue of the safety of its workers, of the people living in the areas

- control, prevention and protection from exposure to dangerous situations;
- minimization of exposure to risk in all production activities.

Eni s Guidelines on the evaluation and mitigation of risks published in 2004 by the Corporate HSE department and in greater detail the Instructions for the management of HSE risk published in January 2008 describe the methods applied in the identification of dangers, evaluation and mitigation of risks associated to plants, processes, transportation means, workplaces, chemical substances and products used, produced and marketed. This process includes the following phases:

- identification of all exposures and risks related to processes, products and operations performed;
- identification of prevention plans (where possible) and mitigation of risks;
- evaluation of risks in terms of seriousness and frequency of accidents;
- investigation and analysis of accidents in order to learn from them and increase the ability to prevent and mitigate risks;
- development of action plans to minimize risks focused mainly on capital expenditures, implementation of safety management systems and training of staff.

In 2007 Eni started a number of initiatives in the area of safety. The most relevant ones were:

- audit activities in business units testing the complete functioning of HSE management systems and specific audits on typical risks of certain sectors;
- engagement of resources in safety at various levels and of employees operating staff in a network connecting promoters of a safety culture within the organization (SAFELLOWS network);
- establishment of a module monitoring and managing geo-referenced data in the Mediterranean area supporting the management of relevant emergencies. This system favours

where its industrial sites are located and of its producing assets. Its strategy has been based on:

- the dissemination of a safety culture within its organization;
- a common policy, specific guidelines and proper management systems in line with international standards;

the evaluation and organization of response interventions in case of emergencies at sea (MEDSTAR project);

- development of the innovative Simulation of HSE processes allowing new projects to foresee any issues related to HSE. These issues could lead to delays in obtaining authorizations, changes during work in progress, etc.);
- application of Leading Indicators in HSE for monitoring the safety parameters and the aspects of health and the environment;

115

- the promotion of training courses on specific issues;
- the establishment of international groups for sharing knowledge and the evaluation of advanced technical/structural standards for the control and monitoring of work environments in the prevention and protection of workers;
- completion of the technical guidelines for safety in new frontier activities (extreme working conditions), new procedure for the management of emergencies.

Documents required for the implementation of Legislative Decree 123/2007 on the evaluation of risks from interferences and contractual standards have been drafted as a result of the cooperation between business units, the HSE function and the legal department of Eni Corporate.

Eni is organizing a data base on accidents that should be operating in 2008, allowing access to information to selected users reducing time losses and assuring and the possibility of learning from lessons learned especially in cases of near miss. In addition in 2008 a data base of laws and regulations is going to be prepared collecting all local and international regulations, UNI and CE standards and the main data bases on HSE issues.
In 2007, safety indicators improved from 2006. The injury frequency rate was 3.01, down 5%, and the injury severity rate was 0.10 in line with 2006.

# RESPONSIBILITY TOWARDS THE ENVIRONMENT

## Reference scenario

Oil companies deploy activities with a potential impact on territories and the environment and are therefore subject to careful scrutiny by public opinion and stakeholders. This thrusts operational performance to fully comply with laws and international and domestic best practices especially as concerns risk prevention and reduction and minimization of environmental impacts.
The sustainable operations of an oil company are measured also in terms of commitment to the development and implementation of programs and actions concerning relevant environmental criticalities in the various areas where it operates.
Eni is a company that pays great attention to the issues of environmental sustainability and developed program aimed at the mitigation of climate change, the sustainable use of natural resources and the conservation of biodiversity.
More detailed information on the reduction of the environmental footprint is found on Eni s website in the area Sustainability and in the Report on Sustainability.

## Environmental management

In 2007 Eni further improved its HSE management system, paying greater attention to the planning and implementation of periodic control systems technical and compliance audits and the definition of four year objectives for business units. The planning and analysis process of four year HSE plans lead to the definition of improvement objectives for the main environmental performances that business units assumed and are achieving with innovative specific projects.

# Rational use of natural resources

In order to reduce its impact on territories Eni consolidated the development of activities and the application of technologies for the reduction in pure water consumption investing in the treatment and recycling of water used in industrial processes.
Eni further reduced the amounts of waste deriving from its production activities and continues to increase waste deriving from reclaiming activities in proportions to the areas reclaimed. Improvement plans are underway for the reduction of waste sent to landfills and by developing treatment and other forms of waste disposal.
Eni continues its commitment to environmental reclaiming and completed most of its safety interventions, especially the erection of hydraulic barriers in depleted sites and in operating sites awaiting for reclaiming.
The control of emissions into the atmosphere and in soils and waters is an area to which Eni pays special attention with its monitoring plans, required for receiving Integrated Environmental Authorizations, mandatory for any plant with an installed capacity higher that 50 MW.
In most of Eni s production sites refineries, petrochemical plants and oil centers Eni is introducing monitoring and control systems of methane losses and emissions containing organic volatile compounds, with the aim of reducing emissions into the atmosphere (photochemical smog, climate change).
As for integrated environmental management, Eni defined a single system for monitoring and collecting environmental data involving all business units. The system will be operational by the end of 2008 and will be used to meet the internal and external environmental reporting requirements of Eni.

**Oil Spill**

Production, handling and transport of oil products can give rise to spills of variable size. In order to protect the areas where Eni operates. Responsibilities and operating modes aiming at reducing the negative impact of oil spills have been defined. Tools available include the recourse to external professionals and/or international organizations.
In 2007, a total of 368 oil spills were registered for a total of 9,336 barrel of oil spilled.

# Biodiversity

Eni considers biodiversity an integral element of sustainable development and is engaged in the evaluation and reduction of its exploration and production activities impact both onshore and offshore. Eni is engaged in supporting conservation projects onshore and offshore, evaluating the impact of activities in diverse ecosystems and organizing actions that raise attention for biodiversity. Current projects concern onshore and offshore sites in Val d Agri in Italy, Ecuador, the Mediterranean Sea, the Arctic Sea and Kazakhstan.

# THE FUTURE OF ENERGY AND INNOVATION

## The future challenges of energy

Hydrocarbons will be for many more decades the most important energy source for world economies due to their availability, flexibility of use and low cost. In the period considered and with the present technologies, renewable sources will be able to contribute only marginally to global energy requirements due to high costs and volumetric limitations. In this scenario the issue of dependence from imports of hydrocarbons will be felt even more worldwide, in particular in the countries and areas where domestic production is decreasing or economic growth is strong.
From the point of view of international oil companies, the global energy scenario shows increasing complexity due rather than to the feared exhaustion of oil resources according to the most recent estimates reserves are still abundant and sufficient to maintain current consumption for about 100 years but rather to the increase in competition for access to reserves, the worsening of contract and tax conditions, increasing costs and scarcity of human and technical resources. In fact the actual ability of international oil companies to access the world s vast mineral potential have constantly decreased after the second world war through a process of reappropriation of resources by producing countries. This progress never actually decreased in the years was further accelerated in the past few years, also due to the high international oil prices. In addition to the difficulty in accessing easy hydrocarbon resources, international oil companies must face the maturity of traditional areas. All these factors are forcing international oil companies to move to frontier areas (e.g. deep waters, Arctic areas, remote areas) that require high technology and capital intensive projects. The protection of the (local and global) environment and more in general the sustainability issues are fundamental components of a long term development model and make the reference context of the energy industry even more delicate.
The most important challenge for the energy sector is represented by meeting the demand for energy mitigating its environmental impact. Eni intends to act by maximizing its commitment to technological innovation and energy efficiency that also have a direct impact on the safety of supply. The achievement of significant technological discontinuity and a more rational and careful use of resources are in fact the major levers for widening the availability of hydrocarbons, making renewable sources competitive and competing on environmental issues. More detailed information on Eni s commitment to innovation is found on Eni s website in the area Innovation and in the Report on Sustainability.

**A new approach to access to oil reserves**
In the scenario described above, in order to accelerate the development of new mineral resources, the approach of international oil companies must deploy new forms of cooperation tailored to the requirements of host countries which include social and economic development, the valorization of energy sources and attention to environmental issues. International oil companies need to suggest and manage integrated projects (upstream, midstream and downstream) including not only the development of fossil sources but also the promotion and enhancement of renewable energy sources. Eni s strategy moves in this direction as Eni has always entertained distinctive relations with

producing countries, paying special attention to the number of local workers employed, to training and scholarship initiatives, to the demand for water resources. In this context, the ability to develop, manage and integrate state-of-the-art technologies in innovative projects plays a crucial role for implementing Eni s strategy in the medium and long term.

**Climate change**

In order to reduce greenhouse gas emissions Eni defined plans for gas flaring reduction, energy saving and efficiency improvement and projects aimed at financing R&D for the containment of $CO_2$, In particular for:

- increasing efficiency in the whole production process (including gas flaring and gas venting reduction), in transport and conversion as well as in final uses;
- developing technologies for a more efficient exploitment of renewable energy sources (e.g. solar, biofuels);
- development of processes for the capture and geologic confinement of $CO_2$ (technically feasible but still requiring testing for proving efficacy, cost efficiency and safety in the long term;
- biofixation of $CO_2$.

In 2007, greenhouse gas emissions expressed in mmtonnes of $CO_{2eq}$. (including $CO_2$ by burning and process, natural gas, gas flaring and gas venting) increased by 10.2% from 2006. The higher increase was recorded in the E&P division, mainly due to the increase of gas flaring emissions (up 30%) in relation to acquired assets in Congo and Russia.

**Development of upstream activities and of natural gas**

One of the most interesting options for the oil industry is represented by the full use of already identified mineral resources. Eni is committed first of all to developing and improving upstream technologies, aimed at the optimization of exploration and production from field also with complex geology implementing enhanced recovery processes and introducing techniques for monitoring production in real time. Enhanced oil and gas recovery techniques can also represent a lever for accessing non conventional resources (extra heavy oil and bitumen, tar sands, tight gas and coal bed methane).
The development of the natural gas sector and the upgrade of transport infrastructure are a significant option considering the environmental and supply criticalities described above.
The use of natural gas in power generation is in fact a more efficient and less polluting solution as compared to other fossil sources. Unlike other international oil companies, Eni has a strong core of midstream and downstream activities and competences in its portfolio, which are confirmed by its strong presence and experience in natural gas transmission by pipeline, distribution and in its leading role in natural gas sale in Europe.
In this light, a relevant option is the full use of the relevant stranded gas reserves approximately half of all world reserves located in areas far from final markets, in deep and ultra deep water basins, in complex geological formations or in small fields. In addition to the extraction difficulties, the geographic dispersion and remoteness of these resources limited their production until now.

# Technological innovation

Technological innovation represents the main tool sued by Eni to face the challenges of the environment and climate, to overcome the limitations of use of large but remote resources of hydrocarbons, to establish and consolidate alliances with producing countries, to stimulate the use of renewable sources.
In 2007 Eni completed and made fully operational the new structure of its R&D activities and launched the Eni Award, an award established to support, promote and reward advanced scientific research and its innovative

applications in the field of sustainable energy. Eni Award includes three sections: Science and Technology, Research and Environment, and Debut in Research. Prizes have been awarded in February 2008.

The Along with Petroleum initiative addressed to innovation in the field of renewable energy sources and

systems for efficient energy use was assigned euro 120 million for the 2008-2011 four year period and in 2007 financed projects in the area of innovative photovoltaic projects (for euro 12 million) and biofuels (for euro 7 million).
In 2007, Eni invested over euro 208 million in research and development (euro 220 million in 2006), of these 47% were directed to the Exploration & Production division, 32% to the Refining & Marketing division, 14% to the Petrochemical division and 7% to the Engineering & Construction division.
At December 31, 2007, a total of 1,082 people were employed in research and development activities.
In 2007 a total 41 applications for patents were filed (29 in 2006).

**Main innovation initiatives in 2007**

***E&P Division***
In the E&P division research was focused on numeric and high resolution geophysical prospecting techniques, geological simulation and field prospecting in Arctic environments.
The development of the proprietary seismic technology *3D Prestack Depth Migration Kirchoff True Amplitude High Resolution (KTA Hi Res)* continued with the aim of overcoming the current vertical and horizontal limitations in the construction of a seismic image of the subsoil and of reducing exploration and mineral risks.
The first development phase of the seismic tomography technology (X-DVA) has been completed.
Demonstrations in use of the proprietary CRS technology (*3D Common Reflection Surface Stack*) for prospecting in areas characterized by low seismic response have been performed.
Work continued for the implementation of technologies for the simulation of the behaviour of fluids in the reservoir and the first stage of the project aiming at collecting seismic surveys in Arctic zones directly in the open sea (*On Ice Seismic*) has been completed.
Within *Eni s Drilling Advanced Technologies* project aimed at developing and integrating advanced drilling of oil wells, the field application stage of some proprietary technologies began in Egypt and Italy. The *Extreme Lean Profile* technique (*small diameter wells*) allows to reach greater depths and/or to drill only the last part of the well with larger diameters.

The new non conventional well testing method based on the injection into the well of fluids compatible with those contained in the field, has been developed and tested in a well for the delimitation of the Goliath field in Norway. This method avoids the emission of combustion residues and hydrocarbons in the atmosphere, thus reducing environmental and safety risks as compared to conventional methods. This is extremely useful in fields where extracted gas is associated to hydrogen sulphide ($H_2S$), such as Kashagan, Karachaganak and Val d Agri.

Eni completed the executive project for the construction of a pilot plant for the demonstrative storage of sulphur expected to start operations in 2008 based on Eni s proprietary technology. Eni also completed the feasibility study for the new technology for the sweetening of natural gas and identified the location of a pilot plant

In the *Gas to Liquids project (GTL)* with the cooperation of IFP/Axens, Eni completed the tests on the catalytic performance and the mechanical stability of the catalyst for Fischer-Tropsch synthesis. The catalyst which will be produced in the first half of 2008 by Axens in the Salindres plant in France and later employed in the pilot tests of the GTL of Sannazzaro in 2008.

In the conversion of heavy crudes and fractions into light products, testing continued at the Taranto demonstration plant of Eni s proprietary technology EST (Eni Slurry Technology). Technical and economic evaluations performed show that the EST provides competitive advantage as compared to the conversion technologies available on the market for applications both upstream, in the upgrading of non conventional crudes, including oil from tar sands, and downstream for the conversion of heavy residues from distillation and visbreaking. In 2007 Eni filed 5 patent applications.

Within the *SCT-CPO Project (Short Contact Time - Catalytic Partial Oxidation)* project aimed at the development of a reforming technology called SCT-CPO (Short Contact Time - Catalytic Partial Oxidation) flexible in terms of production capacity and oil-based feedstocks in order to increase the availability of hydrogen at competitive costs for refinery operations

The joint application of the *Eni Circulation Device and Secure Drilling* techniques allowed to complete the drilling of some high pressure and high temperature wells in the Egyptian offshore and in Italy thanks to improved safety in drilling operations.

and oil upgrading. Ongoing activities tend to the validation of this technology on a pilot plant at the Milazzo Research Center aimed at the construction of a first industrial plant in one of Eni s refineries. In 2007 Eni filed two patent applications.

121

Work continued on the integrated Green House Gases research program, aimed at verifying the industrial feasibility of the geological sequestration of $CO_2$ in depleted fields and salty aquifers. The team has been built for the design and development of a pilot plant in a depleted gas field employing the surface structures.

***G&P Division***

In the G&P Division work continued on the natural gas high pressure transport (TAP) project that provided an advanced long distance, high capacity, high pressure and high grade solution for:

- transport on distances over 3,000 kilometers;
- natural gas volumes to be transported of about 20-30 billion cubic meters/year;
- pressure equal to or higher than 15 MPa;
- use of high and very high grade steel.

This technology allows the exploitation of remote fields and the reduction of the consumption of gas in transit in compression stations.

In 2007, testing was completed on pilot lines in X100 steel at the Perdasdefogu experimental military polygon in Sardinia. Projects on intermediate transport pressure in traditional environments and projects for high pressure transport in non conventional environments characterized by non standard environmental and geological conditions are under definition for 2008-2011.

The MAST (Advanced monitoring of gas transport systems) project aims at developing advanced monitoring technologies and to test their application in the design phase, their installation during construction and their reliability in operation in order to obtain an integrated and automated system for monitoring these structures.

***R&M Division***

Eni continued to improve its Blu fuels (BluDiesel and BluSuper). In 2007 it launched BluDiesel Tech, a new diesel fuel adjusted to the requirements for detergence of new generation diesel engines. In addition to the keep clean function, BluDiesel Tech provides a clean up function which guarantees clean operations also to engines with a very high numbers of kilometres. It also has a very low level of sulphur (less than 10 ppm) branded flagship lubricant, has been upgraded in order to meet the requirements of the most recent API specifications for cars. In 2007 Eni also developed a new lubricant with a high level of fuel economy totally compatible with after treatment systems based on innovative proprietary components. This new product can be considered the first of a series of engine lubricants suitable to meet the environmental sustainability required by the Euro 5 standard and for later ones. In 2007 Eni filed 2 patent applications.

*Green Diesel* This process, developed in cooperation with UOP by means of the EcofiningTM technology, consists in the hydrocracking of vegetable oils yielding an oxygen free hydrocarbon product which is a component of a diesel fuel. This biofuel called Green Diesel has a markedly higher quality than conventional biodiesel obtained by means of the transesterification of fatty acid methyl ester (FAME). The development project provides for a direct passage to industrial scale. In 2007 the basic design of an industrial plant for the production of 250 ktonnes/year of Green Diesel from soy and/or palm oil has been completed. A patent application was filed.

*LCO Upgrading* In agreement with the business objective of adjusting production to the evolution of demand (increase in gasoil with correspondent decrease in gasolines and decline in fuel oil) this project aims at the development on an industrial scale of a process for selectively converting highly aromatic gasoil from catalytic cracking (light cycle oil - LCO) a low density component of diesel fuel with low polyaromatic content and medium-high cetane number with reduced hydrogen consumption as compared to the conventional dearomatization process. The scaleup of catalysts and the technical-economic feasibility study currently underway.

*Biofixation of $CO_2$ by means of micro algae* The project aims at testing the technical and economic feasibility of a process based on the biofixation by means of micro algae for the recycling of $CO_2$ produced by oil refining plants and the purification of discharge waters with production of biomass that can be converted into biofuel and/or other energy vectors. Most of the testing activities are performed at the Gela refinery, where in

anticipating the specifications that will be mandatory from 2009.
As for gasolines, Eni is studying innovative solutions aimed at new generation engines with high fuel efficiency (low powered and overfueled vehicles). In 2007 Eni filed a patent application.
In synergy with the new fuels, Synt 2000, the Agip

2007 a small scale pilot plant made up of photobioreactors and open pools is operating. In 2008 Eni plans to build a pilot plant extended over one hectare and full scale demonstration plant covering 10 hectares if the expected results are reached. In 2007 Eni filed 2 patent applications.

The Ensolvex technology developed and patented by Eni will be applied in 2008 in the construction of a 4 tonnes/h plant in the Gela refinery for the reclaiming of soil polluted by hydrocarbons within the limits imposed by Ministerial Decree No. 471/1999.

The En-Z-lite process removes organic compounds from water by means of adsorption on synthetic hydrophobic zeolytes that can either represent the reactive element of permeable reactive barrier (PRB*) or the filling of filter in a treatment on the ground (pump & treat). In 2007 Eni filed a patent application for the thermal regeneration of synthetic hydrophobic zeolytes. In the Taranto refinery a pilot PRB plant is operating for the local reclaiming of ground waters containing MTBE, hydrocarbons and arsenic. In 2008 a full scale PRB plant will be designed and its economic viability will be tested. This process is the only one capable to perform treatments resulting in the meeting of the requirements set for MTBE.

*Process for the reduction of industrial mud* The process of hydrolysis and anaerobic digestion developed and patented by Eni allows a stark reduction in mud derived from industrial operations to be disposed of (>75%) and a potential valorization of the residue (compost). A pilot test was performed at the Gela refinery along with the technical economic feasibility study preliminary to the construction of a full scale plant with a capacity of 800 tonnes/y of dry mud to be built in the refinery.

***Corporate***

In 2007 within the Along with petroleum initiative Eni started six research projects on solar energy and on the production of biofuels at its research center for renewable energies in Novara and with the cooperation of other Eni research centers (San Donato Milanese and Monterotondo). Eni also started the evaluation of technologies of solar concentration to build hybrid solar powered/turbogas power stations/desalination plants. Eni started to cooperate with Italian and foreign institutions (the Milan Polytechnic, the Turin Polytechnic, the universities of Milan and Ferrara) with Italian research centers (NRC institutes in Bologna, Messina and Milan) and with foreign institutes (the MIT

In the area of research on renewable sources, the Organic Solar project aims at reducing investment costs for photovoltaic plants. It then intends to identify materials, such as polymers, suitable for substituting the costly semiconductors traditionally employed in solar cells.

Research on the photoproduction of hydrogen is underway. This activity aims at identifying a system to generate hydrogen from the splitting of water by means of solar energy. Process equipment and materials have been bought for the construction of equipment for photoproduction of hydrogen. Experiments have started by means of operating prototypes.

Work on photoactive materials aims at identifying materials that can improve the exploitation of sunlight by photovoltaic cells. Experiments and modelling have started.

In the field of concentration solar CSP, the aim of the research is the design of hybrid concentration solar and gas turbine power stations (CCGT) that combine the advantage of plenty of sunlight and the availability of natural gas for electricity generation and for the desalination of water for agricultural or industrial use. The study will concentrate on a hybrid CCGT-solar-desalination plant locate in North Africa using linear parabolic technologies.

As concerns biomass for fuels, Eni research aims at substituting traditional cultivations with other highly productive non edible products or based on microorganisms capable of absorbing $CO_2$ and producing lipids that can be transformed into biofuels. Screening activities are underway on various breeds of microorganisms (bacteria, yeasts, algae) for a preliminary evaluation of the biomass-biodiesel process flow. Research is focused on the production of high quality biofuels without by-products to be disposed of, both from hydrogenation of vegetables (Ecofining) and from gasification or pyrolysis of biomass from waste with high cellulose content.
In this area Eni formalized its participation to the European Chrisgas network and started a cooperation with the University of Milan.

for a strategic alliance on solar energy to be started in 2008). Other agreements are under negotiation.

***Petrochemicals division***

In the Petrochemicals division (Polimeri Europa) a project is underway on new products for tyres. The functioning of the pilot plant has been consolidated and some improvements have been made to increase its reliability.

By means of proprietary technologies Eni developed prototypes of new polymers. The first samples have been offered to some of the major European manufacturers of tyres in order to evaluate their application properties, with specific reference to reduced rolling resistance other properties being equal (adherence on wet surfaces and snow).

*New LLDPE series from new catalysis for high temperature processes* In 2007 the series of products in low density linear polyethylene (with octane comonomer) has been enlarged with the industrialization of two new types, by means of a catalytic process with low environmental impact. innovative products (EPS) for insulation in buildings from a continuous mass process have been developed.

Some grade of polymers have been produced specifically suited to insulation in buildings characterized by a very low use of expanding agents. This allows for a reduction of emissions in air during processing and an increased insulating capacity in finished products. Improvements in terms of energy consumption have been achieved also in the final manufacturing phase.

*Development of EPS from suspension processes in specific applications* An experimental production of EPS with higher molecular weight has been achieved at Eni s Hungarian plants. Testing with clients showed that this product allows to reduce energy consumption (lover steam pressure) as compared to standard products.

# TERRITORY AND COMMUNITIES

Eni respects the social and cultural values and the traditions and economic aspirations of the countries where it operates and provided itself with the tools for analyzing its interventions and evaluating potential partnerships.

## Policies

Eni is committed to integrating the concept of transparency of its management system in the countries where it operates through adhering to and promoting the Extractive Industries Transparency Initiative (EITI). In Nigeria, Eni s affiliate NAOC publishes data relating to royalties, profit taxes and gas flaring fees, in East Timor Eni is a member of the EITI Multistakeholder Working Group.

In addition, Eni is committee to providing transparent information on royalties paid to the Basilicata Region and to the municipalities touches by its oil extracting activities, according to an agreement signed with the Region.

After the issue of Eni s guidelines for the protection and promotion of human rights in 2007, Eni Australia developed a specific policy on indigenous peoples. In Nigeria human rights protection is included in the security policy.

**Local Content**
Maximizing local content is another distinctive factor characterizing Eni s presence in various countries through the purchase of goods and services, the hiring of local staff and the development of specific training programs. Eni developed actions in Pakistan, Kazakhstan, Nigeria, India, Tunisia and Egypt. In particular, in Pakistan, in 2007, Eni s activities offered jobs to over 200 workers and contributed to the local economy with over US$ 600,000 of gods and services purchased locally.

Eni is implementing a Social Impact Assessment (SIA) for the evaluation of the impact of its operations on territories and communities interested by relevant projects. In 2007, these activities were performed in Indonesia, Australia, India, Pakistan, Kazakhstan. Another tool for the evaluation of impact on territories is the Health Impact Assessment (HIA) developed in 2007 in Congo and Pakistan.

**Relations with local stakeholders**
In 2007, Eni developed community engagement initiatives in Italy, Ecuador, Mali, Norway, East Timor, Australia, Libya, Pakistan, Indonesia, Nigeria, Kazakhstan. In Val d Agri it started a community mission in order to a establish dialogue with local stakeholders and promote projects in the area of sustainable development.

## Investments for communities

Eni considers investments in favour of communities as an integral part of its relation with the territory and of the management of local businesses. Its approach to these issues is therefore based on methods of analysis and implementation that are typical of project management.
In 2007 expenditures for communities amounted to euro 85.88 million.

**Socio-economic development and basic infrastructure**
In 2007 these interventions concerned the completion of specific projects aimed at providing access to energy (electricity, gas) and water resources, upgrading road networks in Nigeria, Ecuador, Pakistan, Indonesia. In Congo Eni continued to carry on its project for the reintroduction of rice farming. In Pakistan, micro-irrigation schemes were introduced for a more efficient use of water. In Pakistan, Nigeria, Australia, Indonesia and Ecuador micro-credit initiatives and personal financial management were fostered. In Pakistan funds were offered to 1,175 families for a total amount of 10.2 million of rupees.

**Education and training**
In 2007 Eni worked along three main lines: basic schooling, basic and advanced training. In Libya, Nigeria and Pakistan schools were built and equipped. In Australia an indigenous training and employment program was completed with the hiring of 16 local workers. In Nigeria, Eni launched the nationalization continued its training program for young Libyan graduates that lead to the hiring of 40 persons and the selection of other 20 graduates that will start their training in 2008. In Pakistan Eni built a training center for women and a computer training center. It also continued its EniScuola project started in 2000 with the cooperation of the Eni Enrico Mattei Foundation.

**Health**
Eni supports projects and programs for the improvement of health conditions and quality of life of populations by providing primary health care, prevention, health assistance and promoting vocational training. In Congo, Eni upgraded the Kento Muana project aimed at preventing the mother-child transmission of HIV targeted at approximately 15,000 women. It also increased its health structures and services in Indonesia, Libya and Ecuador. In Nigeria, a project organized by Unicef and sponsored by Eni provided services for the prevention of mother-child transmission of HIV in the Rivers and Bayelsa states. In Pakistan Eni opened 3 Community Health Centers and a center for mothers and babies.

**Enhancement of cultural and environmental heritage**
Eni promotes actions aimed at the conservation and promotion of cultural and environmental heritage of local communities. In Italy Eni sponsors the restoration of the Basilica of Saint Peter in Rome and two project for the protection of biodiversity in Val d Agri and the Adriatic Sea. In Libya Eni is cooperating to the protection of the archaeological sites of Sabratha and Leptis Magna. In Australia, within the Blacktip project Eni prepared a cultural heritage plan for the protection of local heritage through which it manages the access of employees and suppliers to aboriginal territories.
In Nigeria the Water fields project for the valorization of biomass is underway. In Algeria Eni and the Sonatrach Tassili Foundation signed an agreement for the electrification with solar energy of 4 water wells to be completed in 2008.

## Sponsorship

In Italy Eni is founding partner of 4 music foundations and sponsors the organization of concerts and operas in 4 theatres, as well as the FAI concerts and the Ravenna project for the development of local skilled labour, it built a training center for handicapped people and provided 1,797 scholarships to students with an expenditure of approximately US$ 340,000. In Libya, Eni

festival. Cultural promotion is achieved also by sponsoring MaratonArte, promoted by the Italian Ministry for Culture and aimed at raising funds for the protection and safeguard of artistic heritage.

# Foundations

The Eni Enrico Mattei Foundation (FEEM) has the objective of contributing to the increase in knowledge in the fields of economy and sustainable development. In 2007, FEEM developed 69 international projects, 35 of these sponsored by the European Union for a total value of over euro 4 million and organized 66 seminars and meetings.

Eni Foundation intends to promote solidarity actions in support of disadvantaged and vulnerable persons, paying special attention to old age. In the second half of 2007, Eni Foundation started a project in Congo and for 2008 it plans a similar initiative in Angola.

# RISK FACTORS

## Foreword

The main company risks identified, monitored and, as described below, managed by Eni are the following: (i) the market risk deriving from the exposure to fluctuations in interest rates, foreign currency exchange rates and commodity prices; (ii) the credit risk deriving from the possible default of a counterparty; (iii) the liquidity risk deriving from the risk that suitable sources of funding for the Group s business activities may not be available; (iv) the country risk in oil & gas activities; (v) the operational risk; (vi) the possible evolution of the Italian gas market; (vii) the specific risks deriving from the exploration and production activities.
In 2007 Eni s management reviewed and revised policies and guidelines regarding standards to identify, assess, control and manage market risks of significance to Eni. The purpose was to issue a reference book on policies to be handily consulted and updated as appropriate. In 2007 risk policies have been revised to take account of changes in the group s organizational structure (following the merger with Enifin on January 1, 2007 and the establishment of Eni Trading & Shipping) as well as needs to further integrate risk management.

## Market risk

Market risk is the possibility that changes in currency exchange rates, interest rates or commodity prices will adversely affect the value of the group s financial assets, liabilities or expected future cash flows. Eni s market risk management activities is performed in accordance with standards prescribed by policies and guidelines mentioned above, providing for a centralized model of conducting finance, treasury and risk management operations based on three in separate entities: the parent Eni Coordination Center and Banque Eni subject to certain bank regulatory restrictions preventing the group s exposure to concentrations of credit risk. Additionally, in 2007, Eni Trading & Shipping was established and has the mandate to manage and monitor solely commodity derivative contracts.
In particular Eni SpA and Eni Coordination Center manage subsidiaries financing requirements in and outside of Italy, respectively, covering borrowing requirements and employing available surpluses.
All the transactions concerning currencies and derivative financial contracts are managed by the parent company as well as the activity of trading certificates according to the European Union Emission Trading Scheme. The commodity risk is managed by each business unit with Eni Trading & Shipping ensuring the negotiation of hedging derivatives. Eni uses derivative financial instruments (derivatives) in order to minimize exposure to market risks related to changes in exchange rates and interest rates and to manage exposure to commodity prices fluctuations. Eni does not enter derivative transactions on a speculative basis. The framework defined by Eni s policies and guidelines prescribes that measurement and control of market risk are to be performed on the basis of maximum tolerable levels of risk exposure defined in accordance with value-at-risk techniques. These techniques make a statistical assessment of the market risk on the Group s activity, i.e., potential gain or loss in fair values, due to changes in market conditions taking account of the correlation existing among changes in fair value of existing instruments. Eni s finance departments define maximum tolerable levels of risk exposure to changes in interest rates and foreign currency exchange rates, pooling Group companies risk positions. Calculation

company s (Eni SpA) finance department,



---

and measurement techniques for interest rate and foreign currency exchange rate risks followed by Eni are in accordance with established banking standards, as established by the Basel Committee for bank activities surveillance. Tolerable levels of risk are based on a conservative approach, considering the industrial nature of the company. Eni s guidelines prescribe that Eni s group companies minimize such kinds of market risks. With regard to the commodity risk, Eni s policies and guidelines define rules to manage this risk aiming at the optimization of core activities and the pursuing of preset targets of industrial margins. The maximum tolerable level of risk exposure is pre-defined in terms of value at risk in connection with trading and commercial activities, while the strategic risk exposure to commodity prices fluctuations i.e. the impact on the Group s business results deriving from changes in commodity prices is monitored in terms of value-at-risk, albeit not hedged in a systematic way. Accordingly, Eni evaluates the opportunity to mitigate its commodity risk exposure by entering into hedging transactions in view of certain acquisition deals of oil and gas reserves as part of the Group s strategy to achieve growth targets or ordinary asset portfolio management. The group controls commodity risk with a maximum value-at-risk limit authorized for each business unit. Hedging needs from business units are pooled by Eni Trading & Shipping which also manages its own risk exposure.
The three different market risks, whose management and control have been summarized above, are described below.

**Exchange rate risk**

Exchange rate risk derives from the fact that Eni s operations are conducted in currencies other than the euro (mainly in the U.S. dollar).
In particular revenues and costs denominated in foreign currencies maybe significantly affected by fluctuations in the exchange rates typically due to conversion differences on specific transaction arising from the time lag existing between the execution of a given transaction and the definition of relevant contractual terms (economic risk) and conversion of foreign currency-denominated commercial and financial payables and receivables (transaction risk). Exchange rate fluctuations affect group s reported results and net Generally, an appreciation of the U.S. dollar versus the euro has a positive impact on Eni s results of operations, and viceversa.
Eni s foreign exchange risk management policy is to minimize economic and transaction exposures arising from foreign currency movements. Eni does not undertake any hedging activity for risks deriving from translation of foreign currency denominated profits or investments except for single transactions to be evaluated on a case-by-case basis.
Effective management of exchange rate risk is performed within Eni s central finance departments which match opposite positions within Group companies, hedging the Group net exposure through the use of certain derivatives, such as currency swaps, forwards and options. Such derivatives are evaluated at fair value on the basis of market prices provided by specialized sources. Changes in fair value of those derivatives are normally recognized through the profit and loss account as they do not meet the formal criteria to be recognized as hedges in accordance with IAS 39. The VAR techniques are based on variance/covariance simulation models and monitor the risk exposure arising from possible future changes in market values over a 24-hour period within a 99% confidence level and a 20-day holding period.

**Interest rate risk**

Changes in interest rates affect the market value of financial assets and liabilities of the company and the level of finance charges. Eni s interest rate risk management policy is to minimize risk with the aim to achieve financial structure objectives defined and approved in the management s plans. Borrowing requirements of the group s companies are pooled by the group s central finance department in order to manage net positions and the funding of portfolio developments consistently with management s plans while maintaining a level of risk exposure within prescribed limits.
Eni enters into interest rate derivative transactions, in particular interest rate swap, to effectively manage the balance between fixed and floating rate debt. Such derivatives are evaluated at fair value on the basis of market prices provided from specialized sources. Changes in fair value of those derivatives are normally recognized through the profit and loss account as they do not meet the formal criteria to be accounted for under

equity as financial statements of subsidiaries denominated in currencies other than the euro are translated from their functional currency into euro (translation risk).

the hedge accounting method in accordance with IAS 39. Value at risk deriving from interest rate exposure is measured daily on the basis of a variance/covariance model, with a 99% confidence level and a 20-day holding period.

### Commodity risk

Eni s results of operations are affected by changes in the prices of products and services sold. A decrease in oil and gas prices generally has a negative impact on Eni s results of operations and vice-versa. Eni manages the exposure to commodity price risk by optimizing core activities in order to achieve stable margins. In order to manage commodity risk in connection with its trading and commercial activities, Eni uses derivatives traded on the organized markets of ICE and NYMEX (futures) and derivatives traded over the counter (swaps, forward, contracts for differences and options) with the underlying commodities being crude oil, refined products or electricity. Such derivatives are evaluated at fair value on the basis of market prices provided from specialized sources or absent market prices, on the basis of estimates provided by brokers or suitable evaluation techniques. Changes in fair value of those derivatives are normally recognized through the profit and loss account as they do not meet the formal criteria to be recognized as hedges in accordance with IAS 39. Value at risk deriving from commodity exposure is measured daily on the basis of a historical simulation technique, with a 95% confidence level and a one-day holding period.

The following table shows values in terms of value at risk, recorded during 2007 (compared with year 2006) referring to interest rate risk and exchange rate in the first section, and the commodity risk in the second section.

(*Value at risk* - parametric method variance/covariance; holding period: 20 days; confidence level: 99%)

| | 2006 | | | | 2007 | | | |
|---|---|---|---|---|---|---|---|---|
| (euro million) | **High** | **Low** | **Avg** | **At period end** | **High** | **Low** | **Avg** | **At period end** |
| **Interest rate** | **5.15** | **0.45** | **2.01** | **1.10** | **7.36** | **0.47** | **1.39** | **4.35** |
| **Exchange rate** | **2.02** | **0.02** | **0.24** | **0.21** | **1.25** | **0.03** | **0.21** | **0.43** |

(*Value at risk* - historic simulation method; holding period: 1 day; confidence level: 95%)

| | 2006 | | | | 2007 | | | |
|---|---|---|---|---|---|---|---|---|
| ($ million) | **High** | **Low** | **Avg** | **At period end** | **High** | **Low** | **Avg** | **At period end** |
| **Hydrocarbons** | **35.69** | **5.40** | **17.80** | **8.59** | **44.59** | **4.39** | **20.17** | **12.68** |
| **Gas & power** | **46.63** | **18.36** | **31.01** | **22.82** | **54.11** | **20.12** | **34.56** | **25.57** |

## Credit risk

Credit risk is the potential exposure of the Group to losses that would be recognized if counterparties failed to perform or failed to pay amounts due. The credit risk arising from the Group s normal commercial operations is controlled by each operating unit within Group-approved procedures for evaluating the reliability and solvency of each counterparty, including receivable collection and the managing of commercial litigation. The monitoring activity of credit risk exposure is performed at the Group level according to set guidelines

## Liquidity risk

Liquidity risk is the risk that suitable sources of funding for the group may not be available, or the group is unable to sell its assets on the market place as to be unable to meet short term finance requirements and settle obligations causing material financial losses in the case the group is required to incur additional expenses to meet its obligations or under the worst of conditions a default. Eni manages liquidity risk by targeting an optimal ratio between equity and total debt consistent with management plans and business objectives and measurement techniques to quantify and monitor counterparty risk. In particular, credit risk exposure to large clients and multi-business clients is monitored at the Group level on the basis of score cards quantifying risk levels. Eni s has established guidelines prior to entering into cash management and derivative contracts to assess the counterparty s financial soundness and its rating. Eni has never experienced material non-performance by any counterparty. As of December 31, 2007, Eni has no significant exposure to concentrations of credit risk.

including prescribed limits in terms of maximum indebtedness rate and of minimum debt ratio between medium-long term debt and total debt as well as between fixed rate debt and total medium-long term debt. This enables Eni to maintain an appropriate level of liquidity and financial capacity as to minimize borrowing expenses and to achieve an optimal profile of composition and duration of indebtedness. The Group has access to a wide range of funding at competitive rates through the capital markets and banks and coordinates relationships with banks centrally. At present, the Group believes it has access to

sufficient funding and has also both committed and uncommitted borrowing facilities to meet currently foreseeable borrowing requirements.
Effective management of the liquidity risk has the objective of ensuring both availability of adequate funding to meet short term requirements and due obligations, and a sufficient level of flexibility in order to fund the development plans of the Group businesses, maintaining an adequate finance structure in terms of debt composition and maturity.
This implies the adoption of a strategy for pursuing an adequate structure of borrowing facilities (particularly availability of committed borrowings facilities) and the maintenance of cash reserves.

# Country risk

Substantial portions of Eni s hydrocarbons reserves are located in countries outside the EU and North America, certain of which may be politically or economically less stable than EU or North American. At December 31, 2007, approximately 70% of Eni s proved hydrocarbons reserves were located in such countries. Similarly, a substantial portion of Eni s natural gas supplies comes from countries outside the EU and North America. In 2007, approximately 60% of Eni s domestic supply of natural gas came from such countries. Developments in the political framework, economic crisis, social unrest can compromise temporarily or permanently Eni s ability to operate or to economically operate in such countries, and to have access to oil and gas reserves. Further risks related to the activity undertaken in these countries, are represented by: (i) lack of well established and reliable legal systems and uncertainties surrounding enforcement of contractual rights; (ii) unfavourable developments in laws and regulations leading to expropriation of Eni s titles and mineral assets relating to an important oil field in Venezuela which occurred in 2006, following the unilateral cancellation of the contract regulating oil activities in this field by the Venezuelan state oil company PDVSA; (iii) restrictions on exploration, production, imports and exports; (iv) tax or royalty increases; (v) civil and social unrest leading to sabotages, acts of violence and incidents. While the occurrence of these events is unpredictable, it is possible that they can have a material adverse impact on Eni s financial condition and results of operations. Eni management defined in the procedure Project risk assessment and management .

# Operational risk

Eni s business activities conducted in and outside of Italy are subject to a broad range of legislation and regulations, including specific rules concerning oil and gas activities currently in force in countries in which it operates.
In particular, these laws and regulations require the acquisition of a licence before exploratory drilling may commence and the compliance with the health, safety and environment rules. These environmental laws impose restrictions on the types, quantities and concentration of various substances that can be released into the environment and on discharges to surface and subsurface water.
In particular Eni is required to follow strict operating practices and standards to protect biodiversity when conducts exploration, drilling and production activities in certain ecologically sensitive locations (protected areas).
Environmental, health and safety laws and regulations have a substantial impact on Eni s operations and the expenses and liabilities that Eni may incur in relation to compliance with environmental, health and safety laws and regulations are expected to remain material to the group s results of operations or financial position.
For this purpose, Eni adopted guidelines for the evaluation and management of health, safety and environmental (HSE) risks, with the objective of protecting Eni s employees, the populations involved in its activity, contractors and clients, and the environment and being in compliance with local and international rules and regulations. Eni s guidelines prescribe the adoption of international best practices in setting internal principles, standards and solutions.
The ongoing process for identifying, evaluating and managing HSE operations in each phase of the business activity and is performed through the adoption of procedures and effective pollution management systems tailored on the peculiarities of each business and industrial site and on steady enhancement of plants and process.
Additionally, coding activities and procedures on operating phases allow to reduce the human component

periodically monitors political, social and economic risks of approximately 60 countries where it has invested or with regard to upstream projects evaluation where Eni is planning to invest, in order to assess returns of single projects based also on the evaluation of each country s risk profile. Country risk is mitigated in accordance with guidelines on risk

in the plant risk management.

Operating emergencies that may have an adverse impact on the assets, people and the environment are managed by the operating (business) units for each site. These units manage the HSE risk through a systematic way that involves having emergency response plans in place with a number of corrective actions to be taken that minimise damage in the event of an incident. In the case of major crisis, Division/Entity are assisted by the Eni Unit of Crises to deal with the emergency through a team which have the necessary training and skills to coordinate in a timely and efficient manner resources and facilities.

The integrated management system on health, safety and environmental matters is supported by the adoption of a Eni s Model of HSE operations in all the Division and companies of Eni Group. This is a procedure based on an annual cycle of planning, implementation, control, review of results and definition of new objectives. The model is directed towards the prevention of risks, the systematic monitoring and control of HSE performance, in a continuous improvement cycle, also subject to audits by internal and independent experts. Eni has major facilities certified to international environmental standards, such as ISO14001, OHSAS 18001 and EMAS particularly in the Petrochemicals and Refining & Marketing division.

Eni provides a program of specific training and development for HSE staff in order to:

- Promote the execution of behaviours consistent with guidelines.
- Drive people s learning growth process by developing professionalism, management and corporate culture.
- Support management knowledge and control of HSE risks.

Further information on HSE activities, projects and R&D undertaken is provided on the Eni s Intranet site.

# Possible evolution of the Italian gas market

Legislative Decree No. 164/2000 opened the Italian natural gas market to competition, impacting on Eni s activities, as the company is engaged in all the phases of the natural gas chain. The opening to competition was achieved through the enactment of certain antitrust thresholds on volumes input into the national transport network and on volumes sold to final customers. These enabled new competitors to enter the Italian gas market, natural gas pricing and in establishing tariffs for the use of natural gas infrastructures. Particularly, the Authority for Electricity and Gas holds a general surveillance power on pricing in the natural gas market in Italy and the power to establish selling tariffs for supply of natural gas to residential and commercial users consuming less than 200,000 cm per year (qualified as non eligible customers at December 31, 2002 as defined by Legislative Decree No. 164/2000) taking into account the public goal of containing the inflationary pressure due to rising energy costs. Accordingly, decisions of the Authority on these matters may limit the ability of Eni to pass an increase in the cost of fuels onto final consumers of natural gas.

As a matter of fact, following a complex and lengthy administrative procedure started in 2004 and finalized in March 2007 with Resolution No. 79/2007, the Authority finally established a new indexation mechanism for updating the raw material cost component in supplies to residential and commercial users consuming less than 200,000 cubic meters per year, establishing, among other things: (i) that an increase in the international price of Brent crude oil is only partially transferred to residential and commercial users of natural gas in case international prices of Brent crude oil exceed the 35 dollars per barrel threshold; and (ii) that Italian natural gas importers including Eni must renegotiate wholesale supply contracts in order to take account of this new indexation mechanism.

In order to meet the medium and long-term demand for natural gas, in particular in the Italian market, Eni entered into long-term purchase contracts with producing countries. These contracts which contain take-or-pay clauses, will ensure total supply volumes of approximately 62.4 bcm/y of natural gas to Eni by 2010. Despite the fact that an increasing portion of natural gas volumes purchased under said contracts is planned to be sold outside Italy, management believes that in the long-term unfavorable trends in the Italian demand and supply for natural gas, also due to the possible implementation of all publicly announced plans for the construction of new import infrastructure (backbone upgrading and new LNG terminals), and possible evolution of Italian regulatory framework, represent risk factors to the fulfillment of Eni s obligations in connection with its take-or-pay[10] supply contracts. Particularly, should natural gas demand in Italy grow at resulting in declining selling margins on gas. Other material aspects regarding the Italian gas sector regulation are the regulated access to natural gas infrastructure (transport backbones, storage fields, distribution networks and LNG terminals), and the circumstance that the Authority for Electricity and Gas is entrusted with certain powers in the matters of a lower pace than management expectations, also in view of expected developments in the supply of natural gas to Italy, Eni could face a further increase in competitive

(10) For an explanation of take-or-pay clauses, see Glossary.

132

pressure on the Italian gas market resulting in a negative impact on its selling margins, taking account of Eni s gas availability under take-or-pay supply contracts and execution risks in increasing its sales volumes in European markets.

## Specific risks associated with the exploration and production of oil and natural gas

The exploration and production of oil and natural gas requires high levels of capital expenditure and entails particular economic risks. It is subject to natural hazards and other uncertainties including those relating to the physical characteristics of oil or natural gas fields. Exploratory activity involves numerous risks including the risk of dry holes or failure to find commercial quantities of hydrocarbons. Developing and marketing hydrocarbons reserves typically requires several years after a discovery is made. This is because a development project involves an array of complex and lengthy activities, including appraising a discovery in order to evaluate its commerciality, sanctioning a development project and building and commissioning relating facilities. As a consequence, rates of return of such long-lead-time projects are exposed to the volatility of oil and gas prices and the risk of an increase in developing and lifting costs, resulting in lower rates of return. This set of circumstances is particularly important to those projects intended to develop reserves located in deep water and hostile environments, where the majority of Eni s planned and ongoing projects is located.

Contents



# Glossary

The glossary of oil and gas terms is available on Eni s web page at the address **www.eni.it**. Below is a selection of the most frequently used terms.

#### FINANCIAL TERMS

**Dividend Yield** Measures the return on a share based on dividends for the year. Calculated as the ratio of dividends per share of the year and the average reference price of shares in the last month of the year.

**Leverage** Is a measure of a company s debt, calculated as the ratio between net financial debt and shareholders equity, including minority interests.

**ROACE** Return On Average Capital Employed is the return on average capital invested, calculated as the ratio between net income before minority interests, plus net financial charges on net financial debt, less the related tax effect and net average capital employed.

**TSR** (Total Shareholder Return) Measures the total return of a share calculated on a yearly basis, keeping account of changes in prices (beginning and end of year) and dividends distributed and reinvested at the ex-dividend date.

#### OIL AND NATURAL GAS ACTIVITIES

**Average reserve life index** Ratio between the amount of reserves at the end of the year and total production for the year.

