ENI SPA
Form 20-F/A
September 01, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 20-F /A

(Amendment No. 1)

(Mark One)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) or (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2008

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report

Commission file number: 1-14090

Eni SpA

(Exact name of Registrant as specified in its charter)

Republic of Italy

(Jurisdiction of incorporation or organization)

1, piazzale Enrico Mattei
00144 Rome
Italy

(Address of principal executive offices)

Alessandro Bernini
Eni SpA
1, piazza Ezio Vanoni
San Donato Milanese
20097 Milan
Italy
Tel +39 02 52041730
Fax +39 02 52041765

(Name, Telephone, Email and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class	Name of each exchange on which registered
Shares	**New York Stock Exchange***
American Depositary Shares (Which represent the right to receive two shares)	**New York Stock Exchange**

* Not for trading, but only in connection with the registration of American Depositary Shares, pursuant to the requirements of the Securities and Exchange Commission.

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report.

Ordinary shares of euro 1.00 each	
	4,005,358,876

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes No

Note - Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP	International Financial Reporting Standards as issued by the International Accounting Standards Board	Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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EXPLANATORY NOTE

Eni SpA is filing this Amendment No. 1 to its Annual Report on Form 20-F for the year ended December 31, 2008, as filed with the U.S. Securities and Exchange Commission on May 14, 2009 ("Original Form 20-F") in order to include the earlier year of activities in the Company s consolidated statements of changes in shareholders equity, which was inadvertently omitted in the Original Form 20-F.

Accordingly, this Amendment amends Item 18 of the Original Form 20-F to provide the 2006 consolidated statement of changes in shareholders equity appearing on page F-5 of this Amendment.

This Amendment should be read in conjunction with the Original Form 20-F, which continues to speak as of the date that the Original Form 20-F was filed. Except as specifically noted above, this Amendment does not modify or update any disclosures in the Original Form 20-F. Accordingly, this Amendment does not reflect events occurring after the filing of the Original Form 20-F or modify or update any disclosures that may have been affected by subsequent events, including the results of operations, financial condition, cash flows or any forward-looking statements made in the Original Form 20-F.

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Omissis

PART II

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PART III

Item 17. FINANCIAL STATEMENTS

Not applicable.

Item 18. FINANCIAL STATEMENTS

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Item 19. EXHIBITS

Certifications:

12.1. Certification pursuant to Rule 13a-14(a) of the Securities Exchange Act

12.2. Certification pursuant to Rule 13a-14(a) of the Securities Exchange Act

13.1. Certification furnished pursuant to Rule 13a-14(b) of the Securities Exchange Act (such certificate is not deemed filed for purpose of Section 18 of the Exchange Act and not incorporated by reference with any filing under the Securities Act)

13.2. Certification furnished pursuant to Rule 13a-14(b) of the Securities Exchange Act (such certificate is not deemed filed for purpose of Section 18 of the Exchange Act and not incorporated by reference with any filing under the Securities Act)

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Eni SpA.

In our opinion, the accompanying consolidated balance sheets and the related consolidated profit and loss accounts, consolidated statements of changes in shareholders equity and consolidated statements of cash flows present fairly, in all material respects, the financial position of Eni SpA and its subsidiaries at December 31, 2008 and December 31, 2007, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2008 in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management s Annual Report on Internal Control over Financial Reporting appearing in Item 15 Controls and Procedures of the 2008 Annual Report to Shareholders. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company s 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. A company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers SpA

Rome, Italy
May 14, 2009

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CONSOLIDATED BALANCE SHEET

(euro million)

		Dec. 31, 2007		Dec. 31, 2008	
	Note	Total amount	*of which with related parties*	Total amount	*of which with related parties*
ASSETS					
Current assets					
Cash and cash equivalents	(1)	2,114		1,939	
Other financial assets held for trading or available for sale:	(2)				
- equity instruments		*2,476*		*2,741*	
- other securities		*433*		*495*	
		2,909		3,236	
Trade and other receivables	(3)	20,676	*1,616*	22,222	*1,539*
Inventories	(4)	5,499		6,082	
Current tax assets	(5)	703		170	
Other current tax assets	(6)	833		1,130	
Other current assets	(7)	1,080		2,349	59
Total current assets		**33,814**		**37,128**	
Non-current assets					
Property, plant and equipment	(8)	46,919		55,833	
Other assets	(9)	563			
Inventory - compulsory stock	(10)	2,171		1,196	
Intangible assets	(11)	7,551		11,037	
Equity-accounted investments	(12)	5,639		5,471	
Other investments	(12)	472		410	
Other financial assets	(13)	923	*87*	1,134	*356*
Deferred tax assets	(14)	1,915		2,912	
Other non-current receivables	(15)	1,110	*16*	1,401	*21*
Total non-current assets		**67,263**		**79,394**	
Assets classified as held for sale	(26)	**383**		**68**	
TOTAL ASSETS		**101,460**		**116,590**	
LIABILITIES AND SHAREHOLDERS EQUITY					
Current liabilities					
Short-term debt	(16)	7,763	*131*	6,359	*153*
Current portion of long-term debt	(21)	737		549	
Trade and other payables	(17)	17,116	*1,021*	20,515	*1,253*
Income taxes payable	(18)	1,688		1,949	
Other taxes payable	(19)	1,383		1,660	
Other current liabilities	(20)	1,556	*4*	4,319	*4*
Total current liabilities		**30,243**		**35,351**	
Non-current liabilities					
Long-term debt	(21)	11,330	*16*	13,929	*9*
Provisions for contingencies	(22)	8,486		9,573	
Provisions for employee benefits	(23)	935		947	
Deferred tax liabilities	(24)	5,471		5,742	
Other non-current liabilities	(25)	2,031	*57*	2,538	*53*
Total non-current liabilities		**28,253**		**32,729**	

