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Knight Vinke confirms its holding in ENI and calls for a debate on the structure of the energy industry in Italy

New York, 2 September 2009. The *Lex* column of the *Financial Times* today carries an article referring to an investment by Knight Vinke in ENI, the Italian oil super major that represents almost 20% of the capitalisation of the Milan stock market index. With a direct holding of just under 1%, Knight Vinke is one of the largest shareholders of ENI after the Italian State (which owns 30%). We have held this position for approximately two years and also have holdings in ENEL and Snam Rete Gas, the next largest energy companies in Italy.

ENI is unlike any other national energy company in Europe: it encompasses both a major upstream company and a major downstream company, each of which on its own would be as valuable as the whole of ENI is today. The downstream utility business within ENI, which is larger and better positioned than E.ON or GDF Suez for example, grows more slowly than the upstream business, but is also less subject to commodity price risk and is able therefore to take on significantly more debt while maintaining a strong credit rating. The upstream business on its own would be the fastest growing of the global oil majors.

Combining the two businesses under one roof results in ENI being financially constrained, as clearly demonstrated by the recent dividend cut. The Group in its current shape is unable to borrow as much as ENI's downstream utility could borrow on its own and its shares trade on a low multiple that does not reflect the high growth of its upstream operations. This structure, which was designed originally to promote the creation of a national energy champion capable of entering into gas supply contracts with the largest producers, is handicapped by these issues and could be improved upon, particularly in light of the experience of Europe's other major energy markets. Furthermore, achieving energy security in this way places a heavy burden on Italian households and the financial constraints on ENI's growth may be limiting the Group's ability to create additional jobs.

Clearly, these issues are of great concern to the Italian taxpayer as well as to the shareholders, customers, employees and regulators of ENI. The energy sector in Italy now stands out as being sub-optimally structured within the context of a European market that has evolved. We believe that the time has come for an informed – and more thoughtful – debate on where the Italian national interest truly lies. The issues to be addressed include energy security, energy prices, competition and the state of Italy's public finances.

Knight Vinke and its management team have acknowledged expertise within the energy sector (cf. Royal Dutch Shell, Electrabel-Suez and Suez-Gaz de France) and will be sponsoring a conference on the structure of the Italian energy industry, to be held in Milan, in order to debate the issues. The fact that there are legitimate regulatory objectives cannot be disputed but there are several solutions, as is clear from the experience of other countries within the EU.

The conference will be held during the course of September and will be open to all interested parties. Further details will be published on Knight Vinke's website (www.knightvinke.com) in due course.

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