**Barrel** Volume unit corresponding to 159 liters. A barrel of oil corresponds to about 0.137 metric tons.

**Boe** (Barrel of Oil Equivalent) Is used as a standard unit measure for oil and natural gas. The latter is converted from standard cubic meters into barrels of oil equivalent using a coefficient equal to 0.00615.

extracted, against the payment of royalties to the State on production and taxes on oil revenues.

**Condensates** These are light hydrocarbons produced along with gas, that condense to a liquid state at normal temperature and pressure for surface production facilities.

**Conversion** Refining processes that enable for the transformation of heavy fractions into lighter products. Cracking, visbreaking, coking, gasification of refining residues are conversion processes. The ratio of the processing capacity of these plants and distillation capacity expresses the refinery conversion index; the higher this index, the more flexible and potentially profitable the refinery.

**Deep waters** Waters deeper than 200 meters.

**Development** Drilling and other post-exploration activities aimed at the production of oil and gas.

**Elastomers** (or Rubber) Polymers, either natural or synthetic, which, unlike plastic, when stress is applied, return to their original shape, to a certain degree, once the stress ceases to be applied. The main synthetic elastomers are polybutadiene (BR), styrene-butadiene rubbers (SBR), ethylene-propylene rubbers (EPR), thermoplastic rubbers (TPR) and nitrylic rubbers (NBR).

**Enhanced recovery** Techniques used to increase or stretch over time the production of wells.

**EPC** (Engineering, Procurement, Construction) A contract typical of onshore construction of large plants in which the contractor supplies engineering, procurement and construction of the plant. The contract is defined turnkey when the plant is supplied for start-up.

**EPIC** (Engineering, Procurement, Installation, Commissioning) A contract typical of offshore construction of complex projects (such as the installation of production platforms or FPSO systems) in which the global or main contractor, usually a company or a

**Concession contracts** Contracts currently applied mainly in Western countries regulating relationships between States and oil companies with regards to hydrocarbon exploration and production. The company holding the mining concession has an exclusive on mining activities and for this reason it acquires a right on hydrocarbons

consortium of companies, supplies engineering, procurement, construction of plant and infrastructure, transport to the site and all preparatory activities for the start-up of plants.

**Exploration** Oil and natural gas exploration that includes land surveys, geological and geophysical studies, seismic data gathering and analysis, and well drilling.

**FPSO vessel** Floating, Production, Storage and Offloading system made up of a large capacity oil tanker including a large hydrocarbon treatment plant. This system, moored at the bow in order to maintain a geostationary position, is in fact a temporary fixed platform linking by means of risers from the seabed the underwater wellheads to the treatment, storage and offloading systems onboard.

**Infilling wells** Infilling wells are wells drilled in a producing area in order to improve the recovery of hydrocarbons from the field and to maintain and/or increase production levels.

**LNG** Liquefied Natural Gas obtained through the cooling of natural gas to minus 160 °C at normal pressure. The gas is liquefied to allow transportation from the place of extraction to the sites at which it is transformed and consumed. One ton of LNG corresponds to 1,400 cubic meters of gas.

**LPG** Liquefied Petroleum Gas, a mix of light petroleum fractions, gaseous at normal pressure and easily liquefied at room temperature through limited compression.

**Mineral Potential** ( Potentially recoverable hydrocarbon volumes ) Estimated recoverable volumes which cannot be defined as reserves due to a number of reasons, such as the temporary lack of viable markets, a possible commercial recovery dependent on the development of new technologies, or for their location in accumulations yet to be developed or where evaluation of known accumulations is still at an early stage.

**Mineral Storage** Volumes of natural gas required for allowing optimal operation of natural gas fields in Italy for technical and economic reasons.

**Modulation Storage** Volumes of natural gas required for meeting hourly, daily and seasonal swings of demand.

**Network Code** A code containing norms and regulations for access to, management and operation of natural gas pipelines.

**Offshore/Onshore** The term offshore indicates a portion of open sea and, by induction, the activities carried out in such area, while onshore refers to land operations.

**Olefines** (or Alkenes) Hydrocarbons that are particularly active chemically, used for this reason as raw materials in the synthesis of intermediate products and of polymers.

**Over/Underlifting** Agreements stipulated between partners regulate the right of each to its share in the production of a set period of time. Amounts different from the agreed ones determine temporary Over/Underlifting situations.

**Possible reserves** Amounts of hydrocarbons that have a lower degree of certainty than probable reserves and are estimated with lower certainty, for which it is not possible to foresee production.

**Probable reserves** Amounts of hydrocarbons that are probably, but not certainly, expected to be extracted. They are estimated based on known geological conditions, similar characteristics of rock deposits and the interpretation of geophysical data. Further uncertainty elements may concern: (i) the extension or other features of the field; (ii) economic viability of extraction based on the terms of the development project; (iii) existence and adequacy of transmission infrastructure and/or markets; (iv) the regulatory framework.

**Production Sharing Agreement** Contract in use in non OECD area countries, regulating relationships between States and oil companies with regard to the exploration and production of hydrocarbons. The mining concession is assigned to the national oil company jointly with the foreign oil company who has exclusive right to perform exploration, development and production activities and can enter agreements with other local or international entities. In this type of contract the national oil company assigns to the international contractor the task of

**Natural gas liquids** Liquid or liquefied hydrocarbons recovered from natural gas through separation equipment or natural gas treatment plants. Propane, normal-butane and isobutane, isopentane and pentane plus, that used to be defined natural gasoline, are natural gas liquids.

performing exploration and production with the contractor s equipment and financial resources. Exploration risks are borne by the contractor and production is divided into two portions: cost oil is used to recover costs borne by the contractor, profit oil is divided between contractor and national company according to variable schemes and represents the profit deriving from exploration and production. Further terms and conditions may vary from one country to the other.

**Proved reserves** Proved reserves are estimated volumes of crude oil, natural gas and gas condensates, liquids and associated substances which are expected to be retrieved from deposits and used commercially, at the economic and technical conditions applicable at the time of the estimate and according to current legislation. Proved reserves include: (i) proved developed reserves: amounts of hydrocarbons that are expected to be retrieved through existing wells, facilities and operating methods; (ii) non developed proved reserves: amounts of hydrocarbons that are expected to be retrieved following new drilling, facilities and operating methods. On these amounts the company has already defined a clear development expenditure program which is expression of the company s determination.

**Recoverable reserves** Amounts of hydrocarbons included in different categories of reserves (proved, probable and possible), without considering their different degree of uncertainty.

**Reserve replacement ratio** Measure of the reserves produced replaced by proved reserves. Indicates the company s ability to add new reserves through exploration and purchase of property. A rate higher than 100% indicates that more reserves were added than produced in the period. The ratio should be averaged on a three-year period in order to reduce the distortion deriving from the purchase of proved property, the revision of previous estimates, enhanced recovery, improvement in recovery rates and changes in the value of reserves in PSAs due to changes in international oil prices. Management also calculates this ratio by excluding the effect of the purchase of proved property in order to better assess the underlying performance of the Company s operations.

**Ship-or-pay** Clause included in natural gas transportation contracts according to which the customer for which the transportation is carried out is bound to pay for the transportation of the gas also in case the gas is not transported.

**Strategic Storage** Volumes of natural gas required for covering lack or reduction of supplies from extra-European sources or crises in the natural gas system.

**Swap** In the gas sector, the swap term is referred to a buy/sell contract between some counterparties and is generally aimed to the optimization of transport costs and respective commitments in purchasing and supplying.

**Take-or-pay** Clause included in natural gas transportation contracts according to which the purchaser is bound to pay the contractual price or a fraction of such price for a minimum quantity of the gas set in the contract also in case it is not collected by the customer. The customer has the option of collecting the gas paid and not delivered at a price equal to the residual fraction of the price set in the contract in subsequent contract years.

**Upstream/Downstream** The term upstream refers to all hydrocarbon exploration and production activities. The term downstream includes all activities inherent to the oil sector that are downstream of exploration and production activities.

**Wholesale sales** Domestic sales of refined products to wholesalers/distributors (mainly gasoil), public administrations and end consumers, such as industrial plants, power stations (fuel oil), airlines (jet fuel), transport companies, big buildings and households. They do not include distribution through the service station network, marine bunkering, sales to oil and petrochemical companies, importers and international organizations.

**Workover** Intervention on a well for performing significant maintenance and substitution of basic equipment for the collection and transport to the surface of liquids contained in a field.

# ABBREVIATIONS

| | | |
|---|---|---|
| mmcf | = | million cubic feet |
| bcf | = | billion cubic feet |
| mmcm | = | million cubic meters |
| bcm | = | billion cubic meters |
| boe | = | barrel of oil equivalent |
| kboe | = | thousand barrel of oil equivalent |
| mmboe | = | million barrel of oil equivalent |
| bboe | = | billion barrel of oil equivalent |
| bbl | = | barrels |
| kbbl | = | thousand barrels |
| mmbbl | = | million barrels |
| bbbl | = | billion barrels |
| mmtonnes | = | million tonnes |
| ktonnes | = | thousand tonnes |
| /d | = | per day |
| /y | = | per year |

Contents

# Annual Report
# 2007

137

BLANK PAGE

138

# Balance sheet

| (million euro) | Note | Dec. 31, 2006 Total amount | Dec. 31, 2006 *of which with related parties* | Dec. 31, 2007 Total amount | Dec. 31, 2007 *of which with related parties* |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Current assets** | | | | | |
| Cash and cash equivalents | (1) | 3,985 | | 2,114 | |
| Other financial assets held for trading or available for sale: | (2) | | | | |
| *- equity instruments* | | | | *2,476* | |
| *- other securities* | | *972* | | *433* | |
| | | 972 | | 2,909 | |
| Trade and other receivables | (3) | 18,799 | *1,027* | 20,776 | *1,616* |
| Inventories | (4) | 4,752 | | 5,435 | |
| Current tax assets | (5) | 116 | | 703 | |
| Other current tax assets | (6) | 542 | | 833 | |
| Other current assets | (7) | 855 | | 1,080 | |
| **Total current assets** | | **30,021** | | **33,850** | |
| **Non-current assets** | | | | | |
| Property, plant and equipment | (8) | 44,312 | | 50,137 | |
| Other assets | (9) | 629 | | 563 | |
| Inventories - compulsory stock | (10) | 1,827 | | 2,235 | |
| Intangible assets | (11) | 3,753 | | 4,333 | |
| Equity-accounted investments | (12) | 3,886 | | 5,639 | |
| Other investments | (12) | 360 | | 472 | |
| Other financial assets | (13) | 805 | *136* | 923 | *87* |
| Deferred tax assets | (14) | 1,725 | | 1,915 | |
| Other non-current receivables | (15) | 994 | | 1,110 | |
| **Total non-current assets** | | **58,291** | | **67,327** | |
| **Assets classified as held for sale** | (26) | | | **383** | |
| **TOTAL ASSETS** | | **88,312** | | **101,560** | |
| **LIABILITIES AND SHAREHOLDERS EQUITY** | | | | | |
| **Current liabilities** | | | | | |
| Short-term debt | (16) | 3,400 | *92* | 7,763 | *131* |
| Current portion of long-term debt | (21) | 890 | | 737 | |
| Trade and other payables | (17) | 15,995 | *961* | 17,216 | *1,021* |
| Income taxes payable | (18) | 1,640 | | 1,688 | |
| Other taxes payable | (19) | 1,190 | | 1,383 | |
| Other current liabilities | (20) | 634 | | 1,556 | |
| **Total current liabilities** | | **23,749** | | **30,343** | |
| **Non-current liabilities** | | | | | |
| Long-term debt | (21) | 7,409 | | 11,330 | |
| Provisions for contingencies | (22) | 8,614 | | 8,486 | |
| Provisions for employee post-retirement benefits | (23) | 1,071 | | 935 | |
| Deferred tax liabilities | (24) | 5,852 | | 5,471 | |

| | | | | | |
|---|---|---|---|---|---|
| Other non-current liabilities | (25) | 418 | *56* | 2,031 | *57* |
| **Total non-current liabilities** | | **23,364** | | **28,253** | |
| **Liabilities directly associated with the assets classified as held for sale** | (26) | | | **97** | |
| **TOTAL LIABILITIES** | | **47,113** | | **58,693** | |
| **SHAREHOLDERS EQUITY** | (27) | | | | |
| ***Minority interest*** | | **2,170** | | **2,439** | |
| ***Eni shareholders equity*** | | | | | |
| Share capital | | 4,005 | | 4,005 | |
| Reserves | | 33,391 | | 34,610 | |
| Treasury shares | | (5,374) | | (5,999) | |
| Interim dividend | | (2,210) | | (2,199) | |
| Net profit | | 9,217 | | 10,011 | |
| **Total Eni shareholders equity** | | **39,029** | | **40,428** | |
| **TOTAL SHAREHOLDERS EQUITY** | | **41,199** | | **42,867** | |
| **TOTAL LIABILITIES AND SHAREHOLDERS EQUITY** | | **88,312** | | **101,560** | |

139

# Profit and loss account

| (million euro) | Note | 2005 Total amount | 2005 *of which with related parties* | 2006 Total amount | 2006 *of which with related parties* | 2007 Total amount | 2007 *of which with related parties* |
|---|---|---|---|---|---|---|---|
| **REVENUES** | (29) | | | | | | |
| Net sales from operations | | 73,728 | *4,535* | 86,105 | *3,974* | 87,256 | *4,198* |
| Other income and revenues | | 798 | | 783 | | 827 | |
| **Total revenues** | | **74,526** | | **86,888** | | **88,083** | |
| **OPERATING EXPENSES** | (30) | | | | | | |
| Purchases, services and other | | 48,567 | *3,429* | 57,490 | *2,720* | 58,179 | *3,777* |
| *- of which non-recurring charge* | | *290* | | *239* | | *91* | |
| Payroll and related costs | | 3,351 | | 3,650 | | 3,800 | |
| *- of which non-recurring income* | | | | | | *(83)* | |
| Depreciation, depletion, amortization and impairments | | 5,781 | | 6,421 | | 7,236 | |
| **OPERATING PROFIT** | | **16,827** | | **19,327** | | **18,868** | |
| **FINANCE INCOME (EXPENSE)** | (31) | | | | | | |
| Finance income | | 3,131 | *72* | 4,132 | *58* | 4,600 | *98* |
| Finance expense | | (3,497) | | (3,971) | | (4,683) | *59* |
| | | **(366)** | | **161** | | **(83)** | |
| **INCOME FROM INVESTMENTS** | (32) | | | | | | |
| Share of profit (loss) of equity-accounted investments | | 737 | | 795 | | 773 | |
| Other gain (loss) from investments | | 177 | | 108 | | 470 | |
| | | **914** | | **903** | | **1,243** | |
| **PROFIT BEFORE INCOME TAXES** | | **17,375** | | **20,391** | | **20,028** | |
| Income taxes | (33) | (8,128) | | (10,568) | | (9,219) | |
| **Net profit** | | **9,247** | | **9,823** | | **10,809** | |
| **Attributable to** | | | | | | | |
| Eni | | 8,788 | | 9,217 | | 10,011 | |
| Minority interest | (27) | 459 | | 606 | | 798 | |
| | | 9,247 | | 9,823 | | 10,809 | |
| **Earnings per share attributable to Eni** (euro per share) | (34) | | | | | | |
| Basic | | 2.34 | | 2.49 | | 2.73 | |
| Diluted | | 2.34 | | 2.49 | | 2.73 | |

# Statements of changes in shareholders equity

| | Eni shareholders equity | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| (million euro) | Share capital | Legal reserve of Eni SpA | Reserve for treasury shares | Other reserves | Cumulative currency translation differences | Treasury shares | Retained earnings | Interim dividend | Net profit for the year | Total | Minority interest | Total shareholders equity |
| **Balance at December 31, 2004** | **4,004** | **959** | **5,392** | **3,965** | **(687)** | **(3,229)** | **14,911** | | **7,059** | **32,374** | **3,166** | **35,540** |
| Effect of change in accounting policy - adoption of IAS 32 and IAS 39 | | | | 13 | | | (40) | | | (27) | 12 | (15) |
| **Adjusted balance at January 1, 2005** | **4,004** | **959** | **5,392** | **3,978** | **(687)** | **(3,229)** | **14,871** | | **7,059** | **32,347** | **3,178** | **35,525** |
| **Net profit for the year** | | | | | | | | | **8,788** | **8,788** | **459** | **9,247** |
| **Gains (losses) recognized directly in equity** | | | | | | | | | | | | |
| Change in the fair value of available-for-sale securities | | | | 6 | | | | | | 6 | | 6 |
| Change in the fair value of cash flow hedge derivatives | | | | 16 | | | | | | 16 | | 16 |
| Foreign currency translation differences | | | | | 1,497 | | | | | 1,497 | 15 | 1,512 |
| | | | | **22** | **1,497** | | | | | **1,519** | **15** | **1,534** |
| **Total recognized income and (expense) for the year** | | | | **22** | **1,497** | | | | **8,788** | **10,307** | **474** | **10,781** |
| **Transactions with shareholders** | | | | | | | | | | | | |
| Dividend distribution of Eni SpA (euro 0.90 per share) | | | | | | | | | (3,384) | (3,384) | | (3,384) |
| Interim dividend (euro 0.45 per share) | | | | | | | | (1,686) | | (1,686) | | (1,686) |
| Dividend distribution of other companies | | | | | | | | | | | (1,218) | (1,218) |
| Allocation of 2004 net profit | | | | 1,300 | | | 2,375 | | (3,675) | | | |
| Shares repurchased | | | | | | (1,034) | | | | (1,034) | | (1,034) |
| Shares issued under stock grant plans | 1 | | | (1) | | | | | | | | |
| Treasury shares sold under incentive plans for Eni managers | | | (47) | 47 | | 47 | | | | 47 | | 47 |
| | **1** | | **(47)** | **1,346** | | **(987)** | **2,375** | **(1,686)** | **(7,059)** | **(6,057)** | **(1,218)** | **(7,275)** |
| **Other changes in shareholders equity** | | | | | | | | | | | | |
| Cost related to stock options | | | | 5 | | | | | | 5 | | 5 |
| Sale of consolidated subsidiaries | | | | | | | | | | | (40) | (40) |
| Foreign currency translation differences on the distribution of dividends and other | | | | | 131 | | 135 | | | 266 | (45) | 221 |

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| changes | | | | | | | | | | | | |
| | | | | **5** | **131** | | **135** | | | **271** | **(85)** | **186** |
| **Balance at December 31, 2005** (Note 27) | **4,005** | **959** | **5,345** | **5,351** | **941** | **(4,216)** | **17,381** | **(1,686)** | **8,788** | **36,868** | **2,349** | **39,217** |

141

**Contents**

**ENI** ANNUAL REPORT 2007 / NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## *continued* Statements of changes in shareholders equity

| | Eni shareholders equity | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| (million euro) | Share capital | Legal reserve of Eni SpA | Reserve for treasury shares | Other reserves | Cumulative currency translation differences | Treasury shares | Retained earnings | Interim dividend | Net profit for the year | Total | Minority interest | Total shareholders equity |
| **Balance at December 31, 2005** (Note 27) | **4,005** | **959** | **5,345** | **5,351** | **941** | **(4,216)** | **17,381** | **(1,686)** | **8,788** | **36,868** | **2,349** | **39,217** |
| **Net profit for the year** (Note 27) | | | | | | | | | **9,217** | **9,217** | **606** | **9,823** |
| **Gains (losses) recognized directly in equity** | | | | | | | | | | | | |
| Change in the fair value of available-for-sale securities (Note 27) | | | | (13) | | | | | | (13) | | (13) |
| Change in the fair value of cash flow hedge derivatives (Note 27) | | | | (15) | | | | | | (15) | | (15) |
| Foreign currency translation differences | | | | | (1,266) | | | | | (1,266) | (29) | (1,295) |
| | | | | **(28)** | **(1,266)** | | | | | **(1,294)** | **(29)** | **(1,323)** |
| **Total recognized income and (expense) for the year** | | | | **(28)** | **(1,266)** | | | | **9,217** | **7,923** | **577** | **8,500** |
| **Transactions with shareholders** | | | | | | | | | | | | |
| Dividend distribution of Eni SpA (euro 0.65 per share in settlement of 2005) interim dividend of euro 0.45 per share) (Note 27) | | | | | | | | 1,686 | (4,086) | (2,400) | | (2,400) |
| Dividend distribution of Eni SpA (euro 0.60 per share) (Note 27) | | | | | | | | (2,210) | | (2,210) | | (2,210) |
| Dividend distribution of other companies | | | | | | | | | | | (222) | (222) |
| Payments by minority shareholders | | | | | | | | | | | 22 | 22 |
| Allocation of 2005 net profit | | | | | | | 4,702 | | (4,702) | | | |
| Authorization to shares repurchase (Note 27) | | | 2,000 | | | | (2,000) | | | | | |
| Shares repurchased (Note 27) | | | | | | (1,241) | | | | (1,241) | | (1,241) |
| Treasury shares sold under incentive plans for Eni managers (Note 27) | | | (85) | 54 | | 85 | 21 | | | 75 | | 75 |
| Difference between the carrying amount and strike price of stock options exercised by Eni managers | | | | | | | 7 | | | 7 | | 7 |
| | | | **1,915** | **54** | | **(1,156)** | **2,730** | **(524)** | **(8,788)** | **(5,769)** | **(200)** | **(5,969)** |
| **Other changes in shareholders equity** | | | | | | | | | | | | |
| | | | | 247 | | | | | | 247 | (247) | |

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Sale to Saipem Projects SpA of Snamprogetti SpA (Note 27) | | | | | | | | | | | | |
| Net effect related to the purchase of treasury shares by Saipem SpA and Snam Rete Gas SpA | | | | | | | | | | | (306) | (306) |
| Purchase and sale to third parties of consolidated companies | | | | | | | | | | | (5) | (5) |
| Cost related to stock options | | | | | | | 14 | | | 14 | | 14 |
| Reclassification of reserves of Eni SpA | | | 2 | (5,224) | | (2) | 5,224 | | | | | |
| Foreign currency translation differences on the distribution of dividends and other changes | | | | | (73) | | (181) | | | (254) | 2 | (252) |
| | | | **2** | **(4,977)** | **(73)** | **(2)** | **5,057** | | | **7** | **(556)** | **(549)** |
| **Balance at December 31, 2006** (Note 27) | **4,005** | **959** | **7,262** | **400** | **(398)** | **(5,374)** | **25,168** | **(2,210)** | **9,217** | **39,029** | **2,170** | **41,199** |

142

# *continued* Statements of changes in shareholders equity

| (million euro) | Eni shareholders equity | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Legal reserve of Eni SpA | Reserve for treasury shares | Other reserves | Cumulative currency translation differences | Treasury shares | Retained earnings | Interim dividend | Net profit for the year | Total | Minority interest | Total shareholders equity |
| **Balance at December 31, 2006** (Note 27) | **4,005** | **959** | **7,262** | **400** | **(398)** | **(5,374)** | **25,168** | **(2,210)** | **9,217** | **39,029** | **2,170** | **41,199** |
| **Net profit for the year** (Note 27) | | | | | | | | | **10,011** | **10,011** | **798** | **10,809** |
| **Gains (losses) recognized directly in equity** | | | | | | | | | | | | |
| Change in the fair value of available-for-sale securities (Note 27) | | | | (4) | | | | | | (4) | | (4) |
| Change in the fair value of cash flow hedge derivatives (Note 27) | | | | (1,370) | | | | | | (1,370) | | (1,370) |
| Foreign currency translation differences | | | | 25 | (1,954) | | | | | (1,929) | (51) | (1,980) |
| | | | | **(1,349)** | **(1,954)** | | | | | **(3,303)** | **(51)** | **(3,354)** |
| **Total recognized income and (expense) for the year** | | | | **(1,349)** | **(1,954)** | | | | **10,011** | **6,708** | **747** | **7,455** |
| **Transactions with shareholders** | | | | | | | | | | | | |
| Dividend distribution of Eni SpA (euro 0.65 per share in settlement of 2006) interim dividend of euro 0.60 per share (Note 27) | | | | | | | | 2,210 | (4,594) | (2,384) | | (2,384) |
| Dividend distribution of Eni SpA (euro 0.60 per share) (Note 27) | | | | | | | | (2,199) | | (2,199) | | (2,199) |
| Dividend distribution of other companies | | | | | | | | | | | (289) | (289) |
| Payments by minority shareholders | | | | | | | | | | | 1 | 1 |
| Allocation of 2006 net profit | | | | | | | 4,623 | | (4,623) | | | |
| Shares repurchased (Note 27) | | | | | | (680) | | | | (680) | | (680) |
| Treasury shares sold under incentive plans for Eni managers (Note 27) | | | (55) | 35 | | 55 | 11 | | | 46 | | 46 |
| Difference between the carrying amount and strike price of stock options exercised by Eni managers | | | | | | | 9 | | | 9 | | 9 |
| | | | **(55)** | **35** | | **(625)** | **4,643** | **11** | **(9,217)** | **(5,208)** | **(288)** | **(5,496)** |
| **Other changes in shareholders equity** | | | | | | | | | | | | |
| Net effect related to the purchase of treasury shares by Saipem SpA and Snam Rete Gas SpA | | | | | | | | | | (201) | (201) | |

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Cost related to stock options | | | | | | | 18 | | | 18 | | 18 |
| Foreign currency translation differences on the distribution of dividends and other changes | | | | | 119 | | (238) | | | (119) | 11 | (108) |
| | | | | | **119** | | **(220)** | | | **(101)** | **(190)** | **(291)** |
| **Balance at December 31, 2007** (Note 27) | **4,005** | **959** | **7,207** | **(914)** | **(2,233)** | **(5,999)** | **29,591** | **(2,199)** | **10,011** | **40,428** | **2,439** | **42,867** |

143

# Statement of cash flows

| (million euro) | Note | 2005 | 2006 | 2007 |
|---|---|---|---|---|
| Net profit of the year | | 9,247 | 9,823 | 10,809 |
| Depreciation and amortization | (30) | 5,509 | 6,153 | 7,029 |
| Revaluations, net | | (288) | (386) | (494) |
| Net change in provisions for contingencies | | 1,279 | (86) | (122) |
| Net change in the provisions for employee benefits | | 18 | 72 | (67) |
| Gain on disposal of assets, net | | (220) | (59) | (309) |
| Dividend income | (32) | (33) | (98) | (170) |
| Interest income | | (214) | (387) | (603) |
| Interest expense | | 654 | 346 | 523 |
| Exchange differences | | (64) | 6 | (119) |
| Income taxes | (33) | 8,128 | 10,568 | 9,219 |
| **Cash generated from operating profit before changes in working capital** | | **24,016** | **25,952** | **25,696** |
| (Increase) decrease: | | | | |
| - inventories | | (1,402) | (953) | (1,117) |
| - trade and other receivables | | (4,413) | (1,952) | (728) |
| - other assets | | 351 | (315) | (362) |
| - trade and other payables | | 3,030 | 2,146 | 433 |
| - other liabilities | | 12 | 50 | 107 |
| **Cash from operations** | | **21,594** | **24,928** | **24,029** |
| Dividends received | | 366 | 848 | 658 |
| Interest received | | 214 | 395 | 333 |
| Interest paid | | (619) | (294) | (555) |
| Income taxes paid | | (6,619) | (8,876) | (8,948) |
| **Net cash provided from operating activities** | | **14,936** | **17,001** | **15,517** |
| *- of which with related parties* | (36) | *1,230* | *2,206* | *549* |
| Investing activities: | | | | |
| - tangible assets | (8) | (6,558) | (6,138) | (8,532) |
| - intangible assets | (11) | (856) | (1,695) | (2,061) |
| - consolidated subsidiaries and businesses | | (73) | (46) | (4,759) |
| - investments | (12) | (54) | (42) | (4,890) |
| - securities | | (464) | (49) | (76) |
| - financing receivables | | (683) | (516) | (1,646) |
| - change in payables and receivables in relation to investments and capitalized depreciation | | 149 | (26) | 185 |
| **Cash flow from investments** | | **(8,539)** | **(8,512)** | **(21,779)** |
| Disposals: | | | | |
| - tangible assets | | 99 | 237 | 172 |
| - intangible assets | | 13 | 12 | 28 |
| - consolidated subsidiaries and businesses | | 252 | 8 | 56 |
| - investments | | 178 | 36 | 403 |
| - securities | | 369 | 382 | 491 |
| - financing receivables | | 804 | 794 | 545 |
| - change in payables and receivables in relation to disposals | | 9 | (8) | (13) |

| | | | | |
|---|---|---|---|---|
| **Cash flow from disposals** | | **1,724** | **1,461** | **1,682** |
| **Net cash used in investing activities** (*) | | **(6,815)** | **(7,051)** | **(20,097)** |
| *- of which with related parties* | (36) | *(160)* | *(686)* | *(822)* |

# *continued* Statement of cash flows

| (million euro) | Note | 2005 | 2006 | 2007 |
|---|---|---|---|---|
| Proceeds from long-term debt | | 2,755 | 2,888 | 6,589 |
| Repayments of long-term debt | | (2,978) | (2,621) | (2,295) |
| Increase (decrease) in short-term debt | | (317) | (949) | 4,467 |
| | | **(540)** | **(682)** | **8,761** |
| Net capital contributions by minority shareholders | | 24 | 22 | 1 |
| Net acquisition of treasury shares different from Eni SpA | | (30) | (477) | (340) |
| Acquisition of additional interests in consolidated subsidiaries | | (3) | (7) | (16) |
| Sale of additional interests in consolidated subsidiaries | | | 35 | |
| Dividends paid to: | | | | |
| - Eni s shareholders | | (5,070) | (4,610) | (4,583) |
| - Minority interest | | (1,218) | (222) | (289) |
| Net purchase of treasury shares | | (987) | (1,156) | (625) |
| **Net cash used in financing activities** | | **(7,824)** | **(7,097)** | **2,909** |
| *- of which with related parties* | (36) | *23* | *(57)* | *20* |
| **Changes in cash and cash equivalents not related to inflows/outflows from operating, investing or financing activities** | | | | |
| *Effect of change in consolidation (inclusion/exclusion of significant/insignificant subsidiaries)* | | *(38)* | *(4)* | *(40)* |
| *Effect of exchange rate changes on cash and cash equivalents* | | *71* | *(197)* | *(160)* |
| **Net cash flow for the period** | | **330** | **2,652** | **(1,871)** |
| **Cash and cash equivalents - beginning of year** | (1) | **1,003** | **1,333** | **3,985** |
| **Cash and cash equivalents - end of year** | (1) | **1,333** | **3,985** | **2,114** |

(*) Net cash used in investing activities included some investments which Eni, due to their nature (temporary cash investments or carried on in order to optimize management of treasury operations) are considered as a reduction of net borrowings as defined in the "Financial Review". Cash flow of such investments were as follows:

| (million euro) | 2005 | 2006 | 2007 |
|---|---|---|---|
| Financing investments: | | | |
| - securities | (186) | (44) | (75) |
| - financing receivables | (45) | (134) | (970) |
| | **(231)** | **(178)** | **(1,045)** |
| Disposal of financing investments: | | | |
| - securities | 60 | 340 | 419 |
| - financing receivables | 62 | 54 | 147 |
| | **122** | **394** | **566** |
| **Net cash flows from financing activities** | **(109)** | **216** | **(479)** |

## SUPPLEMENTAL CASH FLOW INFORMATION

| (million euro) | 2005 | 2006 | 2007 |
|---|---|---|---|
| **Effect of investment of companies included in consolidation and businesses** | | | |
| Current assets | | 68 | 398 |
| Non-current assets | 122 | 130 | 5,590 |
| Net borrowings | (19) | 53 | 1 |
| Current and non-current liabilities | (22) | (92) | (972) |
| **Net effect of investments** | **81** | **159** | **5,017** |
| Sale of unconsolidated entities controlled by Eni | | (60) | |
| Fair value of investments held before the acquisition of control | (8) | | (13) |
| ***Purchase price*** | **73** | **99** | **5,004** |
| less: | | | |
| *Cash and cash equivalents* | | (53) | (245) |
| **Cash flow on investments** | **73** | **46** | **4,759** |
| **Effect of disposal of consolidated subsidiaries and businesses** | | | |
| Current assets | 204 | 9 | 73 |
| Non-current assets | 189 | 1 | 20 |
| Net borrowings | 42 | (1) | 26 |
| Current and non-current liabilities | (217) | (4) | (94) |
| **Net effect of disposals** | **218** | **5** | **25** |
| Gain on disposal | 140 | 3 | 33 |
| Minority interest | (43) | | |
| **Selling price** | **315** | **8** | **58** |
| less: | | | |
| *Cash and cash equivalents* | (63) | | (2) |
| **Cash flow on disposals** | **252** | **8** | **56** |

### Transactions that did not produce cash flows

Acquisition of equity investments in exchange of businesses contribution:

| (million euro) | 2005 | 2006 | 2007 |
|---|---|---|---|
| **Effect of the businesses contribution** | | | |
| Current assets | 2 | 23 | |
| Non-current assets | 17 | 213 | 38 |
| Net borrowings | | (44) | (4) |
| Long-term and short-term liabilities | (1) | (53) | |
| **Net effect of contribution** | **18** | **139** | **34** |
| Minority interest | | (36) | |
| Gain on contribution | | 18 | |
| **Acquisition of investments** | **18** | **121** | **34** |

# Basis of presentation

The Consolidated Financial Statements of Eni have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and adopted by the European Union (EU) pursuant to Article 6 of the EC Regulation No. 1606/2002 of the European Parliament and Council of July 19, 2002 and in accordance with Article 9 of Legislative Decree No. 38/2005. Differences in certain respects between IFRS as endorsed by the EU and IFRS as issued by IASB are on matters that do not relate to Eni. On this basis, Eni s financial statements are fully in compliance with IFRS as issued by IASB.
Oil and natural gas exploration and production activity is accounted for in conformity with internationally accepted accounting principles. Specifically, this concerns the determination of the amortization expenses using the unit-of-production method and the recognition of the production-sharing agreements and buy-back contracts. The Consolidated Financial Statements have been prepared on a historical cost except for certain items that under IFRS must be recognized at fair value as described in the evaluation criteria.
The Consolidated Financial Statements include the statutory accounts of Eni SpA and the accounts of controlled subsidiary companies where the company holds the right to directly or indirectly exercise control, determine financial and management decisions and obtain economic and financial benefits.
Immaterial subsidiaries[1] are not consolidated. A subsidiary is generally considered to be immaterial when it does not exceed two of the following three limits: (i) total assets or liabilities: euro 3,125 thousand; (ii) total revenues: euro 6,250 thousand; and (iii) average number of employees: 50 units. Moreover, companies for which consolidation does not produce significant economic and financial effects are not consolidated. These are usually entities acting as sole-operator in the management of oil and gas contracts on behalf of companies participating in a joint venture. These are financed proportionately based on a budget approved by the participating companies upon presentation periodical reports of proceeds and expenses. Costs and revenues and other operating data (production, reserves, etc.) of the project, as well as the obligations arising from the project, are recognized proportionally in the financial statements of the companies involved. The effects of these exclusions are immaterial.
Immaterial subsidiaries excluded from consolidation, jointly controlled entities, associates and other interests are accounted for as described below under the item Financial fixed assets .
2007 Consolidated Financial Statements approved by Eni s Board of Directors on March 14, 2008 were audited by the independent auditor PricewaterhouseCoopers SpA (PWC) who reviewed disclosed information. The independent auditor of Eni SpA, as the main auditor of the Group, is in charge of the auditing activities of the subsidiaries, unless this is incompatible with local laws, and, to the extent allowed under Italian legislation, of the work of other independent auditors.
Amounts in the notes to these financial statements are expressed in millions of euros (euro million).

# Principles of consolidation

## Interest in consolidated companies

Assets and liabilities, revenues and expenses related to fully consolidated subsidiaries are wholly incorporated in the Consolidated Financial Statements; the book value of interests in these subsidiaries is eliminated against the corresponding share of the shareholders equity by attributing to each of the balance items its fair value at the acquisition date.
When acquired, the net equity of controlled subsidiaries is initially recognized at fair value. The excess of the purchase price of an acquire entity over the total fair value assigned to assets acquired and liabilities assumed is recognized as Goodwill; negative goodwill is recognised in profit and loss account.
The purchase of additional ownership interests in subsidiaries from minority shareholders is recognised as goodwill

and represents the excess of the amount paid over the carrying value of the minority interest acquired.
Gains or losses associated with the sale of interests in consolidated subsidiaries are reflected in profit and loss account for the difference between proceeds from the sale and the divested portion of net equity.
Equity and net profit of minority shareholders are included in specific lines of the financial statements; this share of equity is determined using the value of assets and liabilities, excluding any related goodwill, at the time when control is acquired.

---

(1) According to the requirements of the framework of international accounting standards, information is material if its omission or misstatement could influence the economic decisions that users make on the basis of the financial statements.

## Inter-company transactions

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are not eliminated since they are considered an impairment indicator of the asset transferred.

## Foreign currency translation

Financial statements of foreign companies having a functional currency other than euro are translated into the presentation currency using closing exchange rates for assets and liabilities, historical exchange rates for equity accounts and average rates for the period to profit and loss account (source: Bank of Italy).

Cumulative exchange differences resulting from this translation are recognized in shareholders equity under Other reserves in proportion to the group s interest and under Minority interest for the portion related to minority shareholders. Cumulative exchange differences are charged to the profit and loss account when the investments are sold or the capital employed is repaid.

Financial statements of foreign subsidiaries which are translated into euro are denominated in the functional currencies of the countries where the entities operate. The US dollar is the prevalent functional currency for the entities that do not adopt euro.

# Summary of significant accounting policies

The most significant accounting policies used in the preparation of the Consolidated Financial Statements are described below.

## Current assets

Held for trading financial assets and available-for-sale financial assets are measured at fair value with gains or losses recognized in the profit and loss account under Financial income (expense) and as a component of equity within Other reserves .
In the latter case, changes in fair value recognized under shareholders equity are charged to the profit and loss account when they are impaired or realized. The objective evidence that an impairment loss has occurred is verified considering, inter alia, significant breaches of contracts, serious financial difficulties or the high probability of insolvency of the counterparty.
Available-for-sale financial assets include financial assets other than derivative financial instruments, loans and receivables, held for trading financial assets, held-to-maturity financial assets and investments associated to a derivative financial instrument. The latter are stated at fair value with effects of changes in fair value recognized to the profit and loss account, rather than shareholders equity, the so-called fair value option , in order to ensure a match with the recognition in the profit and loss account of the changes in fair value of the derivative instrument.
The fair value of financial instruments is determined by market quotations or, in their absence, by the value resulting from the adoption of suitable financial valuation models which take into account all the factors adopted by market operators and prices obtained in similar recent transactions in the market. Interest and dividends on financial assets stated at fair value with gains or losses reflected in profit and loss account are accounted for on an accrual basis as Financial income (expense) and Income (expense) from investments , respectively.
When the purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the market place concerned, the transaction is accounted on settlement date.
Receivables are stated at amortized cost (see item Financial fixed assets below).

Transferred financial assets are derecognized when the contractual rights to receive the cash flows of the financial assets are transferred together with the risks and rewards of the ownership.
Inventories, including compulsory stocks and excluding contract work in progress, are stated at the lower of purchase or production cost and net realizable value. Net realizable value is the estimated selling price less the costs to sell. The cost for inventories of hydrocarbons (crude oil, condensates and natural gas) and petroleum products is determined by applying the weighted-average cost method on a three-month basis; the cost for inventories of the Petrochemical segment is determined by applying the weighted-average cost on an annual basis.
Contract work in progress is measured using the costs-to-cost method by which contract revenue is recognized based on the stage of completion as determined by the cost sustained. Advances are deducted from inventories within the limits of

contractual considerations; any excess of such advances over the value of the inventories is recorded as a liability. Losses related to construction contracts are accrued for once the company becomes aware of such losses. Contract work in progress not yet invoiced, whose payment will be made in a foreign currency, is translated to euro using the current exchange rates at year end and the effect of rate changes is reflected in profit and loss account.
Hedging instruments are described in the section Derivative Instruments .

## Non-current assets

**Property, plant and equipment**[2]
Tangible assets, including investment properties, are recognized using the cost model and stated at their purchase or self-construction cost including any costs directly attributable to bringing the asset into operation. In addition, when a substantial period of time is required to make the asset ready for use, the purchase price or self-construction cost includes the borrowing costs incurred that could have otherwise been saved had the investment not been made.

In the case of a present obligation for the dismantling and removal of assets and the restoration of sites, the carrying value includes, with a corresponding entry to a specific provision, the estimated (discounted) costs to be borne at the moment the asset is retired. Changes in estimate of the carrying amounts of provisions due to the passage of time and changes in discount rates are recognized under Provisions for contingencies .

The company recognizes material provisions for the retirement of assets in the Exploration & Production business. No significant asset retirement obligations associated with any legal obligations to retire refining, marketing and transportation (downstream) and chemical long-lived assets are generally recognized, as indeterminate settlement dates for asset retirements do not allow a reasonable estimate of the fair value of the associated retirement obligation. The company performs periodic reviews of its downstream and chemical long-lived assets for any changes in facts and circumstances that might require recognition of a retirement obligation.
Property, plant and equipment is not revalued for financial reporting purposes.
Assets carried under financial leasing or concerning arrangements that do not take the legal form of a finance lease but substantially transfer all the risks and rewards of ownership of the leased asset are recognized at fair value, net of taxes due from the lessor or, if lower, at the present value of the minimum lease payments. Leased assets are included within property, plant and equipment. A corresponding financial debt payable to the lessor is recognized as financial liability. These assets are depreciated using the criteria described below.
When the renewal is not reasonably certain, leased assets are depreciated over the shorter of the lease term and the estimated useful life of the asset. Expenditures on renewals, improvements and transformations that extend the useful lives of the related asset are capitalized to property, plant and equipment.
Tangible assets, from the moment they begin or should begin to be used, are depreciated systematically using a straight-line method over their useful life which is an estimate of the period over which the assets will be used by the company. When tangible assets are composed of more than one significant element with different useful lives, each component is depreciated separately. The amount to be depreciated is represented by the book value reduced by the estimated net realizable value at the end of the useful life, if it is significant and can be reasonably determined. Land is not depreciated, even when purchased with a building. Tangible assets held for sale are not depreciated but are valued at the lower of book value and fair value less costs of disposal.
Assets that can be used free of charge are depreciated over the shorter term of the duration of the concession and the useful life of the asset.
Replacement costs of identifiable components in complex assets are capitalized and depreciated over their useful life; the residual book value of the component that has been substituted is charged to the profit and loss account.
Expenditures for ordinary maintenance and repairs are expensed as incurred.
The carrying value of property, plant and equipment is reviewed for impairment whenever events indicate that the

carrying amounts for those assets may not be recoverable. The recoverability of an asset is assessed by comparing their carrying value with the recoverable amount represented by the higher of fair value less costs to sell and value in use.

(2) Recognition and evaluation criteria of exploration and production activities are described in the section Exploration and production activities below.

If there is no binding sales agreement, fair value is estimated on the basis of market values, recent transactions, or the best available information that shows the proceeds that the company could reasonably expect to collect from the disposal of the asset.

Value in use is the present value of the future cash flows expected to be derived from the use of the asset and, if significant and reasonably determinable, the cash flows deriving from its disposal at the end of its useful life, net of disposal costs. Cash flows are determined on the basis of reasonable and documented assumptions that represent the best estimate of the future economic conditions during the remaining useful life of the asset, giving more importance to independent assumptions. Oil, natural gas and petroleum products prices (and to them which derive from the previous ones) used to quantify the expected future cash flows are estimated based on forward prices prevailing in the marketplace for the first four years and management s long-term planning assumptions thereafter.
Discounting is carried out at a rate that takes into account the implicit risk in the sectors where the entity operates. Valuation is carried out for each single asset or, if the realizable value of a single asset cannot be determined, for the smallest identifiable group of assets that generates independent cash inflows from their continuous use, the so called "cash generating unit". When the reasons for their impairment cease to exist, Eni makes a reversal that is recognized in profit or loss account as income from asset revaluation. This reversed amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years.

**Intangible assets**
Intangible assets are assets without physical substance, controlled by the company and able to produce future economic benefits, and goodwill acquired in business combinations. An asset is classified as intangible when management is able to distinguish it clearly from goodwill. This condition is normally met when: (i) the intangible asset arises from contractual or legal rights, or (ii) the asset is separable, i.e. can be sold, transferred, licensed, rented or exchanged, either individually or as an integral part of other assets. An entity controls an asset if it has the power to obtain the future economic benefits generated by the underlying asset and to restrict the access of others to those cash flows.
Intangible assets are initially stated at cost as determined by the criteria used for tangible assets and they are not revalued for financial reporting purposes.

Intangible assets with a definite useful life are amortized systematically over their useful life estimated as the period over which the assets will be used by the company; the recoverability of their carrying amount is verified in accordance with the criteria described in the section Property, plant and equipment .
Goodwill and other intangible assets with an indefinite useful life are not amortized. The recoverability of their carrying value is reviewed at least annually and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Goodwill is tested for impairment at the level of the smallest aggregate on which the company, directly or indirectly, evaluates the return on the capital expenditure to which goodwill relates. When the carrying amount of the cash generating unit, including goodwill allocated thereto, exceeds the cash generating unit s recoverable amount, the excess is recognized as impairment. The impairment loss is first allocated to reduce the carrying amount of goodwill; any remaining excess to be allocated to the assets of the unit is applied pro-rata on the basis of the carrying amount of each asset in the unit. Impairment charges against goodwill are not reversed[3]. Negative goodwill is recognized in the profit and loss account.
Costs of technological development activities are capitalized when: (i) the cost attributable to the development activity can be reasonably determined; (ii) there is the intention, availability of funding and technical capacity to make the asset available for use or sale; and (iii) it can be demonstrated that the asset is able to generate future economic benefits.

**Exploration and production activities**[4]

*Acquisition of mineral rights*

Costs associated with the acquisition of mineral rights are capitalized in connection with the assets acquired (such as exploratory potential, probable and possible reserves and proved reserves). When the acquisition is related to a set of

---

(3) Impairment charges are not reversed also when, considering conditions existing in a subsequent interim period, they would have been recognized in a smaller amount or would not have been recognized.

(4) IFRS do not establish specific criteria for hydrocarbon exploration and production activities. Eni continues to use existing accounting policies for exploration and evaluation assets previously applied before the introduction of IFRS 6 Exploration for and evaluation of mineral resources .

exploratory potential and reserves, the cost is allocated to the different assets acquired on the basis of the value of the relevant discounted cash flows.
Expenditure for the exploratory potential, represented by the costs for the acquisition of the exploration permits and for the extension of existing permits, is recognized under Intangible assets and is amortized on a straight-line basis over the period of the exploration as contractually established. If the exploration is abandoned, the residual expenditure is charged to the profit and loss account.
Acquisition costs for proved reserves and for possible and probable reserves are recognized in the balance sheet as assets. Costs associated with proved reserves are amortized on a UOP basis, as detailed in the section Development , considering both developed and undeveloped reserves. Expenditures associated with possible and probable reserves are not amortized until classified as proved reserves; in case of a negative result, the costs are charged to the profit and loss account.

*Exploration*
Costs associated with exploratory activities for oil and gas producing properties incurred both before and after the acquisition of mineral rights (such as acquisition of seismic data from third parties, test wells and geophysical surveys) are initially capitalized in order to reflect their nature as an investment and subsequently amortized in full when incurred.

*Development*
Development costs are those costs incurred to obtain access to proved reserves and to provide facilities for extracting, gathering and storing oil and gas. They are then capitalized within property, plant and equipment and amortized generally on a UOP basis, as their useful life is closely related to the availability of feasible reserves. This method provides for residual costs at the end of each quarter to be amortized at a rate representing the ratio between the volumes extracted during the quarter and the proved developed reserves existing at the end of the quarter, increased by the volumes extracted during the quarter. This method is applied with reference to the smallest aggregate representing a direct correlation between investments and proved developed reserves.
Costs related to unsuccessful development wells or damaged wells are expensed immediately as losses on disposal. Impairments and reversal of impairments of development costs are made on the same basis as those for tangible assets.

*Production*
Production costs are those costs incurred to operate and maintain wells and field equipment and are expensed as incurred.