Liabilities directly associated with the assets classified as held for sale	(26)	**97**	
TOTAL LIABILITIES		**58,593**	**68,080**
SHAREHOLDERS EQUITY	(27)		
Minority interest		**2,439**	**4,074**
Eni shareholders equity			
Share capital		4,005	4,005
Reserves		34,610	40,722
Treasury shares		(5,999)	(6,757)
Interim dividend		(2,199)	(2,359)
Net profit		10,011	8,825
Total Eni shareholders equity		**40,428**	**44,436**
TOTAL SHAREHOLDERS EQUITY		**42,867**	**48,510**
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY		**101,460**	**116,590**

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CONSOLIDATED PROFIT AND LOSS ACCOUNT

(euro million except as otherwise stated)

		2006		2007		2008	
	Note	Total amount	*of which with related parties*	Total amount	*of which with related parties*	Total amount	*of which with related parties*
REVENUES							
Net sales from operations	(30)	86,105	*3,974*	87,256	*4,198*	108,148	*5,048*
Other income and revenues		783		827		720	*39*
Total revenues		**86,888**		**88,083**		**108,868**	
OPERATING EXPENSES	(31)						
Purchases, services and other		57,490	*2,720*	58,179	*3,777*	76,408	*6,298*
- of which non-recurring charge		*239*		*91*		*(21)*	
Payroll and related costs		3,650		3,800		4,004	
- of which non-recurring income				*(83)*			
Depreciation, depletion, amortization and impairments		6,421		7,236		9,815	
OPERATING PROFIT		**19,327**		**18,868**		**18,641**	
FINANCE INCOME (EXPENSE)	(32)						
Finance income		3,749	*58*	4,445	*49*	7,985	*42*
Finance expense		(3,971)	*(18)*	(4,554)	*(20)*	(8,198)	*(17)*
Derivative financial instruments		383		26	*10*	(551)	*58*
		161		**(83)**		**(764)**	
INCOME FROM INVESTMENTS	(33)						
Share of profit (loss) of equity-accounted investments		795		773		640	
Other gain (loss) from investments		108		470		733	
		903		**1,243**		**1,373**	
PROFIT BEFORE INCOME TAXES		**20,391**		**20,028**		**19,250**	
Income taxes	(34)	(10,568)		(9,219)		(9,692)	
Net profit		**9,823**		**10,809**		**9,558**	
Attributable to							
Eni		9,217		10,011		8,825	
Minority interest	(27)	606		798		733	
		9,823		**10,809**		**9,558**	
Earnings per share attributable to Eni (euro per share)	(35)						
Basic		2.49		2.73		2.43	
Diluted		2.49		2.73		2.43	

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CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

(euro million)

	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, 2005	**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									**9,217**	**9,217**	**606**	**9,823**
Gains (losses) recognized directly in equity												
Change in the fair value of available-for-sale securities				(13)						(13)		(13)
Change in the fair value of cash flow hedge derivatives				(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								1,686	(4,086)	(2,400)		(2,400)
Dividend distribution of Eni SpA (euro 0.60 per share)								(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 of shares repurchase			2,000				(2,000)					
Shares repurchased						(1,241)				(1,241)		(1,241)
Treasury shares sold under incentive plans for Eni managers			(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												
Sale to Saipem Projects SpA of Snamprogetti SpA				247						247	(247)	
Net effect related to the purchase of treasury shares by Saipem SpA											(306)	(306)

and Snam Rete Gas SpA												
Purchase and sale to third parties of consolidated subsidiaries											(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	**4,005**	**959**	**7,262**	**400**	**(398)**	**(5,374)**	**25,168**	**(2,210)**	**9,217**	**39,029**	**2,170**	**41,199**

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CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY *continued*

(euro million)