*Production-sharing agreements and buy-back contracts*
Oil and gas reserves related to Production-sharing agreements and buy-back contracts are determined on the basis of contractual clauses related to the repayment of costs incurred for the exploration, development and production activities executed through the use of Company s technologies and financing (cost oil) and the Company s share of production volumes not destined to cost recovery (profit oil).Revenues from the sale of the production entitlements against both cost oil and profit oil are accounted for on an accruals basis whilst exploration, development and production costs are accounted for according to the policies mentioned above.

*Retirement*
Costs expected to be incurred with respect to the retirement of a well, including costs associated with removal of production facilities, dismantlement and site restoration, are capitalized and amortized on a UOP basis, consistent with the policy described under Property, plant and equipment .

**Grants**

Grants related to assets are recorded as a reduction of purchase price or production cost of the related assets when there is reasonable assurance that all the required conditions attached to them, agreed upon with government entities, have been met. Grants not related to capital expenditure are recognized in the profit and loss account.

**Financial fixed assets**

INVESTMENTS
Investments in subsidiaries excluded from consolidation, jointly controlled entities and associates may be accounted for using the equity method[5]. Subsidiaries, joint ventures and associates excluded from consolidation may be accounted for at cost, adjusted for impairment losses if this does not result in a misrepresentation of the company s financial condition. When the reasons for their impairment cease to exist, investments accounted for at cost are re-valued within the limit of the impairment made and their effects are included in Other income (expense) from investments .
Other investments, included in non current assets, are recognized at their fair value and their effects are included in shareholders equity under Other reserves ; this reserve is charged to the profit and loss account when it is impaired or realized. When fair value cannot be reasonably determined, investments are accounted for at cost, adjusted for impairment losses; impairment losses may not be reversed[6].
The risk deriving from losses exceeding shareholders equity is recognized in a specific provision to the extent the parent company is required to fulfil legal or implicit obligations towards the subsidiary or to cover its losses.

RECEIVABLES AND FINANCIAL ASSETS TO BE HELD TO MATURITY
Receivables and financial assets to be held to maturity are stated at cost represented by the fair value of the initial exchanged amount adjusted to take into account direct external costs related to the transaction (e.g. fees of agents or consultants, etc.). The initial carrying value is then adjusted to take into account capital repayments, devaluations and amortization of the difference between the reimbursement value and the initial carrying value. Amortization is carried out on the basis of the effective internal rate of return represented by the rate that equalizes, at the moment of the initial revaluation, the current value of expected cash flows to the initial carrying value (so-called amortized cost method). Any impairment is recognized by comparing the carrying value with the present value of the expected cash flows discounted at the effective interest rate defined at the initial recognition. Changes to the carrying amount of receivables or financial assets in accordance with the amortized cost method are recognized as Financial income (expense) .

## Financial liabilities

Debt is carried at amortized cost (see item Financial fixed assets above).

## Provisions for contingencies

Provisions for contingencies are liabilities for risks and charges of a definite nature and whose existence is certain or probable but for which at year-end the timing or amount of future expenditure is uncertain. Provisions are recognized when: (i) there is a current obligation (legal or constructive), as a result of a past event; (ii) it is probable that the settlement of that obligation will result in an outflow of resources embodying economic benefits; and (iii) the amount of the obligation can be reliably estimated. The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation at the balance sheet date or to transfer it to third parties at that time.
If the effect of the time value is material, and the payment date of the obligations can be reasonably estimated, provisions to be accrued are the present value of the expenditures expected to be required to settle the obligation at a discount rate that reflects the company s average borrowing rate taking into account of risks associated with the obligation. The increase in the provision due to the passage of time is recognized as financial income (expense). When the liability regards a tangible asset (e.g. site restoration and abandonment), the provision is stated with a corresponding entry to the asset to which it refers; profit and loss account charge is made with the amortization process. Costs that the company expects to bear in order to carry out restructuring plans are recognized when the company formally defines the plan and the interested parties have developed the reasonable expectation that the

restructuring will happen. Provisions are periodically updated to show the variations of estimates of costs, production times and actuarial rates; the estimated revisions to the provisions are recognized in the same profit and loss account item that had previously held the provision, or, when the liability regards tangible assets (i.e. site restoration and abandonment) with a corresponding entry to the assets to which they refer. In the notes to the consolidated

---

(5) In the case of step acquisition of a significant influence (or jointly control), the investment is recognised at the date of the acquiring of significant influence (jointly control) at the amount deriving from the use of the equity method assuming the adoption of this method since initial acquisition; the step-up of the carrying amount of interests owned before the assumption of the significant influence (jointly control) is taken to equity.

(6) Impairment charges are not reversed also when, considering conditions existing in a subsequent interim period, they would have been recognized in a smaller amount or would not have been recognized.

financial statements the following potential liabilities are described: (i) possible, but not probable obligations deriving from past events, whose existence will be confirmed only when one or more future events beyond the company s control occur; and (ii) current obligations deriving from past events whose amount cannot be reasonably estimated or whose fulfillment will probably not result in an outflow of resources embodying economic benefits.

## Employee benefits

Post-employment benefit plans, including constructive obligations, are classified as either defined contribution plans or defined benefit plans depending on the economic substance of the plan as derived from its principal terms and conditions. In the first case, the company s obligation, which consists of making payments to the State or a trust or a fund, is determined on the basis of contributions due. The liabilities related to defined benefit plans[7], net of any plan assets, are determined on the basis of actuarial assumptions[8] and charged on accrual basis during the employment period required to obtain the benefits. The actuarial gains and losses of defined benefit plans are recognized prorated on service, in the profit and loss account using the corridor method, if and to the extent that net cumulative actuarial gains and losses unrecognized at the end of the previous reporting period, exceed the greater of 10% of the present value of the defined benefit obligation and 10% of the fair value of the plan assets, over the expected average remaining working lives of the employees participating to the plan. Such actuarial gains and losses derive from changes in the actuarial assumptions used or from a change in the conditions of the plan. Obligations for long-term benefits are determined by adopting actuarial assumptions; the effect of changes in actuarial assumptions or a change in the characteristics of the benefit are taken to profit or loss in their entirety.

## Treasury shares

Treasury shares are recorded at cost and as a reduction of equity. Gains resulting from subsequent sales are recorded in equity.

## Revenues and costs

Revenues associated with sales of products and services are recorded when significant risks and rewards of ownership pass to the customer or when the transaction can be considered settled and associated revenue can be reliably measured. In particular, revenues are recognized for the sale of:

- Crude oil, generally upon shipment.
- Natural gas, upon delivery to the customer.
- Petroleum products sold to retail distribution networks, generally upon delivery to the service stations, whereas all other sales are generally recognized upon shipment.
- Chemical products and other products, generally upon shipment.

Revenues are recognized upon shipment when, at that date, significant risks are transferred to the buyer. Revenues from crude oil and natural gas production from properties in which Eni has an interest together with other producers are recognized on the basis of Eni s net working interest in those properties (entitlement method). Differences between Eni s net working interest volume and actual production volumes are recognized at current prices at period end. Income related to partially rendered services is recognized in the measure of accrued income if the stage of completion can be reliably determined and there is no significant uncertainty as to the collectibility of the amount and the related costs. When the outcome of the transaction cannot be estimated reliably, revenue is recognized only to the extent of the expenses recognised that are recoverable.
Revenues accrued in the period related to construction contracts are recognized on the basis of contractual revenues with reference to the stage of completion of a contract measured on the cost-to-cost basis. Requests of additional revenues, deriving from a change in the scope of the work, are included in the total amount of revenues when it is

probable that the customer will approve the variation and the related amount; claims deriving for instance from additional costs incurred for reasons attributable to the client are included in the total amount of revenues when it is probable that the counterpart will accept them.

---

(7) Given the uncertainties related to their payment date, employee termination indemnities are considered as a defined benefit plan.

(8) Actuarial assumptions relate to, inter alia, the following variables: (i) future salary levels; (ii) the mortality rate of employees; (iii) personnel turnover; (iv) the percentage of plan participants with dependents who are eligible to receive benefits (e.g. spouses and dependent children); (v) for medical plans, the frequency of claims and future medical costs; and (vi) interest rates.

Revenues are stated net of returns, discounts, rebates, bonuses and direct taxation. The exchange of goods and services of similar nature and value do not give rise to revenues and costs as they do not represent sale transactions.
Costs are recorded when the related goods and services are sold, consumed or allocated, or when their future benefits cannot be determined. Costs associated with emission quotas, determined on the basis of the average prices of the main European markets at period end, are reported in relation to the amount of the carbon dioxide emissions that exceed the amount assigned; related revenues are recognized upon sale.
Operating lease payments are recognized in the profit and loss account over the length of the contract.
Labor costs include stock grants and stock options granted to managers, consistently with their actual remunerative nature. The instruments granted are recorded at fair value on vesting date and are not subject to subsequent adjustments; the current portion is calculated pro rata over the vesting period[9]. The fair value of stock grants is represented by the current value of the shares on vesting date, reduced by the current value of the expected dividends in the vesting period.
Fair value of stock options is determined using valuation techniques which consider conditions related to the exercise of options, current share prices, expected volatility and the risk-free interest rate. The fair value of the stock grants and stock options is recorded as a counter-balance of Other reserves .
The costs for the acquisition of new knowledge or discoveries, the study of products or alternative processes, new techniques or models, the planning and construction of prototypes or, in any case, costs borne for other scientific research activities or technological development, which cannot be capitalized, are included in profit and loss account.

## Exchange rate differences

Revenues and costs associated with transactions in currencies other than functional currency are translated in the functional currency by applying the exchange rate at the date of the transaction.
Monetary assets and liabilities in currencies other than functional currency are converted by applying the year end exchange rate and the effect is stated in the profit and loss account. Non-monetary assets and liabilities in currencies other than the functional currency valued at cost are translated at the initial exchange rate; non-monetary assets that are remeasured to at fair value, recoverable amount or realizable value, are translated at the exchange rate applicable to the date of remeasurement.

## Dividends

Dividends are recognized at the date of the general shareholders meeting in which they were declared, except when the sale of shares before the ex-dividend date is certain.

## Income taxes

Current income taxes are determined on the basis of estimated taxable income. The estimated liability is included in Income taxes payable . Current tax assets and liabilities are measured at the amount expected to be paid to (recovered from) the tax authorities, using tax laws that have been enacted or substantively enacted at the balance sheet date and the tax rates estimated on annual basis. Deferred tax assets or liabilities are provided on temporary differences arising between the carrying amounts of the assets and liabilities and their tax bases, based on tax rates (tax laws) that have been enacted or substantively enacted for the future years. Deferred tax assets are recognized when their realization is considered probable. Deferred tax assets and liabilities are included in non-current assets and liabilities and are offset at a single entity level if related to offsettable taxes. The balance of the offset, if positive, is recognized in the item Deferred tax assets ; if negative, in the item Deferred tax liabilities . When the results of transactions are recognized directly in the shareholders equity, current taxes, deferred tax assets and liabilities are also charged to the shareholders equity.

## Derivatives

Derivatives, including embedded derivatives which are separated from the host contract, are assets and liabilities recognized at their fair value which is estimated by using the criteria described in the section "Current assets".

---

(9) For stock grants, the period between the date of the award and the date of assignation of stock; for stock options, period between the date of the award and the date on which the option can be exercised.

Derivatives are classified as hedging instruments when the relationship between the derivative and the subject of the hedge is formally documented and the effectiveness of the hedge is high and is checked periodically. When hedging instruments cover the risk of variation of the fair value of the hedged item (fair value hedge, e.g. hedging of the variability on the fair value of fixed interest rate assets/liabilities) the derivatives are stated at fair value and the effects charged to the profit and loss account. Hedged items are consistently adjusted to reflect the variability of fair value associated with the hedged risk. When derivatives hedge the cash flow variation risk of the hedged item (cash flow hedge, e.g. hedging the variability on the cash flows of assets/liabilities as a result of the fluctuations of exchange rate), changes in the fair value of the derivatives, considered effective, are initially stated in equity and then recognized in the profit and loss account consistently with the economic effects produced by the hedged transaction. The changes in the fair value of derivatives that do not meet the conditions required to qualify as hedging instruments are shown in the profit and loss account.
Economic effects of transactions, which relate to purchase or sales contracts for commodities signed to meet the entity s normal operating requirements and for which the settlement is provided with the delivery of the goods, are recognized on an accrual basis, the so called normal sale and normal purchase exemption or own use exemption.

## Financial statements

Assets and liabilities of the balance sheet are classified as current[10] and non-current. Items of the profit and loss account are presented by nature[11].
The statement of changes in shareholders equity includes profit and loss for the year transactions with shareholders and other changes of the shareholders equity.
The statement of cash flows is presented using the indirect method, whereby net profit is adjusted for the effects of noncash transactions.

# Use of accounting estimates

The company s Consolidated Financial Statements are prepared in accordance with IFRS. These require the use of estimates and assumptions that affect the assets, liabilities, revenues and expenses reported in the financial statements, as well as amounts included in the notes thereto, including discussion and disclosure of contingent liabilities. Estimates made are based on complex or subjective judgments, past experience other assumptions deemed reasonable in consideration of the information available at the time. The accounting policies and areas that require the most significant judgements and estimates to be used in the preparation of Consolidated Financial Statements are in relation to the accounting for oil and natural gas activities, specifically in the determination of proved and proved developed reserves, impairment of fixed assets, intangible assets and goodwill, asset retirement obligations, business combinations, pensions and other post-retirement benefits, recognition of environmental liabilities and recognition of revenues in the oilfield services construction and engineering businesses. Although the company uses its best estimates and judgements, actual results could differ from the estimates and assumptions used. A summary of significant estimates follows.

**Oil and gas activities**

Engineering estimates of the Company s oil and gas reserves are inherently uncertain. Proved reserves are the estimated volumes of crude oil, natural gas and gas condensates, liquids and associated substances which geological and engineering data demonstrate can be produced with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Although there are authoritative guidelines regarding the engineering criteria that must be met before estimated oil and gas reserves can be designated as "proved", the accuracy of any reserve estimate is a function of the quality of available data and engineering and geological interpretation and judgment.

Field reserves will only be categorized as proved when all the criteria for attribution of proved status have been met. At this stage, all booked reserves will be classified as proved undeveloped. Volumes will subsequently be reclassified from proved undeveloped to proved developed as a consequence of development activity. The first proved developed bookings will occur at the point of first oil or gas production. Major development projects typically take one to four years from the time of initial booking to the start of production. Eni reassesses its estimate of proved reserves periodically. The estimated proved reserves of

---

(10) Starting from 2007, current tax receivable/payable has been grouped into the item current tax receivable/payable on income and other current tax receivable/payable. Comparative data for 2006 data has been restated accordingly. In prior years information on current tax receivable/payable on income and other current taxes was given in the Notes on financial statements.

(11) Further information on financial instruments as classified in accordance with IFRS is provided under the Note Other information on financial instruments .

oil and natural gas may be subject to future revision and upward and downward revision may be made to the initial booking of reserves due to production, reservoir performance, commercial factors, acquisition and divestment activity and additional reservoir development activity. In particular, changes in oil and natural gas prices could impact the amount of Eni s proved reserves as regards the initial estimate and, in the case of Production-sharing agreements and buy-back contracts, the share of production and reserves to which Eni is entitled. Accordingly, the estimated reserves could be materially different from the quantities of oil and natural gas that ultimately will be recovered.
Oil and natural gas reserves have a direct impact on certain amounts reported in the Financial Statements. Estimated proved reserves are used in determining depreciation and depletion expenses and impairment expense. Depreciation rates on oil and gas assets using the UOP basis are determined from the ratio between the amount of hydrocarbons extracted in the quarter and proved developed reserves existing at the end of the quarter increased by the amounts extracted during the quarter.
Assuming all other variables are held constant, an increase in estimated proved developed reserves for each field decreases depreciation, depletion and amortization expense. Conversely, a decrease in estimated proved developed reserves increases depreciation, depletion and amortization expense. In addition, estimated proved reserves are used to calculate future cash flows from oil and gas properties, which serve as an indicator in determining whether or not property impairment is to be carried out. The larger the volumes of estimated reserves, the lower is the likelihood of asset impairment.

**Impairment of assets**
Eni assesses its tangible assets and intangible assets, including goodwill, for possible impairment if there are events or changes in circumstances that indicate the carrying values of the assets are not recoverable. Such indicators include changes in the Group s business plans, changes in commodity prices leading to unprofitable performance and, for oil and gas properties, significant downward revisions of estimated proved reserve quantities. Determination as to whether and how much an asset is impaired involves management estimates on highly uncertain matters such as future commodity prices, the effects of inflation and technology improvements on operating expenses, production profiles and the outlook for global or regional market supply and demand conditions for crude oil, natural gas, commodity chemicals and refined products.
The amount of an impairment loss is determined by comparing the book value of an asset with its recoverable amount. The recoverable amount is the greater of fair value net of disposal costs and value in use. The estimated value in use is based on the present values of expected future cash flows net of disposal costs. The expected future cash flows used for impairment reviews are based on judgmental assessments of future production volumes, prices and costs, considering available information at the date of review and are discounted by using a rate related to the activity involved.
For oil and natural gas properties, the expected future cash flows are estimated, principally, based on developed and non-developed proved reserves including, among other elements, production taxes and the costs to be incurred for the reserves yet to be developed. The estimated future level of production is based on assumptions on: future commodity prices, lifting and development costs, field decline rates, market demand and supply, economic regulatory climates and other factors.
Oil, natural gas and petroleum products prices (and to them which derive from the previous ones) used to quantify the expected future cash flows are estimated based on forward prices prevailing in the marketplace for the first four years and management s long-term planning assumptions thereafter. Previously, our expected future cash flow estimates were entirely based upon management s planning assumptions.
Goodwill and other intangible assets with indefinite useful life are not subject to amortization. The company tests such assets at the cash-generating unit level for impairment on an annual basis and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value below its carrying amount. In particular, goodwill impairment is based on the determination of the fair value of each cash-generating unit to which goodwill can be attributed on a reasonable and consistent basis.

A cash generating unit is the smallest aggregate on which the company, directly or indirectly, evaluates the return on the capital expenditure. If the recoverable amount of a cash generating unit is lower than the carrying amount, goodwill attributed to that cash generating unit is impaired up to that difference; if the carrying amount of goodwill is less than the amount of impairment, assets of the cash generating unit are impaired on a pro-rata basis for the residual difference.

**Asset retirement obligations**

Obligations to remove tangible equipment and restore land or seabed require significant estimates in calculating the amount of the obligation and determining the amount required to be recorded at our present in the consolidated financial statements. Estimating future asset retirement obligations is complex. It requires management to make estimates and judgments with respect to removal obligations that will come to term many years into the future and contracts and regulations are often unclear as to what constitutes removal.

In addition, the ultimate financial impact of environmental laws and regulations is not always clearly known as asset removal technologies and costs constantly evolve in the countries where Eni operates, as well as political, environmental, safety and public expectations.
The subjectivity of these estimates is also increased by the accounting method used that requires entities to record the fair value of a liability for an asset retirement obligations in the period when it is incurred (typically, at the time, the asset is installed at the production location).
When liabilities are initially recorded, the related fixed assets are increased by an equal corresponding amount. The liabilities are increased with the passage of time (interest accretion) and any change of the estimates following the modification of future cash flows and discount rate adopted.
The recognized asset retirement obligations are based on future retirement cost estimates and incorporate many assumptions such as: expected recoverable quantities of crude oil and natural gas, abandonment time, future inflation rates and the risk-free rate of interest adjusted for the Company s credit costs.

**Business combinations**
Accounting for business combinations requires the allocation of the company s purchase price to the various assets and liabilities of the acquired business at their respective fair values. Any positive residual difference is recognized as "Goodwill". Negative residual differences are credited to the profit and loss account. Management uses all available information to make these fair value determinations and, for major business acquisitions, typically engages an independent appraisal firm to assist in the fair value determination of the acquired assets and liabilities.

**Environmental liabilities**
Together with other companies in the industries in which it operates, Eni is subject to numerous EU, national, regional and local environmental laws and regulations concerning its oil and gas operations, production and other activities, including legislation that implements international conventions or protocols. Environmental costs are recognized when it becomes probable that a liability has been incurred and the amount can be reasonably estimated.
Although management, considering the actions already taken, insurance policies to cover environmental risks and provision for risks accrued, does not expect any material adverse effect on Eni s consolidated results of operations and financial position as a result of such laws and regulations, there can be no assurance that there will not be a material adverse impact on Eni s consolidated results of operations and financial position due to: (i) the possibility of a yet unknown contamination; (ii) the results of the ongoing surveys and other possible effects of statements required by Decree No. 471/1999 of the Ministry of Environment concerning the remediation of contaminated sites; (iii) the possible effect of future environmental legislation and rules; (iv) the effect of possible technological changes relating to future remediation; and (v) the possibility of litigation and the difficulty of determining Eni s liability, if any, as against other potentially responsible parties with respect to such litigation and the possible insurance recoveries.

**Employee benefits**
Defined benefit plans and other long-term benefits are evaluated with reference to uncertain events and based upon actuarial assumptions including among others discount rates, expected rates of return on plan assets, expected rates of salary increases, medical cost trend rates, estimated retirement dates, mortality rates. The significant assumptions used to account for pensions and other post-retirement benefits are determined as follows:

(i) Discount and inflation rates reflect the rates at which benefits could be effectively settled, taking into account the duration of the obligation into account the duration of the obligation. Indications used in selecting the discount rate include rates of annuity contracts and rates of return on high quality fixed-income investments (such as government bonds). The inflation rates reflect market conditions observed country by country;
(ii) The future salary levels of the individual employees are determined including an estimate of future changes attributed to general price levels (consistent with inflation rate assumptions), productivity, seniority and

promotion;

(iii) Healthcare cost trend assumptions reflect an estimate of the actual future changes in the cost of the healthcare related benefits provided to the plan participants and are based on past and current healthcare cost trends including healthcare inflation, changes in healthcare utilization and changes in health status of the participants;

(iv) Demographic assumptions such as mortality, disability and turnover reflect the best estimate of these future events for the individual employees involved, based principally on available actuarial data; and

(v) Determination of expected rates of return on assets is made through compound averaging. For each plan, the distribution of investments among bonds, equities and cash and their specific average expected rate of return is taken into account. Differences between expected and actual costs and between the expected return and the actual return on plan assets routinely occur and are called actuarial gains and losses.

Eni applies the corridor method to amortize its actuarial losses and gains. This method amortizes on a pro-rata basis the net cumulative unrecognized actuarial gains and losses at the end of the previous reporting period, that exceed 10% of the greater of: (i) the present value of the defined benefit obligation; and (ii) the fair value of plan assets, over the average expected remaining working lives of the employees participating in the plan.

Additionally, obligations for other long-term benefits are determined by adopting actuarial assumptions; the effect of changes in actuarial assumptions or a change in the characteristics of the benefit are taken to profit or loss in their entirety.

**Contingencies**

In addition to accruing the estimated costs for environmental liabilities, asset retirement obligation and employees benefits. Eni accrues for all contingencies that are both probable and estimable. These other contingencies are primarily related to litigation and tax issues. Determining appropriate amounts for accrual is a complex estimation process that includes subjective judgments.

**Revenue recognition in the Engineering & Construction segment**

Revenue recognition in the Engineering & Construction segment is based on the stage of completion of a contract as measured on the cost-to-cost basis applied to contractual revenues. Use of the stage of completion method requires estimates of future gross profit on a contract by contract basis. The future gross profit represents the profit remaining after deducing costs attributable to the contract from revenues provided for in the contract. The estimate of future gross profit is based on a complex estimation process that includes identification of risks related to the geographical region, market condition in that region and any assessment that it is necessary to estimate with sufficient precision the total future costs as well as the expected timetable. Requests of additional incomes, deriving from a change in the scope of the work, are included in the total amount of revenues when it is probable that the customer will approve the variation and the related amount; claims deriving for instance from additional costs incurred for reasons attributable to the client are included in the total amount of revenues when it is probable that the counterparty will accept them.

# Recent accounting principles

**Accounting standards and interpretations issued by IASB /IFRIC and endorsed by UE**

By Commission Regulation No. 1358/2007 of November 21, 2007, IFRS 8 Operating Segments replaced IAS 14 Segment Reporting . IFRS 8 sets out requirements for disclosure of information about the group segments that management uses to make decisions about operating matters. The identification of operating segments is based on internal reports that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and assess their performances. IFRS 8 shall be applied for annual periods beginning on or after January 1, 2009.

By Commission Regulation No. 611/2007 of June 1, 2007, IFRIC interpretation 11 IFRS 2 - Group and Treasury Share Transactions was issued. This interpretation gives guidance, inter alia, on how the share-based payment arrangements involving parent company equity instruments should be accounted for in the separate financial statements of each group subsidiary. IFRIC 11 shall be applied for annual periods beginning on or after March 1, 2007 (for Eni: 2008 financial statements).

**Accounting standards and interpretations issued by IASB/IFRIC and not yet been endorsed by UE**

On March 29, 2007, IASB issued a revised IAS 23 Borrowing Costs . The main change from the previous version is the removal of the option of immediately recognizing as an expense borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset that take a substantial period of time to get ready for use or sale. The Company is required to capitalize such borrowing costs as part of the cost of the asset. The revised Standard shall be applied for annual periods beginning on or after January 1, 2009.

On September 6, 2007, IASB issued a revised IAS 1 Presentation of Financial Statements . The revisions require, among other things, a statement of comprehensive income that begins with the amount of net profit for the year adjusted with all items of income and expense directly recognized in the equity, but excluded from net income, in accordance with IFRS. The revised standard will come into effect for the annual periods beginning on or after January 1, 2009.

On January 10, 2008, IASB issued a revised IFRS 3 Business Combinations and an amended version of IAS 27 Consolidated and Separate Financial Statements . The revisions to IFRS 3 require, among other things, the acquisition-related costs to be accounted for separately from the business combination and then recognized as expenses rather than included in goodwill. The revised IFRS 3 also allows the choice of the full goodwill method which means to treat the full value of the goodwill of the business combination including the share attributable to minority interest. In the case of step acquisitions, the revisions also relate to the recognition in the profit and loss account of the difference between the fair value at the acquisition date of the net assets previously held and their carrying amounts.
The amendments of IAS 27 require, among other things, that acquisitions or disposals of non-controlling interests in a subsidiary that do not result in the loss of control, shall be accounted for as equity transactions.
By contrast, disposal of any interests that parent retains in a former subsidiary may result in a loss of control. In this case, at the date when control is lost the remaining investment retained is increased/decreased to fair value with gains or losses arising from the difference between the fair value and carrying amount of the held investment recognized in the profit or loss account. The revised Standards shall be applied for annual periods beginning on or after July 1, 2009 (for Eni: 2010 financial statements).

On January 17, 2008, IASB issued a revised IFRS 2 Share-based payment . The amendment specifies the accounting treatment of all cancellations of a grant of equity instruments to the employees. It also imposes that vesting conditions are only service and performance conditions required in return for the equity instruments issued.
The amendment shall be applied for annual periods beginning on or after January 1, 2009.

On November 30, 2006, IFRIC issued IFRIC 12 Service Concession Arrangements which provides guidance on the accounting by operators for public-to-private service concession arrangements. An arrangement within the scope of this interpretation involves for a specified period of time an operator constructing, upgrading, operating and maintaining the infrastructure used to provide the public service. This interpretation shall be applied for annual periods beginning on or after January 1, 2008.

On June 28, 2007, IFRIC issued IFRIC 13 Customer Loyalty Programmes which addresses how companies, which grant their customers loyalty, award credits when buying goods or services, should account for their obligation to provide free or discounted goods or services if and when the customers redeem the credits. In particular IFRIC 13 requires companies to allocate some of the consideration received from the sales transaction to the award credits and their recognition at fair value. This interpretation shall be applied for annual periods beginning on or after July 1, 2008 (for Eni: 2009 financial statements).

On July 5, 2007, IFRIC issued IFRIC 14 The limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction which provides guidance on how companies should determine the limit on the amount of a surplus in an employee benefit plan that they can recognise as an asset. The interpretation also gives guidance on the amounts that companies can recover from the plan, either as refunds or reductions in contribution. The interpretation shall be applied for annual periods beginning on or after January 1, 2008.

Eni is currently reviewing these new IFRS and interpretations to determine the likely impact on the Group s results.

# Notes to the Consolidated Financial Statements

## Current activities

### 1 Cash and cash equivalents

Cash and cash equivalents of euro 2,114 million (euro 3,985 million at December 31, 2006) included financing receivables originally due within 90 days for euro 415 million (euro 240 million at December 31, 2006). The latter were related to amounts on deposit with financial institutions accessible only on 48-hour notice. The decrease of euro 1,871 million primarily related to Eni Coordination Center SA (euro 2,686 million) and was partially offset by the increase of Banque Eni SA (euro 526 million).

### 2 Other financial assets held for trading or available for sale

Other financial assets held for trading or available for sale are set out below:

| (million euro) | Dec. 31, 2006 | Dec. 31, 2007 |
|---|---|---|
| **Investments** | | **2,476** |
| Securities held for operating purposes: | | |
| - listed Italian treasury bonds | 329 | 229 |
| - listed securities issued by Italian and foreign financial institutions | 80 | 27 |
| - non-quoted securities | 11 | 3 |
| | **420** | **259** |
| Securities held for non-operating purposes: | | |
| - listed Italian treasury bonds | 508 | 168 |
| - listed securities issued by Italian and foreign financial institutions | 40 | 5 |
| - non-quoted securities | 4 | 1 |
| | **552** | **174** |
| **Total securities** | **972** | **433** |
| | **972** | **2,909** |

Equity instruments of euro 2,476 million included the carrying amount of a 20% interest in OAO Gazprom Neft which is listed on the London Stock Exchange and has been acquired on April 4, 2007 through a bid on the liquidation of the second lot of ex-Yukos assets. The classification of this transaction in this line reflects the call option granted by Eni to Gazprom on the entire interest. This option is exercisable within 24 months starting on the date of acquisition. If exercised, the price of the interest will be set at the acquisition price of euro 3.7 billion, less dividends, plus share capital increases, contractually agreed financial remuneration and additional financing costs. In application of the IAS 39 fair value option, the OAO Gazprom interest was carried at fair value and changes were reflected in the profit and loss account rather than in the relevant provisions in a way to maintain alignment with the inclusion in profit and loss of the derivative call option. Consequently, the carrying amount of this equity instrument was equal to its fair value as quoted on the market, less the fair value of the call option; this was the equivalent of the option strike price at December 31, 2007.
Available-for-sale securities decreased by euro 539 million to euro 433 million (euro 972 million at December 31, 2006) because securities owned by Eni SpA (euro 235 million) and the group insurance company Padana Assicurazioni SpA (euro 213 million) reached maturity. In addition a euro 125 million amount of securities owned by Padana Assicurazioni SpA was classified within assets held for sale. At December 31, 2006 and December 31, 2007,

Eni did not own financial assets held for trading.

The effects of the valuation at fair value of securities are set out below:

| (million euro) | Value at Dec. 31, 2006 | Realization to the profit and loss account | Value at Dec. 31, 2007 |
|---|---|---|---|
| Fair value | 8 | (6) | 2 |
| Deferred tax liabilities | 2 | (2) | |
| Other reserves of shareholders equity | 6 | (4) | 2 |

On disposal of securities owned primarily by Eni SpA, the cumulative changes in fair value of euro 6 million deriving from the recognition of such assets at fair value and the related deferred tax liabilities of euro 2 million, have been recognized in the profit and loss account as finance income and income taxes, respectively (see Note 27 - Shareholders equity).
Securities held for operating purposes of euro 259 million (euro 420 million at December 31, 2006) were designed to provide coverage of technical reserves of Eni s insurance companies for euro 256 million (euro 417 million at December 31, 2006). The fair value of securities was determined by reference to quoted market prices.

## 3 Trade and other receivables

Trade and other receivables were as follows:

| (million euro) | Dec. 31, 2006 | Dec. 31, 2007 |
|---|---|---|
| Trade receivables | 15,230 | 15,609 |
| Financing receivables: | | |
| - for operating purposes - short-term | 242 | 357 |
| - for operating purposes - current portion of long-term receivables | 4 | 27 |
| - for non-operating purposes | 143 | 990 |
| | **389** | **1,374** |
| Other receivables: | | |
| - from disposals | 100 | 125 |
| - other | 3,080 | 3,668 |
| | **3,180** | **3,793** |
| | **18,799** | **20,776** |

Receivables are stated net of the allowance for impairment losses of euro 935 million (euro 874 million at December 31, 2006):

| (million euro) | Value at Dec. 31, 2006 | Additions | Deductions | Other changes | Value at Dec. 31, 2007 |
|---|---|---|---|---|---|
| Trade receivables | 587 | 98 | (38) | (52) | 595 |
| Other receivables | 287 | 109 | (7) | (49) | 340 |
| | **874** | **207** | **(45)** | **(101)** | **935** |

Included in 2007 trade receivables was the contractually agreed compensation of trade payables and receivables between Eni North Africa BV and the National Oil Co (the Libyan state company) for euro 1,798 million.

Advances of euro 156 million (euro 70 million at December 31, 2006) were paid as a guarantee of contract work in progress.

Trade receivables included euro 1,844 million of receivables not impaired that became due but were not provided for. Of these euro 999 million were 1-90 days overdue, euro 145 million were 3-6 months overdue, euro 329 million were 6-12 months overdue and euro 371 million were overdue for more than 12 months. These receivables were primarily due from high-credit-quality public administrations and other highly-reliable counterparties for oil, natural gas and chemicals products supplies.

Receivables for financing operating activities of euro 384 million (euro 246 million at December 31, 2006) included euro 246 million due from unconsolidated entities under Eni s control, joint ventures and affiliates (euro 241 million at December 31, 2006) and a euro 112 million cash deposit to provide coverage of Eni Insurance Ltd technical reserves.
Receivables for financing non-operating activities amounted to euro 990 million (euro 143 million at December 31, 2006) of which euro 898 million related to a collateral cash deposit made by Eni SpA to guarantee certain cash flow hedging derivatives. Further information is provided at the Note 20 - Other current liabilities and 25 - Other non-current liabilities.
Other receivables were as follows:

| (million euro) | Dec. 31, 2006 | Dec. 31, 2007 |
|---|---|---|
| Accounts receivable from: | | |
| - joint venture operators in exploration and production | 1,376 | 1,699 |
| - Italian government entities | 266 | 386 |
| - insurance companies | 223 | 253 |
| | **1,865** | **2,338** |
| Receivables relating to factoring operations | 440 | 294 |
| Prepayments for services | 191 | 182 |
| Other receivables | 684 | 979 |
| | **3,180** | **3,793** |

Receivables deriving from factoring operations of euro 182 million (euro 191 million at December 31, 2006) were related to Serfactoring SpA and consisted primarily of advances for factoring operations with recourse and receivables for factoring operations without recourse.
Other receivables included euro 537 million of receivables not impaired that became due but were not provided for. Of these euro 160 million were 1-90 days overdue, euro 19 million were 3-6 months overdue, euro 97 million were 6-12 months overdue and euro 261million were overdue for more than 12 months. These receivables were mainly due from public administrations.
Receivables with related parties are described in Note 36 - Transactions with related parties.
Because of the short term maturity of trade receivables, the fair value approximated their carrying amount.

# 4 Inventories

Inventories were as follows:

| | Dec. 31, 2006 | | | | | Dec. 31, 2007 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| (million euro) | Crude oil, gas and petroleum products | Chemical products | Work in progress | Other | Total | Crude oil, gas and petroleum products | Chemical products | Work in progress | Other | Total |
| Raw and auxiliary materials and consumables | 436 | 258 | | 682 | 1,376 | 770 | 299 | | 809 | 1,878 |
| Products being processed and semi finished products | 43 | 20 | | 8 | 71 | 66 | 27 | | 15 | 108 |
| Work in progress | | | 353 | | 353 | | | 553 | | 553 |
| Finished products and goods | 2,063 | 536 | | 62 | 2,661 | 1,997 | 703 | | 17 | 2,717 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Advances | 1 | | 287 | 3 | 291 | | | 179 | | 179 |
| | **2,543** | **814** | **640** | **755** | **4,752** | **2,833** | **1,029** | **732** | **841** | **5,435** |

162

Inventories are stated net of the valuation allowance of euro 75 million (euro 92 million at December 31, 2006):

| (million euro) | Value at Dec. 31, 2006 | Additions | Deductions | Other changes | Value at Dec. 31, 2007 |
|---|---|---|---|---|---|
| | **92** | 9 | (23) | (3) | **75** |

## 5 Current tax assets

Current tax assets were as follows:

| (million euro) | Dec. 31, 2006 | Dec. 31, 2007 |
|---|---|---|
| Italian subsidiaries | 44 | 634 |
| Foreign subsidiaries | 72 | 69 |
| | **116** | **703** |

The euro 590 million increase in the current income tax assets of Italian subsidiaries primarily related to receivables for interim tax payments exceeding full-year taxation payable (euro 557 million) made by Eni SpA.

## 6 Other current tax assets

Other current tax assets were as follows:

| (million euro) | Dec. 31, 2006 | Dec. 31, 2007 |
|---|---|---|
| VAT | 303 | 376 |
| Excise and customs duties | 86 | 316 |
| Other taxes and duties | 153 | 141 |
| | **542** | **833** |

The euro 230 million increase in excise and custom duties primarily related to receivables for interim tax payments exceeding full-year taxation payable (euro 235 million) made by Eni SpA.

## 7 Other assets

Other assets were as follows:

| (million euro) | Dec. 31, 2006 | Dec. 31, 2007 |
|---|---|---|
| Fair value of non-hedging derivatives | 569 | 629 |
| Fair value of cash flow hedge derivatives | 37 | 10 |
| Fair value of fair value hedge derivatives | 1 | |
| Other assets | 248 | 441 |
| | **855** | **1,080** |

The fair value of derivative contracts which do not meet the criteria to be classified as hedges under IFRS was as follows:

| | Dec. 31, 2006 | | | Dec. 31, 2007 | | |
|---|---|---|---|---|---|---|
| (million euro) | Fair value | Purchase commitments | Sale commitments | Fair value | Purchase commitments | Sale commitments |
| **Non-hedging derivatives on exchange rate** | | | | | | |
| Interest Currency Swap | 137 | 1,075 | 325 | 170 | 821 | 291 |
| Currency swap | 46 | 4,068 | 1,434 | 69 | 1,596 | 2,881 |
| Other | | 38 | 4 | 3 | 18 | 11 |
| | **183** | **5,181** | **1,763** | **242** | **2,435** | **3,183** |
| **Non-hedging derivatives on interest rate** | | | | | | |
| Interest rate swap | 66 | 127 | 3,266 | 91 | 248 | 3,466 |
| | **66** | **127** | **3,266** | **91** | **248** | **3,466** |
| **Non-hedging derivatives on commodities** | | | | | | |
| Over the counter | 35 | 85 | 177 | 12 | 75 | 22 |
| Other | 285 | 1 | 850 | 284 | 2 | 1,218 |
| | **320** | **86** | **1,027** | **296** | **77** | **1,240** |
| | **569** | **5,394** | **6,056** | **629** | **2,760** | **7,889** |

The fair value of these derivative contracts was determined using an appropriate valuation method based on market data at closing date.

At December 31, 2007 cash flow hedging derivatives with a fair value of euro 10 million were entered into to manage foreign currency exposures of the Engineering & Construction segment. The nominal value of euro 48 million and euro 132 million referred to purchase and sale commitments respectively. At December 31, 2006 cash flow hedging derivatives with a fair value of euro 37 million were related to the future marketing of certain crude volumes produced by the Exploration & Production segment. The nominal value of euro 421 million was related to sale commitments (further information is given in Note 20 - Other current liabilities and Note 25 - Other non-current liabilities). Changes in fair value of the effective hedging instruments were recognized in equity for euro 27 million.

Information on the hedged risks and the hedging policies is given in Note 28 - Guarantees, commitments and risks - Risk management.

Other assets amounted to euro 441 million (euro 248 million at December 31, 2006) and included prepayments and accrued income for euro 297 million (euro 65 million at December 31, 2006), rentals for euro 21 million (euro 20 million at December 31, 2006), and insurance premiums for euro 10 million (same amount at December 31, 2006).

# Non-current assets

## 8 Property, plant and equipment

Analysis of tangible assets is set out below:

| (million euro) | Net value at the beginning of the year | Investments | Depreciations | Impairments | Currency translation differences | Other changes | Net value at the end of the year | Gross value at the end of the year | Provisions for amortization and impairments |
|---|---|---|---|---|---|---|---|---|---|
| **Dec. 31, 2006** | | | | | | | | | |
| Land | 373 | 16 | | (3) | | 57 | 443 | 483 | 40 |
| Buildings | 1,453 | 81 | (113) | (12) | (5) | 38 | 1,442 | 3,236 | 1,794 |
| Plant and machinery | 36,568 | 1,858 | (4,510) | (197) | (1,586) | 3,240 | 35,373 | 79,873 | 44,500 |
| Industrial and commercial equipment | 372 | 130 | (120) | | (6) | 50 | 426 | 1,659 | 1,233 |
| Other assets | 318 | 82 | (78) | (1) | (9) | 16 | 328 | 1,382 | 1,054 |
| Tangible assets in progress and advances | 5,929 | 3,971 | | (18) | (364) | (3,218) | 6,300 | 6,822 | 522 |
| | **45,013** | **6,138** | **(4,821)** | **(231)** | **(1,970)** | **183** | **44,312** | **93,455** | **49,143** |
| **Dec. 31, 2007** | | | | | | | | | |
| Land | 443 | 4 | | | | 151 | 598 | 628 | 30 |
| Buildings | 1,442 | 76 | (99) | (3) | (3) | (37) | 1,376 | 3,203 | 1,827 |
| Plant and machinery | 35,373 | 1,882 | (4,724) | (41) | (1,535) | 4,925 | 35,880 | 83,123 | 47,243 |
| Industrial and commercial equipment | 426 | 185 | (125) | (1) | (8) | 73 | 550 | 1,884 | 1,334 |
| Other assets | 328 | 86 | (83) | (3) | (11) | 24 | 341 | 1,361 | 1,020 |
| Tangible assets in progress and advances | 6,300 | 6,299 | | (97) | (646) | (464) | 11,392 | 12,044 | 652 |
| | **44,312** | **8,532** | **(5,031)** | **(145)** | **(2,203)** | **4,672** | **50,137** | **102,243** | **52,106** |

Capital expenditures of euro 8,532 million (euro 6,138 million at December 31, 2006) primarily related to the Exploration & Production segment (euro 4,925 million), the Engineering & Construction segment (euro 1,401 million), the Gas & Power segment (euro 1,084 million) and the Refining & Marketing segment (euro 944 million). Capital expenditures included capitalized finance expenses of euro 180 million (euro 116 million at December 31, 2006) essentially related to the Exploration & Production segment (euro 105 million), the Gas & Power segment (euro 30 million) and the Refining & Marketing segment (euro 26 million). The interest rate used for the capitalization of finance expense ranged from 4.4% to 5.2% (3.3% and 5.4% at December 31, 2006).

The depreciation rates used were as follows:

| (%) | |
|---|---|
| Buildings | 2 - 10 |
| Plant and machinery | 2 - 10 |
| Industrial and commercial equipment | 4 - 33 |
| Other assets | 6 - 33 |

Impairments of euro 145 million were primarily related to producing oil and gas properties of the Exploration & Production segment (euro 86 million) and a refining plant of the Refining & Marketing segment (euro 52 million). The recoverable amount used in assessing the impairments charges was determined by discounting the expected future cash flows before taxation, at discount rates ranging from 11.2% to 12.2% derived from the weighted average cost of capital and that take into account the sector-specific risk.

Foreign currency translation differences of euro 2,203 million were primarily related to translation of entities accounts denominated in US dollar (euro 2,125 million).

Other changes in the net book value of tangible assets (euro 4,672 million) were primarily due to the acquisition of oil and gas upstream properties in the Gulf of Mexico (euro 3,050 million) from the US Company Dominion Resources and in Congo (euro 1,464 million) from the French company Maurel & Prom. The change from prior year was also due to the consolidation of the Frigstad Discover Invest Ltd acquired by the Engineering & Construction segment (euro 232 million) and the initial recognition and changes in the estimated decommissioning and restoration costs of euro 158 million related to the Exploration & Production segment.

These increases were partially offset by asset disposals of euro 172 million of which euro 141 million related to the Exploration & Production segment. The accumulated impairments amounted to euro 3,295 million and euro 3,328 million at December 31, 2006 and 2007, respectively.
At December 31, 2007, Eni pledged tangible assets of euro 54 million primarily as collateral against certain borrowings (same amount at December 31, 2006).
Government grants recorded as decrease of property, plant and equipment amounted to euro 1,195 million (euro 1,067 million at December 31, 2006).
Assets acquired under financial lease agreements amounted to euro 42 million of which euro 29 million related to FPSO ships used by the Exploration & Production segment to support oil production and treatment activities and euro 13 million related to service stations in the Refining & Marketing segment.

## Property, plant and equipment by segment

| (million euro) | Dec. 31, 2006 | Dec. 31, 2007 |
|---|---|---|
| **Property, plant and equipment, gross** | | |
| Exploration & Production | 49,002 | 54,284 |
| Gas & Power | 22,277 | 23,137 |
| Refining & Marketing | 11,273 | 12,421 |
| Petrochemicals | 4,380 | 4,918 |
| Engineering & Construction | 4,363 | 5,823 |
| Other activities | 1,967 | 1,543 |
| Corporate and financial companies | 321 | 344 |
| Elimination of intra-group profits | (128) | (227) |
| | **93,455** | **102,243** |
| **Accumulated depreciation, amortization and impairment losses** | | |
| Exploration & Production | 26,000 | 27,806 |
| Gas & Power | 8,210 | 8,660 |
| Refining & Marketing | 7,482 | 7,926 |
| Petrochemicals | 3,308 | 3,819 |
| Engineering & Construction | 2,138 | 2,310 |
| Other activities | 1,874 | 1,461 |
| Corporate and financial companies | 145 | 148 |
| Elimination of intra-group profits | (14) | (24) |
| | **49,143** | **52,106** |
| **Property, plant and equipment, net** | | |
| Exploration & Production | 23,002 | 26,478 |
| Gas & Power | 14,067 | 14,477 |
| Refining & Marketing | 3,791 | 4,495 |
| Petrochemicals | 1,072 | 1,099 |
| Engineering & Construction | 2,225 | 3,513 |
| Other activities | 93 | 82 |
| Corporate and financial companies | 176 | 196 |
| Elimination of intra-group profits | (114) | (203) |
| | **44,312** | **50,137** |

## 9 Other assets

Other assets of euro 563 million related to the service contract governing mineral activities in the Dación area owned by the Venezuelan branch of the Eni Dación BV subsidiary. Effective April 1, 2006, the Venezuelan State oil company Petróleos de Venezuela SA (PDVSA) unilaterally terminated the Operating Service Agreement (OSA) governing activities at the Dación oil field where Eni acted as a contractor. Since then operations at the Dación oil field are conducted by PDVSA. In February 2008 Eni has reached a settlement agreement with the Republic of Venezuela thus terminating the dispute for the Dación field. Under the terms of the settlement agreement, Eni will receive a cash compensation to be paid in seven annual instalments. This cash compensation is not subject to taxation and yields interest income from the date of the settlement. The net present value of the compensation corresponds to the carrying value of expropriated assets, net of provisions. Consequently, Eni dropped the international arbitration proceeding commenced in 2006 against PDVSA.

# 10 Inventory - compulsory stock

Inventory - compulsory stock was as follows:

| (million euro) | Dec. 31, 2006 | Dec. 31, 2007 |
|---|---|---|
| Crude oil and petroleum products | 1,670 | 2,079 |
| Natural gas | 157 | 156 |
| | **1,827** | **2,235** |

Compulsory stock was primarily held by Italian companies (euro 1,688 million and euro 2,072 million at December 31, 2006 and 2007, respectively) in accordance with minimum stock requirements set forth by applicable laws.

# 11 Intangible assets

Intangible assets were as follows:

| (million euro) | Net value at the beginning of the year | Investments | Amortization | Other changes | Net value at the end of the year | Gross value at the end of the year | Provisions for amortization and writedowns |
|---|---|---|---|---|---|---|---|
| **Dec. 31, 2006** | | | | | | | |
| **Intangible assets with finite useful lives** | | | | | | | |
| Exploration expenditures | 164 | 1,337 | (1,102) | 10 | 409 | 1,290 | 881 |
| Industrial patents and intellectual property rights | 137 | 31 | (97) | 41 | 112 | 1,113 | 1,001 |
| Concessions, licenses, trademarks and similar items | 746 | 168 | (110) | 52 | 856 | 2,417 | 1,561 |
| Intangible assets in progress and advances | 76 | 146 | | (71) | 151 | 156 | 5 |
| Other intangible assets | 157 | 13 | (26) | (3) | 141 | 457 | 316 |
| | **1,280** | **1,695** | **(1,335)** | **29** | **1,669** | **5,433** | **3,764** |
| **Intangible assets with indefinite useful lives** | | | | | | | |
| Goodwill | 1,914 | | | 170 | 2,084 | | |
| | **3,194** | **1,695** | **(1,335)** | **199** | **3,753** | | |
| **Dec. 31, 2007** | | | | | | | |
| **Intangible assets with finite useful lives** | | | | | | | |
| Exploration expenditures | 409 | 1,682 | (1,812) | 470 | 749 | 1,509 | 760 |
| Industrial patents and intellectual property rights | 112 | 40 | (81) | 77 | 148 | 1,179 | 1,031 |
| Concessions, licenses, trademarks and similar items | 856 | 12 | (83) | 1 | 786 | 2,449 | 1,663 |
| Intangible assets in progress and advances | 151 | 312 | | (86) | 377 | 381 | 4 |
| Other intangible assets | 141 | 15 | (24) | 26 | 158 | 572 | 414 |
| | **1,669** | **2,061** | **(2,000)** | **488** | **2,218** | **6,090** | **3,872** |
| **Intangible assets with indefinite useful lives** | | | | | | | |
| Goodwill | 2,084 | | | 31 | 2,115 | | |
| | **3,753** | **2,061** | **(2,000)** | **519** | **4,333** | | |

Exploration expenditures of euro 749 million related to acquisition costs of unproved reserves included in business combinations and the purchase of mining rights. Main additions in the year included exploration drilling expenditures which were fully amortized as incurred for euro 1,610 million included within investments (euro 1,028 million at

December 31, 2006).

Concessions, licenses, trademarks and similar items for euro 786 million primarily comprised transmission rights for natural gas imported from Algeria (euro 544 million) and concessions for mineral exploration (euro 204 million). Other intangible assets with finite useful lives of euro 158 million included royalties for the use of licenses by Polimeri Europa SpA (euro 76 million) and estimated costs for Eni s social responsibility projects in relation to mineral development programs in Val d Agri (euro 22 million) following commitments made with the Basilicata Region. The depreciation rates used were as follows:

| (%) | |
|---|---|
| Exploration expenditures | 10 - 33 |
| Industrial patents and intellectual property rights | 20 - 33 |
| Concessions, licenses, trademarks and similar items | 7 - 33 |
| Other intangible assets | 4 - 25 |

Other changes in intangible assets with finite useful lives amounted to euro 488 million primarily related to the acquisition of unproved reserves in the Gulf of Mexico from the US company Dominion Resources (euro 470 million) and in Congo from the French company Maurel & Prom (euro 58 million). This increase was partially offset by negative exchange differences of euro 71 million.
Goodwill of euro 2,115 million primarily related to the Gas & Power segment (euro 1,125 million, of which euro 756 million related to the purchase of minorities in Italgas SpA in 2003 through a public offering), the Engineering & Construction segment (euro 746 million, of which euro 711 million was in respect of the purchase of Bouygues Offshore SA, now Saipem SA),the Exploration & Production segment (euro 158 million, of which euro 153 million was in respect of the purchase of Lasmo Plc, now Eni Lasmo Plc) and the Refining & Marketing segment (euro 86 million).
For impairment purposes, goodwill related to the acquisition of Bouygues Offshore SA and Italgas SpA has been allocated to the following cash-generating units:

| (million euro) | **Dec. 31, 2007** |
|---|---|
| **Italgas SpA** | |
| Domestic gas market | 706 |
| Foreign gas market | 50 |
| | **756** |
| **Bouygues Offshore SA** | |
| Onshore constructions | 296 |
| Offshore constructions | 415 |
| | **711** |

Goodwill is assessed by comparing the carrying amount of each cash-generating unit (comprehensive of goodwill) with its fair value. In absence of data allowing to determine the fair value of a unit, the recoverable amount is the value-in-use. Value-in-use was determined by computing, for the first four years, the discounted cash flows expected assuming current market assessments, and management s long-term planning assumptions thereafter.
The expected future cash flows before taxation have been discounted at rates ranging from 4.9% to 13.1% derived from the weighted average cost of capital for the Group and that take into account the sector-specific risk. Thereafter Eni has used growth rate assumptions ranging from 0% to 2%. Key assumptions are based on past experience and reflect current market assessment of the time value of money.
Other changes in goodwill of euro 31 million included the difference between the cost of acquisition of own shares by Snam Rete Gas SpA over the corresponding share of net equity (euro 139 million). Such increase was partially offset by the classification of the associated goodwill allocated on Gaztransport et Technigaz SA (euro 81 million) as asset

held for sale and the derecognition upon disposal of the associated goodwill allocated on Camom SA (euro 13 million). Goodwill allocated to these investments derived from the acquisition of Bouygues Offshore SA. Negative foreign currency translation differences amounted to euro 14 million.

# 12 Investments

**Investments accounted for using the equity method**

Equity-accounted investments were as follows:

| (million euro) | Value at the beginning of the year | Acquisitions and subscriptions | Share of profit of equity-accounted investments | Share of loss of equity-accounted investments | Deduction for dividends | Currency translation differences | Other changes | Value at the end of the year |
|---|---|---|---|---|---|---|---|---|
| **Dec. 31, 2006** | | | | | | | | |
| Investments in unconsolidated entities controlled by Eni | 146 | 4 | 15 | (8) | (8) | (6) | 1 | 144 |
| Investments in joint ventures | 2,322 | 33 | 516 | (26) | (302) | (79) | 42 | 2,506 |
| Investments in affiliates | 1,422 | 1 | 356 | (2) | (440) | (31) | (70) | 1,236 |
| | **3,890** | **38** | **887** | **(36)** | **(750)** | **(116)** | **(27)** | **3,886** |
| **Dec. 31, 2007** | | | | | | | | |
| Investments in unconsolidated entities controlled by Eni | 144 | 4 | 10 | (2) | (9) | (6) | | 141 |
| Investments in joint ventures | 2,506 | 1,109 | 481 | (130) | (351) | (173) | (132) | 3,310 |
| Investments in affiliates | 1,236 | 813 | 415 | (3) | (220) | (42) | (11) | 2,188 |
| | **3,886** | **1,926** | **906** | **(135)** | **(580)** | **(221)** | **(143)** | **5,639** |

Acquisitions and subscriptions for euro 1,926 million mainly related to the: (i) subscription of capital increase of Artic Russia BV (euro 1,041 million; Eni 60%) following the acquisition of the three Russian gas companies OAO Arctic Gas, OAO Urengoil and OAO Neftegaztechnologya by OOO SeverEnergia (Artic Russia BV 100%) as part of a bid procedure for assets of bankrupt Yukos; (ii) acquisition of 24.9% of Burren Energy Plc (euro 601 million); (iii) acquisition of 16.1% of Ceska Rafinerska AS (euro 211 million), and (iv) subscription of capital increase of Enirepsa Gas Ltd (euro 42 million).

Share of gain of equity-accounted investments of euro 906 million primarily related to Galp Energia SGPS SA (euro 255 million), Unión Fenosa Gas SA (euro 181 million), United Gas Derivatives Co (euro 79 million), EnBW - Eni Verwaltungsgesellschaft mbH (euro 64 million), Trans Austria Gasleitung GmbH (euro 43 million), Blue Stream Pipeline Co BV (euro 39 million), Supermetanol CA (euro 34 million) and Gaztransport et Technigaz SAS (euro 31 million).

Share of loss of equity-accounted investments of euro 135 million primarily related to Artic Russia BV (euro 63 million), Enirepsa Gas Ltd (euro 35 million) and Starstroi Llc (euro 15 million).

Deduction following the distribution of dividends of euro 580 million primarily related to Unión Fenosa Gas SA (euro 173 million), Galp Energia SGPS SA (euro 126 million), EnBW - Eni Verwaltungsgesellschaft mbH (euro 42 million), United Gas Derivatives Co (euro 40 million), Supermetanol CA (euro 36 million), Trans Austria Gasleitung GmbH (euro 28 million), Gaztransport et Technigaz SAS (euro 28 million) and Azienda Energia e Servizi Torino SpA (euro 17 million).

Other changes of euro 143 million were primarily related to: (i) the exclusion from the scope of consolidation of Haldor Topsøe AS (euro 69 million); (ii) the classification as held for sale of interests in Fertlizantes Nitrogenados de Oriente (euro 89 million) and Gaztransport et Technigaz SAS (euro 33 million).

Contents

**ENI** ANNUAL REPORT 2007 / NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table sets out the net carrying amount of euro 5,639 million relating to equity-accounted investments (euro 3,886 million at December 31, 2006):

| (million euro) | Dec. 31, 2006 | | Dec. 31, 2007 | |
|---|---|---|---|---|
| | Net carrying amount | Eni s interest % | Net carrying amount | Eni s interest % |
| Unconsolidated entities controlled by Eni: | | | | |
| - Eni Btc Ltd | 46 | 100.00 | 42 | 100.00 |
| - Others (*) | 98 | | 99 | |
| | **144** | | **141** | |
| Joint ventures: | | | | |
| - Artic Russia BV | | | 925 | 60.00 |
| - Unión Fenosa Gas SA | 503 | 50.00 | 507 | 50.00 |
| - Blue Stream Pipeline Co BV | 293 | 50.00 | 298 | 50.00 |
| - EnBW - Eni Verwaltungsgesellschaft mbH | 234 | 50.00 | 256 | 50.00 |
| - Azienda Energia e Servizi Torino SpA | 165 | 49.00 | 162 | 49.00 |
| - Eteria Parohis Aeriou Thessalonikis AE | 157 | 49.00 | 154 | 49.00 |
| - Toscana Energia SpA | 111 | 48.72 | 133 | 49.38 |
| - Raffineria di Milazzo ScpA | 171 | 50.00 | 126 | 50.00 |
| - Trans Austria Gasleitung GmbH | 81 | 89.00 | 96 | 89.00 |
| - Super Octanos CA | 97 | 49.00 | 90 | 49.00 |
| - Lipardiz - Construçao de Estruturas Maritimas Lda | 97 | 50.00 | 88 | 50.00 |
| - Supermetanol CA | 90 | 34.51 | 78 | 34.51 |
| - Unimar Llc | 70 | 50.00 | 71 | 50.00 |
| - FPSO Mystras - Produçao de Petroleo Lda | 63 | 50.00 | 58 | 50.00 |
| - Transmediterranean Pipeline Co Ltd | 50 | 50.00 | 47 | 50.00 |
| - Eteria Parohis Aeriou Thessalias AE | 46 | 49.00 | 41 | 49.00 |
| - Transitgas AG | 31 | 46.00 | 30 | 46.00 |
| - CMS&A Wll | 27 | 20.00 | 22 | 20.00 |
| - Altergaz SA | | | 18 | 27.80 |
| - Saibos Akogep Snc | 38 | 70.00 | 5 | 70.00 |
| - Haldor Topsøe AS | 71 | 50.00 | | |
| - Others (*) | 111 | | 105 | |
| | **2,506** | | **3,310** | |
| Affiliates: | | | | |
| - Galp Energia SGPS SA | 782 | 33.34 | 911 | 33.34 |
| - Burren Energy Plc | | | 592 | 24.90 |
| - Ceska Rafinerska AS | | | 325 | 32.44 |
| - United Gas Derivatives Co | 117 | 33.33 | 140 | 33.33 |
| - ACAM Gas SpA | 45 | 49.00 | 45 | 49.00 |
| - Distribuidora de Gas del Centro SA | 37 | 31.35 | 33 | 31.35 |
| - Fertlizantes Nitrogenados de Oriente CEC | 88 | 20.00 | | |
| - Gaztransport et Technigaz SAS | 29 | 30.00 | | |
| - Others (*) | 138 | | 142 | |
| | **1,236** | | **2,188** | |
| | **3,886** | | **5,639** | |

(*) Each individual amount included herein does not exceed euro 25 million.

The net carrying amount of investments in unconsolidated entities controlled by Eni, joint ventures and affiliates included the differences between purchase price and Eni s equity in investments of euro 661 million. Such differences primarily related to Unión Fenosa Gas SA (euro 195 million), EnBW - Eni Verwaltungsgesellschaft mbH (euro 193 million), Galp Energia SGPS SA (euro 106 million), Ceska Rafinerska AS (euro 97 million) and Azienda Energia e Servizi Torino SpA (euro 69 million).

The fair value of listed investments was as follows:

| | Shares | Ownership (%) | Price per share (euro) | Fair value (euro million) |
|---|---|---|---|---|
| Galp Energia SGPS SA | 276,472,160 | 33.34 | 18.39 | 5,084 |
| Burren Energy Plc | 35,136,033 | 24.90 | 16.60 | 583 |
| Altergaz SA | 750,892 | 27.80 | 24.00 | 18 |

The table below sets out the provisions for losses included in the provisions for contingencies of euro 135 million (euro 154 million at December 31, 2006), primarily related to the following equity-accounted investments:

| (million euro) | Dec. 31, 2006 | Dec. 31, 2007 |
|---|---|---|
| Polimeri Europa Elastomères France SA (under liquidation) | 50 | 50 |
| Charville - Consultores e Serviços Lda | 37 | 31 |
| Industria Siciliana Acido Fosforico - ISAF - SpA (under liquidation) | 31 | 28 |
| Southern Gas Constructors Ltd | 9 | 14 |
| Geopromtrans Llc | 19 | |
| Others | 8 | 12 |
| | **154** | **135** |

## Other investments

Other investments were as follows:

| (million euro) | Net value at the beginning of the year | Acquisition and subscriptions | Currency translation differences | Other changes | Net value at the end of the year | Gross value at the end of the year | Accumulated impairment charges |
|---|---|---|---|---|---|---|---|
| **Dec. 31, 2006** | | | | | | | |
| Investments in unconsolidated entities controlled by Eni | 41 | | | (20) | 21 | 49 | 28 |
| Investments in affiliates | 9 | | | | 9 | 10 | 1 |
| Other investments | 371 | 4 | (31) | (14) | 330 | 332 | 2 |
| | **421** | **4** | **(31)** | **(34)** | **360** | **391** | **31** |
| **Dec. 31, 2007** | | | | | | | |
| Investments in unconsolidated entities controlled by Eni | 21 | 3 | (1) | 2 | 25 | 36 | 11 |
| Investments in affiliates | 9 | | | 1 | 10 | 11 | 1 |
| Other investments | 330 | 190 | (36) | (47) | 437 | 443 | 6 |
| | **360** | **193** | **(37)** | **(44)** | **472** | **490** | **18** |

Investments in unconsolidated entities controlled by Eni and affiliates are stated at cost net of impairment losses. Other investments, for which fair value cannot be reliably determined, were recognized at cost and adjusted for impairment losses.
Acquisitions and subscriptions for euro 193 million mainly related to the acquisition of 13.6% of Angola LNG Ltd and Angola LNG Supply Services Llc (euro 190 million).

**Contents**



The net carrying amount of other investments of euro 472 million (euro 360 million at December 31, 2006) was related to the following entities:

| (million euro) | Dec. 31, 2006 | | Dec. 31, 2007 | |
|---|---|---|---|---|
| | Net carrying amount | Eni s interest % | Net carrying amount | Eni s interest % |
| Investments in unconsolidated entities controlled by Eni | 21 | | 25 | |
| Affiliates | 9 | | 10 | |
| Other investments: | | | | |
| - Angola LNG Ltd | | | 175 | 13.60 |
| - Darwin LNG Pty Ltd | 108 | 12.04 | 87 | 10.99 |
| - Nigeria LNG Ltd | 90 | 10.40 | 80 | 10.40 |
| - Ceska Rafinerska AS | 31 | 16.33 | | |
| - Others (*) | 101 | | 95 | |
| | **330** | | **437** | |
| | **360** | | **472** | |

(*) Each individual amount included herein does not exceed euro 25 million.

Provisions for losses related to other investments, included within the provisions for contingencies, amounted to euro 28 million (euro 30 million at December 31, 2006) and were primarily in relation to the following entities:

| (million euro) | Dec. 31, 2006 | Dec. 31, 2007 |
|---|---|---|
| Caspian Pipeline Consortium R - Closed Joint Stock Co | 27 | 25 |
| Other investments | 3 | 3 |
| | **30** | **28** |

## Other information about investments

The following table summarizes key financial data, net to Eni, as disclosed in the latest available Financial Statements of unconsolidated entities controlled by Eni, joint ventures and affiliates:

| (million euro) | Dec. 31, 2006 | | | Dec. 31, 2007 | | |
|---|---|---|---|---|---|---|
| | Unconsolidated entities controlled by Eni | Joint ventures | Affiliates | Unconsolidated entities controlled by Eni | Joint ventures | Affiliates |
| Total assets | 1,315 | 7,906 | 2,998 | 1,247 | 7,781 | 4,252 |
| Total liabilities | 1,182 | 5,466 | 1,753 | 1,111 | 4,526 | 2,061 |
| Net sales from operations | 71 | 5,536 | 4,905 | 99 | 4,667 | 5,134 |
| Operating profit | (1) | 790 | 454 | 14 | 674 | 502 |
| Net profit | 3 | 465 | 351 | 14 | 318 | 410 |

The total assets and liabilities of unconsolidated controlled entities of euro 1,247 million and euro 1,111 million respectively (euro 1,315 million and euro 1,182 million at December 31, 2006) concerned for euro 873 million and euro 873 million (euro 900 million and euro 900 million at December 31, 2006) entities for which the consolidation would not produce significant effects.

# 13 Other financial assets

Other financing receivables were as follows:

| (million euro) | Dec. 31, 2006 | Dec. 31, 2007 |
|---|---|---|
| Financing receivables: | | |
| - receivables for financing operating activities | 532 | 677 |
| - receivables for financing non-operating activities | 252 | 225 |
| | **784** | **902** |
| Securities: | | |
| - securities held for operating purposes | 21 | 21 |
| | **21** | **21** |
| | **805** | **923** |

Financing receivables are presented net of the allowance for impairment losses of euro 24 million (same amount at December 31, 2006).

Operating financing receivables of euro 677 million (euro 532 million at December 31, 2006) primarily concerned loans made by the Exploration & Production segment (euro 512 million) and Gas & Power segment (euro 87 million). The euro 145 million increase was primarily related to the Exploration & Production segment for euro 157 million and was offset by negative exchange differences of euro 82 million.

Non-operating financing receivables of euro 225 million (euro 252 million at December 31, 2006) concerned a restricted deposit held by Eni Lasmo Plc as a guarantee of a debenture (euro 246 million at December 31, 2006).

Receivables in currencies other than euro amounted to euro 821 million (euro 693 million at December 31, 2006).

Receivables due beyond five years amounted to euro 509 million (euro 396 million at December 31, 2006).

Securities euro 21 million (same amount as at December 31, 2006) designated as held-to-maturity investments were issued by the Italian Government.

Securities have a maturity beyond five years.

The fair value of financing receivables has been determined based on the present value of expected future cash flows discounted at rates ranging from 3.8% and 6.0% (3.6% and 5.6% at December 31, 2006).

The fair value of securities was derived from quoted market prices. The fair value of financing receivables and securities did not differ significantly from their carrying amount.

# 14 Deferred tax assets

Deferred tax assets were recognized net of offsettable deferred tax liabilities for euro 3,526 million (euro 4,028 million at December 31, 2006).

| (million euro) | Value at Dec. 31, 2006 | Additions | Deductions | Currency translation differences | Other changes | Value at Dec. 31, 2007 |
|---|---|---|---|---|---|---|
| | **1,725** | 1,285 | (1,736) | (217) | 858 | **1,915** |

Other changes of euro 858 million were primarily related to additions reflecting: (i) a limited right for each subsidiaries to offset deferred tax assets against deferred tax liabilities (euro 502 million); (ii) the recognition of the deferred tax effect against equity on the fair value evaluation of derivatives designated as cash flow hedge for euro 378 million.

Further information is provided in Note 20 - Other current liabilities and Note 25 - Other non-current liabilities.

Deferred tax assets are described in Note 24 - Deferred tax liabilities.

# 15 Other non-current receivables

The following table provides an analysis of other non-current receivables:

| (million euro) | Dec. 31, 2006 | Dec. 31, 2007 |
|---|---|---|
| Tax receivables from: | | |
| - Italian tax authorities | | |
| . income tax | 501 | 486 |
| . interest on tax credits | 322 | 325 |
| . Value Added Tax (VAT) | 37 | 42 |
| . other | 13 | 11 |
| | **873** | **864** |
| - foreign tax authorities | 30 | 30 |
| | **903** | **894** |
| Other receivables: | | |
| - in relation to disposals | 2 | 7 |
| - others | 83 | 197 |
| | **85** | **204** |
| Other non-current receivables | 6 | 12 |
| | **994** | **1,110** |

# Current liabilities

## 16 Short-term debt

Short-term debt was as follows:

| (million euro) | Dec. 31, 2006 | Dec. 31, 2007 |
|---|---|---|
| Banks | 3,178 | 4,070 |
| Ordinary bonds | | 3,176 |
| Other financial institutions | 222 | 517 |
| | **3,400** | **7,763** |

Short-term debt increased by euro 4,363 million primarily due to the balance of repayments and new proceeds (euro 4,850 million) and to changes in the scope of consolidation (euro 98 million) offset by negative currency translation differences (euro 583 million). Debt comprised commercial papers of euro 3,176 million mainly issued by the financial company Eni Coordination Center SA.

Short-term debt per currency is shown in the table below:

| (million euro) | Dec. 31, 2006 | Dec. 31, 2007 |
|---|---|---|
| Euro | 3,119 | 5,453 |
| US dollar | 161 | 1,591 |
| Other currencies | 120 | 719 |
| | **3,400** | **7,763** |

In 2007, the weighted average interest rate on short-term debt was 4.9% (3.9% in 2006).

At December 31, 2007 Eni had undrawn committed and uncommitted borrowing facilities available of euro 5,006 million and euro 6,298 million, respectively (euro 5,896 million and euro 6,523 million at December 31, 2006). These facilities were under interest rates that reflected market conditions. Charges in unutilized facilities were not significant.

## 17 Trade and other payables

Trade and other payables were as follows:

| (million euro) | Dec. 31, 2006 | Dec. 31, 2007 |
|---|---|---|
| Trade payables | 10,528 | 11,092 |
| Advances | 1,362 | 1,583 |
| Other payables: | | |
| - in relation to investments | 1,166 | 1,301 |
| - others | 2,939 | 3,240 |
| | **4,105** | **4,541** |
| | **15,995** | **17,216** |

Included in 2007 trade payables was the contractually agreed compensation of receivables and payables between Eni North Africa BV and the National Oil Co (the Libyan state company) for euro 1,798 million.

Advances of euro 1,583 million (euro 1,362 million at December 31, 2006) were related to payments received in excess of the value of the work in progress performed for euro 772 million (euro 884 million at December 31, 2006), advances on contract work in progress for euro 324 million (euro 197 million at December 31, 2006) and other advances for euro 487 million (euro 281 million at December 31, 2006). Advances on contract work in progress were in respect of the Engineering & Construction segment.

Other payables were as follows:

| (million euro) | Dec. 31, 2006 | Dec. 31, 2007 |
|---|---|---|
| Payables due to: | | |
| - joint venture operators in exploration and production activities | 1,146 | 1,624 |
| - suppliers in relation to investments | 923 | 1,015 |
| - non-financial government entities | 274 | 397 |
| - employees | 336 | 257 |
| - social security entities | 339 | 226 |
| | **3,018** | **3,519** |
| Other payables | 1,087 | 1,022 |
| | **4,105** | **4,541** |

Payables with related parties are described in Note 36 - Related-party transactions.
The fair value of trade and other payables did not differ significantly from their carrying amount considering the short-term maturity of trade payables.

## 18 Taxes payable

Taxes payable were as follows:

| (million euro) | Dec. 31, 2006 | Dec. 31, 2007 |
|---|---|---|
| Italian subsidiaries | 158 | 247 |
| Foreign subsidiaries | 1,482 | 1,441 |
| | **1,640** | **1,688** |

Income taxes payable of Italian subsidiaries were positively effected by the fair value valuation of cash flow hedging derivatives (euro 492 million). This effect was recorded in the relevant provision within equity. Further information is provided in Note 20 - Other current liabilities and Note 25 - Other non-current liabilities.

## 19 Other taxes payable

Other taxes payable were as follows:

| (million euro) | Dec. 31, 2006 | Dec. 31, 2007 |
|---|---|---|
| Excise and customs duties | 683 | 804 |
| Other taxes and duties | 507 | 579 |
| | **1,190** | **1,383** |

## 20 Other current liabilities

Other current liabilities were as follows:

| (million euro) | Dec. 31, 2006 | Dec. 31, 2007 |
|---|---|---|
| Fair value of non-hedging derivatives | 395 | 412 |
| Fair value of cash flow hedge derivatives | 40 | 911 |
| Other liabilities | 199 | 233 |
| | **634** | **1,556** |

176

Fair value of derivative contracts which do not meet the formal criteria to be recognized as hedges in accordance with IFRS was as follows:

| | Dec. 31, 2006 | | | Dec. 31, 2007 | | |
|---|---|---|---|---|---|---|
| (million euro) | Fair value | Purchase commitments | Sale commitments | Fair value | Purchase commitments | Sale commitments |
| **Non-hedging derivatives on exchange rate** | | | | | | |
| Currency swap | 11 | 928 | 363 | 63 | 2,096 | 296 |
| Interest currency swap | 19 | 133 | 124 | 5 | 140 | |
| Other | 2 | 69 | 1 | 7 | 76 | 1 |
| | **32** | **1,130** | **488** | **75** | **2,312** | **297** |
| **Non-hedging derivatives on interest rate** | | | | | | |
| Interest rate swap | 30 | 1,077 | 1,045 | 24 | 722 | 401 |
| | **30** | **1,077** | **1,045** | **24** | **722** | **401** |
| **Non-hedging derivatives on commodities** | | | | | | |
| Over the counter | 52 | 568 | 67 | 12 | 49 | 58 |
| Other | 281 | 855 | 75 | 301 | 1,187 | 28 |
| | **333** | **1,423** | **142** | **313** | **1,236** | **86** |
| | **395** | **3,630** | **1,675** | **412** | **4,270** | **784** |

The fair value of these derivative contracts was determined using an appropriate valuation method based on market data at closing date. The fair value of cash flow hedging derivatives amounted to euro 911 million (euro 40 million at December 31, 2006) related to contracts expiring in 2008 entered into by the Exploration & Production segment in order to hedge the exposure to variability in future cash flows expected in the 2008-2011 period deriving from marketing an amount of Eni s proved hydrocarbon reserves equal to 2% of proved reserves as of December 31, 2006 in connection with the acquisition in 2007 of production, development and exploration upstream properties onshore Congo from the French company Maurel & Prom and in the Gulf of Mexico from the US company Dominion Resources. Change in fair value (euro 871 million) of the hedging instrument directly recognized in equity was euro 878 million for the effective portion whilst the ineffective portion of euro 16 million was recognized in the profit and loss as finance expense (the time value component). Cumulative currency translation differences increased by euro 23 million. Further information on the fair value recognition in the consolidated balance sheet and profit and loss account of contracts with a maturity in 2009-2011 is given in Note 25 - Other liabilities under the section other non-current liabilities. The nominal value of these cash flow hedging derivatives referred to purchase and sale commitments for euro 1,399 million and euro 1,977 million, respectively (euro 4 million and euro 525 million at December 31, 2006). Information on the hedged risks and the hedging policies is given in Note 28 - Guarantees, commitments and risks - Risk management.

## Non-current liabilities

### 21 Long-term debt and current maturities of long-term debt

Long-term debt included the debt current portion maturing during the year following the balance sheet date (current maturity). The table below analyses debt by year of forecast repayment:

| (million euro) | | December 31 | | | Long-term maturity | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Type of debt instrument | Maturity range | 2006 | 2007 | Current maturity 2008 | 2009 | 2010 | 2011 | 2012 | After | Total |
| Bank loans | **2008-2022** | 2,298 | 6,073 | 159 | 607 | 423 | 121 | 4,106 | 657 | 5,914 |
| Other bank loans at favorable rates | **2008-2013** | 13 | 9 | 2 | 1 | 2 | 2 | 1 | 1 | 7 |
| | | **2,311** | **6,082** | **161** | **608** | **425** | **123** | **4,107** | **658** | **5,921** |
| Ordinary bonds | **2008-2037** | 5,097 | 5,386 | 263 | 324 | 919 | 167 | 30 | 3,683 | 5,123 |
| Other financial institutions | **2008-2020** | 891 | 599 | 313 | 118 | 12 | 28 | 12 | 116 | 286 |
| | | **8,299** | **12,067** | **737** | **1,050** | **1,356** | **318** | **4,149** | **4,457** | **11,330** |

177

Long-term debt, including the current portion of long-term debt, increased by euro 3,768 million to euro 12,067 million (euro 8,299 million at December 31, 2006). Such increase was due to the balance of payments and new proceeds of euro 3,885 million as well as the consolidation of Frigstad Discover Invest Ltd accounts for euro 170 million. This was offset by: (i) the negative impact of foreign currency translation differences; (ii) translation differences arising on debt taken on by euro-reporting subsidiaries denominated in foreign currency which are translated into euro at year-end exchange rates (euro 312 million).

Debt from other financial institutions of euro 599 million included euro 37 million of finance lease transactions. The following table shows residual debt by maturity date, which was obtained by summing future lease payments discounted at the effective interest rate, interests and the nominal value of future lease payments:

| | **Maturity range** | | | |
|---|---|---|---|---|
| (million euro) | Within 12 months | Between one and five years | After five years | Total |
| Residual debt | 7 | 25 | 5 | 37 |
| Interests | 4 | 7 | 4 | 15 |
| Undiscounted value of future lease payments | 11 | 32 | 9 | 52 |

Eni entered into long-term borrowing facilities with the European Investment Bank which were subordinated to the maintenance of certain performance indicators based on Eni s Consolidated Financial Statement or a rating not inferior to A- (S&P) and A3 (Moody s). At December 31, 2006 and 2007, the amount of short and long-term debt subject to restrictive covenants was euro 1,131 million and euro 1,429 million respectively. Furthermore, Saipem SpA and Saipem SA entered into certain borrowing facilities for euro 75 million and euro 34 million, respectively, with a number of financial institutions subordinated to the maintenance of certain performance indicators based on the Consolidated Financial Statements of Saipem and separate financial statements of Saipem SA. Eni and Saipem are in compliance with the covenants contained in their respective financing arrangements.
Bonds of euro 5,386 million consisted of bonds issued within the Euro Medium Term Notes Program for a total of euro 4,916 million and other bonds for a total of euro 470 million.
The following table analyses bonds per issuing entity, maturity date, interest rate and currency as at December 31, 2007:

| | **Amount** | **Discount on bond issue and accrued expense** | **Total** | **Value** | **Maturity** | | **% rate** | |
|---|---|---|---|---|---|---|---|---|
| (million euro) | | | | | from | to | from | to |
| **Issuing entity** | | | | | | | | |
| Euro Medium Term Notes: | | | | | | | | |
| - Eni SpA | 1,500 | 43 | 1,543 | Euro | | 2013 | | 4.625 |
| - Eni SpA | 1,000 | (3) | 997 | Euro | | 2017 | | 4.750 |
| - Eni Coordination Center SA | 683 | 4 | 687 | British pound | 2010 | 2019 | 4.875 | 5.125 |
| - Eni SpA | 500 | 16 | 516 | Euro | | 2010 | | 6.125 |
| - Eni Coordination Center SA | 367 | 8 | 375 | Euro | 2008 | 2015 | | variable |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| - Eni Coordination Center SA | 277 | 5 | 282 | Euro | 2008 | 2024 | 2.876 | 5.050 |
| - Eni Coordination Center SA | 277 | 2 | 279 | Japanese yen | 2008 | 2037 | 0.810 | 2.810 |
| - Eni Coordination Center SA | 173 | 2 | 175 | US dollar | 2013 | 2015 | 4.450 | 4.800 |
| - Eni Coordination Center SA | 31 | | 31 | US dollar | | 2013 | | variable |
| - Eni Coordination Center SA | 30 | 1 | 31 | Swiss franc | | 2010 | | 2.043 |
| | **4,838** | **78** | **4,916** | | | | | |
| Other bonds: | | | | | | | | |
| - Eni USA Inc | 271 | 3 | 274 | US dollar | | 2027 | | 7.300 |
| - Eni Lasmo Plc (*) | 205 | (9) | 196 | British pound | | 2009 | | 10.375 |
| | **476** | **(6)** | **470** | | | | | |
| | **5,314** | **72** | **5,386** | | | | | |

(*) The bond is guaranteed by a fixed deposit recorded under non-current financial assets (euro 225 million).

178

As at December 31, 2007 bonds maturing within 18 months (euro 584 million) were issued by Eni Coordination Center SA for euro 388 million and by Eni Lasmo Plc for euro 196 million. During 2007, Eni SpA and Eni Coordination Center SA issued bonds for euro 997 million and euro 121 million, respectively.
The following table analyses the currency composition of long-term debt and its current portion, and the related weighted average interest rates on total borrowings:

| | Dec. 31, 2006 (million euro) | Average rate (%) | Dec. 31, 2007 (million euro) | Average rate (%) |
|---|---|---|---|---|
| Euro | 5,566 | 4.0 | 9,973 | 4.4 |
| US dollar | 1,261 | 7.8 | 900 | 8.6 |
| British pound | 1,259 | 5.9 | 882 | 6.2 |
| Japanese yen | 167 | 1.4 | 281 | 1.9 |
| Swiss franc | 46 | 2.0 | 31 | 2.0 |
| | **8,299** | | **12,067** | |

At December 31, 2007 Eni had undrawn committed long-term borrowing facilities of euro 1,400 million (euro 520 million at December 31, 2006). Interest rates on these contracts were at market conditions. Charges for unutilized facilities were not significant.
Fair value of long-term debt, including the current portion of long-term debt, consisted of the following:

| (million euro) | Dec. 31, 2006 | Dec. 31, 2007 |
|---|---|---|
| Ordinary bonds | 5,239 | 5,523 |
| Banks | 2,311 | 6,148 |
| Other financial institutions | 865 | 719 |
| | **8,415** | **12,390** |

Fair value was calculated by discounting the expected future cash flows at rates ranging from 3.8% to 6.0% (3.6% and 5.6% at December 31, 2006).
At December 31, 2007 Eni mortgaged certain tangible assets and pledged restricted deposits as collateral against its borrowings for euro 198 million (euro 231 million at December 31, 2006).
Analysis of net borrowings, as defined in the Financial Review section, is as follows:

| (million euro) | Dec. 31, 2006 | | | Dec. 31, 2007 | | |
|---|---|---|---|---|---|---|
| | Current | Non-current | Total | Current | Non-current | Total |
| A. Cash | 3,745 | | 3,745 | 1,699 | | 1,699 |
| B. Cash equivalents | 240 | | 240 | 415 | | 415 |
| C. Available-for-sale securities | 552 | | 552 | 174 | | 174 |
| **D. Liquidity (A+B+C)** | **4,537** | | **4,537** | **2,288** | | **2,288** |
| **E. Financing receivables** | **143** | **252** | **395** | **990** | **225** | **1,215** |
| F. Short-term debt towards banks | 3,178 | | 3,178 | 4,070 | | 4,070 |
| G. Long-term debt towards banks | 131 | 2,180 | 2,311 | 161 | 5,921 | 6,082 |
| H. Bonds | 685 | 4,412 | 5,097 | 263 | 5,123 | 5,386 |
| I. Short-term debt towards related parties | 92 | | 92 | 131 | | 131 |

| | | | | | | |
|---|---|---|---|---|---|---|
| L. Long-term debt towards related parties | | 16 | 16 | | 16 | 16 |
| M. Other short-term debt | 130 | | 130 | 3,562 | | 3,562 |
| N. Other long-term debt | 74 | 801 | 875 | 313 | 270 | 583 |
| **O. Total borrowings (F+G+H+I+L+M+N)** | **4,290** | **7,409** | **11,699** | **8,500** | **11,330** | **19,830** |
| **P. Net borrowings (O-D-E)** | **(390)** | **7,157** | **6,767** | **5,222** | **11,105** | **16,327** |

179

Available-for-sale securities of euro 174 million (euro 552 million at December 31, 2006) are held for non-operating purposes. Not included in the calculation above were held-to-maturity and available-for-sale securities held for operating purposes amounting to euro 280 million (euro 441 million at December 31, 2006), of which euro 256 million (euro 417 million at December 31, 2006) held to provide coverage of technical reserves of Eni s insurance companies.
Financing receivables of euro 1,215 million (euro 395 million at December 31, 2006) are held for non-operating purposes. Not included in the calculation above were financing receivables held for operating purposes amounting to euro 384 million (euro 246 million at December 31, 2006), of which euro 246 million (euro 241 million at December 31, 2006) were in respect of securities granted to unconsolidated entities controlled by Eni, joint ventures and affiliates primarily in relation to the implementation of certain capital projects and a euro 112 million cash deposit to provide coverage of Eni Insurance Ltd technical reserves.
Non current financial receivables of euro 225 million (euro 252 million at December 31, 2006) were related to a restricted deposit held by Eni Lasmo Plc as a guarantee of a debenture (euro 246 million at December 31, 2006).

## 22 Provisions for contingencies

Provisions for contingencies were as follows:

| (million euro) | Value at Dec. 31, 2006 | Additions | Deductions | Other changes | Value at Dec. 31, 2007 |
|---|---|---|---|---|---|
| Provision for site restoration and abandonment | 3,724 | 550 | (315) | 15 | 3,974 |
| Provision for environmental risks | 1,905 | 356 | (353) | (50) | 1,858 |
| Provision for legal and other proceedings | 654 | 146 | (77) | (7) | 716 |
| Loss adjustments and actuarial provisions for Eni s insurance companies | 565 | | (81) | (66) | 418 |
| Provision for taxes | 221 | 37 | (20) | (25) | 213 |
| Provision for losses on investments | 184 | 13 | (20) | (14) | 163 |
| Provision for restructuring or decommissioning | 157 | 17 | (18) | (26) | 130 |
| Provision for OIL insurance | 108 | | (27) | (1) | 80 |
| Provision for marketing and promotion initiatives | 50 | 62 | (47) | | 65 |
| Provision for onerous contracts | 100 | | (50) | | 50 |
| Provision for revision of selling prices | 172 | 24 | (172) | | 24 |
| Other (*) | 774 | 408 | (359) | (28) | 795 |
| | **8,614** | **1,613** | **(1,539)** | **(202)** | **8,486** |

(*) Each individual amount included herein does not exceed euro 50 million.

The provision for site restoration and abandonment of euro 3,974 million, is mainly composed of provisions for the estimated future costs for the decommissioning of oil and natural gas production facilities at the end of the producing lives of fields, well-plugging, abandonment and site restoration (euro 3,884 million). The increases in the provision for the year amounted to euro 550 million due to the initial recognition and changes in the present value of estimated expenditures creating a corresponding item of property, plant and equipment of an amount equivalent to the provision or change in estimates (euro 60 million and euro 317 million, respectively) and the passage of time recognized in the profit and loss account as finance expense (euro 173 million). The discount rates used ranged from 4.2% to 6.2%. Decreases in the provision amounted to euro 315 million of which euro 207 million in connection with lowered estimated expenditures and euro 108 million related to the reversal of utilized provisions. Other changes of euro 15 million related to acquired oil & gas properties in Congo and in the Gulf of Mexico (euro 130 million). Offsetting

these effects were negative foreign currency translation differences for euro 155 million.
Provision for environmental risks of euro 1,858 million primarily related to the estimated costs of remediation in accordance with existing laws and regulations recognized by Syndial SpA (euro 1,362 million), the Refining & Marketing segment (euro 339 million) and the Gas & Power segment (euro 92 million). The increases in the provision of euro 356 million were primarily related to Syndial SpA (euro 223 million) and the Refining & Marketing segment (euro 95 million) including the effect due to the passage of time for euro 11 million recognized as finance expense. Decreases for euro 353 million were related to the reversal of utilized provisions primarily by Syndial SpA (euro 211 million) and the Refining & Marketing segment (euro 100 million) including the reversal of unutilized provisions of euro 18 million no longer required.

Provision for legal and other proceedings of euro 716 million primarily included charges expected on failure to perform certain contractual obligations and proceeding on legal and administrative matters. These provisions are stated on the basis of Eni s best estimate of the expected probable liability. The increase in the provision of euro 146 million was primarily related to Syndial SpA (euro 79 million). Decreases in the provision of euro 77 million included the reversal of unutilized provisions of euro 67 million of which euro 46 million related to the cancellation by the Regional Administrative Court of Lombardy of a fine imposed by the Authority for Electricity and Gas.
Loss adjustments and actuarial provisions for Eni s insurance companies of euro 418 million represented the liabilities accrued for claims on insurance policies underwritten by Eni s insurance companies. Changes in the provision of euro 66 million were primarily in respect of liabilities directly associated with assets classified as held for sale of Eni s insurance subsidiary Padana Assicurazioni SpA for euro 64 million.
Provision for taxes of euro 213 million primarily included charges for unsettled tax claims in connection with uncertain applications of the tax regulation for foreign subsidiaries of the Exploration & Production segment (euro 158 million).
Provision for losses on investments of euro 163 million was made with respect of losses from investments in entities incurred to date, where the losses exceeded the carrying amount of the investments.
Provision for restructuring or decommissioning unused production facilities of euro 130 million was primarily made for the estimated future costs for site restoration and remediation in connection with divestments and facilities closures of the Refining & Marketing segment (euro 124 million). Decreases in the provision of euro 18 million included the reversal of unutilized provisions of euro 2 million.
Provision for OIL insurance cover of euro 80 million included mutual insurance provision related to future increase of insurance charges that will be paid in the next 5 years by Eni for participating in the mutual insurance of Oil Insurance Ltd, following the increased number of accidents that occurred in 2004 and 2005.
Provision for marketing and promotional initiatives amounted to euro 65 million and was made in respect of marketing initiatives envisaging awards and prizes to clients in the Refining & Marketing segment. Decreases in the provision of euro 47 million included the reversal of unutilized provisions for euro 3 million.
Provision for onerous contracts of euro 50 million primarily related to Syndial SpA and contracts for which the termination or execution costs exceed the relevant benefits.
Provision for the revision of selling prices of euro 24 million primarily related to the Gas & Power segment. Decreases in the provision of euro 172 million included the reversal of unutilized provisions of euro 122 million primarily related to the adoption of the new tariffs regime introduced by Decision 134/2006 by the Italian Authority for Electricity and Gas.
Utilization of other provisions of euro 359 million included the reversal of unutilized provisions for euro 159 million no longer required.

## 23 Provisions for employee benefits

Provisions for employee benefits were as follows:

| (million euro) | Dec. 31, 2006 | Dec. 31, 2007 |
|---|---|---|
| TFR | 608 | 499 |
| Foreign pension plans | 268 | 219 |
| Supplementary medical reserve for Eni managers (FISDE) and other foreign medical plans | 100 | 99 |
| Other benefits | 95 | 118 |
| | **1,071** | **935** |

Provisions for indemnities upon termination of employment primarily related to the provisions accrued by Italian companies for employee termination indemnities ( TFR ), determined using actuarial techniques and regulated by Article 2120 of the Italian Civil Code. The indemnity is paid upon retirement as a lump sum payment the amount of which corresponds to the total of the provisions accrued along employees service period based on payroll costs as revalued until retirement according to the Italian legal scheme. Provisions for Italian post-retirement indemnities, considered for the determination of relevant liabilities and expenses, are reduced of the amounts drawn by employees and funded to pension funds.

Following the enactment of the Italian Budget Law for 2007, employees had until June 30, 2007 to decide whether to transfer their future provisions and any amounts accrued from January 1, 2007 for post-retirement indemnities under the Italian TFR regime to pension funds or the treasury fund held by the Italian administration for post-retirement benefits (INPS). Companies with less than 50 employees were allowed to continue recognizing the provision as in previous year. The choice applied retrospectively from January 1, 2007. Therefore, the allocation of future TFR provisions to pension funds or the INPS treasury fund determines that these amounts will be classified as costs to provide benefits under a defined contribution plan. Past provisions accrued for post-retirement indemnities under the Italian TFR regime continue to represent costs to provide benefits under a defined benefit plan and must be assessed based on actuarial assumptions.

Following this change in regime, the existing provision for Italian employees was reassessed to take account of the curtailment due to reduced future obligations reflecting the exclusion of future salaries and relevant increases from actuarial calculations. As a result of this a non-recurring gain of euro 83 million was recognized in profit or loss.

Pension funds are defined benefit plans provided by foreign subsidiares located mainly in the United Kingdom, Nigeria and Germany. Benefits under these plans consisted of payments based on seniority and the salary paid in the last year of service, or alternatively, the average annual salary over a defined period prior to retirement. Group companies provide healthcare benefits to retired managers. Liability to these plans and the current cost are limited to the contributions made by the company. Other benefits primarily related for a deferred cash incentive scheme to managers and certain Jubilee awards. The provision for the deferred cash incentive scheme is assessed based on the probability of the company reaching planned targets and employee reaching individual performance goals. Jubilee awards are benefits due following the attainment of a minimum period of service and, for the Italian companies, consist of an in-kind remuneration.

The value of employee benefits, estimated by applying actuarial techniques, consisted of the following:

| (million euro) | TFR | Foreign pension plans: Gross liability | Foreign pension plans: Plan assets | FISDE and other foreign medical plans | Other benefits | Total |
|---|---|---|---|---|---|---|
| **2006** | | | | | | |
| **Current value of benefit liabilities and plan assets at beginning of year** | **653** | **757** | **(359)** | **96** | **37** | **1,184** |
| Current cost | 99 | 18 | | 2 | 48 | 167 |
| Interest cost | 22 | 28 | | 3 | 6 | 59 |
| Expected return on plan assets | | | (24) | | | (24) |
| Employees contributions | | (3) | (88) | | | (91) |
| Actuarial gains (losses) | (67) | (2) | (3) | (5) | 6 | (71) |
| Benefits paid | (94) | (16) | 12 | (5) | (2) | (105) |
| Amendments | | 2 | | | | 2 |
| Curtailments and settlements | | (7) | 6 | | | (1) |
| Currency translation differences | 1 | (6) | 16 | | | 11 |
| **Current value of benefit liabilities and plan assets at end of year** | **614** | **771** | **(440)** | **91** | **95** | **1,131** |
| **2007** | | | | | | |
| **Current value of benefit liabilities and plan assets at beginning of year** | **614** | **771** | **(440)** | **91** | **95** | **1,131** |
| Current cost | 13 | 13 | | 1 | 38 | 65 |
| Interest cost | 23 | 32 | | 4 | 2 | 61 |
| Expected return on plan assets | | | (23) | | | (23) |
| Employees contributions | | | (126) | | | (126) |
| Actuarial gains (losses) | (52) | 3 | 12 | 1 | (1) | (37) |
| Benefits paid | (64) | (35) | 18 | (6) | (7) | (94) |
| Amendments | 1 | 2 | | | | 3 |
| Curtailments and settlements | (62) | (201) | 201 | | | (62) |
| Currency translation differences | 3 | 36 | (4) | 1 | (9) | 27 |
| **Current value of benefit liabilities and plan assets at end of year** | **476** | **621** | **(362)** | **92** | **118** | **945** |

The gross liability for foreign employee pension plans of euro 621 million (euro 771 million at December 31, 2006) included the liabilities related to joint ventures operating in exploration and production activities for euro 112 million and euro 67 million at December 31, 2006 and 2007, respectively. A receivable of an amount equivalent to such liability was recorded. Other benefits of euro 118 million (euro 95 million at December 31, 2006) primarily concerned the deferred monetary incentive plan for euro 69 million (euro 37 million at December 31, 2006) and jubilee awards for euro 40 million (euro 44 million at December 31, 2006).