	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	**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									**10,011**	**10,011**	**798**	**10,809**
Gains (losses) recognized directly in equity												
Change in the fair value of available-for-sale securities				(4)						(4)		(4)
Change in the fair value of cash flow hedge derivatives				(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								2,210	(4,594)	(2,384)		(2,384)
Interim dividend distribution of Eni SpA (euro 0.60 per share)								(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						(680)				(680)		(680)
Treasury shares sold under incentive plans for Eni managers			(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 option and stock grant							18			18		18
					119		(238)			(119)	11	(108)

Foreign currency translation differences on the distribution of dividends and other changes					**119**		**(220)**			**(101)**	**(190)**	**(291)**
Balance at December 31, 2007	**4,005**	**959**	**7,207**	**(914)**	**(2,233)**	**(5,999)**	**29,591**	**(2,199)**	**10,011**	**40,428**	**2,439**	**42,867**

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CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY *continued*
(euro million)

	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, 2007	**4,005**	**959**	**7,207**	**(914)**	**(2,233)**	**(5,999)**	**29,591**	**(2,199)**	**10,011**	**40,428**	**2,439**	**42,867**
Net profit for the year									**8,825**	**8,825**	**733**	**9,558**
Gains (losses) recognized directly in equity												
Change in the fair value of available-for-sale securities (Note 27)				2						2		2
Change in the fair value of cash flow hedge derivatives (Note 27)				1,255						1,255	(52)	1,203
Foreign currency translation differences					1,066					1,066	11	1,077
				1,257	**1,066**					**2,323**	**(41)**	**2,282**
Total recognized income and (expense) for the year				**1,257**	**1,066**				**8,825**	**11,148**	**692**	**11,840**
Transactions with shareholders												
Dividend distribution of Eni SpA (euro 0.70 per share) in settlement of 2007 interim dividend of euro 0.60 per share								2,199	(4,750)	(2,551)		(2,551)
Interim dividend distribution of Eni SpA (euro 0.65 per share)								(2,359)		(2,359)		(2,359)
Dividend distribution of other companies											(297)	(297)
Payments by minority shareholders											20	20
Allocation of 2007 net profit							5,261		(5,261)			
Shares repurchased						(778)				(778)		(778)
Treasury shares sold under incentive plans for Eni managers			(20)	13		20	(1)			12		12
Difference between the carrying amount and strike price of stock options exercised by Eni managers							2			2		2
			(20)	**13**		**(758)**	**5,262**	**(160)**	**(10,011)**	**(5,674)**	**(277)**	**(5,951)**
Other changes in shareholders equity												
Net effect related to the purchase of treasury shares by Saipem SpA											(31)	(31)
Cost related to stock option and stock grant							18			18		18
Put option granted to Publigaz (the Distrigas minority shareholder)				(1,495)						(1,495)		(1,495)

Minority interest recognized following the acquisition of Distrigas NV and Hindustan Oil Exploration Co Ltd											1,261	1,261
Foreign currency translation differences on the distribution of dividends and other changes				(1)	198		(186)			11	(10)	1
				(1,496)	**198**		**(168)**			**(1,466)**	**1,220**	**(246)**
Balance at December 31, 2008 (Note 27)	**4,005**	**959**	**7,187**	**(1,140)**	**(969)**	**(6,757)**	**34,685**	**(2,359)**	**8,825**	**44,436**	**4,074**	**48,510**

CONSOLIDATED STATEMENT OF CASH FLOWS

(euro million)

	Note	2006	2007	2008
Net profit of the year		9,823	10,809	9,558
Depreciation, depletion and amortization	(31)	6,153	7,029	8,422
Revaluations, net		(386)	(494)	2,560
Net change in provisions for contingencies		(86)	(122)	414
Net change in the provisions for employee benefits		72	(67)	(8)
Gain on disposal of assets, net		(59)	(309)	(219)
Dividend income	(33)	(98)	(170)	(510)
Interest income		(387)	(603)	(592)
Interest expense		346	523	809
Exchange differences		6	(119)	(319)
Income taxes	(34)	10,568	9,219	9,692
Cash generated from operating profit before changes in working capital		**25,952**	**25,696**	**29,807**
(Increase) decrease:				
- inventories		(953)	(1,117)	(801)
- trade and other receivables		(1,952)	(655)	(974)
- other assets		(315)	(362)	162
- trade and other payables		2,146	360	2,318
- other liabilities		50	107	1,507
Cash from operations		**24,928**	**24,029**	**32,019**
Dividends received		848	658	1,150
Interest received		395	333	266
Interest paid		(294)	(555)	(852)
Income taxes paid, net of tax receivables received		(8,876)	(8,948)	(10,782)
Net cash provided from operating activities		**17,001**	**15,517**	**21,801**
- of which with related parties	(37)	*2,206*	*549*	*(62)*
Investing activities:				
- tangible assets	(8)	(5,963)	(8,364)	(12,082)
- intangible assets	(11)	(1,870)	(2,229)	(2,480)
- consolidated subsidiaries and businesses		(46)	(4,759)	(3,634)
- investments	(12)	(42)	(4,890)	(385)
- securities		(49)	(76)	(152)
- financing receivables		(516)	(1,646)	(710)
- change in payables and receivables in relation to capital expenditures and capitalized depreciation		(26)	185	367
Cash flow from investments		**(8,512)**	**(21,779)**	**(19,076)**
Disposals:				
- tangible assets		231	165	318
- intangible assets		18	35	2
- consolidated subsidiaries and businesses		8	56	149
- investments		36	403	510
- securities		382	491	145
- financing receivables		794	545	1,293
- change in payables and receivables in relation to disposals		(8)	(13)	(299)
Cash flow from disposals		**1,461**	**1,682**	**2,118**