**Contents**



The reconciliation analysis of benefit obligations and plan assets was as follows:

| | TFR | | Foreign pension plans | | FISDE and other foreign medical plans | | Other benefits | |
|---|---|---|---|---|---|---|---|---|
| (million euro) | Dec. 31, 2006 | Dec. 31, 2007 | Dec. 31, 2006 | Dec. 31, 2007 | Dec. 31, 2006 | Dec. 31, 2007 | Dec. 31, 2006 | Dec. 31, 2007 |
| Present value of benefit obligations with plan assets | | | 605 | 439 | | | | |
| Present value of plan assets | | | (440) | (362) | | | | |
| **Net present value of benefit obligations with plan assets** | | | **165** | **77** | | | | |
| **Present value of benefit obligations without plan assets** | **614** | **476** | **166** | **182** | **91** | **92** | **95** | **118** |
| Actuarial gains (losses) not recognized | (6) | 23 | (63) | (33) | 9 | 7 | | |
| Past service cost not recognized | | | | (7) | | | | |
| **Net liabilities recognized in provisions for employee benefits** | **608** | **499** | **268** | **219** | **100** | **99** | **95** | **118** |

Costs charged to the profit and loss account were as follows:

| (million euro) | TFR | Foreign pension plans | FISDE and other foreign medical plans | Other benefits | Total |
|---|---|---|---|---|---|
| **2006** | | | | | |
| Current cost | 99 | 18 | 2 | 48 | 167 |
| Interest cost | 22 | 28 | 3 | 6 | 59 |
| Expected return on plan assets | | (24) | | | (24) |
| Amortization of actuarial gains (losses) | 2 | 21 | | 5 | 28 |
| Effect of curtailments and settlements | | (1) | | | (1) |
| Other costs | 1 | | | | 1 |
| | **124** | **42** | **5** | **59** | **230** |
| **2007** | | | | | |
| Current cost | 13 | 13 | 1 | 38 | 65 |
| Interest cost | 23 | 32 | 4 | 2 | 61 |
| Expected return on plan assets | | (23) | | | (23) |
| Amortization of actuarial gains (losses) | 1 | 3 | | | 4 |
| Effect of curtailments and settlements | (83) | 41 | | | (42) |
| | **(46)** | **66** | **5** | **40** | **65** |

The main actuarial assumptions used in the evaluation of post-retirement benefit obligations at end of year and in the estimate of costs expected for 2008 were as follows:

| (%) | TFR | Foreign pension plans | FISDE and other foreign medical plans | Other benefits |
|---|---|---|---|---|
| **2006** | | | | |
| Discount rate | 4.3 | 3.0-13.0 | 4.5 | 4.0-4.3 |
| Expected return rate on plan assets | | 3.5-13.0 | | |
| Rate of compensation increase | 2.7-4.0 | 2.0-12.0 | | 2.7-4.5 |
| Rate of price inflation | 2.0 | 1.0-10.0 | 2.0 | 2.0-2.5 |
| **2007** | | | | |
| Discount rate | 5.35 | 3.5-13.0 | 5.5 | 4.8-5.4 |
| Expected return rate on plan assets | | 4.0-13.0 | | |
| Rate of compensation increase | 2.7-3.0 | 2.0-12.0 | | 2.7-4.0 |
| Rate of price inflation | 2.0 | 1.0-10.0 | 2.0 | 2.0 |

With regards to Italian plans were used demographic tables prepared by Ragioneria Generale dello Stato (RG48).
Expected return rate by plan assets has been determined by reference to quoted prices expressed in regulated markets.
Plan assets consisted of the following:

| (%) | Plan assets | Expected return |
|---|---|---|
| **Dec. 31, 2007** | | |
| Securities | 23.3 | 6.8-8.4 |
| Bonds | 27.1 | 3.1-10.0 |
| Real estate | 1.7 | 5.8-15.0 |
| Other | 47.9 | 2.8-13.0 |
| | | **100** |

The effective return of the plan assets amounted to euro 11 million (euro 27 million at December 31, 2006).
With reference to healthcare plans, the effects deriving from a 1% change of the actuarial assumptions of medical costs were as follows:

| (million euro) | 1% Increase | 1% Decrease |
|---|---|---|
| Impact on the current costs and interest costs | 1 | (1) |
| Impact on net benefit obligation | 11 | (9) |

The amount expected to be accrued to defined benefit plans for 2008 amounted to euro 48 million.
The analysis of changes in the actuarial valuation of the net liability with respect to prior year deriving from the non-correspondence of actuarial assumptions with actual values recorded at year-end was as follows:

| (million euro) | TFR | Foreign pension plans | FISDE and other foreign medical plans | Other benefits |
|---|---|---|---|---|

| | | | | |
|---|---|---|---|---|
| **2006** | | | | |
| Impact on net benefit obligation | (19) | 13 | (4) | 4 |
| Impact on plan assets | | 3 | | |
| **2007** | | | | |
| Impact on net benefit obligation | (8) | 6 | | |
| Impact on plan assets | | 3 | | |

# 24 Deferred tax liabilities

Deferred tax liabilities were recognized net of offsettable deferred tax assets for euro 3,526 million (euro 4,028 million at December 31, 2006).

| (million euro) | Value at Dec. 31, 2006 | Additions | Deductions | Currency translation differences | Other changes | Value at Dec. 31, 2007 |
|---|---|---|---|---|---|---|
| | **5,852** | 1,198 | (1,987) | (490) | 898 | **5,471** |

Other changes of euro 898 million were primarily in respect of: (i) the deferred tax effect of the valuation at fair value of certain oil assets acquired by the Exploration & Production segment in Congo (euro 507 million); (ii) a limited right of subsidiaries to offset deferred tax assets against deferred tax liabilities (euro 502 million); (iii) the recognition of the deferred tax effect against equity on the fair value evaluation of derivatives designated as cash flow hedge for euro 3 million.

Deferred tax liabilities consisted of the following:

| (million euro) | Dec. 31, 2006 | Dec. 31, 2007 |
|---|---|---|
| Deferred income taxes | 9,880 | 8,997 |
| Deferred income taxes available for offset | (4,028) | (3,526) |
| | **5,852** | **5,471** |
| Deferred income taxes not available for offset | (1,725) | (1,915) |
| | **4,127** | **3,556** |

The most significant temporary differences giving rise to net deferred tax liabilities were as follows:

| (million euro) | Value at Dec. 31, 2006 | Additions | Deductions | Currency translation differences | Other changes | Value at Dec. 31, 2007 |
|---|---|---|---|---|---|---|
| Deferred tax liabilities: | | | | | | |
| - accelerated tax depreciation | 6,851 | 582 | (1,246) | (423) | 493 | 6,257 |
| - application of the weighted average cost method in evaluation of inventories | 649 | 263 | (177) | | (4) | 731 |
| - site restoration and abandonment (tangible assets) | 683 | 40 | (115) | (14) | (55) | 539 |
| - capitalized interest expense | 232 | 3 | (51) | | (7) | 177 |
| - other | 1,465 | 310 | (398) | (53) | (31) | 1,293 |
| | **9,880** | **1,198** | **(1,987)** | **(490)** | **396** | **8,997** |
| Deferred tax assets: | | | | | | |
| - assets revaluation as per Law No. 342/2000 and No. 448/2001 | (1,017) | | 218 | | 11 | (788) |
| - site restoration and abandonment (provisions for contingencies) | (1,496) | (176) | 129 | 72 | 108 | (1,363) |
| - depreciation and amortization | (744) | (129) | 236 | 62 | (47) | (622) |
| - accruals for impairment losses and provisions for contingencies | (1,000) | (396) | 522 | 1 | (40) | (913) |
| - carry-forward tax losses | (83) | (44) | 41 | 6 | 1 | (79) |
| - other | (1,413) | (540) | 590 | 78 | (391) | (1,676) |
| | **(5,753)** | **(1,285)** | **1,736** | **219** | **(358)** | **(5,441)** |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Net deferred tax liabilities** | **4,127** | **(87)** | **(251)** | **(271)** | **38** | **3,556** |

Deferred tax assets are recognized for deductible temporary differences to the extent that is probable that sufficient taxable profit will be available against which part or all of the deductible temporary differences can be utilized. In the case future taxable profit is no longer deemed to be sufficient to absorb all existing deferred tax assets, any surplus is written off.
In May 2007 the Government of Libya issued an amending taxation law regarding profit taxation for foreign oil companies operating under PSA scheme. In line with past practice the Libya s National Oil Co (NOC) was designated as tax agent on behalf of foreign oil companies operating under PSA. The new tax regime is expected to become effective from 2008, after having agreed beforehand with NOC the recognized tax base of the assets at January 1, 2008, and the consequent possibility to re-determine deferred taxation and the detailed recognition criteria applied. Pending the issuing of the new law, deferred taxation was determined by using the recognition criteria applied in prior years. The adoption of the new legislation is not expected to have any significant impact on the agreed oil profit share under PSA currently existing between the Libyan state company and Eni. Italian taxation law allow the carry-forward of tax losses over the five subsequent years. Losses suffered in the first three years of the company's life can however be, for most part, carried forward indefinitely. The tax rate applied by the Italian subsidiaries to determine the portion of carry-forwards tax losses to be utilized equalled 27.5%; this rate equalled on average to 29.8% for foreign entities. Carry-forward tax losses of euro 1,261 million can be used in the following periods:

| (million euro) | Italian subsidiaries | Foreign subsidiaries |
|---|---|---|
| 2008 | 9 | 2 |
| 2009 | 3 | 22 |
| 2010 | | 14 |
| 2011 | | 36 |
| 2012 | 72 | 3 |
| Beyond 2012 | | 2 |
| Without limit | | 1,098 |
| | **84** | **1,177** |

Carry-forward tax losses of euro 270 million expected to be offset against future taxable profit and were in respect of foreign subsidiaries for euro 198 million. At the end of 2007, euro 79 million of deferred tax assets were recognized on these losses, of which euro 59 million were in respect of foreign subsidiaries.
No deferred tax liabilities have been recognized in relation to certain taxable reserves of unconsolidated entities under Eni s control because such reserves are not expected to be distributed (euro 135 million).

## 25 Other non-current liabilities

Other non-current liabilities were as follows:

| (million euro) | Dec. 31, 2006 | Dec. 31, 2007 |
|---|---|---|
| Fair value of cash flow hedge derivatives | | 1,340 |
| Current income tax liabilities | | 215 |
| Payables related to capital expenditures | 26 | 22 |
| Other payables | 207 | 295 |
| Other liabilities | 185 | 159 |

| | |
|---|---|
| **418** | **2,031** |

The fair value of cash flow hedge derivatives amounted to euro 1,340 million related to contracts expiring within 2009-2011 entered into by the Exploration & Production segment in order to hedge the exposure to variability in future cash flows expected in the 2008-2011 period deriving from marketing an amount of Eni s proved hydrocarbon reserves equal to 2% of proved reserves as of December 31, 2006 in connection with the acquisition in 2007of production, development and exploration assets upstream properties onshore Congo from the French company Maurel & Prom and in the Gulf of Mexico from the US company Dominion Resources. The effective portion of the change in fair value of the hedging instrument directly recognized in equity was euro 1,332 million whilst the ineffective portion of euro 36 million was recognized in the profit and loss as finance expenses (the time value component). Cumulative currency translation differences increased by euro 28 million. Further information on the fair value recognition in the consolidated balance sheet and profit and loss account of contracts with a maturity in 2008 is given in Note 20 - Other liabilities under the section other current liabilities.

The nominal value of these derivatives referred to purchase and sale commitments for euro 2,804 million and euro 3,404 million, respectively.
The fair value of derivative contracts was determined by using valuation models that take into account relevant market data at the balance sheet date.
Information on the hedged risks and the hedging policies is shown in Note 28 - Guarantees, commitments and risks - Risk management.
The group s liability for current income taxes of euro 215 million was due as special tax (with a rate lower than the statutory tax rate), relating to the option to increase the deductible tax bases of certain tangible and other assets to their carrying amounts as permitted by the 2008 Budget Law.

## 26 Assets held for sale and liabilities directly associated with assets held for sale

Non-current assets held for sale and liabilities directly associated to non-current assets held for sale of euro 383 million and euro 97 million related to the disposal of Padana Assicurazioni SpA (the related assets and liabilities amounted to euro 180 million and euro 97 million, respectively) and in Gaztransport et Technigaz SAS (the investment amounted to euro 114 million) and in Fertlizantes Nitrogenados de Oriente (the investment amounted to euro 89 million). Gaztransport et Technigaz SAS is a company owing a patent for the construction of tanks to transport LNG. Fertlizantes Nitrogenados de Oriente is specialized in the production of fertilizers.

## 27 Shareholders equity

### Minority interest

Profit attributable to minority interests and the minority interest in certain consolidated subsidiaries related to:

| (million euro) | **Net profit** | | **Shareholders equity** | |
|---|---|---|---|---|
| | 2006 | 2007 | Dec. 31, 2006 | Dec. 31, 2007 |
| Saipem SpA | 303 | 514 | 879 | 1,299 |
| Snam Rete Gas SpA | 287 | 268 | 1,004 | 865 |
| Tigáz Tiszántúli Gázszolgáltató Részvénytársaság | | 1 | 79 | 79 |
| Others | 16 | 15 | 208 | 196 |
| | **606** | **798** | **2,170** | **2,439** |

### Eni shareholders equity

Eni s net equity at December 31 was as follows:

| (million euro) | **Value at Dec. 31, 2006** | **Value at Dec. 31, 2007** |
|---|---|---|
| Share capital | 4,005 | 4,005 |
| Legal reserve | 959 | 959 |
| Reserve for treasury shares | 7,262 | 7,207 |

| | | |
|---|---|---|
| Cumulative foreign currency translation differences | (398) | (2,233) |
| Other reserves | 400 | (914) |
| Retained earnings | 25,168 | 29,591 |
| Treasury shares | (5,374) | (5,999) |
| Interim dividend | (2,210) | (2,199) |
| Net profit for the period | 9,217 | 10,011 |
| | **39,029** | **40,428** |

### Share capital

At December 31, 2007 the parent company s issued share capital consisted of 4,005,358,876 shares (nominal value euro 1 each) fully paid-up (the same amount at December 31, 2006).
On May 24, 2007 Eni s Shareholders Meeting decided a dividend distribution of euro 0.65 per share, with the exclusion of treasury shares held at the ex-dividend date, in full settlement of the 2006 dividend of euro 1.25 per share, of which euro 0.60 per share paid as interim dividend in October 2006. The balance was payable on June 21, 2007 to shareholders on the register on June 18, 2007.

### Legal reserve

This reserve represents earnings restricted from the payment of dividends pursuant to Article 2430 of the Italian Civil Code.

### Reserve for treasury shares

The reserve for treasury shares represents the reserve destined to purchase own shares in accordance with the decisions of Eni s Shareholders Meetings. The amount of euro 7,207 million (euro 7,262 million at December 31, 2006) included treasury shares purchased. The decrease of euro 55 million primarily concerned the sale and grant of treasury shares to Group managers following stock option and stock grants incentive schemes.

### Cumulative foreign currency translation differences

The cumulative foreign currency translation differences arose from the translation of financial statements denominated in currencies other than euro.

### Other reserves

Other reserves of negative amount were euro 914 million (at December 31, 2006 other reserves of positive amount were euro 400 million) included:

- a reserve of euro 247 million constituted following the sale by Eni SpA of Snamprogetti SpA to Saipem Projects SpA (same amount at December 31, 2006);
- a reserve of euro 181 million (euro 146 million at December 31, 2006) deriving from Eni SpA s equity;
- a reserve of euro 1,342 million (euro 7 million at December 31, 2006) including the related tax, for the valuation at fair value of available-for-sale securities and cash flow hedge derivatives. Further information is given in Note 2 - Other financial assets held for trading or available for sale, Note 7 - Other current assets, Note 20 - Other current liabilities and Note 25 - Other non current liabilities.

The valuation at fair value of securities available for sale and cash flow hedge derivatives, net of the related tax effect, consisted of the following:

| | **Available-for-sale securities** | | | **Cash flow hedge derivatives** | | | **Total** | | |
|---|---|---|---|---|---|---|---|---|---|
| (million euro) | Gross reserve | Deferred tax liabilities | Net reserve | Gross reserve | Deferred tax liabilities | Net reserve | Gross reserve | Deferred tax liabilities | Net reserve |
| **Reserve as of January 1, 2005** | **27** | **(8)** | **19** | **27** | **(11)** | **16** | **54** | **(19)** | **35** |
| Changes of the year 2006 | 2 | | 2 | 1 | | 1 | 3 | | 3 |
| Amount recognized in the profit and loss account | (21) | 6 | (15) | (27) | 11 | (16) | (48) | 17 | (31) |
| **Reserve as of December 1, 2006** | **8** | **(2)** | **6** | **1** | | **1** | **9** | **(2)** | **7** |
| Changes of the year 2007 | | | | (2,237) | 867 | (1,370) | (2,237) | 867 | (1,370) |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Foreign currency translation differences | | | | 51 | (26) | 25 | 51 | (26) | 25 |
| Amount recognized in the profit and loss account | (6) | 2 | (4) | | | | (6) | 2 | (4) |
| **Reserve as of December 31, 2007** | **2** | | **2** | **(2,185)** | **841** | **(1,344)** | **(2,183)** | **841** | **(1,342)** |

189

**Treasury shares purchased**
A total of 348,525,005 ordinary shares (324,959,866 at December 31, 2006) with nominal value of euro 1 each, were held in treasury, for a total cost of euro 5,999 million (euro 5,374 million at December 31, 2006). 35,423,925 of treasury shares (40,114,000 at December 31, 2006) at a cost of euro 768 million (euro 839 million at December 31, 2006) were available for 2002-2005 and 2006-2008 stock option plans (34,521,125 shares) and 2003-2005 stock grant plans (902,800 shares).

The decrease of 4,690,075 shares consisted of the following:

| | Stock option | Stock grant | Total |
|---|---|---|---|
| **Number of shares at December 31, 2006** | **38,240,400** | **1,873,600** | **40,114,000** |
| Rights exercised | (3,028,200) | (966,000) | (3,994,200) |
| Rights cancelled | (691,075) | (4,800) | (695,875) |
| | **(3,719,275)** | **(970,800)** | **(4,690,075)** |
| **Number of shares at December 31, 2007** | **34,521,125** | **902,800** | **35,423,925** |

At December 31, 2007, options and grants outstanding were 17,699,625 shares and 902,800 shares, respectively. Options refer to the 2002 stock plan for 107,500 shares with an exercise price of euro 15.216 per share, to the 2003 stock plan for 281,400 shares with an exercise price of euro 13.743 per share, to the 2004 stock plan for 1,124,000 shares with an exercise price of euro 16.576 per share, to the 2005 stock plan for 3,812,000 shares with an exercise price of euro 22.512 per share, to the 2006 stock plan for 6,467,775 shares with an weighted average exercise price of euro 23.119 per share and to the 2007 stock plan for 5,906,950 with an weighted average exercise price of euro 27.451 per share.
Information about commitments related to stock grant and stock option plans is included in Note 30 - Operating expenses.

**Interim dividend**
Interim dividend for the year 2007 amounted of euro 2,199 million corresponding to euro 0.60 per share, as decided by the Board of Directors on September 20, 2007 in accordance with Article 2433-*bis*, paragraph 5 of the Italian Civil Code; the dividend was paid on October 25, 2007.

**Distributable reserves**
At December 31, 2007 Eni shareholders equity included distributable reserves for euro 34,000 million, a portion of which was subject to taxation upon distribution. Deferred tax liabilities have been recorded in relation to the share of profit recognized on equity-accounted affiliates and joint ventures (euro 32 million).

## Reconciliation of net profit and shareholders equity of the parent company Eni SpA to consolidated net profit and shareholders equity

| | Net profit | | Shareholders equity | |
|---|---|---|---|---|
| (million euro) | 2006 | 2007 | Dec. 31, 2006 | Dec. 31, 2007 |
| **As recorded in Eni SpA s Financial Statements** | **5,821** | **6,600** | **26,935** | **28,926** |
| Difference between the equity value of individual accounts of consolidated subsidiaries with respect to the corresponding carrying amount in the statutory accounts of the parent company | 3,823 | 4,122 | 16,136 | 16,320 |
| Consolidation adjustments: | | | | |
| - difference between cost and underlying value of equity | (52) | (1) | 1,138 | 1,245 |
| - elimination of tax adjustments and compliance with accounting policies | 627 | 649 | (1,435) | (1,235) |
| - elimination of unrealized intercompany profits | (237) | (435) | (2,907) | (3,383) |
| - deferred taxation | (195) | (97) | 1,244 | 711 |
| - other adjustments | 36 | (29) | 88 | 283 |
| | **9,823** | **10,809** | **41,199** | **42,867** |
| Minority interest | (606) | (798) | (2,170) | (2,439) |
| **As recorded in Consolidated Financial Statements** | **9,217** | **10,011** | **39,029** | **40,428** |

# 28 Guarantees, commitments and risks

## Guarantees

Guarantees were as follows:

| | Dec. 31, 2006 | | | Dec. 31, 2007 | | |
|---|---|---|---|---|---|---|
| (million euro) | Unsecured guarantees | Other guarantees | Total | Unsecured guarantees | Other guarantees | Total |
| Consolidated subsidiaries | | 6,539 | 6,539 | | 6,388 | 6,388 |
| Unconsolidated entities controlled by Eni | 3 | 294 | 297 | | 150 | 150 |
| Affiliates and joint ventures | 5,682 | 1,735 | 7,417 | 5,896 | 1,099 | 6,995 |
| Others | 79 | 52 | 131 | 12 | 279 | 291 |
| | **5,764** | **8,620** | **14,384** | **5,908** | **7,916** | **13,824** |

Other guarantees issued on behalf of consolidated subsidiaries of euro 6,388 million (euro 6,539 million at December 31, 2006) primarily consisted of: (i) guarantees given to third parties relating to bid bonds and performance bonds for euro 3,244 million (euro 3,467 million at December 31, 2006), of which euro 2,351 million related to the Engineering & Construction segment (euro 2,726 million at December 31, 2006); (ii) VAT recoverable from tax authorities for euro 1,286 million (euro 1,393 million at December 31, 2006); (iii) insurance risk for euro 259 million reinsured by Eni (euro 246 million at December 31, 2006). At December 31, 2007 the underlying commitment covered by such guarantees was euro 6,050 million (euro 6,160 million at December 31, 2006).
Other guarantees issued on behalf of unconsolidated subsidiaries of euro 150 million (euro 297 million at December 31, 2006) consisted of letters of patronage and other guarantees issued to commissioning entities relating to bid bonds and performance bonds for euro 144 million (euro 288 million at December 31, 2006). At December 31, 2007, the underlying commitment covered by such guarantees was euro 19 million (euro 204 million at December 31, 2006).
Unsecured guarantees and other guarantees issued on behalf of joint ventures and affiliated companies of euro 6,995 million (euro 7,417 million at December 31, 2006) primarily concerned: (i) an unsecured guarantee of euro 5,870 million (euro 5,654 million at December 31, 2006) given by Eni SpA to Treno Alta Velocità - TAV - SpA for the proper and timely completion of a project relating to the Milan-Bologna train link by CEPAV (Consorzio Eni per l Alta Velocità) Uno; consortium members, excluding unconsolidated entities controlled by Eni, gave Eni liability of surety letters and bank guarantees amounting to 10% of their respective portion of the work; (ii) unsecured guarantees, letters of patronage and other guarantees given to banks in relation to loans and lines of credit received for euro 824 million (euro 1,214 million at December 31, 2006), of which euro 677 million related to a contract released by Snam SpA (now merged into Eni SpA) on behalf of Blue Stream Pipeline Co BV (Eni 50%) to a consortium of international financing institutions (euro 756 million at December 31, 2006); (iii) unsecured guarantees and other guarantees given to commissioning entities relating to bid bonds and performance bonds for euro 119 million (euro 251 million at December 31, 2006).
At December 31, 2007, the underlying commitment covered by such guarantees was euro 1,562 million (euro 2,470 million at December 31, 2006).
Unsecured and other guarantees given on behalf of third parties of euro 291 million (euro 131 million at December 31, 2006) consisted primarily of: (i) guarantees issued on behalf of Gulf LNG Energy and Gulf LNG Pipeline and on behalf of Angola LNG Supply Service Llc (Eni 13.6%) as security against payment commitments of fees in connection with the regasification activity for euro 204 million; (ii) guarantees issued by Eni SpA to banks and other financial institutions in relation to loans and lines of credit for euro 20 million on behalf of minor investments or companies sold (euro 87 million at December 31, 2006). At December 31, 2007 the underlying commitment covered

by such guarantees was euro 281 million (euro 121 million at December 31, 2006).

## Commitments and contingencies

Commitments and contingencies were as follows:

| (million euro) | Dec. 31, 2006 | Dec. 31, 2007 |
|---|---|---|
| **Commitments** | | |
| Purchase of assets | 9 | |
| Other | 207 | 200 |
| | **216** | **200** |
| **Risks** | **1,329** | **1,520** |
| | **1,545** | **1,720** |

Other commitments of euro 200 million (euro 207 million at December 31, 2006) were essentially related to a memorandum of intent signed with the Basilicata Region, whereby Eni has agreed to invest euro 177 million in the future, also on account of Shell Italia E&P SpA, in connection with Eni s development plan of oil fields in Val d Agri (euro 181 million at December 31, 2006).
Risks of euro 1,520 million (euro 1,329 million at December 31, 2006) primarily concerned potential risks associated with the value of assets of third parties under the custody of Eni for euro 1,126 million (euro 918 million at December 31, 2006) and contractual assurances given to acquirers of certain investments and businesses of Eni for euro 376 million (euro 393 million at December 31, 2006).

## Risk factors

The main company risks identified, monitored and, as described below, managed by Eni are the following: (i) the market risk deriving from the exposure to fluctuations in interest rates, foreign currency exchange rates and commodity prices; (ii) the credit risk deriving from the possible default of a counterparty; (iii) the liquidity risk deriving from the risk that suitable sources of funding for the Group s business activities may not be available; (iv) the country risk in oil & gas activities; (v) the operational risk; (vi) the possible evolution of the Italian gas market; (vii) the specific risks deriving from the exploration and production activities.

In 2007 Eni s management reviewed and revised policies and guidelines regarding standards to identify, assess, control and manage market risks of significance to Eni. The purpose was to issue a reference book on policies to be handily consulted and updated as appropriate. In 2007 risk policies have been revised to take account of changes in the group s organizational structure (following the merger with Enifin on January 1, 2007 and the establishment of Eni Trading & Shipping) as well as needs to further integrate risk management.

## Market risk

Market risk is the possibility that changes in currency exchange rates, interest rates or commodity prices will adversely affect the value of the group s financial assets, liabilities or expected future cash flows. Eni s market risk management activities is performed in accordance with standards prescribed by policies and guidelines mentioned above, providing for a centralized model of conducting finance, treasury and risk management operations based on three in separate entities: the parent company s (Eni SpA) finance department, Eni Coordination Center; Banque Eni subject to certain Bank regulatory restrictions preventing the group s exposure to concentrations of credit risk. Additionally, in 2007, Eni Trading & Shipping was established and has the mandate to manage and monitor solely commodity derivative contracts.
In particular Eni SpA and Eni Coordination Center manage subsidiaries financing requirements in and outside of Italy, respectively, covering borrowing requirements and employing available surpluses

All the transactions concerning currencies and derivative financial contracts are managed by the parent company as well as the activity of trading certificates according to the European Union Emission Trading Scheme. The commodity risk is managed by each business unit with Eni Trading & Shipping ensuring the negotiation of hedging derivatives. Eni uses derivative financial instruments (derivatives) in order to minimize exposure to market risks related to changes in exchange rates and interest rates and to manage exposure to commodity prices fluctuations. Eni does not enter derivative transactions on a speculative basis. The framework defined by Eni s policies and guidelines prescribes that measurement and control of market risk are to be performed on the basis of maximum tolerable levels of risk exposure defined in accordance with value-at-risk techniques. These techniques make a statistical assessment of the market risk on the Group s activity, i.e., potential gain or loss in fair values, due to changes in market conditions taking account of the correlation existing among changes in fair value of existing instruments. Eni s finance departments define maximum tolerable levels of risk exposure to changes in interest rates and foreign currency exchange rates, pooling Group companies risk positions. Calculation and measurement techniques for interest rate and foreign currency exchange rate risks followed by Eni are in accordance with established banking standards, as established by the Basel Committee for bank activities surveillance. Tolerable levels of risk are based on a conservative approach, considering the industrial nature of the company. Eni s guidelines prescribe that Eni s group companies minimize such kinds of market risks.

With regard to the commodity risk, Eni s policies and guidelines define rules to manage this risk aiming at the optimization of core activities and the pursuing of preset targets of industrial margins. The maximum tolerable level of risk exposure is pre-defined in terms of value at risk in connection with trading and commercial activities, while the strategic risk exposure to commodity prices fluctuations i.e. the impact on the Group s business results deriving from changes in commodity prices is monitored in terms of value-at-risk, albeit not hedged in a systematic way. Accordingly, Eni evaluates the opportunity to mitigate its commodity risk exposure by entering into hedging transactions in view of certain acquisition deals of oil and gas reserves as part of the Group s strategy to achieve growth targets or ordinary asset portfolio management. The group controls commodity risk with a maximum value-at-risk limit authorized for each business unit. Hedging needs from business units are pooled by Eni Trading & Shipping which also manages its own risk exposure.

The three different market risks, whose management and control have been summarized above, are described below.

**Exchange rate risk**

Exchange rate risk derives from the fact that Eni s operations are conducted in currencies other than the euro (mainly in the U.S. dollar). In particular revenues and costs denominated in foreign currencies maybe significantly affected by fluctuations in the exchange rates typically due to conversion differences on specific transaction arising from the time lag existing between the execution of a given transaction and the definition of relevant contractual terms (economic risk) and conversion of foreign currency-denominated commercial and financial payables and receivables (transaction risk). Exchange rate fluctuations affect group s reported results and net equity as financial statements of subsidiaries denominated in currencies other than the euro are translated from their functional currency into euro (translation risk). Generally, an appreciation of the US dollar versus the euro has a positive impact on Eni s results of operations, and viceversa.

Eni s foreign exchange risk management policy is to minimize economic and transaction exposures arising from foreign currency movements. Eni does not undertake any hedging activity for risks deriving from translation of foreign currency denominated profits or investments except for single transactions to be evaluated on a case-by-case basis.

Effective management of exchange rate risk is performed within Eni s central finance departments which match opposite positions within Group companies, hedging the Group net exposure through the use of certain derivatives, such as currency swaps, forwards and options. Such derivatives are evaluated at fair value on the basis of market prices provided by specialized sources. Changes in fair value of those derivatives are normally recognized through the profit and loss account as they do not meet the formal criteria to be recognized as hedges in accordance with IAS 39. The VAR techniques are based on variance/covariance simulation models and monitor the risk exposure arising from possible future changes in market values over a 24-hour period within a 99% confidence level and a 20-day holding period.

**Interest rate risk**

Changes in interest rates affect the market value of financial assets and liabilities of the company and the level of finance charges. Eni s interest rate risk management policy is to minimize risk with the aim to achieve financial structure objectives defined and approved in the management s plans. Borrowing requirements of the group s companies are pooled by the group s central finance department in order to manage net positions and the funding of portfolio developments consistently with management s plans while maintaining a level of risk exposure within

prescribed limits.
Eni enters into interest rate derivative transactions, in particular interest rate swap, to effectively manage the balance between fixed and floating rate debt. Such derivatives are evaluated at fair value on the basis of market prices provided from specialized sources. Changes in fair value of those derivatives are normally recognized through the profit and loss account as they do not meet the formal criteria to be accounted for under the hedge accounting method in accordance with IAS 39. Value at risk deriving from interest rate exposure is measured daily on the basis of a variance/covariance model, with a 99% confidence level and a 20-day holding period.

**Commodity risk**
Eni s results of operations are affected by changes in the prices of products and services sold. A decrease in oil and gas prices generally has a negative impact on Eni s results of operations and viceversa. Eni manages the exposure to commodity price risk by optimizing core activities in order to achieve stable margins. In order to manage commodity risk in connection with its trading

and commercial activities, Eni uses derivatives traded on the organized markets of ICE and NYMEX (futures) and derivatives traded over the counter (swaps, forward, contracts for differences and options) with the underlying commodities being crude oil, refined products or electricity. Such derivatives are evaluated at fair value on the basis of market prices provided from specialized sources or absent market prices, on the basis of estimates provided by brokers or suitable evaluation techniques. Changes in fair value of those derivatives are normally recognized through the profit and loss account as they do not meet the formal criteria to be recognized as hedges in accordance with IAS 39. Value at risk deriving from commodity exposure is measured daily on the basis of a historical simulation technique, with a 95% confidence level and a one-day holding period.
The following table shows values in terms of value at risk, recorded during 2007 (compared with year 2006) referring to interest rate risk and exchange rate in the first section, and the commodity risk in the second section.

(Value-at-risk - parametric method variance/covariance; holding period: 20 days; confidence level: 99%)

| | 2006 | | | | 2007 | | | |
|---|---|---|---|---|---|---|---|---|
| (million euro) | High | Low | Avg | At period end | High | Low | Avg | At period end |
| Interest rate | 5.15 | 0.45 | 2.01 | 1.10 | 7.36 | 0.47 | 1.39 | 4.35 |
| Exchange rate | 2.02 | 0.02 | 0.24 | 0.21 | 1.25 | 0.03 | 0.21 | 0.43 |

(Value-at-risk - historic simulation method; holding period: 1 day; confidence level: 95%)

| | 2006 | | | | 2007 | | | |
|---|---|---|---|---|---|---|---|---|
| ($ million) | High | Low | Avg | At period end | High | Low | Avg | At period end |
| Hydrocarbons | 35.69 | 5.40 | 17.80 | 8.59 | 44.59 | 4.39 | 20.17 | 12.68 |
| Gas & power | 46.63 | 18.36 | 31.01 | 22.82 | 54.11 | 20.12 | 34.56 | 25.57 |

## Credit risk

Credit risk is the potential exposure of the Group to losses that would be recognized if counterparties failed to perform or failed to pay amounts due. The credit risk arising from the Group s normal commercial operations is controlled by each operating unit within Group-approved procedures for evaluating the reliability and solvency of each counterparty, including receivable collection and the managing of commercial litigation. The monitoring activity of credit risk exposure is performed at the Group level according to set guidelines and measurement techniques to quantify and monitor counterparty risk. In particular, credit risk exposure to large clients and multi-business clients is monitored at the Group level on the basis of score cards quantifying risk levels. Eni s has established guidelines prior to entering into cash management and derivative contracts to assess the counterparty s financial soundness and its rating. Eni has never experienced material non-performance by any counterparty. As of December 31, 2006 and 2007, Eni has no significant exposure to concentrations of credit risk.

## Liquidity risk

Liquidity risk is the risk that suitable sources of funding for the group may not be available, or the group is unable to sell its assets on the market place as to be unable to meet short term finance requirements and settle obligations causing material financial losses in the case the group is required to incur additional expenses to meet its obligations or under the worst of conditions a default. Eni manages liquidity risk by targeting an optimal ratio between equity and total debt consistent with management plans and business objectives including prescribed limits in terms of maximum indebtedness rate and of minimum debt ratio between medium-long term debt and total debt as well as between fixed rate debt and total medium-long term debt. This enables Eni to maintain an appropriate level of liquidity and financial capacity as to minimize borrowing expenses and to achieve an optimal profile of composition and duration of indebtedness. The Group has access to a wide range of funding at competitive rates through the capital markets and banks and coordinates relationships with banks centrally. At present, the Group believes it has access to sufficient funding and has also both committed and uncommitted borrowing facilities to meet currently foreseeable borrowing requirements.

Effective management of the liquidity risk has the objective of ensuring both availability of adequate funding to meet short term requirements and due obligations, and a sufficient level of flexibility in order to fund the development plans of the Group businesses, maintaining an adequate finance structure in terms of debt composition and maturity.

This implies the adoption of a strategy for pursuing an adequate structure of borrowing facilities (particularly availability of committed borrowings facilities) and the maintenance of cash reserves.

Undiscounted long-term debt by maturity date, comprehensive of the current portion and contractual interest payments at December 31, 2007, was as follows:

| | Maturity | | | | | | |
|---|---|---|---|---|---|---|---|
| (euro million) | 2008 | 2009 | 2010 | 2011 | 2012 | Thereafter | Total |
| Long-term debt including the current portion of long-term debt | 1,342 | 1,606 | 1,884 | 786 | 4,514 | 5,253 | 15,385 |

**Country risk**

Substantial portions of Eni s hydrocarbons reserves are located in countries outside the EU and North America, certain of which may be politically or economically less stable than EU or North American. At December 31, 2007, approximately 70% of Eni s proved hydrocarbons reserves were located in such countries. Similarly, a substantial portion of Eni s natural gas supplies comes from countries outside the EU and North America. In 2007, approximately 60% of Eni s domestic supply of natural gas came from such countries. Developments in the political framework, economic crisis, social unrest can compromise temporarily or permanently Eni s ability to operate or to economically operate in such countries, and to have access to oil and gas reserves. Further risks related to the activity undertaken in these countries, are represented by: (i) lack of well established and reliable legal systems and uncertainties surrounding enforcement of contractual rights; (ii) unfavourable developments in laws and regulations leading to expropriation of Eni s titles and mineral assets relating to an important oil field in Venezuela which occurred in 2006, following the unilateral cancellation of the contract regulating oil activities in this field by the Venezuelan state oil company PDVSA; (iii) restrictions on exploration, production, imports and exports; (iv) tax or royalty increases; (v) civil and social unrest leading to sabotages, acts of violence and incidents. While the occurrence of these events is unpredictable, it is possible that they can have a material adverse impact on Eni s financial condition and results of operations. Eni periodically monitors political, social and economic risks of approximately 60 countries where it has invested or with regard to upstream projects evaluation where Eni is planning to invest, in order to assess returns of single projects based also on the evaluation of each country s risk profile. Country risk is mitigated in accordance with guidelines on risk management defined in the procedure Project risk assessment and management .

**Operational risk**

Eni s business activities conducted in and outside of Italy are subject to a broad range of legislation and regulations, including specific rules concerning oil and gas activities currently in force in countries in which it operates.
In particular, these laws and regulations require the acquisition of a licence before exploratory drilling may commence and the compliance with the health, safety and environment rules. These environmental laws impose restrictions on the types, quantities and concentration of various substances that can be released into the environment and on discharges to surface and subsurface water.
In particular Eni is required to follow strict operating practices and standards to protect biodiversity when conducts exploration, drilling and production activities in certain ecologically sensitive locations (protected areas).
Environmental, health and safety laws and regulations have a substantial impact on Eni s operations and the expenses and liabilities that Eni may incur in relation to compliance with environmental, health and safety laws and regulations are expected to remain material to the group s results of operations or financial position.
For this purpose, Eni adopted guidelines for the evaluation and management of health, safety and environmental (HSE) risks, with the objective of protecting Eni s employees, the populations involved in its activity, contractors and clients, and the environment and being in compliance with local and international rules and regulations. Eni s guidelines prescribe the adoption of international best practices in setting internal principles, standards and solutions. The ongoing process for identifying, evaluating and managing HSE operations in each phase of the business activity and is performed through the adoption of procedures and effective pollution management systems tailored on the

peculiarities of each business and industrial site and on steady enhancement of plants and process.
Additionally, coding activities and procedures on operating phases allow to reduce the human component in the plant risk management. Operating emergencies that may have an adverse impact on the assets, people and the environment are managed by the operating (business) units for each site. These units manage the HSE risk through a systematic way that involves having emergency response plans in place with a number of corrective actions to be taken that minimise damage in the event of an incident. In the case of major crisis, Division/Entity are assisted by the Eni Unit of Crises to deal with the emergency through a team which have the necessary training and skills to coordinate in a timely and efficient manner resources and facilities.
The integrated management system on health, safety and environmental matters is supported by the adoption of a Eni s Model of

HSE operations in all the Division and companies of Eni Group. This is a procedure based on an annual cycle of planning, implementation, control, review of results and definition of new objectives. The model is directed towards the prevention of risks, the systematic monitoring and control of HSE performance, in a continuous improvement cycle, also subject to audits by internal and independent experts. Eni has major facilities certified to international environmental standards, such as ISO14001, OHSAS 18001 and EMAS particularly in the Petrochemicals and Refining & Marketing division.
Eni provides a program of specific training and development for HSE staff in order to:
- Promote the execution of behaviours consistent with guidelines.
- Drive people s learning growth process by developing professionalism, management and corporate culture.
- Support management knowledge and control of HSE risks.

Further information on HSE activities, projects and R&D undertaken is provided on the Eni s Intranet site.

**Possible evolution of the Italian gas market**

Legislative Decree No. 164/2000 opened the Italian natural gas market to competition, impacting on Eni s activities, as the company is engaged in all the phases of the natural gas chain. The opening to competition was achieved through the enactment of certain antitrust thresholds on volumes input into the national transport network and on volumes sold to final customers. These enabled new competitors to enter the Italian gas market, resulting in declining selling margins on gas. Other material aspects regarding the Italian gas sector regulation are the regulated access to natural gas infrastructure (transport backbones, storage fields, distribution networks and LNG terminals), and the circumstance that the Authority for Electricity and Gas is entrusted with certain powers in the matters of natural gas pricing and in establishing tariffs for the use of natural gas infrastructures. Particularly, the Authority for Electricity and Gas holds a general surveillance power on pricing in the natural gas market in Italy and the power to establish selling tariffs for supply of natural gas to residential and commercial users consuming less than 200,000 cubic meters per year (qualified as non eligible customers at December 31, 2002 as defined by Legislative Decree No. 164/2000) taking into account the public goal of containing the inflationary pressure due to rising energy costs. Accordingly, decisions of the Authority on these matters may limit the ability of Eni to pass an increase in the cost of fuels onto final consumers of natural gas. As a matter of fact, following a complex and lengthy administrative procedure started in 2004 and finalized in March 2007 with Resolution No. 79/2007, the Authority finally established a new indexation mechanism for updating the raw material cost component in supplies to residential and commercial users consuming less than 200,000 cubic meters per year, establishing, among other things: (i) that an increase in the international price of Brent crude oil is only partially transferred to residential and commercial users of natural gas in case international prices of Brent crude oil exceed the 35 dollars per barrel threshold; and (ii) that Italian natural gas importers including Eni must renegotiate wholesale supply contracts in order to take account of this new indexation mechanism.
In order to meet the medium and long-term demand for natural gas, in particular in the Italian market, Eni entered into long-term purchase contracts with producing countries. These contracts which contain take-or-pay clauses, will ensure total supply volumes of approximately 62.4 bcm/y of natural gas to Eni by 2010. Despite the fact that an increasing portion of natural gas volumes purchased under said contracts is planned to be sold outside Italy, management believes that in the long-term unfavorable trends in the Italian demand and supply for natural gas, also due to the possible implementation of all publicly announced plans for the construction of new import infrastructure (backbone upgrading and new LNG terminals), and possible evolution of Italian regulatory framework, represent risk factors to the fulfillment of Eni s obligations in connection with its take-or-pay supply contracts. Particularly, should natural gas demand in Italy grow at a lower pace than management expectations, also in view of expected developments in the supply of natural gas to Italy, Eni could face a further increase in competitive pressure on the Italian gas market resulting in a negative impact on its selling margins, taking account of Eni s gas availability under take-or-pay supply contracts and execution risks in increasing its sales volumes in European markets.

**Specific risks associated with the exploration and production of oil and natural gas**

The exploration and production of oil and natural gas requires high levels of capital expenditure and entails particular economic risks. It is subject to natural hazards and other uncertainties including those relating to the physical characteristics of oil or natural gas fields. Exploratory activity involves numerous risks including the risk of dry holes or failure to find commercial quantities of hydrocarbons. Developing and marketing hydrocarbons reserves typically requires several years after a discovery is made. This is because a development project involves an array of complex and lengthy activities, including appraising a discovery in order to evaluate its commerciality, sanctioning a development project and building and commissioning relating facilities. As a consequence, rates of return of such long-lead-time projects are exposed to the volatility of oil and gas prices and the risk of an increase in developing and lifting costs, resulting in lower rates of return. This set of circumstances is particularly important to those projects intended to develop reserves located in deep water and hostile environments, where the majority of Eni s planned and ongoing projects is located.

### Managing sources of funds

Eni management makes use of the leverage as financial measure to assess the soundness and efficiency of the Group balance sheet in terms of optimal mix between net borrowings and net equity, and to carry out benchmark analysis with industry standards. Leverage is a measure of company s level of indebtedness, calculated as the ratio between net borrowings and shareholders equity, including minority interests. In the medium term, management plans to target a level of leverage up to 0.4 which is intended to provide an efficient capital structure and the appropriate level of financial flexibility.

### Other information about financial instruments

The book value of financial instruments and relevant economic effect consisted of the following:

| | | Finance income (expense) recognized in | |
|---|---|---|---|
| (million euro) | Carrying amount | Profit and loss account | Equity |
| **Held-for-trading financial instruments** | | | |
| Non-hedging derivatives [(a)] | 217 | 78 | |
| **Held-to-maturity financial instruments** | | | |
| Securities | 21 | | |
| **Available-for-sale financial instruments** | | | |
| Securities [(a)] | 433 | 39 | (6) |
| **Receivables and payables and other assets/liabilities valued at amortized cost** | | | |
| Trade and receivables and other [(b)] | 19,606 | (242) | |
| Financing receivables [(a)] | 2,276 | 112 | |
| Trade payables and other [(c)] | 17,533 | 3 | |
| Financing payables [(a)] | 19,830 | (558) | |
| **Assets at fair value through profit or loss (fair value option)** | | | |
| Investments [(a)] | 2,476 | 188 | |
| **Net liabilities for hedging derivatives** [(a)] | 2,241 | (52) | (2,237) |

(a) Gains or losses were recognized in the profit and loss account within "Finance income (expense)".
(b) In the profit and loss account, impairments and losses on receivables were recognized within "Purchase, services and other" for euro 177 million whilst negative exchange differences arising from accounts denominated in foreign currency and translated into euro at year-end were recognized within "Finance income (expense)" for euro 6 million.
(c) Positive exchange differences arising from accounts denominated in foreign currency and translated into euro at year-end were recognized in the profit and loss account within "Finance income (expense)".

## Legal Proceedings

Eni is a party to a number of civil actions and administrative proceedings arising in the ordinary course of business. Based on information available to date, and taking account of the existing risk provisions, Eni believes that the foregoing will not have an adverse effect on Eni s Consolidated Financial Statements.
Following is a description of the most significant proceedings currently pending; unless otherwise indicated below, no provisions have been made for these legal proceedings as Eni believes that negative outcomes are not probable or because the amount of the provision can not be estimated reliably.

198

## 1. Environment

### 1.1 Criminal proceedings

### ENI SPA

**(i)** **Subsidence.** The Court of Rovigo performed the investigations concerning a subsidence phenomenon allegedly caused by hydrocarbon exploration and extraction activities in the Ravenna and North Adriatic area both on land and in the sea. Eni constituted an independent and interdisciplinary scientific commission, composed of prominent and highly qualified international experts of subsidence caused by hydrocarbon exploration and extraction activities, with the aim of verifying the size and effects and any appropriate actions to reduce or to neutralize any subsidence phenomenon in the area. This commission produced a study which denies the possibility for any risk for human health and for damage to the environment. It also states that no example is known anywhere in the world of accidents that caused harm to the public safety caused by subsidence induced by hydrocarbon production. The study also shows that Eni employs the most advanced techniques for the monitoring, measuring and control of the soil. This proceeding is in the first level hearing stage. The Veneto Region, other local bodies and two private entities have been acting as plaintiffs. Eni was admitted as defendant in order to claim own responsibilities. The Court decided that the proceeding must be heard by the Court of Ravenna.

**(ii)** **Alleged damage.** In 2002, the public prosecutor of Gela started a criminal investigation in order to ascertain alleged damage caused by emissions of the Gela plant, owned by Polimeri Europa SpA, Syndial SpA (former EniChem SpA) and Raffineria di Gela SpA. The Judge for preliminary hearing dismisses the accusation of adulteration of foodstuff, while the proceeding for the other allegations remains underway.

**(iii)** **Negligent fire in the refinery of Gela.** In June 2002, in connection with a fire at the refinery of Gela, a criminal investigation began concerning negligent fire, environmental crimes and crimes against natural beauty. First degree proceedings ended with an acquittal sentence. In November 2007 the public prosecutor of Gela and of Caltanissetta filed an appeal against this decision.

**(iv)** **Investigation of the quality of ground water in the area of the refinery of Gela.** In 2002, the public prosecutor of Gela started a criminal investigation concerning the refinery of Gela to ascertain the quality of ground water in the area of the refinery. Eni is charged of having breached environmental rules concerning the pollution of water and soil and of illegal disposal of liquid and solid waste materials. The preliminary hearing phase was closed for one employee who would stand trial, while for the other plaintiffs the preliminary hearing phase is not yet completed.

**(v)** **Intentional poisoning (Priolo).** In March 2002, the public prosecutor of Siracusa started an investigation concerning the activity of the refinery of Priolo in order to ascertain whether infiltrations of refinery products into the deep water-bearing stratum used for human consumption purposes in the Priolo area had occurred. The Court entrusted a company specialized in such field with the task of verifying the cause, origin and extension of the alleged infiltration. For protective purposes, remedial actions have been taken in order to: (i) create safety measures and clean-up of the polluted area; (ii) reallocate wells for drinking water in an area farther from and higher than the industrial site; and (iii) install a purification system for drinkable water. In September 2007 the judge for preliminary investigation filed a request to dismiss this proceeding.

**(vi)** **Negligent fire (Priolo).** The public prosecutor of Siracusa started an investigation against certain Eni managers who were previously in charge of conducting operations at Priolo refinery (Eni divested this asset in 2002) in order to ascertain whether they acted with negligence in connection with a fire that occurred at the Priolo plants on April 30 and May 1-2, 2006. After preliminary investigations the public prosecutor requested the opening of a proceeding against the mentioned managers for negligent behavior. The hearing date for the opening of the proceeding has been set.

**ENIPOWER SPA**

**(i)** **Unauthorized waste management activities.** In 2004 the public prosecutor of Rovigo started an investigation for alleged crimes related to unauthorized waste management activities in Loreo relating to the samples of soil used during the construction of the new EniPower power station in Mantova. The prosecutor requested the CEO of EniPower and the managing director of the Mantova plant at the time of the alleged crime to stand trial.

**(ii)** **Air emissions.** The public prosecutor of Mantova started an investigation against two managers of the Mantova plant in connection with air emissions by the new power plant.

**SYNDIAL SPA (FORMER ENICHEM SPA)**

**Criminal action started by the public prosecutor of Brindisi.** In 2000, the public prosecutor of Brindisi started a criminal action against 68 persons who are employees or former employees of companies that owned and managed plants for the manufacture of dichloroethane, vinyl chloride monomer and vinyl polychloride from the early 1960s to date, some of which were managed by EniChem from 1983 to 1993. At the end of the preliminary investigation, the public prosecutor asked for the dismissal of the case in respect of the employees and the managers of EniChem. Plaintiffs presented oppositions and the prosecutor confirmed the request to dismiss the case, rejecting such oppositions.

**1.2 Civil and administrative proceedings**

**SYNDIAL SPA (FORMER ENICHEM SPA)**

**(i)** **Pollution caused by the activity of the Mantova plant.** In 1992, the Ministry of Environment summoned EniChem SpA (now Syndial SpA) and Montecatini SpA before the Court of Brescia. The Ministry requested, primarily, environmental remediation for the alleged pollution caused by the activity of the Mantova plant from 1976 until 1990, and provisionally, in case there was no possibility to remediate, the payment of environmental damages. Parties agreed on a settlement by which Edison quantified compensation for environmental damage freeing from any obligation Syndial, which purchased the plant in 1989. The proceeding continues for the settlement of alleged damage pertaining to the residual 1989-1990 period.

**(ii)** **Summon before the Court of Venice for environmental damages caused to the lagoon of Venice by the Porto Marghera plants.** On December 13, 2002, EniChem SpA (now Syndial SpA), jointly with Ambiente SpA (now merged into Syndial SpA) and European Vinyls Corporation Italia SpA, was summoned before the Court of Venice by the Province of Venice. The province requested compensation for environmental damages that were not quantified, caused to the lagoon of Venice by the Porto Marghera plants, which were already the subject of two previous criminal proceedings against employees and managers of the defendants. EVC Italia and Ineos presented an action to be indemnified by Eni s Group companies in case the alleged pollution is proved.

**(iii)** **Claim of environmental damages, caused by industrial activities in the area of Crotone, commenced by the President of the Regional Council of Calabria.** On April 14, 2003, the President of the Regional Council of Calabria, as Delegated Commissioner for Environmental Emergency in the Calabria Region, started an action against EniChem SpA (now Syndial SpA) related to environmental damages for approximately euro 129 million and damages for euro 250 million (plus interest and compensation) in connection with loss of income and damage to property allegedly caused by Pertusola Sud SpA activities (merged into EniChem) in the area of Crotone. In addition, the Province of Crotone is acting as plaintiff, claiming environmental damages for euro 300 million. With a decision of May 2007, the Court of Milan declared the invalidity of the power of proxy conferred to the Delegated Commissioner to act on behalf of the Calabria Region with the notice served to Syndial SpA and decided the liquidation of expenses born by the defendant. The Province of Crotone appealed this decision. On October 21, 2004, Syndial was convened before the Court of Milan by the Calabria Region which is seeking to obtain a condemnation of Syndial for a damage payment, should the office of the Delegated Commissioner for Environmental Emergency in the Calabria Region cease during this proceeding. The Calabria Region requested damage payment amounting to euro 800 million as already requested by the Delegated Commissioner for environmental emergency in the Calabria Region in the proceeding started in 2003. This new proceeding is in the preliminary investigation stage. The unification of this proceeding with the one requested by the Ministry of interior affairs has been requested. The Judge has not yet responded to this request.

In 2006, the Council of Ministers, Ministry for the Environment and Delegated Commissioner for Environmental Emergency in the Calabria Region represented by the State Lawyer requested Syndial to appear before the Court of Milan in order to obtain the ascertainment, quantification and payment of damage (in the form of land, air and water pollution and therefore of the general condition of the population) caused by the operations of Pertusola Sud SpA in the Municipality of Crotone and in surrounding municipalities. The local authorities requested the ascertainment of Syndial s responsibility as concerns expenses borne and to be borne for the cleanup and reclamation of sites, currently quantified at euro 129 million. This proceeding concerns the same matter and damage claim as the proceedings started by the Delegated Commissioner for Environmental Emergency in the Calabria Region and the Calabria Region against Syndial in 2003 and 2004, respectively.

**(iv) Summon for environmental damage caused by DDT pollution in the Lake Maggiore.** A proceeding is pending before the Court of Turin by which the Minister of the Environment summoned Syndial SpA and requested environmental damage for euro 2,396 million in relation to alleged DDT pollution at Lake Maggiore caused by the Pieve Vergonte plant. On March 1, 2006, the State Lawyer in an attempt to settle the case proposed Syndial to pay 10% of this claim corresponding to euro 239 million. This settlement attempt failed. The Italian Ministry enacted a ministerial decree providing for the: (i) upgrading of a hydraulic barrier to protect the site; and (ii) presentation of a project for the environmental remediation of Lake Maggiore. Syndial opposed this decree before an Administrative Court. The Council of State suspended the enactment of the ministerial decree. The proceeding of the Administrative Court is pending.

(v) **Action started by the Municipality of Carrara for the remediation and reestablishment of previous environmental conditions at the Avenza site and payment of the environmental damage.** The Municipality of Carrara started an action before the Court of Genova requesting Syndial SpA to remediate and restore previous environmental conditions at the Avenza site and the payment of certain environmental damage which cannot be cleaned up plus further damage of various types (i.e. damage to the natural beauty of this site). This request is related to an accident that occurred in 1984, as a consequence of which EniChem Agricoltura SpA (later merged into Syndial SpA), at the time owner of the site, carried out safety and remediation works. The Ministry of the Environment joined the action and requested environmental damage payment from a minimum of euro 53.5 million to a maximum of euro 93.3 million to be broken down among the various companies that ran the plant in the past. In fact, Syndial summoned Rumianca SpA, Sir Finanziaria SpA and Sogemo SpA, who ran the plant in previous years, in order to be guaranteed. A report made by an independent expert charged by the Judge was filed with the Court. The findings of this report quantify the residual environmental damage at euro 15 million. A final decision on this proceeding is pending.

(vi) **Ministry for the Environment - Augusta harbor.** The Italian Ministry for the Environment with various administrative acts ordered companies running plants in the petrochemical site of Priolo to perform safety and environmental remediation works in the Augusta harbor. Companies involved include Eni subsidiaries Polimeri Europa and Syndial. Pollution has been detected in this area primarily due to a high mercury concentration which is allegedly attributed to the industrial activity of the Priolo petrochemical site. Polimeri Europa opposed said administrative acts, objecting in particular the way by which remediation works have been designed and information on concentration of pollutants has been gathered. The Regional Administrative Court of Catania with decision of July 2007 annulled the decision made by the Service Conference of the Ministry of the Environment concerning Priolo and the Augusta harbour. The Ministry and the municipalities of Augusta and Melilli filed a claim with the Administrative Court of the Sicilia Region. In January 2008 the Regional Court of Catania accepted the two claims, while the decision of the Administrative Court of Lazio is still pending.

## 2. Other judicial or arbitration proceedings

### SYNDIAL SPA (FORMER ENICHEM SPA)

(i) **Serfactoring: disposal of receivables.** In 1991, Agrifactoring SpA commenced proceedings against Serfactoring SpA, a company 49% owned by Sofid SpA which is controlled by Eni SpA. The claim relates to an amount receivable of euro 182 million for fertilizer sales (plus interest and compensation for inflation), originally owed by Federconsorzi to EniChem Agricoltura SpA (later Agricoltura SpA - in liquidation), and Terni Industrie Chimiche SpA (merged into Agricoltura SpA - in liquidation), that has been merged into EniChem SpA (now Syndial SpA). Such receivables were transferred by Agricoltura and Terni Industrie Chimiche to Serfactoring, which appointed Agrifactoring as its agent to collect payments. Agrifactoring guaranteed to pay the amount of such receivables to Serfactoring, regardless of whether or not it received payment on the due date. Following payment by Agrifactoring to Serfactoring, Agrifactoring was placed in liquidation and the liquidator of Agrifactoring commenced proceedings in 1991 against Serfactoring to recover such payments (equal to euro 182 million) made to Serfactoring based on the claim that the foregoing guarantee became invalid when Federconsorzi was itself placed in liquidation. Agricoltura and Terni Industrie Chimiche brought counterclaims

against Agrifactoring (in liquidation) for damages amounting to euro 97 million relating to acts carried out by Agrifactoring SpA as agent.
The amount of these counterclaims has subsequently been reduced to euro 46 million following partial payment of the original receivables by the liquidator of Federconsorzi and various setoffs. These proceedings, which have all been joined, were decided with a partial judgment, deposited on February 24, 2004; the request of Agrifactoring has been rejected and the company has been ordered to pay the sum requested by Serfactoring and damages in favor of Agricoltura, to be determined following the decision. Agrifactoring appealed this partial decision, requesting in particular the annulment of the first step judgment, the reimbursement of euro 180 million from Serfactoring along with the rejection of all its claims and the payment of all proceeding expenses.
The judge of the Court of Rome, responsible for the determination of the amount of damages to be paid to Serfactoring and Agricoltura decided on May 18, 2005 to suspend this determination until the publication of the decision of the Court of Appeals. On argument, Serfactoring and Syndial requested that the final decision Court return the case to its original court. The Court of Cassation accepted the appeal and the return of the case to its original court.

**ENI SPA**

**(i)** **Fintermica.** Fintermica presented a claim towards Eni concerning the management of the Jacorossi joint venture with reference to an alleged abuse of key roles played by Eni SpA in the joint venture thus damaging the other partner s interest and the alleged dilatory behavior of Syndial in selling its interest in the joint venture to Fintermica. The parties decided to start an arbitration on the matter. The examining phase has started.

**SNAMPROGETTI SPA**

**(i)** **CEPAV Uno and CEPAV Due.** Eni holds interests in the CEPAV Uno (50.36%) and CEPAV Due (52%) consortia that in 1991 signed two contracts with TAV SpA for the construction of two railway tracks for high speed/high capacity trains from Milan to Bologna (under construction) and from Milan to Verona (in the design phase). With regard to the project for the construction of the line from Milan to Bologna, an Addendum to the contract between CEPAV Uno and TAV was signed on June 27, 2003, redefining certain terms and conditions of the contract. Subsequently, the CEPAV Uno consortium requested a time extension for the completion of works and a claim amounting to euro 800 million. CEPAV Uno and TAV failed to solve this dispute amicably, CEPAV Uno notified TAV a request for arbitration as provided for under terms of the contract was notified on April 27, 2006.
With regard to the project for the construction of the tracks from Milan to Verona, in December 2004, CEPAV Due presented the final project, prepared in accordance with Law No. 443/2001 on the basis of the preliminary project approved by an Italian governmental authority (CIPE). As concerns the arbitration procedure requested by CEPAV Due against TAV for the recognition of cost incurred by the Consortium in the 1991-2000 ten-year period plus suffered damage, in January 2007, the arbitration committee came to a partial decision in support of CEPAV Due confirming the claim of the Consortium to recover costs incurred in connection with design activities performed until 2000 in addition to damage arising from the belatedly convened meeting of interested local authorities by TAV. A technical survey is underway to establish an evaluation of the compensation to be awarded to the Consortium as requested by the arbitration committee for the final resolution. In April 2007, the consortium filed an appeal against Law Decree No. 7 of January 31, 2007 converted into Law No. 40/2007 of April 2, 2007, revoking the concessions awarded to TAV with the Regional Administrative Court of Latium. In a Decision published on July 12, 2007, this Regional Court suspended the revocation provided by Law No. 40/2007 and requested the judgment of the European Court of Justice on the dispute between the provisions of said law and the European Treaty. TAV committed itself not to request the reimbursement of advances paid until the decision of the European Court.

**3. Antitrust, EU Proceedings, Actions of the Italian Authority for Electricity and Gas and of Other Regulatory Authorities**

**3.1 Antitrust**

**ENI SPA**

**(i)** **Abuse of dominant position of Snam verified by the Italian Antitrust Authority.** In March 1999, the Italian Antitrust Authority concluded its investigation started in 1997 and: (i) verified that Snam SpA (merged in Eni SpA in 2002) abused its dominant position in the market for the transportation and primary distribution of natural gas relating to the transportation and distribution tariffs applied to third parties and the access of third parties to infrastructure; (ii) fined Snam for euro 2 million; and (iii) ordered a review of these practices relating to such abuses. Snam believes it has complied with existing legislation and appealed the decision with the Regional Administrative Court of Lazio requesting its suspension. On May 26, 1999, stating that these decisions are against Law No. 9/1991 and the European Directive 98/30/EC, this Court granted the suspension of the decision. The Authority did not appeal this decision. The decision on the merit of this dispute is still pending before the same Administrative Court.

**(ii) Formal assessment started by the Commission of the European Communities for the evaluation of alleged participation to activities limiting competition in the field of paraffin.** On April 28, 2005, the Commission of the European Communities started a formal assessment to evaluate the alleged participation of Eni and its subsidiaries to activities limiting competition in the field of paraffin. The alleged violation of competition would have consisted in: (i) the determination of and increase in prices; (ii) the subdivision of customers; and (iii) exchange of trade 134 secrets, such as production capacity and sales volumes. After, the Commission requested information on Eni s activities in the field of paraffins and certain documentation acquired by the Commission during an inspection. Eni filed the requested information. This proceeding is a preliminary investigation stage following the communication of a statement of objections by the European Commission. Eni accrued a provision against this proceeding. The final hearing was held in December 2007.

**(iii) Ascertainment by the European Commission of the level of competition in the European natural gas market.** As part of its activities to ascertain the level of competition in the European natural gas market, with Decision No. C(2006)1920/1 of May 5, 2006, the European Commission informed Eni on May 16, 2006 that Eni and its subsidiaries were subject to an inquiry under Article 20, paragraph 4 of the European Regulation No. 1/2003 of the Council in order to verify the possible existence of any business conducts breaching European rules in terms of competition and intended to prevent access to the Italian natural gas wholesale market and to subdivide the market among few operators in the activity of supply and transport of natural gas. Officials from the European Commission conducted inspections at headquarters of Eni and of certain Eni subsidiaries and collected documents. Similar actions have been performed by the Commission also against the main operators in natural gas in Germany, France, Austria and Belgium. In April 2007, the European Commission made known its decision to start a further stage of inquiry, as elements collected so far induced the suspicion that Eni adopted behaviors leading to capacity hoarding and strategic underinvestment in the transmission system leading to the foreclosure of competitors and harm for competition and customers in one or more supply markets in Italy . In the same documents, the Commission states that It is important to note that the initiation of proceedings does not imply that the Commission has conclusive proof of an infringement. It only signifies that the Commission will conduct an in-depth investigation of the case as a matter of priority .

**(iv) TTPC.** In April 2006, Eni filed a claim before the Regional Administrative Court of Lazio against the decision of the Italian Antitrust Authority of February 15, 2006 stating that Eni s behavior pertaining to implementations of plans for the upgrading of the TTPC pipeline for importing natural gas from Algeria represented an abuse of dominant position under Article 82 of the European Treaty and fined Eni. The initial fine amounted to euro 390 million and was reduced to euro 290 million in consideration of Eni s commitment to perform actions favoring competition among which the upgrading of said gasline. Eni accrued a provision with respect to this proceeding. With a decision filed on November 29, 2006, the Regional Administrative Court of Lazio partially accepted Eni s claim, annulling such part of the Authority s decision where the fine was quantified. Eni is waiting for the filing of the motivations of the Court decision to ascertain the impact of said decision. Pending this development, the payment of the fine has been voluntarily suspended. In 2007, the Regional Administrative Court of Lazio accepted in part Eni s claim and cancelled the quantification of the fine based on the Antitrust Authority s inadequate evaluation of the circumstances presented by Eni. Eni filed an appeal with the Council of State, as did the Antitrust Authority and TTPC. Pending the final outcome, Eni awaits for the determination of the amount of the fine to be paid.

**POLIMERI EUROPA SPA AND SYNDIAL SPA**

**(i) Inquiries in relation to alleged anti-competitive agreements in the area of elastomers.** In December 2002, inquiries were commenced concerning alleged anti-competitive agreements in the area of elastomers. These inquiries were commenced concurrently by European and U.S. authorities.
At present, proceedings are pending before the European Commission regarding the CR and NBR products. With regard to the proceeding about alleged violations of European competition laws in the field of CR in the years 1993-2002.

In March 2007, the Commission sent to Eni, Polimeri Europa and Syndial a statement of objections, thus opening the second phase of this proceeding. In December 2007, The European Commission dismissed Syndial s position on CR and inflicted to Eni and Polimeri a fine amounting to euro 132.160 million. The two companies have filed an appeal with the EU Court if first instance against this decision and, at the same time, paid the fine in March 2008. Investigations about other elastomers products resulted in the ascertainment of Eni having infringed European competition laws in the field of synthetic rubber production (BR and ESBR). On November 29, 2006, the Commission fined Eni and its subsidiary Polimeri Europa for an amount of euro 272.25 million. Eni and its subsidiary filed claims against this decision before the first instance European Court in February 2007. The Commission filed a counterappeal. Pending the outcome, Polimeri Europa presented a bank guarantee for euro 200 million and paid the residual amount of the fine. In August 2007, Eni presented request for a negative ascertainment with the Court of Milan aimed at proving the inexistence of alleged damages suffered by tire manufacturers.

With regard to NBR, an inquiry is underway also in the U.S., where class actions have also been started. On the federal level, the class action was abandoned by the plaintiffs. The federal judge has yet to acknowledge this abandonment. With regard to other products under investigation in the U.S., settlements were reached with both relevant U.S. antitrust authorities and the plaintiffs acting through a class action.

Eni recorded a provision for these matters.

### 3.2 Regulation

**Inquiry of the Italian Authority for Electricity and Gas regarding information to clients about the right to pay amounts due for natural gas sales in instalments.** With Decision No. 228/2007, the Italian Authority for Electricity and Gas commenced a formal inquiry regarding information to clients about the right to pay amounts due for the natural gas sales in instalments in order to possibly impose the interruption of behaviour allegedly infringing clients rights and impose a fine. Eni accrued a provision for this proceeding.

**DISTRIBUDORA DE GAS CUYANA SA**
**Formal investigation of the agency entrusted with the regulations for the natural gas market in Argentina.** The agency entrusted with the regulations for the natural gas market in Argentina ( Enargas ) started a formal investigation on some operators, among these Distribuidora de Gas Cuyana SA, a company controlled by Eni. Enargas stated that the company improperly applied calculated conversion factors to volumes of natural gas invoiced to customers and requested the company to apply the conversion factors imposed by local regulations from the date of the default notification (March 31, 2004) without prejudice to any damage payment and fines that may be decided after closing the investigation. In April 2004 the company filed a defensive memorandum. On April 28, 2006 the company formally requested the acquisition of documents from Enargas in order to have access to the documents on which the allegations are based.

### 4. Tax Proceedings

**ENI SPA**
**ICI Pineto.** With a formal assessment presented by the Municipality of Pineto (Teramo) in December 1999, Eni SpA has been accused of not having paid a municipal tax on real estate for the period from 1993 to 1998 on four oil platforms located in the Adriatic Sea territorial waters in front of the coast of Pineto. Eni was requested to pay a total of approximately euro 17 million including interest and a fine for lacking payment and tax declaration. Eni filed a claim against this request stating that the sea where the platforms are located is not part of the municipal territory and the tax application as requested by the municipality lacked objective fundamentals. The claim has been accepted in the first two degrees of judgment at the Provincial and Regional Tax Commissions. But the final decision Court cancelled both judgments declaring that a municipality can consider requesting a tax on real estate also in the sea facing its territory and with a decision of February 2005 sent the proceeding to another section of the Regional Tax Commission in order to judge on the matters of the proceeding. On February 22, 2007 the Commission held its hearing and the filing of the judgement is pending. On December 28, 2005, the Municipality of Pineto presented the same request for the same platforms for the years 1999 to 2004. The total amount requested from Eni is euro 24 million including interest and penalties. Eni filed a claim against this request which was accepted by the first degree judge with a decision of December 4, 2007.

**AGIP KARACHAGANAK BV**
**Claims concerning unpaid taxes and relevant payment of interest and penalties.** In July 2004, relevant Kazakh authorities informed Agip Karachaganak BV and Agip Karachaganak Petroleum Operating BV, shareholder and operator of the Karachaganak contract, respectively, on the final outcome of the tax audits performed for fiscal years 2000 to 2003. Claims by the Kazakh authorities concern unpaid taxes for a total of $43 million, net to Eni, and the anticipated offsetting of VAT credits for $140 million, net to Eni, as well as the payment of interest and penalties for a total of $128 million. Both companies filed a counterclaim. With an agreement reached on November 18, 2004, the original amounts were reduced to $26 million net to Eni that includes taxes, surcharges and interest. Meetings continue regarding residual matters. Eni recorded a provision for this matter.

**AGIP KCO NV**

In December 2007 the Kazakh tax authority filed a notice of tax assessment for fiscal years 2004 to 2006 to Agip KCO, operator of the Kashagan contract. Allegedly unpaid taxes, including interest and penalties, amount to approximately $235 million net to Eni and relate to unpaid amounts and inapplicable deductions on value added tax and the default in applying certain withholding taxes on payments to foreign suppliers. The same notice also informs the companies parties to the Kashagan contract that further assessments are pending on undeductible costs for $188 million net to Eni and higher taxable income of Kazakh organizations for $48 million net to Eni. The company filed an appeal. Eni made a provision on this matters.

**5. Court Inquiries**

- **(i) EniPower.** In June 2004 the Milan Public Prosecutor started inquiries into contracts awarded by Eni s subsidiary EniPower and on supplies from other companies to EniPower. The media has widely covered these inquiries. It emerged that illicit payments were made by EniPower suppliers to a manager of EniPower who was immediately dismissed. The Court presented EniPower (commissioning entity) and Snamprogetti (contractor of engineering and procurement services) with notices of process in accordance with existing laws regulating administrative responsibility of companies (Legislative Decree No. 231/2001). In its meeting of August 10, 2004, Eni s Board of Directors examined the above mentioned situation and Eni s CEO approved the creation of a task force in charge of verifying the compliance with Group procedures regarding the terms and conditions for the signing of supply contracts by EniPower and Snamprogetti and the subsequent execution of works. The Board also advised divisions and departments of Eni to fully cooperate in every respect with the Court. From the inquiries performed, no default in the organization emerged, nor deficiencies in internal control systems. External experts have performed inquiries with regard to certain specific aspects. In accordance with its transparency and firmness guidelines, Eni will take the necessary steps in acting as plaintiff in the expected legal action in order to recover any damage that could have been caused to Eni by the illicit behavior of its suppliers and of their and Eni employees. In the meantime, preliminary investigations have found that both EniPower and Snamprogetti are not to be considered defendants in accordance with existing laws regulating administrative responsibility of companies (Legislative Decree No. 231/2001). In August 2007, Eni was notified that the Public Prosecutor requested the dismissal of EniPower SpA and Snamprogetti SpA, while the proceeding continues against former employees of these companies and employees and managers of suppliers under the provisions of Legislative Decree No. 231/2001. Eni SpA, EniPower and Snamprogetti presented themselves as plaintiffs in the preliminary hearing.
- **(ii) Trading.** An investigation is pending regarding two former Eni managers who were allegedly bribed by third parties in order to favor the closing of certain transactions with two oil product trading companies. Within such investigation, on March 10, 2005, the public prosecutor of Rome notified Eni two judicial measures for the seizure of documentation concerning Eni s transactions with said companies. Eni is acting as plaintiff in this proceeding. Due to lack of evidence supporting this charge in a trial, the Public Prosecutor filed a request for dismissing this proceeding.
- **(iii) TSKJ Consortium - Investigations of SEC and other Authorities.** As concerns the inquiries of the U.S. Securities and Exchange Commission (SEC) and other authorities on the TSKJ consortium in which Eni s subsidiary Snamprogetti has a 25% stake (Eni s interest in Snamprogetti is 43.54%) in relation to the construction of natural gas liquefaction facilities at Bonny Island in Nigeria, no relevant developments are to be reported in addition to what stated in Eni s 2006 Annual Report.
- **(iv) Gas Metering.** On May 28, 2007, a seizure order (in respect to certain documentation) was served upon Eni and other Group companies as part of a proceeding brought by the Public Prosecutor at the Courts of Milan. The order was also served upon five top managers of the Group companies in addition to third party companies and their top managers. The investigation alleges behavior which breaches Italian criminal law, starting from 2003, regarding the use of instruments for measuring gas, the related payments of excise duties and the billing of clients as well as relations with the Supervisory Authorities. The allegation regards, inter alia, the offence contemplated by Legislative Decree of June 8, 2001, No. 231, which establishes the liability of the legal entity for crimes committed by its employee in the interests of such legal entity, or to its advantage. Accordingly, notice of the start of investigations was served upon Eni Group companies (Eni, Snam Rete Gas and Italgas) as well as third party companies. The Group companies are cooperating with the Authorities in the investigations.
- **(v) Agip KCO NV.** In November 2007, the public prosecutor of Kazakhstan informed Agip KCO of the start of an inquiry for an alleged fraud in the assignation of a contract to the Overseas International Constructors GmbH in 2005.

**6. Settled Proceedings**

**ENI SPA**

**Inquiry of the Italian Authority for Electricity and Gas regarding the use of storage capacity conferred in years 2004-2005 and 2005-2006.** With Decision No. 37 of February 23, 2006, the Italian Authority for Electricity and Gas commenced an inquiry on a few natural gas selling companies, among which Eni, in order to possibly impose a fine or an administrative sanction regarding the use of storage capacity conferred in years 2004-2005 and 2005-2006.

For the 2004-2005 thermal year and for the period from October 1, 2005 to December 31, 2005, the Authority for Electricity and Gas supposed that given the weather of the period, the use of modulation storage capacity was featured by a higher volume of off takes with respect to the volume which would have been necessary to satisfy the commercial requirements for which the storage company entitled Eni to a priority in the conferral of storage capacity. According to the Authority for Electricity and Gas, such situation was in contrast with applicable regulation.

Eni presented an articulated and documented memoranda to claim the thesis of the Authority for Electricity and Gas regarding the alleged non compliance of Eni behaviour with regulation in force, also taking account of the circumstances under which excess off takes occurred and the subsequent authorization of the Ministry for Economic Development to use the strategic storage for the thermal year 2004-2005.
With Decision No. 281/2006 of December 6, 2006, the Authority for Electricity and Gas closed said inquiry and fined Eni by euro 90 million of which euro 45 million pertaining to the thermal year 2004-2005 and euro 45 million to the thermal year 2005-2006 as a consequence of Eni having violated regulation in force pertaining to the priorities in the conferral of storage capacity.
Eni paid the amount of this fine pertaining to the thermal year 2004-2005 in accordance to a reduced form as provided by Law No. 689/1981 and filed an appeal against Decision No. 281/2006 of the Authority for Electricity and Gas before the Regional Administrative Court of Lombardy requesting the Tribunal: (i) for the first thermal 136 year, to ascertain whether Eni is legitimate to pay in a reduced form or, in case Eni is not legitimate to do so, to annul the fine; and (ii) for the second thermal year, to annul the fine. On June 19, 2007, the Regional Administrative Court of Lombardy ruled in favour of Eni and annulled that section of Decision No. 281/2006 of the Authority for Electricity and Gas imposing a fine on Eni for thermal year 2005-2006. Among other things, the Court s ruling established that the elements collected by the Authority to fine Eni were lacking a sufficient degree of proof. With regard to thermal year 2004-2005, the Court ruled the request from Eni to ascertain its legitimacy to pay in a reduced form inadmissible being absent any opposition by the Authority. The terms for appealing this decision on part of the Authority expired. Consequently this proceeding closed without any further liability for the Company. Unutilized provision that were accrued for this proceeding in 2006 were recycled through profit and loss in 2007.

**Inquiry of the Italian Antitrust Authority in relation to collusive mechanisms for the pricing of automotive fuels distributed on the retail market.** With Decision of January 18, 2007, the Italian Antitrust Authority opened an inquiry to ascertain the existence of a possible agreement limit competition in the field of pricing of automotive fuels distributed on the retail market in Italy in violation of Article 81 of the EC Treaty. This inquiry concerns eight oil companies, among which Eni. According to the Authority, said companies would have been putting in place collusive mechanisms intended to influence the pricing of automotive fuels distributed on the retail market by way of a continuing exchange of informative flows since 2004. In April 2007, Eni filed with the Italian Antitrust Authority a proposal of initiatives, based on certain rules established by the same Authority enabling companies to reach the closure of a proceeding without sanctions or fines when they present counteractive measures designed to eliminate an infringing behaviour. In December 2007, The Antitrust Authority approved the initiatives proposed by Eni and decided to close the inquiry without ascertaining any violation and imposing any fine. In particular, Eni is engaged in initiatives designed to contain and possibly reduce the retail prices of fuels in the hyper-self selling mode until they are in line with European averages. It also committed itself to pursue agreements with large chain stores.

**STOCCAGGI GAS ITALIA SPA**
**Tariffs.** With Decision No. 26 of February 27, 2002, the Italian Authority for Electricity and Gas determined tariff criteria for modulation, mineral and strategic storage services for the period from April 1, 2002 to March 31, 2006 and effective retroactively from June 21, 2000. On March 18, 2002 Stoccaggi Gas Italia SpA (Stogit) filed its proposal of tariff for modulation, mineral and strategic storage for the first regulated period. With Decision No. 49 of March 26, 2002, the Authority for Electricity and Gas repealed Stogit s proposal and defined tariffs for the first regulated period. Stogit applied the tariff determined by the two decisions, but filed an appeal against both decisions with the Regional Administrative Court of Lombardia requesting their cancellation. With a decision dated September 29, 2003, that court rejected the appeal presented by Stogit. Stogit filed an appeal to the Council of State against the sentence which was rejected by the Council of State on January 6, 2006.

**POLIMERI EUROPA SPA**

**Violation of environmental regulations on waste management.** Before the Court of Gela a criminal action took place relating to the alleged violation of environmental regulations on waste management concerning the ACN plant and the disposal of FOK residue deriving from the steam cracking process. Defendants were found guilty and a damage payment in first instance to an environmental association acting as plaintiff was required to be made. The amount of said damage payment is immaterial. The sentence was passed to the Civil Court for the quantification of any further damage and claim. Eni appealed this sentence and was acquitted by the Court of Appeal of Caltanissetta for non existence of the crime.

**RAFFINERIA DI GELA SPA**

**Soil and sea pollution.** In 1999, the public prosecutor of Gela started an investigation in order to ascertain alleged soil and sea pollution caused by the discharge of pollutants by Eni s Gela refinery. Three environmental organizations are acting as plaintiffs and have requested damage payment for euro 551 million. With a Decision of February 20, 2007, the Court of Gela dismissed these allegations.

**SYNDIAL SPA**

**Summon for the ascertainment of responsibility in the pollution of soil of Paderno Dugnano.** In 2004, Sitindustrie SpA, which in 1996 purchased a plant in Paderno Dugnano from Enirisorse (now merged into Syndial SpA), summoned Syndial SpA before the Court of Milan, requesting to establish the Syndial SpA s responsibility in the alleged pollution of soil around the plant and to require it to pay environmental damage necessary for remediation. The Tribunal of Milan rejected the plaintiff s request with a sentence released on June 10, 2006. The deadline to appeal the Tribunal sentence expired on November 1, 2007.

**ENI SPA**

**Notification to Eni Petroleum Co Inc of a subpoena by the Department of Justice of the United States of America - Antitrust Division and request of information and documents relating to activities in the field of wax and of a deposition.** On April 28, 2005, the Department of Justice of the United States of America - Antitrust Division, notified Eni Petroleum Co Inc of a subpoena requesting information and documents relating to activities in the field of wax to be filed before June 20, 2005 and a deposition on the same date. The Company informed the department that it does not produce nor import wax in the United States of America.

**ENI SPA**

**Decree of the Lombardy Region.** With a decree dated December 6, 2000, the Lombardy Region decided that natural gas used for electricity generation is subject to an additional regional excise tax in relation to which Snam SpA (merged into Eni SpA in 2002) should substitute for the tax authorities in its collection from customers. Given interpretive uncertainties, the same decree provides the terms within which distributing companies are expected to pay this excise tax without paying any penalty. Snam SpA and the other distributing companies of Eni believe that natural gas used for electricity generation is not subject to this additional excise tax. For this reason, an official interpretation was requested from the Ministry of Finance and Economy. With a Decision of May 29, 2001, the Ministry confirmed that this additional excise tax cannot be applied. The Region decided not to revoke its decree and Snam took appropriate legal action. On the basis of action carried out by Snam, the Council of State decided on March 18, 2002 that the jurisdiction of the Administrative Court did not apply to this case. In case the Region should request payment, Eni will challenge this request in the relevant Court. The Lombardy Region decided with Regional Law No. 27/2001 that no additional tax is due from January 1, 2002 onwards, but still requested the payment of taxes due before that date. The action for the recognition of such taxes bears a five-year term. Consequently, the exercise of such action has expired.

**SNAM RETE GAS**

**Environmental tax of Sicilia Region upon the owners of primary pipelines.** With Regional Law No. 2 of March 26, 2002, the Sicilia Region introduced an environmental tax upon the owners of primary pipelines in Sicily (i.e. pipelines operating at a maximum pressure of over 24 bar). Snam Rete Gas paid eight instalments for a total of euro 86.1 million and suspended payments in December 2002 based on a decision of the Regional Administrative Court of Lombardia. At the same time, Snam Rete Gas promoted all actions required to protect its interests with Italian and European Authorities.

On June 21, 2007 the European Court of Justice declared the regional law to be contrary to European rules and to the cooperation agreement between the European Economic Community and the Peoples Democratic Republic of Algeria, under which certain products (including natural gas) imported from this country could not be subjected to customs or other duties. Following this ruling, the Sicilia Region cancelled the law introducing the tax with Regional Law No. 15 of August 21, 2007. With various the Regional Tax Commission and the Provincial Tax Commission of Palermo declared the environmental tax of the Sicilia Region illegitimate because it is contrary to European rules and condemned the Region to repay the cashed amounts.

In its budget law for 2008 the Region accrued the necessary provisions for repaying Snam Rete Gas. On February 17, 2007 the Region and Snam Rete Gas signed an agreement that provides for the repayment in six annual instalments starting from the first quarter of 2008. On March 1, 2008 Snam Rete Gas received the first payment.

### Other risks and commitments

Parent company guarantees amounted to euro 11,110 million (euro 4,911 million at December 31, 2006) and were issued in connection with certain contractual commitments for hydrocarbon exploration and production activities, quantified on the basis of the capital expenditures to be incurred. The increase of euro 6,199 million primarily related to commitments that Agip Caspian Sea BV in Kazakhstan had entered into for euro 5,605 million.

Under the convention signed on October 15, 1991 by Treno Alta Velocità - TAV SpA and CEPAV (Consorzio Eni per l Alta Velocità) Due, Eni committed to guarantee the execution of design and construction of the works assigned to the CEPAV Consortium (to which it is party) and guaranteed to TAV the correct and timely execution of all obligations indicated in the convention in a subsequent integration deed and in any further addendum or change or integration to the same. The regulation of CEPAV Due contains the same obligations and guarantees contained in the CEPAV Uno Agreement.

A commitment entered into by Eni USA Gas Marketing Llc on behalf of Cameron LNG for fulfilling certain obligations in connection with a regasification contract signed on August 1, 2005. This commitment is subject to a suspension clause and will come into force when the regasification service starts in a period included between October 1, 2008 and June 30, 2009 for an estimated total consideration of euro 226 million.

A commitment entered into by Eni USA Gas Marketing Llc on behalf of Gulf LNG Energy for the acquisition of unused regasification capacity (5.78 bcm/y) over a twenty-year period (2011-2031) for an estimated total consideration as high as $1,400 million equal to euro 951 million.

A commitment entered into by Eni USA Gas Marketing Llc on behalf of Angola LNG Supply Service for the acquisition of regasified gas at the Pascagoula plant in the United States that will come into force when the regasification service starts in a period included between 2011-2031.

Eni is liable for certain non-quantifiable risks related to contractual assurances given to acquirers of certain Eni s assets, including businesses and investments, against certain contingent liabilities deriving from tax, social security contributions, environmental issues and other matters applicable to periods during which such assets were operated by Eni. Eni believes such matters will not have a material adverse effect on the Company s results of operations and liquidity.

### Assets under concession arrangements

Eni operates under concession arrangements mainly in the Exploration & Production segment and in some activities of the Gas & Power segment and the Refining & Marketing segment. In the Exploration & Production segment contractual clauses governing mineral concessions, licenses and exploration permits regulate the access of Eni to hydrocarbon reserves. Such clauses can differ in each country. In particular, mineral concessions, licenses and permits are granted by the legal owners and, generally, entered into with government entities, State oil companies and, in some legal contexts, private owners. As a compensation for mineral concessions, Eni pays royalties and taxes in accordance with local tax legislation. Eni sustains all the operation risks and costs related to the production and development activities and it is entitled to the productions realized. In Product Sharing Agreement and in buy-back contracts, realized productions are defined on the basis of contractual agreements drawn up with State oil companies which hold the concessions. Such contractual agreements regulate the recover of costs incurred for the exploration, development and operating activities (cost oil) and give entitlement to the own portion of the realized productions (profit oil). With reference to natural gas storage in Italy, the activity is conducted on the basis of concessions with a duration that not exceed a twenty years length and it is granted by the Ministry of Productive Activities to subjects that are consistent with legislation requirements and that can demonstrate to be able to conduct a storage program that meets the public interest in accordance with the laws. In the Gas & Power segment the gas distribution activity is primarily conducted on the basis of concessions granted by local public entities. At the expiry date of the concession, it is provided compensation, defined by using criteria of business appraisal, to the outgoing operator following the sale of its own gas distribution network. Service tariffs for distribution are defined on the basis of a method established by the Authority for Electricity and Gas. Legislative Decree No. 164/2000 provides the grant of distribution service exclusively by tender, with a maximum length of 12 years. In the Refining & Marketing segment several service stations and other auxiliary assets of the distribution service are located in the motorway areas and they are granted by the motorway concession operators following a public tender for the sub-concession of the supplying of oil products distribution service and other auxiliary services. Such assets are amortized over the length of the concession (generally, 5 years for Italy). In exchange of the granting of the services described above, Eni provides to the motorway companies fixed and variable royalties on the basis of quantities sold. At the end of the concession period, all non-removable assets are transferred to the grantor of the concession.

**Environmental regulations**

Risks associated with the footprint of Eni s activities on the environment, health and safety are described in the risk section above, under the paragraph Operational risks . Regarding the environmental risk, management does not currently expect any material adverse effect upon Eni s consolidated financial statements, taking account of ongoing remedial actions, existing insurance policies to cover environmental risks and the environmental risk provision accrued in the consolidated financial statements. However, management believes that it is possible that Eni may incur material losses and liabilities in future years in connection with environmental matters due to: (i) the possibility of as yet unknown contamination; (ii) the results of the ongoing surveys and the other possible effects of statements required by Decree No. 471/1999 of the Ministry of Environment; (iii) new developments in environmental regulation; (iv) the effect of possible technological changes relating to future remediation; and (v) the possibility of litigation and the difficulty of determining Eni s liability, if any, as against other potentially responsible parties with respect to such litigation and the possible insurance recoveries.

**Emission trading**

Legislative Decree No. 216 of April 4, 2006 implemented the Emission Trading Directive 2003/87/EC concerning greenhouse gas emissions and Directive 2004/101/EC concerning the use of carbon credits deriving from projects for the reduction of emissions based on the flexible mechanisms devised by the Kyoto Protocol. This European emission trading scheme has been in force since January 1, 2005, and on this matter, on February 24, 2006, the Ministry of the Environment published a decree defining emission permits for the 2005-2007 period. In particular, Eni was assigned permits corresponding to 65.6 million tonnes of carbon dioxide (of which 22.4 for 2005, 22.4 for 2006 and 20.8 for 2007) in addition to approximately 11.7 million of permits assigned with respect to new plants in the three-year period 2005-2007. Following the realization of projects for the reduction of emissions, in particular related to the cogeneration of electricity and steam through high efficiency combined cycles in refineries and petrochemical sites, emissions of carbon dioxide from Eni s plants were lower than permits assigned in 2007. In 2007 emissions of carbon dioxide amounted to approximately 24 millions of tonnes.

# 29 Revenues

The following is a summary of the main components of "Revenues". More information about changes in revenues is provided in the Financial review section.
Net sales from operations were as follows:

| (million euro) | 2005 | 2006 | 2007 |
|---|---|---|---|
| Net sales from operations | 73,679 | 85,957 | 87,103 |
| Change in contract work in progress | 49 | 148 | 153 |
| | **73,728** | **86,105** | **87,256** |

Net sales from operations were net of the following items:

| (million euro) | 2005 | 2006 | 2007 |
|---|---|---|---|
| Excise taxes | 14,140 | 13,762 | 13,292 |
| Exchanges of oil sales (excluding excise taxes) | 2,487 | 2,750 | 2,728 |
| Services billed to joint venture partners | 1,331 | 1,385 | 1,554 |
| Sales to service station managers for sales billed to holders of credit card | 1,326 | 1,453 | 1,480 |
| Exchanges of other products | 108 | 127 | 121 |
| | **19,392** | **19,477** | **19,175** |

Net sales from operations by business segment and geographic area of destination are presented in Note 35 - Information by business segment and geographic financial information.

**Other income and revenues**

Other income and revenues were as follows:

| (million euro) | 2005 | 2006 | 2007 |
|---|---|---|---|
| Contract penalties and other trade revenues | 114 | 61 | 181 |
| Lease and rental income | 102 | 98 | 95 |
| Compensation for damages | 89 | 40 | 87 |
| Gains from sale of assets | 71 | 100 | 66 |
| Other proceeds (*) | 422 | 484 | 398 |
| | **798** | **783** | **827** |

(*) Each individual amount included herein does not exceed euro 25 million.

# 30 Operating expenses

The following is a summary of the main components of "Operating expenses". More information about changes in operating expenses is provided in the in the Financial review section.

210

### Purchases, services and other

Purchases, services and other included the following:

| (million euro) | 2005 | 2006 | 2007 |
|---|---|---|---|
| Production costs - raw, ancillary and consumable materials and goods | 35,318 | 44,661 | 44,884 |
| Production costs - services | 9,405 | 10,015 | 10,828 |
| Operating leases and other | 1,929 | 1,903 | 2,276 |
| Net provisions for contingencies | 1,643 | 767 | 591 |
| Other expenses | 1,100 | 1,089 | 1,095 |
| | **49,395** | **58,435** | **59,674** |
| less: | | | |
| - capitalized direct costs associated with self-constructed assets - tangible assets | (704) | (809) | (1,357) |
| - capitalized direct costs associated with self-constructed assets - intangible assets | (124) | (136) | (138) |
| | **48,567** | **57,490** | **58,179** |

Production costs - services include brokerage fees for euro 37 million (euro 24 million and euro 39 million in 2005 and 2006, respectively).
Costs incurred in connection with research and development activity recognized in profit and loss amounted to euro 189 million (euro 202 million and euro 219 million in 2005 and 2006, respectively) as they do not meet the requirements to be capitalized.
The item "Operating leases and other" included operating leases for euro 1,081 million (euro 777 million and euro 860 million in 2005 and 2006, respectively) and royalties on hydrocarbons extracted for euro 772 million (euro 965 million and euro 823 million in 2005 and 2006, respectively). Future minimum lease payments expected to be received under non-cancelable operating leases were as follows:

| (million euro) | 2005 | 2006 | 2007 |
|---|---|---|---|
| To be paid within 1 year | 363 | 594 | 588 |
| Between 2 and 5 years | 799 | 1,474 | 1,401 |
| Beyond 5 years | 418 | 762 | 942 |
| | **1,580** | **2,830** | **2,931** |

Operating leases primarily concerned time charter and long-term rentals of vessels, lands, service stations and office buildings. Such leases did not include renewal options. There are no significant restrictions provided by these operating leases which limit the ability of Eni to pay dividend, use assets or to take on new borrowings.
Increase of provisions for contingencies net of reversal of unutilized provisions amounted to euro 591 million (euro 1,643 million and euro 767 million in 2005 and 2006, respectively) and mainly regarded environmental risks for euro 327 million (euro 515 million and euro 248 million in 2005 and 2006, respectively), contract penalties and legal or administrative proceedings for euro 79 million (euro 336 million and euro 149 million in 2005 and 2006, respectively), and marketing initiatives awarding prizes to clients for euro 59 million (euro 50 million and euro 44 million in 2005 and 2006, respectively). More information is included in Note 22 - Provisions for contingencies.

### Payroll and related costs

Payroll and related costs were as follows:

| (million euro) | 2005 | 2006 | 2007 |
|---|---|---|---|

| | | | |
|---|---|---|---|
| Wages and salaries | 2,484 | 2,630 | 2,906 |
| Social security contributions | 662 | 691 | 690 |
| Cost related to defined benefits plans and defined contributions plans | 126 | 230 | 161 |
| Other costs | 255 | 305 | 275 |
| | **3,527** | **3,856** | **4,032** |
| less: | | | |
| - capitalized direct costs associated with self-constructed assets - tangible assets | (143) | (161) | (184) |
| - capitalized direct costs associated with self-constructed assets - intangible assets | (33) | (45) | (48) |
| | **3,351** | **3,650** | **3,800** |

Provisions for post-retirement benefits of euro 161 million included a gain deriving from the curtailment of the provisions accrued by Italian companies for employee termination indemnities ("TFR") following the changes introduced by the Italian Budget Law for 2007 and related decrees (euro 83 million). More information is included in Note 23 - Provisions for employee benefits.

**Average number of employees**

The average number and break-down of employees by category of Eni s subsidiaries were as follows:

| (million euro) | 2005 | 2006 | 2007 |
|---|---|---|---|
| Senior managers | 1,754 | 1,676 | 1,594 |
| Junior managers | 10,747 | 11,142 | 11,816 |
| Employees | 34,457 | 34,671 | 35,725 |
| Workers | 24,345 | 25,426 | 25,582 |
| | **71,303** | **72,915** | **74,717** |

The average number of employees was calculated as average between the number of employees at beginning and end of the period. The average number of senior managers included managers employed and operating in foreign countries, whose position is comparable to a senior manager status.

**Stock-based compensation**

Stock-based compensation schemes are designed to improve motivation and loyalty of the managers of Eni SpA and its subsidiaries as defined in Article 2359 of the Civil Code[12], by linking compensation to the attainment of preset individual and corporate objectives, making management participate in corporate risk and motivating them towards the creation of shareholder value.

STOCK GRANTS

Stock grants schemes provide for granting treasury shares for no consideration to those managers who have achieved corporate and individual objectives. The Company used this scheme for the 2003, 2004 and 2005 years. Grants vest within 45 days after the end of the third year from the date of the engagement.

At December 31, 2007, 902,800 grants were outstanding for assigning an equal number of treasury shares with a nominal value of euro 1 per share. These grants regarded the 2003 plan for a total of 2,500 shares with a fair value of euro 11.20 per share, the 2004 plan for a total of 1,700 shares with a fair value of euro 14.57 per share and the 2005 plan for a total of 898,600 shares with a fair value of euro 20.08 per share.

Changes in the 2005, 2006 and 2007 stock grant plans consisted of the following:

| | 2005 | | 2006 | | 2007 | |
|---|---|---|---|---|---|---|
| | Number of shares | Market price [(a)] (euro) | Number of shares | Market price [(a)] (euro) | Number of shares | Market price [(a)] (euro) |
| **Stock grants as of January 1** | **3,112,200** | **18.461** | **3,127,200** | **23.460** | **1,873,600** | **25.520** |
| New rights granted | 1,303,400 | 21.336 | | | | |
| Rights exercised in the period | (1,273,500) | 23.097 | (1,236,400) | 23.933 | (966,000) | 24.652 |
| Rights cancelled in the period | (14,900) | 22.390 | (17,200) | 23.338 | (4,800) | 26.972 |
| **Stock grants outstanding as of December 31** | **3,127,200** | **23.460** | **1,873,600** | **25.520** | **902,800** | **25.120** |
| **of which exercisable at December 31** | **38,700** | **23.460** | **156,700** | **25.520** | **68,100** | **25.120** |

(a) Market price relating to new rights granted, rights exercised in the period and rights cancelled in the period corresponds to the average market value (arithmetic average of official prices recorded on Mercato Telematico Azionario in the month preceding: (i) the date of the Board of Directors resolution regarding the stock grants assignment; (ii) the date on which the emission/transfer of the shares granted were recorded in the grantee s securities account; and (iii) the date of the unilateral termination of employment for rights cancelled), weighted with the number of shares. Market price of stock grants at the beginning and end of the year is the price recorded at December 31.

(12) Did not include listed subsidiaries, which have their own stock grant plans.

STOCK OPTION

2002-2004 AND 2005 PLANS

Stock options plans provide the right for the assignee to purchase treasury shares with a 1 to 1 ratio after the end of the third year from the date of the grant (vesting period) and for a maximum period of five years. The strike price was determined to be the arithmetic average of official prices registered on the Mercato Telematico Azionario in the month preceding the grant date or, from 2003 onwards, the average carrying amount of treasury shares as of the day preceding the assignment, if greater.

2006-2008 PLAN

The 2006-2008 stock option plan has introduced a performance condition for the exercise of the options. At the end of each three-year period (vesting period) from the assignment, the Board of Directors determine the percentage of exercisable options, from 0 to 100, in relation to the Total Shareholders Return (TSR) of the Eni s share as benchmarked against the TSR delivered by a panel of the six largest international oil companies for market capitalization. Options can be exercised for a maximum period of three years. The strike price is calculated as the arithmetic average of official prices registered on the Mercato Telematico Azionario in the month preceding assignment.

The arithmetic average of such prices, weighted with the number of shares assigned, amounts to euro 23.119 and euro 27.451 per share for 2006 and 2007, respectively.

At December 31, 2007, 17,699,625 options were outstanding for the purchase of 17,699,625 ordinary shares.

The break-down of outstanding options is the following:

- 2002 stock plan for 107,500 shares with an exercise price of euro 15.216 per share.
- 2003 stock plan for 281,400 shares with an exercise price of euro 13.743 per share.
- 2004 stock plan for 1,124,000 shares with an exercise price of euro 16.576 per share.
- 2005 stock plan for 3,812,000 shares with an exercise price of euro 22.512 per share.
- 2006 stock plan for 6,467,775 shares with an exercise price of euro 23.119 per share.
- 2007 stock plan for 5,906,950 shares with an exercise price of euro 27.451 per share.

At December 31, 2007 the weighted-average remaining contractual life of the plans at December 2002, 2003, 2004, 2005, 2006 and 2007 was 2 years and 7 months, 3 years and 7 months, 4 years and 7 months, 5 years and 7 months, 4 years and 7 months and 5 years and 7 months, respectively.

Changes of stock option plans in 2005, 2006 and 2007 consisted of the following:

| | 2005 | | | 2006 | | | 2007 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Number of shares | Weighted average (euro) | Market price [a] (euro) | Number of shares | Weighted average (euro) | Market price [a] (euro) | Number of shares | Weighted average (euro) | Market price [a] (euro) |
| **Options as of January 1** | **11,789,000** | **15.111** | **18.461** | **13,379,600** | **17.705** | **23.460** | **15,290,400** | **21.022** | **25.520** |
| New options granted | 4,818,500 | 22.512 | 22.512 | 7,050,000 | 23.119 | 23.119 | 6,128,500 | 27.451 | 27.447 |
| Options exercised in the period | (3,106,400) | 15.364 | 22.485 | (4,943,200) | 15.111 | 23.511 | (3,028,200) | 16.906 | 25.338 |
| Options cancelled in the period | (121,500) | 16.530 | 23.100 | (196,000) | 19.119 | 23.797 | (691,075) | 24.346 | 24.790 |
| **Options outstanding as of December 31** | **13,379,600** | **17.705** | **23.460** | **15,290,400** | **21.022** | **25.520** | **17,699,625** | **23.822** | **25.120** |
| **of which exercisable at December 31** | **1,540,600** | **16.104** | **23.460** | **1,622,900** | **16.190** | **25.520** | **2,292,125** | **18.440** | **25.120** |

(a) Market price relating to new rights granted, rights exercised in the period and rights cancelled in the period corresponds to the average market value (arithmetic average of official prices recorded on Mercato Telematico Azionario in the month preceding: (i) the date of the Board of Directors resolution regarding the stock grants assignment; (ii) the date in which the emission/transfer of the shares granted was recorded in the grantee s securities account; and (iii) the date in which the unilateral termination of employment for rights was cancelled), weighted with the number of shares. Market price of stock grants at the beginning and end of the year is the price recorded at December 31.

The fair value of stock options granted during the years 2002, 2003, 2004 and 2005 was euro 5.39, euro 1.50, euro 2.01, euro 3.33 per share respectively. For 2006 and 2007 the weighted average was euro 2.89 and euro 2.98 per share respectively. The fair value was determined by applying the following assumptions:

| | | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|
| Risk-free interest rate | (%) | 3.5 | 3.2 | 3.2 | 2.5 | 4.0 | 4.7 |
| Expected life | (year) | 8 | 8 | 8 | 8 | 6 | 6 |
| Expected volatility | (%) | 43.0 | 22.0 | 19.0 | 21.0 | 17.0 | 16.3 |
| Expected dividends | (%) | 4.5 | 5.4 | 4.5 | 4.0 | 5.3 | 4.9 |

Costs of the year related to stock grant and stock option plans amounted to euro 27 million (euro 35 and euro 20 million in 2005 and 2006, respectively).

**Compensation of key management**

Compensation of persons responsible for key positions in planning, direction and control functions of Eni Group, including executive and non-executive officers, general managers and manager with strategic responsibility (key management) amount to euro 15 million, euro 23 million and euro 25 million for 2005, 2006 and 2007 respectively, and consisted of the following:

| (million euro) | 2005 | 2006 | 2007 |
|---|---|---|---|
| Wages and salaries | 11 | 16 | 17 |
| Post-employment benefits | 1 | 1 | 1 |
| Other long term benefits | | 3 | 3 |
| Indemnities due upon termination of employment | 1 | | |
| Stock grant/option | 2 | 3 | 4 |
| | **15** | **23** | **25** |

**Compensation of Directors and Statutory Auditors**

Compensation of Directors amounted to euro 19.2 million, euro 8.7 million and euro 8.9 million for 2005, 2006 and 2007, respectively. Compensation of Statutory Auditors amounted to euro 0.785, euro 0.686 million and euro 0.678 million in 2005, 2006 and 2007, respectively. Compensation included emoluments and all other retributive and social security compensations due for the function of directors or statutory auditor assumed by Eni SpA or other companies included in the scope of consolidation, representing a cost for Eni.

**Depreciation, amortization and impairments**

Depreciation, amortization and impairments charges consisted of the following:

| (million euro) | 2005 | 2006 | 2007 |
|---|---|---|---|
| Depreciation and amortization: | | | |
| - tangible assets | 4,576 | 4,821 | 5,031 |
| - intangible assets | 936 | 1,335 | 2,000 |
| | **5,512** | **6,156** | **7,031** |
| Impairments: | | | |
| - tangible assets | 264 | 231 | 145 |

| | | | |
|---|---|---|---|
| - intangible assets | 8 | 54 | 62 |
| | **272** | **285** | **207** |
| less: | | | |
| - direct costs associated with self-constructed assets | | (17) | |
| - capitalized direct costs associated with self-constructed assets - tangible assets | (2) | (2) | (2) |
| - capitalized direct costs associated with self-constructed assets - intangible assets | (1) | (1) | |
| | **5,781** | **6,421** | **7,236** |

# 31 Financial income (expense)

Finance income (expense) consisted of the following:

| (million euro) | 2005 | 2006 | 2007 |
|---|---|---|---|
| Income on investments | | | 188 |
| Financial expense capitalized | 159 | 116 | 180 |
| Net income from financial receivables | 95 | 130 | 112 |
| Net income from securities | 36 | 51 | 39 |
| Interest on tax credits | 17 | 17 | 31 |
| Income (expense) on derivatives | (386) | 383 | 26 |
| Exchange differences, net | 169 | (152) | (51) |
| Net interest due to banks | (38) | 79 | (80) |
| Net interest due to other financing institutions | (56) | (101) | (129) |
| Financial expense due to passage of time (accretion discount) [(a)] | (109) | (116) | (186) |
| Interest and other financial expense on ordinary bonds | (265) | (247) | (258) |
| Other financial expense, net | 12 | 1 | 45 |
| | **(366)** | **161** | **(83)** |

(a) The item related to the increase in provisions for contingencies that are shown at present value in non-current liabilities.

Gains (losses) on financial derivatives instruments consisted of the following:

| (million euro) | 2005 | 2006 | 2007 |
|---|---|---|---|
| Derivatives on exchange rate | (85) | 313 | 120 |
| Derivatives on interest rate | (138) | 61 | 35 |
| Derivatives on commodities | (163) | 9 | (129) |
| | **(386)** | **383** | **26** |

Net gain from derivatives of euro 26 million (euro 386 million of net loss and euro 383 million of net gain in 2005 and 2006, respectively) was primarily due to the recognition in the profit and loss account of the change in fair value valuation of derivatives that cannot be qualified as hedging instruments under IFRS. In fact, since these derivatives are entered for amounts corresponding to the net exposure to exchange rate risk, interest rate risk or commodity risk, they cannot be referred to specific trade or financing transactions. The lack of these formal requirements in order to assess these derivatives as hedging instruments under IFRS provides also the recognition in profit or loss of negative exchange translation differences on assets and liabilities denominated in currencies other than functional currency, as these translation effects cannot be offset by changes in fair value of derivative contracts.

Losses on commodity derivatives amounted to euro 129 million of which euro 52 million related to the ineffective portion of the negative change in fair value of cash flow hedging derivatives entered into by the Exploration & Production segment in order to hedge the exposure to variability in future cash flows expected in the 2008-2011 period deriving from marketing an amount of Eni s hydrocarbon proved reserves equal to 2% of proved reserves as of December 31, 2006 in connection with the acquisition in 2007 of production, development and exploration upstream properties onshore Congo from the French company

Maurel & Prom and in the Gulf of Mexico from the US company Dominion Resources. Further information is given in Note 20 - Other current liabilities and Note 25 - Other non-current liabilities.

Income from equity instruments of euro 188 million regarded the valuation at fair value of the 20% interest in OAO

Gazprom Neft and the related call option granted by Eni to Gazprom (more information is included in Note 2 - Other financial assets held for trading or available for sale).

## 32 Income (expense) from investments

**Share of profit (loss) of equity-accounted investments**
Share of profit (loss) of equity-accounted investments consisted of the following:

| (million euro) | **2005** | **2006** | **2007** |
|---|---|---|---|
| Share of profit of equity-accounted investments | 770 | 887 | 906 |
| Share of loss of equity-accounted investments | (33) | (36) | (135) |
| Decreases (increases) in the provision for losses on investments | | (56) | 2 |
| | **737** | **795** | **773** |

215

More information is provided in Note 12 - Equity-accounted investments.

**Other gain (loss) from investments**

Other gain (loss) from investments consisted of the following:

| (million euro) | 2005 | 2006 | 2007 |
|---|---|---|---|
| Gains on disposals | 179 | 25 | 301 |
| Dividends | 33 | 98 | 170 |
| Losses on disposals | (8) | (7) | (1) |
| Other income (expense), net | (27) | (8) | |
| | **177** | **108** | **470** |

Gains on disposals of euro 301 million primarily related to the sale of Haldor Topsøe AS (euro 265 million) and Camom SA (euro 25 million). Gains on disposals for 2006 of euro 25 million primarily related to the sale of Fiorentina Gas SpA and Toscana Gas SpA (euro 16 million).

Gains on disposal for 2005 of euro 179 million primarily related to the sale of Italiana Petroli SpA (euro 132 million).

Dividends of euro 170 million primarily related to Nigeria LNG Ltd (euro 131 million) and Saudi European Petrochemical Co - IBN ZAHR (euro 19 million).

## 33 Income tax expense

Income tax expense consisted of the following:

| (million euro) | 2005 | 2006 | 2007 |
|---|---|---|---|
| Current taxes: | | | |
| - Italian subsidiaries | 1,872 | 2,007 | 2,380 |
| - foreign subsidiaries of the Exploration & Production segment | 5,116 | 6,740 | 6,695 |
| - foreign subsidiaries | 373 | 529 | 482 |
| | **7,361** | **9,276** | **9,557** |
| less: | | | |
| - tax credits on dividend distributions not offset with current tax payment | (34) | | |
| | **7,327** | **9,276** | **9,557** |
| Net deferred taxes: | | | |
| - Italian subsidiaries | 334 | 230 | (582) |
| - foreign subsidiaries of the Exploration & Production segment | 464 | 1,095 | 246 |
| - foreign subsidiaries | 3 | (33) | (2) |
| | **801** | **1,292** | **(338)** |
| | **8,128** | **10,568** | **9,219** |

Current income taxes of euro 2,380 million were in respect of Italian subsidiaries for Ires (euro 1,964 million) and Irap (euro 346 million) and of foreign taxes (euro 70 million).

The effective tax rate was 46% (46.8% and 51.8% in 2005 and 2006, respectively) compared with a statutory tax rate of 37.9% (38.1% and 37.9% in 2005 and 2006, respectively) and calculated by applying a 33% tax rate (Ires) to profit before income taxes and 4.25% tax rate (Irap) to the net value of production as provided for by Italian laws. Statutory tax rates of Ires and Irap that were reduced to 27.5% and 3.9% respectively are effective from January 1, 2008.

The difference between the statutory and effective tax rate was due to the following factors:

| (%) | 2005 | 2006 | 2007 |
|---|---|---|---|
| **Statutory tax rate** | **38.1** | **37.9** | **37.9** |
| Items increasing (decreasing) statutory tax rate: | | | |
| - higher foreign subsidiaries tax rate | 8.8 | 13.6 | 10.2 |
| - changes in Italian statutory tax rate and adjustment of tax base of amortizable assets for Italian subsidiaries | | | (2.0) |
| - permanent differences and other adjustments | (0.1) | 0.3 | (0.1) |
| | **8.7** | **13.9** | **8.1** |
| | **46.8** | **51.8** | **46.0** |

In 2007 the increase in the tax rate of foreign subsidiaries primarily related to a 15 percentage points increase in the Exploration & Production segment (12.7% and 17.2% in 2005 and 2006, respectively). In 2006 the increase in the tax rate of foreign subsidiaries relating the Exploration & Production segment (4.5 percentage points) mainly derived from the application of a windfall tax introduced by the Algerian government with effect starting from August 1, 2006 (1.6 percentage points) and a supplemental tax rate introduced by the government of the United Kingdom relating to the North Sea productions with effect starting from January 1, 2006 (1 percentage point).
The adjustment to deferred tax assets and liabilities for Italian subsidiaries were recognized in connection with certain amendments to the Italian tax regime enacted by the 2008 Budget Law. These included an option regarding the increase of the tax bases of certain tangible and other assets to their carrying amounts (euro 773 million) by paying a special tax (euro 325 million) and a lower statutory tax rate (Ires from 33% to 27.5%, Irap from 4.25% to 3.9%, euro 54 million) effective January 1, 2008.
In 2006 and 2005 permanent differences mainly arose from certain charges that are not deductible because taken in connection with risk provisions arising from proceedings against the Italian Antitrust and other regulatory Authorities (0.4 and 0.6 percentage points respectively).

## 34 Earnings per share

Basic earnings per ordinary share are calculated by dividing net profit for the year attributable to Eni s shareholders by the weighted average number of ordinary shares issued and outstanding during the year, excluding treasury shares.
The average number of ordinary shares used for the calculation of the basic earnings per share outstanding at December 31, 2005, 2006 and 2007, was 3,758,519,603, 3,698,201,896 and 3,668,305,807 respectively.
Diluted earnings per share is calculated by dividing net profit for the year attributable to Eni s shareholders by the weighted average number of shares fully-diluted which includes issued and outstanding shares during the year, excluding treasury shares and including the number of shares that could be issued potentially in connection with stock-based compensation plans.
The average number of shares fully diluted used in the calculation of diluted earnings was 3,763,375,140, 3,701,262,557 and 3,669,172,762 for the years ending December 31, 2005, 2006 and 2007 respectively.
Reconciliation of the average number of shares used for the calculation for both basic and diluted earning per share was as follows:

| (million euro) | 2005 | 2006 | 2007 |
|---|---|---|---|
| **Average number of shares used for the calculation of the basic earnings per share** | **3,758,519,603** | **3,698,201,896** | **3,668,305,807** |

| | | | | |
|---|---|---|---|---|
| Number of potential shares following stock grant plans | | 2,268,265 | 1,070,676 | 302,092 |
| Number of potential shares following stock options plans | | 2,587,272 | 1,989,985 | 564,863 |
| **Average number of shares used for the calculation of the diluted earnings per share** | | **3,763,375,140** | **3,701,262,557** | **3,669,172,762** |
| **Eni s net profit** | (million euro) | **8,788** | **9,217** | **10,011** |
| **Basic earning per share** | (euro per share) | **2.34** | **2.49** | **2.73** |
| **Diluted earning per share** | (euro per share) | **2.34** | **2.49** | **2.73** |

# 35 Information by industry segment and geographic financial information

## Information by industry segment[13]

| (million euro) | Exploration & Production | Gas & Power | Refining & Marketing | Petrochemicals | Engineering & Construction | Other activities | Corporate and financial companies | Elimination | Total |
|---|---|---|---|---|---|---|---|---|---|
| **2005** | | | | | | | | | |
| Net sales from operations [(a)] | 22,531 | 22,969 | 33,732 | 6,255 | 5,733 | 863 | 1,239 | | |
| Less: intersegment sales | (14,761) | (572) | (1,092) | (683) | (925) | (546) | (1,015) | | |
| Net sales to customers | 7,770 | 22,397 | 32,640 | 5,572 | 4,808 | 317 | 224 | | 73,728 |
| Operating profit | 12,592 | 3,321 | 1,857 | 202 | 307 | (934) | (377) | (141) | 16,827 |
| Provisions for contingencies | 50 | 703 | 420 | 47 | 32 | 284 | 107 | | 1,643 |
| Depreciation, amortization and writedowns | 4,101 | 685 | 467 | 147 | 180 | 91 | 114 | (4) | 5,781 |
| Share of profit (loss) of equity-accounted investments | 14 | 359 | 221 | 3 | 140 | | | | 737 |
| Identifiable assets [(b)] | 29,010 | 21,928 | 11,787 | 2,905 | 5,248 | 438 | 1,523 | (534) | 72,305 |
| Unallocated assets | | | | | | | | | 11,545 |
| Equity-accounted investments | 292 | 2,155 | 936 | 19 | 457 | 31 | | | 3,890 |
| Identifiable liabilities [(c)] | 6,785 | 5,097 | 4,542 | 702 | 3,204 | 2,070 | 2,131 | | 24,531 |
| Unallocated liabilities | | | | | | | | | 20,102 |
| Capital expenditures | 4,965 | 1,152 | 656 | 112 | 349 | 48 | 132 | | 7,414 |
| **2006** | | | | | | | | | |
| Net sales from operations [(a)] | 27,173 | 28,368 | 38,210 | 6,823 | 6,979 | 823 | 1,174 | | |
| Less: intersegment sales | (18,445) | (751) | (1,300) | (667) | (771) | (520) | (991) | | |
| Net sales to customers | 8,728 | 27,617 | 36,910 | 6,156 | 6,208 | 303 | 183 | | 86,105 |
| Operating profit | 15,580 | 3,802 | 319 | 172 | 505 | (622) | (296) | (133) | 19,327 |
| Provisions for contingencies | 153 | 197 | 264 | 30 | (13) | 236 | (100) | | 767 |
| Depreciation, amortization and writedowns | 4,776 | 738 | 447 | 174 | 196 | 28 | 71 | (9) | 6,421 |
| Share of profit (loss) of equity-accounted investments | 28 | 509 | 194 | 2 | 66 | (4) | | | 795 |
| Identifiable assets [(b)] | 29,720 | 23,500 | 11,359 | 2,984 | 6,362 | 344 | 1,023 | (666) | 74,626 |
| Unallocated assets | | | | | | | | | 13,686 |
| Investments accounted for using the equity method | 258 | 2,214 | 874 | 11 | 483 | 46 | | | 3,886 |
| Identifiable liabilities [(c)] | 9,119 | 5,284 | 4,712 | 806 | 3,869 | 1,940 | 1,619 | | 27,349 |
| Unallocated liabilities | | | | | | | | | 19,764 |
| Capital expenditures | 5,203 | 1,174 | 645 | 99 | 591 | 72 | 88 | (39) | 7,833 |

(a) Before elimination of intersegment sales.

(b) Included assets directly associated with the generation of operating profit.

(c) Included liabilities directly associated with the generation of operating profit.

(13)

Operating profit (loss) by industry segment for 2005 have been reclassified on the basis of the new subdivision within segments. This reclassification concerns the Exploration & Production, Other activities and Corporate and financial companies segments.

## Information by industry segment *continued*

| (million euro) | Exploration & Production | Gas & Power | Refining & Marketing | Petrochemicals | Engineering & Construction | Other activities | Corporate and financial companies | Elimination | Total |
|---|---|---|---|---|---|---|---|---|---|
| **2007** | | | | | | | | | |
| Net sales from operations [(a)] | 27,278 | 27,633 | 36,401 | 6,934 | 8,678 | 205 | 1,313 | | |
| Less: intersegment sales | (16,475) | (760) | (1,276) | (363) | (1,182) | (31) | (1,099) | | |
| Net sales to customers | 10,803 | 26,873 | 35,125 | 6,571 | 7,496 | 174 | 214 | | 87,256 |
| Operating profit | 13,788 | 4,127 | 729 | 74 | 837 | (444) | (217) | (26) | 18,868 |
| Provisions for contingencies | 5 | 37 | 256 | 15 | 11 | 264 | 3 | | 591 |
| Depreciation, amortization and writedowns | 5,626 | 687 | 491 | 116 | 248 | 10 | 68 | (10) | 7,236 |
| Share of profit (loss) of equity-accounted investments | 23 | 449 | 216 | | 79 | 6 | | | 773 |
| Identifiable assets [(b)] | 33,435 | 24,630 | 13,767 | 3,427 | 8,017 | 275 | 854 | (692) | 83,713 |
| Unallocated assets | | | | | | | | | 17,847 |
| Equity-accounted investments | 1,926 | 2,152 | 1,267 | 15 | 230 | 49 | | | 5,639 |
| Identifiable liabilities [(c)] | 11,480 | 5,390 | 5,420 | 939 | 4,449 | 1,827 | 1,380 | | 30,885 |
| Unallocated liabilities | | | | | | | | | 27,808 |
| Capital expenditures | 6,625 | 1,366 | 979 | 145 | 1,410 | 59 | 108 | (99) | 10,593 |

(a) Before elimination of intersegment sales.

(b) Included assets directly associated with the generation of operating profit.

(c) Included liabilities directly associated with the generation of operating profit.

Inter-segment sales were conducted on an arm s length basis.

## Geographic financial information

### ASSETS AND INVESTMENTS BY GEOGRAPHIC AREA OF ORIGIN

| (million euro) | Italy | Other EU | Rest of Europe | Americas | Asia | Africa | Other areas | Total |
|---|---|---|---|---|---|---|---|---|
| **2005** | | | | | | | | |
| Identifiable assets [(a)] | 38,229 | 8,768 | 3,085 | 2,670 | 5,864 | 13,445 | 244 | 72,305 |
| Capital expenditures | 2,442 | 545 | 415 | 507 | 1,181 | 2,233 | 91 | 7,414 |
| **2006** | | | | | | | | |
| Identifiable assets [(a)] | 37,339 | 10,037 | 3,200 | 2,987 | 6,341 | 14,190 | 532 | 74,626 |
| Capital expenditures | 2,529 | 713 | 436 | 572 | 1,032 | 2,419 | 132 | 7,833 |
| **2007** | | | | | | | | |
| Identifiable assets [(a)] | 39,742 | 11,071 | 3,917 | 6,260 | 6,733 | 15,468 | 522 | 83,713 |
| Capital expenditures | 3,246 | 1,246 | 469 | 1,004 | 1,253 | 3,152 | 223 | 10,593 |

(a) Includes assets directly related to the generation of operating profit.

**Contents**



SALES FROM OPERATIONS BY GEOGRAPHIC AREA OF DESTINATION

| (million euro) | 2005 | 2006 | 2007 |
|---|---|---|---|
| Italy | 32,846 | 36,343 | 37,346 |
| Other European Union | 19,601 | 23,949 | 21,895 |
| Rest of Europe | 5,123 | 6,975 | 6,686 |
| Americas | 6,103 | 6,250 | 6,447 |
| Asia | 4,399 | 5,595 | 5,840 |
| Africa | 5,259 | 5,949 | 8,010 |
| Other areas | 397 | 1,044 | 1,032 |
| | **73,728** | **86,105** | **87,256** |

## 36 Transactions with related parties

In the ordinary course of its business Eni enters into transactions concerning the exchange of goods, provision of services and financing with joint ventures, affiliated companies and non-consolidated subsidiaries as well as with entities directly and indirectly owned or controlled by the Government. All such transactions are mainly conducted on an arm s length basis on behalf of Eni companies.

The following is a description of trade and financing transactions with related parties.

## Trade and other transactions

Trade and other transactions in the 2005 consisted of the following:

| (million euro) | Dec. 31, 2005 | | | 2005 | | | |
|---|---|---|---|---|---|---|---|
| | | | | Costs | | Revenues | |
| Name | Receivables | Payables | Guarantees | Goods | Services | Goods | Services |
| **Joint ventures and affiliates** | | | | | | | |
| ASG Scarl | 13 | 66 | 72 | | 173 | | 6 |
| Azienda Energia e Servizi Torino SpA | 2 | 24 | | | 56 | | 2 |
| Bayernoil Raffineriegesellshaft mbH | | 49 | 1 | | 814 | | |
| Bernhard Rosa Inh. Ingeborg Plöchinger GmbH | 10 | | | | | 172 | |
| Blue Stream Pipeline Co BV | 45 | 12 | | | 177 | | 4 |
| Bronberger & Kessler Und Gilg & Schweiger GmbH | 12 | | | | | 207 | |
| Cam Petroli Srl | 85 | | | | | 593 | |
| CEPAV (Consorzio Eni per l Alta Velocità) Uno | 105 | 107 | 4,894 | | | | 411 |
| Eni Oil Co Ltd | | 84 | | | 50 | | |
| Fox Energy SpA | 22 | | | 4 | | 240 | |
| Gruppo Distribuzione Petroli Srl | 22 | | | | | 89 | |
| Karachaganak Petroleum Operating BV | 13 | 46 | | 6 | 99 | | 4 |
| Mellitah Gas BV (ex Eni Gas BV) | 16 | 149 | | | 47 | | |
| Mangrove Gas Netherlands BV | | | 55 | | | | |
| Modena Scarl | 2 | 12 | 61 | | 56 | 1 | 1 |
| Petrobel Belayim Petroleum Co | | 138 | | | 248 | | |
| Promgas SpA | 44 | 45 | | 307 | | 355 | |
| Raffineria di Milazzo ScpA | 10 | 10 | | | 204 | 94 | |
| Rodano Consortile Scarl | 2 | 20 | | | 80 | | 2 |
| RPCO Enterprises Ltd | | | 55 | | | | |
| Supermetanol CA | | 8 | | 65 | | | |
| Super Octanos CA | 1 | 14 | | 265 | | | |
| Toscana Energia Clienti SpA | 46 | | | | | 118 | |
| Trans Austria Gasleitung GmbH | 43 | 55 | | 43 | 143 | | 47 |
| Transitgas AG | | 7 | | | 64 | | |
| Transmediterranean Pipeline Co Ltd | | 4 | | | 88 | | 1 |
| Unión Fenosa Gas SA | 4 | 4 | 62 | 79 | | 16 | 2 |
| Other (*) | 101 | 86 | 112 | 69 | 157 | 147 | 67 |
| | **598** | **940** | **5,312** | **838** | **2,456** | **2,032** | **547** |
| **Unconsolidated entities controlled by Eni** | | | | | | | |
| Agip Kazakhstan North Caspian Operating Co NV | 4 | 152 | | 5 | 19 | | 28 |
| Eni BTC Ltd | | | 165 | | | | |
| Other (*) | 44 | 48 | 8 | 1 | 31 | 15 | 9 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | **48** | **200** | **173** | **6** | **50** | **15** | **37** |
| | **646** | **1,140** | **5,485** | **844** | **2,506** | **2,047** | **584** |
| **Entities owned or controlled by the Government** | | | | | | | |
| Alitalia | 20 | | | | | 276 | |
| Enel | 187 | 5 | | 12 | 10 | 1,180 | 333 |
| Other (*) | 20 | 19 | | | 57 | 103 | 12 |
| | **227** | **24** | | **12** | **67** | **1,559** | **345** |
| | **873** | **1,164** | **5,485** | **856** | **2,573** | **3,606** | **929** |

(*) Each individual amount included herein does not exceed euro 50 million.

221

Trade and other transactions for the year 2006 consisted of the following:

| (million euro) | Dec. 31, 2006 | | | 2006 | | | |
|---|---|---|---|---|---|---|---|
| | | | | Costs | | Revenues | |
| Name | Receivables | Payables | Guarantees | Goods | Services | Goods | Services |
| **Joint ventures and affiliates** | | | | | | | |
| ASG Scarl | 7 | 40 | 80 | | 88 | 1 | 1 |
| Azienda Energia e Servizi Torino SpA | 1 | 22 | | | 64 | 1 | 1 |
| Bernhard Rosa Inh. Ingeborg Plöchinger GmbH | 10 | | | | | 96 | |
| Blue Stream Pipeline Co BV | 34 | 19 | | | 193 | | 1 |
| Bronberger & Kessler Und Gilg & Schweiger GmbH | 11 | | | | | 113 | |
| Cam Petroli Srl | 103 | | | | | 310 | |
| CEPAV (Consorzio Eni per l Alta Velocità) Uno | 87 | 87 | 5,654 | 16 | 2 | | 304 |
| Charville - Consultores e Serviços Lda | 7 | | 85 | | | 4 | 11 |
| Eni Oil Co Ltd | 5 | 96 | | | 59 | | |
| Fox Energy SpA | 35 | | | | | 125 | |
| Gasversorgung Süddeutschland GmbH | 14 | | | | 1 | 123 | 19 |
| Gruppo Distribuzione Petroli Srl | 19 | | | | | 54 | |
| Karachaganak Petroleum Operating BV | 23 | 70 | | 29 | 129 | | 7 |
| Mangrove Gas Netherlands BV | | 1 | 52 | | | | |
| Mellitah Gas BV (ex Eni Gas BV) | 28 | 90 | | 7 | 72 | 8 | 2 |
| Petrobel Belayim Petroleum Co | | 3 | | | 181 | | |
| Promgas SpA | 44 | 39 | | 375 | | 419 | |
| Raffineria di Milazzo ScpA | 9 | 12 | | | 237 | 109 | |
| Rodano Consortile Scarl | 3 | 14 | | | 54 | | 1 |
| RPCO Enterprises Ltd | 13 | | 104 | | | | 12 |
| Supermetanol CA | | 13 | | 91 | | | |
| Super Octanos CA | | 13 | | 257 | | | |
| Trans Austria Gasleitung GmbH | 7 | 78 | | 53 | 138 | | 56 |
| Transitgas AG | | 8 | | | 64 | | |
| Transmediterranean Pipeline Co Ltd | | 7 | | | 80 | | |
| Unión Fenosa Gas SA | 1 | 7 | 61 | 93 | 7 | | |
| Other (*) | 72 | 169 | 168 | 75 | 188 | 119 | 66 |
| | **533** | **788** | **6,204** | **996** | **1,557** | **1,482** | **481** |
| **Unconsolidated entities controlled by Eni** | | | | | | | |
| Agip Kazakhstan North Caspian Operating Co NV | 27 | 132 | | 18 | 16 | | 57 |
| Eni BTC Ltd | | | 185 | | | | |
| Eni Timor Leste SpA | | | 102 | | | | |
| Other (*) | 20 | 30 | 8 | 1 | 4 | 8 | 4 |
| | **47** | **162** | **295** | **19** | **20** | **8** | **61** |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | **580** | **950** | **6,499** | **1,015** | **1,577** | **1,490** | **542** |
| **Entities owned or controlled by the Government** | | | | | | | |
| Alitalia | 12 | | | | | 354 | |
| Enel | 162 | 42 | | 47 | 33 | 1,068 | 383 |
| Other (*) | 42 | 29 | | 4 | 44 | 136 | 1 |
| | **216** | **71** | | **51** | **77** | **1,558** | **384** |
| | **796** | **1,021** | **6,499** | **1,066** | **1,654** | **3,048** | **926** |

(*) Each individual amount included herein does not exceed euro 50 million.

Trade and other transactions in 2007 consisted of the following:

| (million euro) | Dec. 31, 2007 | | | 2007 | | | |
|---|---|---|---|---|---|---|---|
| | | | | Costs | | Revenues | |
| Name | Receivables | Payables | Guarantees | Goods | Services | Goods | Services |
| **Joint ventures and affiliated companies** | | | | | | | |
| ASG Scarl | 6 | 43 | 121 | | 108 | | 3 |
| Bernhard Rosa Inh. Ingeborg Plochinger GmbH | 11 | | | | | 86 | |
| Blue Stream Pipeline Co BV | 19 | | | | 183 | | 1 |
| Bronberger & Kessler und Gill & Schweiger GmbH | 18 | | | | | 106 | |
| CEPAV (Consorzio Eni per l Alta Velocità) Uno | 84 | 70 | 5,870 | | | | 263 |
| CEPAV (Consorzio Eni per l Alta Velocità) Due | 1 | 1 | 64 | | 1 | | 1 |
| Eni Oil Co Ltd | 7 | 60 | | | 141 | 1 | |
| Fox Energy Srl | 49 | | | | | 139 | |
| Gasversorgung Süddeutschland GmbH | 54 | | | | | 195 | 4 |
| Gruppo Distribuzione Petroli Srl | 26 | | | | | 50 | |
| Karachaganak Petroleum Operating BV | 43 | 102 | | 24 | 301 | | 7 |
| Mellitah Gas BV | 10 | 137 | | | 105 | 1 | 6 |
| OOO "EniNeftegaz" | 215 | | | | | | 1 |
| Petrobel Belayim Petroleum Co | | 60 | | | 211 | | |
| Raffineria di Milazzo ScpA | 17 | 21 | | | 245 | 118 | 5 |
| Supermetanol CA | | 11 | | 78 | | | 1 |
| Super Octanos CA | | 18 | | 201 | | | 1 |
| Trans Austria Gasleitung GmbH | 6 | 80 | | 43 | 147 | | 47 |
| Transitgas AG | | 8 | | | 64 | | |
| Transmediterranean Pipeline Co Ltd | | 6 | | | 70 | | 1 |
| Unión Fenosa Gas SA | 1 | | 61 | | | 193 | |
| Other (*) | 120 | 127 | 56 | 76 | 374 | 172 | 118 |
| | **687** | **744** | **6,172** | **422** | **1,950** | **1,011** | **459** |
| **Unconsolidated entities controlled by Eni** | | | | | | | |
| Agip Kazakhstan North Caspian Operating Co NV | 49 | 111 | | 11 | 534 | | 52 |
| Eni BTC Ltd | | | 138 | | | | 1 |
| Other (*) | 23 | 8 | 11 | 2 | 18 | 5 | 18 |
| | **72** | **119** | **149** | **13** | **552** | **5** | **71** |
| | **759** | **863** | **6,321** | **435** | **2,502** | **1,016** | **530** |
| **Entities owned or controlled by the Government** | | | | | | | |
| Alitalia | 4 | | | | | 363 | 1 |
| Enel | 384 | 8 | | | 245 | 894 | 408 |
| GSE - Gestore Servizi Elettrici | 124 | 63 | | 239 | 37 | 870 | 7 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Terna SpA | 19 | 69 | | 106 | 105 | | 31 |
| Other (*) | 45 | 79 | | 19 | 89 | 75 | 3 |
| | **576** | **219** | | **364** | **476** | **2,202** | **450** |
| | **1,335** | **1,082** | **6,321** | **799** | **2,978** | **3,218** | **980** |

(*) Each individual amount included herein does not exceed euro 50 million.

Engineering, construction and maintenance services were acquired from the Cosmi Holding Group, related to Eni through a member of the Board of Directors. Transactions on an arm's length basis amounted to approximately euro 18 million, euro 13 million and euro 18 million in 2005, 2006 and 2007, respectively.
Most significant transactions concerned:

- Transactions related to the planning and the construction of the tracks for high speed/high capacity trains from Milan to Bologna with ASG Scarl, CEPAV (Consorzio Eni per l Alta Velocità) Uno, and related guarantees.
- Supply of oil products to Bernahard Rosa Inh. Ingerborg Ploechinger GmbH, Bronberger & Kessler und Gilg & Schweiger GmbH, Fox Energy Srl, Gruppo Distribuzione Petroli Srl and Raffineria di Milazzo ScpA on the basis of prices referred to the quotations on international markets of the main oil products, as they would be conducted on an arm s length basis.
- Acquisition of natural gas transport services outside Italy from Blue Stream Pipeline Co BV, Trans Austria Gasleitung GmbH and Transitgas AG.
- Guarantees issued on behalf of CEPAV (Consorzio Eni per l Alta Velocità) Due in relation to contractual commitments related to the execution of project planning and realization.
- Provision of specialized services in upstream activities and payables for investment activities from Agip Kazakhstan North Caspian Operating Co NV, Mellitah Gas BV, Eni Oil Co Ltd, Karachaganak Petroleum Operating BV and Petrobel Belayim Petroleum Co; services are invoiced on the basis of incurred costs.
- Receivable for dividends from OOO EniNeftegaz .
- Sale of natural gas with Gasversorgung Süddeutschland GmbH.
- Acquisition of refining services from Raffineria di Milazzo ScpA in relation to incurred costs.
- Acquisition of petrochemical products from Supermetanol CA and Super Octanos CA on the basis of prices referred to the quotations on international markets of the main products.
- Acquisition of natural gas transport services outside Italy from Transmediterranean Pipeline Co Ltd; transactions are regulated on the basis of tariffs which ensure a return on invested capital.
- Performance guarantees given on behalf of Unión Fenosa Gas SA in relation to contractual commitments related to the results of operations.
- Guarantees issued in relation to the construction of an oil pipeline on behalf of Eni BTC Ltd.
- Sale of oil products with Alitalia.
- Sale and transportation of natural gas, the sale of fuel oil and the sale and purchase of electricity and the acquisition of electricity transmission service with Enel.
- Sale and purchase of electricity with GSE - Gestore Servizi Elettrici.
- Sale and purchase of electricity and the acquisition of domestic electricity transmission service jointly with Terna SpA.

**Financing transactions**

Financing transactions in 2005 were as follows:

| (million euro) | Dec. 31, 2005 | | | 2005 | |
|---|---|---|---|---|---|
| Name | Receivables | Payables | Guarantees | Charges | Gains |
| **Joint ventures and affiliates** | | | | | |
| Blue Stream Pipeline Co BV | | 15 | 887 | | |
| Raffineria di Milazzo ScpA | | | 72 | | |
| Spanish Egyptian Gas Co SAE | | | 360 | | |
| Trans Austria Gasleitung GmbH | 386 | | | | 12 |

| | | | | | |
|---|---|---|---|---|---|
| Transmediterranean Pipeline Co Ltd | 190 | | | | 11 |
| Other (*) | 74 | 125 | 81 | 27 | 47 |
| | **650** | **140** | **1,400** | **27** | **70** |
| **Unconsolidated entities controlled by Eni** | | | | | |
| Other (*) | 79 | 30 | 34 | 1 | 2 |
| | **79** | **30** | **34** | **1** | **2** |
| | **729** | **170** | **1,434** | **28** | **72** |

(*) Each individual amount included herein does not exceed euro 50 million.

Financing transactions in 2006 were as follows:

| (million euro) | Dec. 31, 2006 | | | 2006 | |
|---|---|---|---|---|---|
| Name | Receivables | Payables | Guarantees | Charges | Gains |
| **Joint ventures and affiliates** | | | | | |
| Blue Stream Pipeline Co BV | | 3 | 794 | 4 | 26 |
| Raffineria di Milazzo ScpA | | | 57 | | |
| Spanish Egyptian Gas Co SAE | | | 323 | | 6 |
| Trans Austria Gasleitung GmbH | 41 | | | | |
| Transmediterranean Pipeline Co Ltd | 147 | | | | 11 |
| Other (*) | 88 | 81 | 39 | 13 | 11 |
| | **276** | **84** | **1,213** | **17** | **54** |
| **Unconsolidated entities controlled by Eni** | | | | | |
| Other (*) | 95 | 25 | 2 | 1 | 4 |
| | **95** | **25** | **2** | **1** | **4** |
| | **371** | **109** | **1,215** | **18** | **58** |

(*) Each individual amount included herein does not exceed euro 50 million.

Financing transactions in 2007 were as follows:

| (million euro) | Dec. 31, 2007 | | | 2007 | |
|---|---|---|---|---|---|
| Name | Receivables | Payables | Guarantees | Charges | Gains |
| **Joint ventures and affiliates** | | | | | |
| Blue Stream Pipeline Co BV | | 1 | 711 | | 20 |
| Raffineria di Milazzo ScpA | | | 60 | | |
| Trans Austria Gasleitung GmbH | 65 | | | | 3 |
| Transmediterranean Pipeline Co Ltd | 97 | | | | 9 |
| Other (*) | 108 | 120 | 52 | 19 | 11 |
| | **270** | **121** | **823** | **19** | **43** |
| **Unconsolidated entities controlled by Eni** | | | | | |
| Other (*) | 114 | 26 | 1 | 1 | 6 |
| | **114** | **26** | **1** | **1** | **6** |
| **Entities owned or controlled by the Government** | | | | | |
| Other (*) | | | | 39 | 49 |
| | | | | **39** | **49** |
| | **384** | **147** | **824** | **59** | **98** |

(*) Each individual amount included herein does not exceed euro 50 million.

Most significant transactions in 2007 included:

- Bank debt guarantee issued on behalf of Blue Stream Pipeline Co BV and cash deposit at Eni s financial companies.
- Bank debt guarantee issued on behalf of Raffineria di Milazzo ScpA.
- The financing of the Austrian section of the gasline from the Russian Federation to Italy and the construction of natural gas transmission facilities and transport services with Trans Austria Gasleitung GmbH and Transmediterranean Pipeline Co Ltd.

**Impact of transactions and positions with related parties on the balance sheet, net profit and cash flows**
The impact of transactions and positions with related parties on the balance sheet, net profit and financial flows consists of the following:

| | Dec. 31, 2005 | | | Dec. 31, 2006 | | | Dec. 31, 2007 | | |
|---|---|---|---|---|---|---|---|---|---|
| (million euro) | Total | Related parties | Impact % | Total | Related parties | Impact % | Total | Related parties | Impact % |
| Trade and other receivables | 17,902 | 1,344 | 7.51 | 18,799 | 1,027 | 5.46 | 20,776 | 1,616 | 7.78 |
| Other current assets | 369 | | | 855 | 4 | 0.47 | 1,080 | | |
| Other non-current financial assets | 1,050 | 258 | 24.57 | 805 | 136 | 16.89 | 923 | 87 | 9.43 |
| Other non-current assets | 995 | | | 994 | | | 1,110 | 16 | 1.44 |
| Current financial liabilities | 4,612 | 152 | 3.30 | 3,400 | 92 | 2.71 | 7,763 | 131 | 1.69 |
| Trade and other payables | 13,095 | 1,164 | 8.89 | 15,995 | 961 | 6.01 | 17,216 | 1,021 | 5.93 |
| Other liabilities | 613 | | | 634 | 4 | 0.63 | 1,556 | 4 | 0.26 |
| Long-term debt and current portion of long-term debt | 8,386 | 18 | 0.21 | 8,299 | 17 | 0.20 | 12,067 | 16 | 0.13 |
| Other non-current liabilities | 897 | | | 418 | 56 | 13.40 | 2,031 | 57 | 2.81 |

The impact of transactions with related parties on the profit and loss accounts consisted of the following:

| | 2005 | | | 2006 | | | 2007 | | |
|---|---|---|---|---|---|---|---|---|---|
| (million euro) | Total | Related parties | Impact % | Total | Related parties | Impact % | Total | Related parties | Impact % |
| Net sales from operations | 73,728 | 4,535 | 6.15 | 86,105 | 3,974 | 4.62 | 87,256 | 4,198 | 4.81 |
| Purchases, services and other | 48,567 | 3,429 | 7.06 | 57,490 | 2,720 | 4.73 | 58,179 | 3,777 | 6.49 |
| Financial income | 3,131 | 72 | 2.30 | 4,132 | 58 | 1.40 | 4,600 | 98 | 2.13 |
| Financial expense | 3,497 | 28 | 0.80 | 3,971 | 18 | 0.45 | 4,683 | 59 | 1.26 |

Transactions with related parties concerned the ordinary course of Eni s business and were mainly conducted on an arm s length basis.

Main cash flows with related parties were as follows:

| (million euro) | 2005 | 2006 | 2007 |
|---|---|---|---|
| Revenues and other income | 4,535 | 3,974 | 4,198 |
| Costs and other expenses | (3,429) | (2,720) | (3,777) |
| Net change in trade and other receivables and liabilities | (221) | 162 | (492) |
| Dividends and net interests | 345 | 790 | 620 |
| **Net cash provided from operating activities** | **1,230** | **2,206** | **549** |
| Capital expenditures in tangible and intangible assets | (474) | (733) | (779) |
| Investments | (30) | (20) | 8 |
| Change in accounts payable in relation to investments | 342 | (276) | (8) |
| Change in financial receivables | 2 | 343 | (43) |
| **Net cash used in investing activities** | **(160)** | **(686)** | **(822)** |
| Change in financial liabilities | 23 | (57) | 20 |
| **Net cash used in financing activities** | **23** | **(57)** | **20** |
| **Total financial flows to related parties** | **1,093** | **1,463** | **(253)** |

The impact of cash flows with related parties consisted of the following:

| | 2005 | | | 2006 | | | 2007 | | |
|---|---|---|---|---|---|---|---|---|---|
| (million euro) | Total | Related parties | Impact % | Total | Related parties | Impact % | Total | Related parties | Impact % |
| Cash provided from operating activities | 14,936 | 1,230 | 8.24 | 17,001 | 2,206 | 12.98 | 15,517 | 549 | 3.54 |
| Cash used in investing activities | (6,815) | (160) | 2.35 | (7,051) | (686) | 9.73 | (20,097) | (822) | 4.09 |
| Cash used in financing activities | (7,824) | 23 | | (7,097) | (57) | 0.80 | 2,909 | 20 | 0.69 |

# 37 Significant non-recurring events and operations

Non-recurring incomes (charges) consisted of the following:

| (million euro) | 2005 | 2006 | 2007 |
|---|---|---|---|
| Curtailment of post-retirement benefits for Italian employees | | | 83 |
| Risk provisions for proceedings against Antitrust authorities | (290) | (184) | (130) |
| Risk provisions for proceedings against the Italian Authority for Electricity and Gas | | (55) | 39 |
| | **(290)** | **(239)** | **(8)** |

Non-recurring income related to a gain deriving from the curtailment of the provisions accrued by Italian companies for employee termination indemnities ( TFR ) following the changes introduced by Italian Budget Law for 2007 and related decrees (euro 83 million), more information is provided in the Note 23 - Provisions for employee benefits. Non recurring charges concerned risk provisions related to ongoing antitrust proceedings against the European Antitrust authorities (euro 130 million) in the fields of paraffin and elastomers. The euro 39 million gain relating to proceeding before the Italian Authority for Electricity and Gas mainly related to the annulment of a fine imposed in

2006 for the allegedly improper use of storage capacity in the Italian natural gas sector (euro 45 million).
In 2006 a risk provision was made in connection with a proceeding against the Italian Antitrust authority regarding the field of supplies of jet fuel (euro 109 million). In addition a risk provision was made for an inquiry before the European Antitrust authorities in the field of elastomers (euro 75 million). In 2006 certain fines were imposed by the Authority for Electricity and Gas regarding an inquiry relating to the use of storage capacity in thermal year 2006-2007 (euro 45 million) and an inquiry relating to an information requirement on natural gas supplying prices (euro 10 million).
In 2005 a risk provision was made in connection with a proceeding against the Italian Antitrust authority relating to an abuse of dominant position in the natural gas sector.
More information on these proceedings is included in Note 28 - Guarantees, commitments and risks - Legal Proceedings.

## 38 Positions or transactions deriving from atypical and/or unusual operations

In 2005, 2006 and in 2007 no transactions deriving from atypical and/or unusual operations were reported.

# Supplemental oil and gas information (unaudited)

The following information pursuant to International Financial Reporting Standards (IFRS) is presented in accordance with Statement of Financial Accounting Standards No. 69, Disclosures about Oil & Gas Producing Activities . Amounts related to minority interests are not significant.

## Capitalized costs

Capitalized costs represent the total expenditures for proved and unproved mineral interests and related support equipment and facilities utilized in oil and gas exploration and production activities, together with related accumulated depreciation, depletion and amortization. Capitalized costs by geographical area consist of the following:

| (million euro) | Italy | North Africa | West Africa | North Sea | Caspian Area (1) | Rest of World | Total consolidated subsidiaries | Total joint venture and affiliates (2) |
|---|---|---|---|---|---|---|---|---|
| **December 31, 2006** | | | | | | | | |
| Proved mineral interests | 10,267 | 8,273 | 8,004 | 8,333 | 1,570 | 6,447 | 42,894 | 427 |
| Unproved mineral interests | 33 | 143 | 402 | 382 | 39 | 964 | 1,963 | 35 |
| Support equipment and facilities | 276 | 1,238 | 451 | 33 | 37 | 60 | 2,095 | 8 |
| Incomplete wells and other | 582 | 399 | 612 | 110 | 1,342 | 564 | 3,609 | 31 |
| **Gross capitalized costs** | **11,158** | **10,053** | **9,469** | **8,858** | **2,988** | **8,035** | **50,561** | **501** |
| Accumulated depreciation, depletion and amortization | (6,958) | (4,738) | (5,231) | (5,185) | (413) | (4,387) | (26,912) | (300) |
| **Net capitalized costs** (a) (b) | **4,200** | **5,315** | **4,238** | **3,673** | **2,575** | **3,648** | **23,649** | **201** |
| **December 31, 2007** | | | | | | | | |
| Proved mineral interests | 10,571 | 8,118 | 8,506 | 8,672 | 1,447 | 7,718 | 45,032 | 790 |
| Unproved mineral interests | 32 | 120 | 1,030 | 330 | 35 | 2,582 | 4,129 | 1,089 |
| Support equipment and facilities | 279 | 1,125 | 443 | 16 | 41 | 59 | 1,963 | 10 |
| Incomplete wells and other | 726 | 562 | 1,078 | 75 | 1,852 | 808 | 5,101 | 112 |
| **Gross capitalized costs** | **11,608** | **9,925** | **11,057** | **9,093** | **3,375** | **11,167** | **56,225** | **2,001** |
| Accumulated depreciation, depletion and amortization | (7,440) | (4,960) | (5,340) | (5,670) | (445) | (4,909) | (28,764) | (345) |
| **Net capitalized costs** (a) (b) | **4,168** | **4,965** | **5,717** | **3,423** | **2,930** | **6,258** | **27,461** | **1,656** |

(a) The amounts include net capitalized financial charges totalling euro 420 million in 2006 and euro 441 million in 2007.

(b) The amounts do not include costs associated with exploration activities which are capitalized in order to reflect their investment nature and amortized in full when incurred. The Successful Effort Method application would have led to an increase in net capitalized costs of euro 2,179 million in 2006 and euro 2,547 million in 2007 for the consolidated companies and of euro 24 million in 2006 and euro 94 million in 2007 for joint ventures affiliates.

(1) Eni s capitalized costs of the Kashagan field are determined based on Eni share of 18.52%.

(2) The amounts of joint ventures and affiliates as at December 31, 2007 include 60% of the three Russian companies former Yukos purchased in 2007, for which Gazprom has a call option of 51%.

# Cost incurred

Costs incurred represent amounts both capitalized and expensed in connection with oil and gas producing activities. Costs incurred by geographical area consist of the following:

| (million euro) | Italy | North Africa | West Africa | North Sea | Caspian Area (1) | Rest of World | Total consolidated subsidiaries | Total joint venture and affiliates (2) |
|---|---|---|---|---|---|---|---|---|
| **2005** | | | | | | | | |
| Proved property acquisitions | 19 | | 16 | | 88 | 11 | 134 | |
| Unproved property acquisitions | 13 | | 44 | | 42 | 57 | 156 | |
| Exploration | 45 | 153 | 75 | 127 | 15 | 249 | 664 | 18 |
| Development (a) | 644 | 960 | 910 | 522 | 646 | 745 | 4,427 | 31 |
| **Total costs incurred** | **721** | **1,113** | **1,045** | **649** | **791** | **1,062** | **5,381** | **49** |
| **2006** | | | | | | | | |
| Proved property acquisitions | 139 | 10 | | | | | 149 | |
| Unproved property acquisitions | | | | | | 3 | 3 | |
| Exploration | 128 | 270 | 471 | 174 | 25 | 280 | 1,348 | 26 |
| Development (a) | 1,120 | 892 | 956 | 478 | 595 | 766 | 4,807 | 31 |
| **Total costs incurred** | **1,387** | **1,172** | **1,427** | **652** | **620** | **1,049** | **6,307** | **57** |
| **2007** | | | | | | | | |
| Proved property acquisitions (b1) | | 11 | 451 | | | 1,395 | 1,857 | 187 |
| Unproved property acquisitions (b2) | | | 510 | | | 1,417 | 1,927 | 1,086 |
| Exploration (b3) | 104 | 380 | 298 | 193 | 36 | 1,181 | 2,192 | 42 |
| Development (a) (b4) | 320 | 1,047 | 1,425 | 518 | 744 | 1,185 | 5,239 | 156 |
| **Total costs incurred** | **424** | **1,438** | **2,684** | **711** | **780** | **5,178** | **11,215** | **1,471** |

(a) Includes the abandonment costs of the assets for euro 578 million in 2005, euro 1,170 million in 2006 and euro 173 million in 2007.

(b1) Include business combinations in West Africa amounting to euro 451 million, euro 1,395 million in Rest of World and euro 187 million in joint ventures and affiliates.

(b2) Include business combinations in West Africa amounting to euro 510 million, euro 1,334 million in Rest of World and euro 1,086 million in joint ventures and affiliates.

(b3) Includes business combinations in West Africa amounting to euro 59 million and euro 474 million in Rest of World.

(b4) Includes business combinations in West Africa amounting to euro 10 million, euro 345 million in Rest of World and euro 101 million in joint ventures and affiliates.

(1) Eni s costs incurred of the Kashagan field are determined based on Eni share of 18.52%.

(2) The amounts of joint ventures and affiliates for 2007 include 60% of the three Russian companies former Yukos purchased in 2007, for which Gazprom has a call option of 51%.

# Results of operations from oil and gas producing activities

Results of operations from oil and gas producing activities, including gas storage services used to modulate the seasonal variation of demand, represent only those revenues and expenses directly associated with such activities, including operating overheads. These amounts do not include any allocation of interest expense or general corporate overhead and, therefore, are not necessarily indicative of the contributions to consolidated net earnings of Eni. Related income taxes are computed by applying the local income tax rates to the pre-tax income from producing activities. Eni is a party to certain Production Sharing Agreements (PSAs), whereby a portion of Eni s share of oil and gas production is withheld and sold by its joint venture partners which are state-owned entities, with proceeds being remitted to the state in satisfaction of Eni s PSA related tax liabilities. Revenue and income taxes include such taxes owed by Eni but paid by state-owned entities out of Eni s share of oil and gas production.

Results of operations from oil and gas producing activities by geographical area consist of the following:

| (million euro) | Italy | North Africa | West Africa | North Sea | Caspian Area [1] | Rest of World | Total consolidated subsidiaries | Total joint venture and affiliates [2] |
|---|---|---|---|---|---|---|---|---|
| **2005** | | | | | | | | |
| **Revenues** | | | | | | | | |
| Sales to consolidated entities | 3,133 | 2,813 | 4,252 | 2,707 | 209 | 619 | 13,733 | |
| Sales to third parties | 161 | 2,579 | 394 | 889 | 586 | 2,297 | 6,906 | 106 |
| **Total revenues** | **3,294** | **5,392** | **4,646** | **3,596** | **795** | **2,916** | **20,639** | **106** |
| Operations costs | (261) | (390) | (363) | (417) | (123) | (215) | (1,769) | (16) |
| Production taxes | (157) | (98) | (513) | (15) | | (207) | (990) | (3) |
| Exploration expenses | (38) | (137) | (74) | (158) | (15) | (196) | (618) | (32) |
| D.D. & A. and provision for abandonment [a] | (512) | (634) | (598) | (668) | (90) | (929) | (3,431) | (50) |
| Other income and (expenses) | (224) | (463) | (201) | 17 | (53) | (216) | (1,140) | 10 |
| **Pretax income from producing activities** | **2,102** | **3,670** | **2,897** | **2,355** | **514** | **1,153** | **12,691** | **15** |
| Income taxes | (780) | (1,976) | (1,717) | (1,387) | (195) | (321) | (6,376) | (25) |
| **Results of operations from E&P activities [b]** | **1,322** | **1,694** | **1,180** | **968** | **319** | **832** | **6,315** | **(10)** |
| **2006** | | | | | | | | |
| **Revenues** | | | | | | | | |
| Sales to consolidated entities | 3,601 | 4,185 | 4,817 | 3,295 | 261 | 712 | 16,871 | |
| Sales to third parties | 184 | 3,012 | 967 | 983 | 721 | 1,873 | 7,740 | 120 |
| **Total revenues** | **3,785** | **7,197** | **5,784** | **4,278** | **982** | **2,585** | **24,611** | **120** |
| Operations costs | (249) | (496) | (475) | (481) | (147) | (191) | (2,039) | (18) |
| Production taxes | (181) | (95) | (475) | | | (82) | (833) | (3) |
| Exploration expenses | (137) | (273) | (186) | (160) | (25) | (293) | (1,074) | (26) |
| D.D. & A. and provision for abandonment [a] | (457) | (795) | (737) | (684) | (80) | (895) | (3,648) | (43) |
| Other income and (expenses) | (315) | (569) | (190) | 57 | (89) | (283) | (1,389) | 8 |
| **Pretax income from producing activities** | **2,446** | **4,969** | **3,721** | **3,010** | **641** | **841** | **15,628** | **38** |
| Income taxes | (909) | (2,980) | (2,133) | (1,840) | (223) | (381) | (8,466) | (31) |
| **Total results of operations from E&P activities [b]** | **1,537** | **1,989** | **1,588** | **1,170** | **418** | **460** | **7,162** | **7** |
| **2007** | | | | | | | | |
| **Revenues** | | | | | | | | |
| Sales to consolidated entities | 3,171 | 3,000 | 4,439 | 3,125 | 296 | 512 | 14,543 | |
| Sales to third parties | 163 | 4,793 | 693 | 755 | 833 | 2,260 | 9,497 | 176 |
| **Total revenues** | **3,334** | **7,793** | **5,132** | **3,880** | **1,129** | **2,772** | **24,040** | **176** |
| Operations costs | (248) | (542) | (499) | (579) | (142) | (271) | (2,281) | (27) |
| Production taxes | (188) | (91) | (473) | | | (28) | (780) | (6) |
| Exploration expenses | (108) | (385) | (291) | (193) | (36) | (764) | (1,777) | (42) |
| D.D. & A. and provision for abandonment [a] | (499) | (768) | (685) | (729) | (76) | (989) | (3,746) | (51) |
| Other income and (expenses) | (283) | (627) | (297) | (45) | (72) | (243) | (1,567) | (18) |
| **Pretax income from producing activities** | **2,008** | **5,380** | **2,887** | **2,334** | **803** | **477** | **13,889** | **32** |
| Income taxes | (746) | (3,102) | (1,820) | (1,419) | (284) | (241) | (7,612) | (49) |
| **Results of operations from E&P activities [b]** | **1,262** | **2,278** | **1,067** | **915** | **519** | **236** | **6,277** | **(17)** |

(a) Includes asset impairments amounting to euro 130 million in 2005, euro 156 million in 2006 and euro 91 million in 2007.

(b) The Successful Effort Method application would have led to an increase of result of operations of euro 21 million in 2005, euro 220 million in 2006 and euro 438 million in 2007 for the consolidated companies and of euro 1 million in 2005, euro 15 million in 2006 and euro 26 million in 2007 for joint ventures and affiliates.

(1) Eni s costs incurred of the Kashagan field are determined based on Eni share of 18.52%.

(2) The amounts of joint ventures and affiliates for 2007 include 60% of the three Russian companies former Yukos purchased in 2007, for which Gazprom has a call option of 51%.

## Oil and natural gas reserves

Proved oil and gas reserves are the estimated quantities of crude oil, natural gas and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under technical, contractual, economic and operating conditions existing at the time. Prices include consideration of changes in existing prices provided only by contractual arrangements, but not of escalations based upon future conditions.
Net proved reserves exclude royalties and interests owned by others.
Proved developed oil and gas reserves are proved reserves that can be estimated to be recovered through existing wells, equipment and operating methods.
Proved undeveloped oil and gas reserves are reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for completion.
Additional oil and gas reserves expected to be obtained through the application of fluid injection or other improved recovery techniques for supplementing natural forces and mechanisms of primary recovery are included as proved developed reserves only after testing by a pilot project or after the operation of an installed program has confirmed, through production response, that increased recovery will be achieved.

Eni s proved reserves have been estimated on the basis of the applicable U.S. Securities & Exchange Commission regulation, Rule 4-10 of Regulation S-X and its interpretations and have been disclosed in accordance with Statement of Financial Accounting Standard No. 69. The estimates of proved reserves, developed and undeveloped for years ended December 31, 2004, 2005, 2006 and 2007 are based on data prepared by Eni. Since 1991 Eni has requested qualified independent oil engineering companies to carry out an independent evaluation[14] of its proved reserves on a rotation basis. Eni believes these independent evaluators to be experienced and qualified in the marketplace. In the preparation of their reports, these independent evaluators relied, without independent verification, upon information furnished by Eni with respect to property interest, production, current cost of operation and development, agreements relating to future operations and sale, prices and other factual information and data that were accepted as represented by the independent evaluators. This information was used by Eni in determining its proved reserves and included log, directional surveys, core and PVT analysis, maps, oil/gas/water monthly production/injection data of wells, reservoirs and fields; field studies, reservoir studies; engineers' comments relevant to field performance, reservoir performance, development programs, work programs etc.; budget data for each field, long range development plans, future capital and operating costs, actual prices received from hydrocarbon sales, instructions on future prices, and other pertinent information to calculate NPV for the fields required to undertake an independent evaluation. Accordingly, the work performed by the independent evaluators is an evaluation of Eni s proved reserves carried out concurrently with the internal one. Notwithstanding the above, the circumstance that the independent evaluations achieved the same results as those of the Company for the vast majority of fields support the management s confidence that the company s booked reserves meet the regulatory definition of proved reserves and are reasonably certain to be produced in the future. Additionally, for those fields where a discrepancy arose, the Company has adopted the most conservative reserve estimate. In any case, those differences were not significant.
In particular a total of 2.4 billion boe of proved reserves, or about 37% of Eni s total proved reserves at December 31, 2007, have been evaluated. The results of this independent evaluation confirmed Eni s evaluations, as in previous years. In the 2005-2007 three-year period, 67% of Eni s total proved reserves were subject to independent evaluations. In the last three years, the most important Eni s properties as at December 31, 2007 which were not subject to an independent evaluation were; Kashagan (Kazakhstan), Bayu Undan (Australia), Cerro Falcone and Monte Alpi-Monte Enoc (Italy).

Eni operates under Production Sharing Agreements, PSAs, in several of the foreign jurisdictions where it has oil and gas exploration and production activities. Reserves of oil and natural gas to which Eni is entitled under PSA arrangements are shown in accordance with Eni s economic interest in the volumes of oil and natural gas estimated to be recoverable in future years. Such reserves include estimated quantities allocated to Eni for recovery of costs, income taxes owed by Eni but settled by its joint venture partners (which are state-owned entities) out of Eni s share of production and Eni s net equity share after cost recovery.

Proved oil and gas reserves associated with PSAs represented 48%, 53% and 46% of total proved reserves as of year-end 2005, 2006 and 2007, respectively, on an oil-equivalent basis.

Similar effects as PSAs apply to Service and Buy-Back contracts; proved reserves associated with such contracts represented 2%, 2% and 1% of total proved reserves on an oil-equivalent basis as of year-end 2005, 2006 and 2007, respectively.

Oil and gas reserve quantities include: (i) oil and natural gas quantities in excess to cost recovery which the company has an obligation to purchase under certain PSAs with governments or authorities, whereby the company serves as producer of reserves. In accordance with SFAS 69, paragraph 13, reserve volumes associated with such oil and gas quantities represented 1.7%,1.1% and 1.8% of total proved reserves as of year-end 2005, 2006 and 2007, respectively, on an oil-equivalent basis; (ii) volumes of natural gas used for own consumption and (iii) volumes of natural gas held in certain Eni s storage fields in Italy. Proved reserves attributable to these fields include: (a) the residual natural gas volumes of the reservoirs and (b) natural gas volumes from other Eni fields input into these

(14) From 1991 to 2002 DeGolyer and MacNaughton, from 2003 also to Ryder Scott Company.

reservoirs in subsequent periods. Proved reserves do not include volumes owned by or acquired from third parties. Gas withdrawn from storage is produced and thereby detracted from proved reserves when sold.
Numerous uncertainties are inherent in estimating quantities of proved reserves and in projecting future rates of production and timing of development expenditures. The accuracy of any reserve estimate is a function of the quality of available data and engineering and geological interpretation and judgement. Results of drilling, testing and production after the date of the estimate may require substantial upward or downward revision. In addition, changes in oil and natural gas prices have an effect on the quantities of Eni s proved reserves since estimates of reserves are based on prices and costs relevant to the date when such estimates are made. Reserve estimates are also subject to revision as prices fluctuate due to the cost recovery feature under certain PSAs.
The following table presents yearly changes in estimated proved reserves, developed and undeveloped, of crude oil (including condensate and natural gas liquids) and natural gas for the years 2005, 2006 and 2007.

## Crude oil (including condensate and natural gas liquids)

(million barrels)

| **Proved oil reserves** | **Italy** | **North Africa** | **West Africa** | **North Sea** | **Caspian Area** (1) | **Rest of World** | **Total consolidated subsidiaries** | **Total joint venture and affiliates** (2) |
|---|---|---|---|---|---|---|---|---|
| **Reserves at December 31, 2004** | **225** | **967** | **1,047** | **450** | **799** | **484** | **3,972** | **36** |
| Purchase of Minerals in Place | 2 | | 6 | | 46 | 1 | 55 | |
| Revisions of Previous Estimates | 33 | 36 | (47) | 27 | (73) | (15) | (39) | (9) |
| Improved Recovery | | 43 | 29 | | 15 | | 87 | |
| Extensions and Discoveries | | 26 | 14 | 21 | 14 | 2 | 77 | |
| Production | (32) | (111) | (113) | (65) | (23) | (60) | (404) | (2) |
| Sales of Minerals in Place | | | | | | | | |
| **Reserves at December 31, 2005** | **228** | **961** | **936** | **433** | **778** | **412** | **3,748** | **25** |
| Purchase of Minerals in Place | | | | | | | | |
| Revisions of Previous Estimates (a) | 15 | 61 | (85) | 20 | 72 | (19) | 64 | 1 |
| Improved Recovery | | 49 | 41 | | 14 | | 104 | 1 |
| Extensions and Discoveries | | 30 | 11 | | 52 | 10 | 103 | |
| Production | (28) | (119) | (117) | (65) | (23) | (38) | (390) | (3) |
| Sales of Minerals in Place (b) | | | | (2) | | (170) | (172) | |
| **Reserves at December 31, 2006** | **215** | **982** | **786** | **386** | **893** | **195** | **3,457** | **24** |
| Purchase of Minerals in Place | | | 32 | | | 54 | 86 | 101 |
| Revisions of Previous Estimates | 28 | (35) | (26) | 14 | (114) | (31) | (164) | 20 |
| Improved Recovery | | 9 | 12 | 1 | | | 22 | 1 |
| Extensions and Discoveries | | 43 | 22 | 1 | | 29 | 95 | 1 |
| Production | (28) | (121) | (101) | (57) | (26) | (36) | (369) | (5) |
| Sales of Minerals in Place | | | | | | | | |
| **Reserves at December 31, 2007** | **215** | **878** | **725** | **345** | **753** | **211** | **3,127** | **142** |

(million barrels)

| **Proved developed oil reserves** | **Italy** | **North Sea** |
|---|---|---|

| | | North Africa | West Africa | | Caspian Area [1] | Rest of World | Total consolidated subsidiaries | Total joint venture and affiliates [2] |
|---|---|---|---|---|---|---|---|---|
| Reserves at December 31, 2004 | 174 | 655 | 588 | 386 | 323 | 345 | 2,471 | |
| Reserves at December 31, 2005 | 149 | 697 | 568 | 353 | 266 | 298 | 2,331 | 19 |
| Reserves at December 31, 2006 | 136 | 713 | 546 | 329 | 262 | 140 | 2,126 | 18 |
| Reserves at December 31, 2007 | 133 | 649 | 511 | 299 | 219 | 142 | 1,953 | 26 |

(a) Include the effect of Eni share redetermination in the Val d Agri concession in Italy.

(b) Include 170 million barrels related to unilateral termination of OSA for Dación field by PDVSA.

(1) Eni s costs incurred of the Kashagan field are determined based on Eni share of 18.52%.

(2) The amounts of joint ventures and affiliates for 2007 include 60% of the three Russian companies former Yukos purchased in 2007, for which Gazprom has a call option of 51%.

# Natural gas

(billion cubic feet)

| Proved natural gas reserves | Italy | North Africa | West Africa | North Sea | Caspian Area (1) | Rest of World | Total consolidated subsidiaries | Total joint venture and affiliates (2) |
|---|---|---|---|---|---|---|---|---|
| **Reserves at December 31, 2004** | **3,818** | **6,432** | **1,727** | **2,051** | **2,124** | **2,126** | **18,278** | **157** |
| Purchase of Minerals in Place | 63 | | 8 | | 14 | 208 | 293 | |
| Revisions of Previous Estimates | 159 | (6) | (9) | (18) | (284) | (84) | (242) | (47) |
| Improved Recovery | | 11 | | | | | 11 | |
| Extensions and Discoveries | 1 | 37 | 309 | 50 | | 56 | 453 | (20) |
| Production | (365) | (357) | (70) | (219) | (80) | (201) | (1,292) | |
| Sales of Minerals in Place | | | | | | | | |
| **Reserves at December 31, 2005** | **3,676** | **6,117** | **1,965** | **1,864** | **1,774** | **2,105** | **17,501** | **90** |
| Purchase of Minerals in Place | | | | 4 | | | 4 | |
| Revisions of Previous Estimates | 36 | 154 | 31 | 53 | 183 | 47 | 504 | (7) |
| Improved Recovery | | | | | | | | |
| Extensions and Discoveries | 19 | 146 | 34 | 1 | | 132 | 332 | |
| Production | (340) | (471) | (103) | (218) | (83) | (222) | (1,437) | (15) |
| Sales of Minerals in Place | | | | (7) | | | (7) | |
| **Reserves at December 31, 2006** | **3,391** | **5,946** | **1,927** | **1,697** | **1,874** | **2,062** | **16,897** | **68** |
| Purchase of Minerals in Place | | | 5 | | | 395 | 400 | 2,963 |
| Revisions of Previous Estimates | (53) | 250 | 74 | 67 | (222) | 6 | 122 | 5 |
| Improved Recovery | | | | 3 | | | 3 | |
| Extensions and Discoveries | 4 | 89 | 213 | 7 | 205 | 89 | 607 | |
| Production | (285) | (534) | (97) | (216) | (87) | (261) | (1,480) | (14) |
| Sales of Minerals in Place | | | | | | | | |
| **Reserves at December 31, 2007** | **3,057** | **5,751** | **2,122** | **1,558** | **1,770** | **2,291** | **16,549** | **3,022** |

(billion cubic feet)

| Proved developed natural gas reserves | Italy | North Africa | West Africa | North Sea | Caspian Area (1) | Rest of World | Total consolidated subsidiaries | Total joint venture and affiliates (2) |
|---|---|---|---|---|---|---|---|---|
| Reserves at December 31, 2004 | 2,850 | 1,760 | 924 | 1,845 | 1,998 | 1,124 | 10,501 | |
| Reserves at December 31, 2005 | 2,704 | 3,060 | 1,289 | 1,484 | 1,618 | 1,004 | 11,159 | 70 |
| Reserves at December 31, 2006 | 2,449 | 3,042 | 1,447 | 1,395 | 1,511 | 1,105 | 10,949 | 48 |
| Reserves at December 31, 2007 | 2,304 | 3,065 | 1,469 | 1,293 | 1,580 | 1,256 | 10,967 | 428 |

(a) Including approximately 737, 760 754 and 749 billion of cubic feet of natural gas held in storage at December 31, 2004, 2005, 2006 and 2007, respectively.

(1) Eni s costs incurred of the Kashagan field are determined based on Eni share of 18.52%.

(2)

The amounts of joint ventures and affiliates for 2007 include 60% of the three Russian companies former Yukos purchased in 2007, for which Gazprom has a call option of 51%.

## Standardized measure of discounted future net cash flows

Estimated future cash inflows represent the revenues that would be received from production and are determined by applying year-end prices of oil and gas to the estimated future production of proved reserves. Future price changes are considered only to the extent provided by contractual arrangements. Estimated future development and production costs are determined by estimating the expenditures to be incurred in developing and producing the proved reserves at the end of the year. Neither the effects of price and cost escalations nor expected future changes in technology and operating practices have been considered.

The standardized measure is calculated as the excess of future cash inflows from proved reserves less future costs of producing and developing the reserves, future income taxes and a yearly 10% discount factor.

Future cash flows as of December 31, 2005, 2006 and 2007 include amounts that Eni s Gas & Power segment and other gas companies pay for storage services, required to support market demand flexibility needs.
Future production costs include the estimated expenditures related to the production of proved reserves plus any production taxes without consideration of future inflation. Future development costs include the estimated costs of drilling development wells and installation of production facilities, plus the net costs associated with dismantlement and abandonment of wells and facilities, under the assumption that year-end costs continue without considering future inflation. Future income taxes were calculated in accordance with the tax laws of the countries in which Eni operates.
The standardized measure of discounted future net cash flows, related to the preceding proved oil and gas reserves, is calculated in accordance with the requirements of Statement of Financial Accounting Standard No. 69. The standardized measure does not purport to reflect realizable values or fair market value of Eni s proved reserves. An estimate of fair value would also take into account, among other things, the expected recovery of reserves in excess of proved reserves, anticipated changes in future prices and costs and a discount factor representative of the risks inherent in producing oil and gas.

The standardized measure of discounted future net cash flows by geographical area consists of the following:

| (million euro) | Italy | North Africa | West Africa | North Sea | Caspian Area (1) | Rest of World | Total consolidated subsidiaries | Total joint venture and affiliates (2) |
|---|---|---|---|---|---|---|---|---|
| **At December 31, 2005** | | | | | | | | |
| Future cash inflows | 36,203 | 66,100 | 45,952 | 30,835 | 30,339 | 20,251 | 229,680 | 1,055 |
| Future production costs | (4,609) | (10,030) | (9,604) | (5,632) | (3,848) | (2,551) | (36,274) | (226) |
| Future development and abandonment costs | (2,936) | (3,960) | (2,594) | (1,774) | (2,562) | (1,497) | (15,323) | (89) |
| **Future net inflow before income tax** | **28,658** | **52,110** | **33,754** | **23,429** | **23,929** | **16,203** | **178,083** | **740** |
| Future income tax | (9,890) | (22,744) | (21,056) | (15,225) | (6,973) | (5,124) | (81,012) | (187) |
| **Future net cash flows** | **18,768** | **29,366** | **12,698** | **8,204** | **16,956** | **11,079** | **97,071** | **553** |
| 10 % discount factor | (7,643) | (12,095) | (4,122) | (2,155) | (11,934) | (3,771) | (41,720) | (182) |
| **Standardized measure of discounted future net cash flows** | **11,125** | **17,271** | **8,576** | **6,049** | **5,022** | **7,308** | **55,351** | **371** |
| **At December 31, 2006** | | | | | | | | |
| Future cash inflows | 43,495 | 64,381 | 34,935 | 24,821 | 33,825 | 14,766 | 216,223 | 1,038 |
| Future production costs | (6,086) | (9,707) | (8,028) | (6,426) | (4,162) | (1,753) | (36,162) | (224) |
| Future development and abandonment costs | (6,739) | (5,383) | (2,865) | (2,265) | (3,103) | (1,473) | (21,828) | (79) |
| **Future net inflow before income tax** | **30,670** | **49,291** | **24,042** | **16,130** | **26,560** | **11,540** | **158,233** | **735** |
| Future income tax | (10,838) | (24,639) | (14,141) | (10,901) | (7,649) | (3,824) | (71,992) | (227) |
| **Future net cash flows** | **19,832** | **24,652** | **9,901** | **5,229** | **18,911** | **7,716** | **86,241** | **508** |
| 10 % discount factor | (11,493) | (10,631) | (2,994) | (1,392) | (13,878) | (2,626) | (43,014) | (154) |
| **Standardized measure of discounted future net cash flows** | **8,339** | **14,021** | **6,907** | **3,837** | **5,033** | **5,090** | **43,227** | **354** |
| **At December 31, 2007** | | | | | | | | |
| Future cash inflows | 47,243 | 73,456 | 48,283 | 29,610 | 42,710 | 20,359 | 261,661 | 7,135 |
| Future production costs | (5,926) | (11,754) | (9,875) | (6,670) | (4,997) | (2,782) | (42,004) | (1,249) |
| Future development and abandonment costs | (7,218) | (4,643) | (3,013) | (2,461) | (3,374) | (2,459) | (23,168) | (1,721) |
| **Future net inflow before income tax** | **34,099** | **57,059** | **35,395** | **20,479** | **34,339** | **15,118** | **196,489** | **4,165** |
| Future income tax | (10,778) | (29,083) | (23,083) | (14,375) | (9,977) | (5,397) | (92,693) | (2,009) |
| **Future net cash flows** | **23,321** | **27,976** | **12,312** | **6,104** | **24,362** | **9,721** | **103,796** | **2,156** |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 10 % discount factor | (13,262) | (11,143) | (3,953) | (1,600) | (17,480) | (3,356) | (50,794) | (1,265) |
| **Standardized measure of discounted future net cash flows** | **10,059** | **16,833** | **8,359** | **4,504** | **6,882** | **6,365** | **53,002** | **891** |

(1) Eni s costs incurred of the Kashagan field are determined based on Eni share of 18.52%.

(2) The amounts of joint ventures and affiliates for 2007 include 60% of the three Russian companies former Yukos purchased in 2007, for which Gazprom has a call option of 51%.

234

## Changes in standardized measure of discounted future net cash flows

Changes in standardized measure of discounted future net cash flows for the years 2005, 2006 and 2007.

| (million euro) | 2005 | 2006 | 2007 |
|---|---|---|---|
| **Beginning of year consolidated** | **36,901** | **55,351** | **43,227** |
| Increase (decrease): | | | |
| - sales, net of production costs | (17,880) | (21,739) | (20,979) |
| - net changes in sales and transfer prices, net of production costs | 33,372 | 4,097 | 34,999 |
| - extensions, discoveries and improved recovery, net of future production and development costs | 3,527 | 3,629 | 3,982 |
| - changes in estimated future development and abandonment costs | (3,654) | (6,964) | (4,000) |
| - development costs incurred during the period that reduced future development costs | 3,865 | 3,558 | 4,682 |
| - revisions of quantity estimates | 47 | 383 | (2,995) |
| - accretion of discount | 6,573 | 9,489 | 7,968 |
| - net change in income taxes | (17,327) | 3,060 | (17,916) |
| - purchase of reserves in-place | 977 | 10 | 3,521 |
| - sale of reserves in-place | | (1,252) | |
| - changes in production rates (timing) and other | 8,950 | (6,395) | 513 |
| **Net increase (decrease)** | **18,450** | **(12,124)** | **9,775** |
| **Standardized measure of discounted future net cash flows consolidates** | **55,351** | **43,227** | **53,002** |
| Standardized measure of discounted future net cash flows joint ventures and affiliates | 371 | 354 | 891 |

**Contents**



# Certification pursuant to Article 81-*ter* of the regulation issued by the Italian market regulatory body (Consob) No. 11971 of May 14, 1999 and subsequent integrations and updatings

1. The undersigned Paolo Scaroni and Marco Mangiagalli, in their quality as Chief Executive Officer and manager responsible for the preparation of financial reports of Eni, respectively, pursuant to Article 154-*bis*, paragraphs 3 and 4 of Legislative Decree No. 58/1998, certify that internal controls over financial reporting in place for the preparation of 2007 consolidated financial statements and during the period covered by the report, were:
   adequate to the company structure, and
   effectively applied during the process.

2. Internal controls over financial reporting in place for the preparation of the 2007 consolidated accounts have been defined and the evaluation of their effectiveness has been assessed based on principles and methodologies adopted by Eni in accordance with the Internal Control-Integrated Framework Model issued by the Committee of Sponsoring Organizations of the Treadway Commission, which represents an internationally-accepted framework for the internal control system.

3. The undersigned officers certify that this 2007 consolidated Annual Report:
   a) corresponds to the company s evidence and accounting books and entries, and
   b) was prepared in accordance with criteria issued by the International Accounting Standards Board (IASB) and adopted by the European Commission according to the procedure set forth in Article 6 of the European Regulation (CE) No. 1606/2002 of the European Parliament and European Council of July 19, 2002. Also, pursuant to Article 9 of Legislative Decree No. 38/2005 and based on their knowledge, the information contained in this report fairly presents, in all material respects, the financial condition, results of operations and cash flows of the Group companies as of, and for, the period presented in this report.

March 14, 2008

| | |
|---|---|
| /s/ Paolo Scaroni | /s/ Marco Mangiagalli |
| Paolo Scaroni<br>Chief Executive<br>Officer | Marco Mangiagalli<br>Chief Financial Officer |

# Report of Independent Auditors

BLANK PAGE

Società per Azioni
Headquarters: Rome, Piazzale Enrico Mattei, 1
Capital Stock:
euro 4,005,358,876 fully paid
Tax identification number 00484960588
Branches:
San Donato Milanese (MI) - Via Emilia, 1
San Donato Milanese (MI) - Piazza Ezio Vanoni, 1

**Investor Relations**
Piazza Ezio Vanoni, 1 - 20097 San Donato Milanese (Milan)
Tel. +39-0252051651 - Fax +39-0252031929
e-mail: investor.relations@eni.it

**Publications**
Financial Statements prepared in accordance with
Legislative Decree No. 127 of April 9, 1991 (in Italian)
Annual Report
Annual Report on Form 20-F
for the Securities and Exchange Commission
Sustainability Report
(in Italian and English)
Fact Book (in Italian and English)
Eni in 2007 (in English)
Report on the First, the Second and the Third Quarter
(in Italian and English)
Report on the First Half
prepared in accordance with art. 2428 of Italian Civil Code
(in Italian)
Report on the First Half
(in English)

**Internet Home page:** www.eni.it
**Rome office telephone:** +39-0659821
**Toll-free number:** 800940924
**e-mail:** segreteriasocietaria.azionisti@eni.it

**ADRs/Depositary**
Morgan Guaranty Trust Company of New York
ADR Department
60 Wall Street (36th Floor)
New York, New York 10260
Tel. 212-648-3164

**ADRs/Transfer agent**
Morgan ADR Service Center
2 Heritage Drive

North Quincy, MA 02171
Tel. 617-575-4328

**Design:** Opera
**Cover:** Grafica Internazionale - Rome - Italy
**Layout and supervision:** Korus Srl - Rome - Italy
**Digital printing**: Mari Group Comunications - Rome - Italy

**Contents**

**Table of Contents**

# ENI S.P.A.

# ORDINARY SHAREHOLDERS MEETING TO BE HELD ON APRIL 22 AND APRIL 29, 2008

## ON FIRST AND SECOND CALL, RESPECTIVELY

# REPORT ON THE PROPOSALS OF THE BOARD OF DIRECTORS TO THE SHAREHOLDERS MEETING

*The Italian text prevails over the translation into English*

Table of Contents

# ENI S.P.A.

**ORDINARY SHAREHOLDERS MEETING TO BE HELD ON APRIL 22 AND APRIL 29, 2008 ON FIRST AND SECOND CALL, RESPECTIVELY**

***Report on the proposals of the Board of Directors to the Shareholders Meeting***

## ITEM 1

## FINANCIAL STATEMENTS AT DECEMBER 31, 2007, REPORT OF THE DIRECTORS ON THE COURSE OF THE BUSINESS, REPORT OF THE BOARD OF STATUTORY AUDITORS AND REPORT OF THE INDEPENDENT AUDITORS OF AGIPFUEL S.P.A., A COMPANY MERGED WITH ENI S.P.A. WITH DEED OF DECEMBER 21, 2007. ALLOCATION OF NET INCOME

To the Shareholders:

the merger of AgipFuel S.p.A. with Eni S.p.A. became effective on January 1, 2008. As indicated in the project of merger, AgipFuel S.p.A. s operations are charged to Eni Financial Statements as of the same date. We therefore submit to the approval of the Shareholders Meeting AgipFuel S.p.A. Financial Statements at December 31, 2007.

For the illustration of said Financial Statements please refer to AgipFuel S.p.A. 2007 Financial Statements, deposited at Eni S.p.A.'s Registered Office and with the Borsa Italiana S.p.A. (the Italian Stock Exchange).

The Board proposes to allot AgipFuel S.p.A. net income of euro 900,816.00 to the Reserve of carried forward profits that will be considered in the calculation of the merger imbalance consequent to the merger of AgipFuel S.p.A. with Eni S.p.A..

To the Shareholders:

You are invited to approve AgipFuel S.p.A. Financial Statements at December 31, 2007, which disclose a net income of euro 900,816.00, and to allot the net income to the Reserve of carried forward profits that will be considered in the calculation of the merger imbalance consequent to the merger of AgipFuel S.p.A. with Eni S.p.A..

## ITEM 2

## FINANCIAL STATEMENTS AT DECEMBER 31, 2007, REPORT OF THE DIRECTORS ON THE COURSE OF THE BUSINESS, REPORT OF THE BOARD OF STATUTORY AUDITORS AND REPORT OF THE INDEPENDENT AUDITORS OF PRAOIL - OLEODOTTI ITALIANI S.P.A., A COMPANY MERGED WITH ENI S.P.A. WITH DEED OF DECEMBER 31, 2007. ALLOCATION OF NET INCOME

To the Shareholders:

the merger of Praoil - Oleodotti Italiani S.p.A. with Eni S.p.A. became effective on January 1, 2008. As indicated in the project of merger, Praoil - Oleodotti Italiani S.p.A. s operations are charged to Eni Financial Statements as of the same date. We therefore submit to the approval of the Shareholders Meeting Praoil - Oleodotti Italiani S.p.A. Financial Statements at December 31, 2007.

For the illustration of said Financial Statements please refer to Praoil - Oleodotti Italiani S.p.A. 2007 Financial Statements, deposited at Eni S.p.A. s Registered Office and with the Borsa Italiana S.p.A. (the Italian Stock Exchange).

The Board proposes to allot Praoil - Oleodotti Italiani S.p.A. net income of euro 14,818,016.00 to the Reserve of carried forward profits that will be considered in the calculation of the merger imbalance consequent to the merger of Praoil - Oleodotti Italiani S.p.A. with Eni S.p.A..

To the Shareholders:

You are invited to approve Praoil - Oleodotti Italiani S.p.A. Financial Statements at December 31, 2007, which disclose a net income of euro 14,818,016.00, and to allot the net income to the Reserve of carried forward profits that will be considered in the calculation of the merger imbalance consequent to the merger of Praoil - Oleodotti Italiani S.p.A. with Eni S.p.A..

## ITEM 3

## ENI FINANCIAL STATEMENTS AT DECEMBER 31, 2007, CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2007, REPORT OF THE DIRECTORS ON THE COURSE OF THE BUSINESS, REPORT OF THE BOARD OF STATUTORY AUDITORS AND REPORT OF THE INDEPENDENT AUDITORS

To the Shareholders:

for the illustration of Eni Financial Statements please refer to Eni Annual Report 2007 deposited at the Company's Registered Office and with the Borsa Italiana S.p.A. (the Italian Stock Exchange).

Table of Contents

To the Shareholders:
You are invited to approve Eni Financial Statements at December 31, 2007, which disclose a net income of euro 6,599,897,011.52.

## ITEM 4

## ALLOCATION OF NET INCOME

To the Shareholders:

in consideration of Eni 2007 results, the Board of Directors proposes to approve:

- the allocation of euro 4,401,297,986.12 of Eni 2007 net income, of euro 6,599,897,011.52 left after the payment of an interim dividend of euro 0.60 per share resolved by the Board of Directors on September 20, 2007 and paid as of October 25, 2007, as follows:
  - to pay a dividend of 0.70 euro for each share outstanding on the ex-dividend date, Eni treasury shares on that date excluded. Therefore, in consideration of the payment of the 2007 interim dividend of 0.60 euro per share, the 2007 dividend per share proposed amounts at 1.30 euro;
  - to the Distributable Reserve the amount left after the previous allotment of the dividend;
- the payment of said dividend as from May 22, 2008, being the ex-dividend date May 19, 2008.

## ITEM 5

## AUTHORISATION TO THE PURCHASE OF ENI SHARES AND WITHDRAWAL, FOR THE PART NOT YET EXECUTED, OF THE AUTHORISATION TO THE PURCHASE OF ENI SHARES APPROVED BY THE SHAREHOLDERS MEETING HELD ON MAY 24, 2007

To the Shareholders:

the Shareholders Meeting held on May 24, 2007 authorised the purchase of up to 400 million Eni ordinary shares, nominal value euro 1, within eighteen months as of the Shareholders Meeting date. According to said resolution, the total expense wouldn t have exceeded 7.4 billion euro and the purchase price wouldn t have been lower than Eni share nominal value and not higher than the reference price recorded on the trading day preceding each purchase increased of 5% of its amount.

On March 13, 2008 Eni shares bought are 369.7 million corresponding to 9.23% of Eni current share capital; the related expense totals 6,352.4 million euro, corresponding to 85.84% of 7.4 billion euro. The average purchase price is 17.182 euro. On the same date the number of treasury shares held was 355.6 million for a total amount of 6,157 million euro.

- 4 -

Table of Contents

The Board intends to continue the buy-back programme, initiated in 2000, which represents an effective and flexible instrument to increase the shareholders value. Therefore the Board proposes to the Shareholders Meeting to withdraw the authorisation to purchase Eni shares approved by the Shareholders Meeting held on May 24, 2007, for the amount not yet exercised at the Shareholders Meeting date, and to be authorised, pursuant to Article 2357 of the Civil Code and Article 132 of Legislative Decree No. 58 dated February 24, 1998, to purchase up to 400 million of Eni shares, nominal value euro 1, corresponding to 9.9866% of Eni share capital, within eighteen months as of the Shareholders Meeting date. The total expense will not exceed the amount of euro 7.4 billion.

The purchases will be executed exclusively on the electronic stock market organised and managed by the Borsa Italiana S.p.A. (the Italian Stock Exchange), according to the rules issued by the Italian Stock Exchange itself. The purchase price will not be lower than Eni shares nominal value and not higher than the reference price recorded on the trading day preceding each purchase increased of 5% of its amount.

In order not to trespass the 10% threshold set by Article 2357, third paragraph, of the Civil Code, in the determination of the number of shares to be purchased and the related total expense, the treasury shares owned on the Shareholders Meeting date will be taken into consideration. The Reserve for the purchase of Eni shares, as per Article 2357-*ter* of the Italian Civil Code, is already available for the corresponding amount.

You are invited to:

- withdraw the delegation of authority to the Board of Directors to purchase treasury shares approved by the Ordinary Shareholders Meeting held on May 24, 2007 for the amount not yet exercised at the Shareholders Meeting date;
- authorise the Board of Directors, pursuant to Article 2357, second paragraph, of the Civil Code, to purchase up to 400,000,000 (four hundred million) Eni ordinary shares, nominal value euro 1, within eighteen months as of the Shareholders Meeting date. The purchases will be executed exclusively on the electronic stock market organised and managed by the Borsa Italiana S.p.A. (the Italian Stock Exchange), according to the rules issued by the Italian Stock Exchange itself. The purchase price will not be lower than Eni shares nominal value and not higher than the reference price recorded on the trading day preceding each purchase increased of 5% of its amount. The total expense will not exceed however 7.4 billion euro. In order not to trespass the 10%

threshold set by Article 2357, third paragraph, of the Civil Code, in the determination of the number of shares to be purchased and the related total expense, the number and the value of the treasury shares owned on the Shareholders Meeting date will be taken into consideration;

- delegate any and all powers to the Chief Executive Officer to execute, directly or through attorneys-in-fact, any and all acts necessary to enforce such resolution.

The Chairman of the Board of Directors
Mr. Roberto Poli

- 5 -

**Table of Contents**

# PRESS RELEASE

*Rome, March 27, 2008* - Following a specific request by Consob, the public authority responsible for regulating the Italian securities market, Eni reaffirms today s comment by Eni s CEO Paolo Scaroni: "Alitalia today is not in Eni s agenda".