Net cash used in investing activities (*)		**(7,051)**	**(20,097)**	**(16,958)**
- of which with related parties	(37)	*(686)*	*(822)*	*(1,598)*

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CONSOLIDATED STATEMENT OF CASH FLOWS *continued*

(euro million)

	Note	2006	2007	2008
Proceeds from long-term debt		2,888	6,589	3,774
Repayments of long-term debt		(2,621)	(2,295)	(2,104)
Increase (decrease) in short-term debt		(949)	4,467	(690)
		(682)	**8,761**	**980**
Net capital contributions by minority shareholders		22	1	20
Net acquisition of treasury shares different from Eni SpA		(477)	(340)	(50)
Acquisition of additional interests in consolidated subsidiaries		(7)	(16)	
Sale of additional interests in consolidated subsidiaries		35		
Dividends paid to Eni s shareholders		(4,610)	(4,583)	(4,910)
Dividends paid to minority interest		(222)	(289)	(297)
Net purchase of treasury shares		(1,156)	(625)	(768)
Net cash used in financing activities		**(7,097)**	**2,909**	**(5,025)**
- of which with related parties	(37)	*(57)*	*20*	*14*
Effect of change in consolidation (inclusion/exclusion of significant/insignificant subsidiaries)		*(4)*	*(40)*	*(1)*
Effect of exchange rate changes on cash and cash equivalents		*(197)*	*(160)*	*8*
Net cash flow for the period		**2,652**	**(1,871)**	**(175)**
Cash and cash equivalents - beginning of year	(1)	**1,333**	**3,985**	**2,114**
Cash and cash equivalents - end of year	(1)	**3,985**	**2,114**	**1,939**

(*) Net cash used in investing activities included investments in certain financial assets to absorb temporary surpluses of cash or as part of our ordinary management of financing activities. Due to their nature and the circumstance that they are very liquid, these financial assets are netted against finance debt in determining net borrowings. For the definition of net borrowings, see "Item 5 Operating and Financial Review and Prospects".
Cash flows of such investments were as follows:

(euro million)	2006	2007	2008
Financing investments:			
- securities	(44)	(75)	(74)
- financing receivables	(134)	(970)	(99)
	(178)	**(1,045)**	**(173)**
Disposal of financing investments:			
- securities	340	419	145
- financing receivables	54	147	939
	394	**566**	**1,084**
Net cash flows from financing activities	**216**	**(479)**	**216**

SUPPLEMENTAL CASH FLOW INFORMATION

(euro million)

	2006	2007	2008
Effect of investment of companies included in consolidation and businesses			
Current assets	68	398	1,938
Non-current assets	130	5,590	7,442
Net borrowings	53	1	1,543
Current and non-current liabilities	(92)	(972)	(3,598)
Net effect of investments	**159**	**5,017**	**7,325**
Minority interests			(1,261)
Fair value of investments held before the acquisition of control		(13)	(601)
Sale of unconsolidated entities controlled by Eni	(60)		
Purchase price	**99**	**5,004**	**5,463**
less:			
Cash and cash equivalents	(53)	(245)	(1,829)
Cash flow on investments	**46**	**4,759**	**3,634**
Effect of disposal of consolidated subsidiaries and businesses			
Current assets	9	73	277
Non-current assets	1	20	299
Net borrowings	(1)	26	(118)
Current and non-current liabilities	(4)	(94)	(270)
Net effect of disposals	**5**	**25**	**188**
Gain on disposal	3	33	25
Minority interest			(1)
Selling price	**8**	**58**	**212**
less:			
Cash and cash equivalents		(2)	(63)
Cash flow on disposals	**8**	**56**	**149**

Transactions that did not produce cash flows

Acquisition of equity investments in exchange of businesses contribution:

(euro million)	2006	2007	2008
Current assets	23		
Non-current assets	213	38	
Net borrowings	(44)	(4)	
Long-term and short-term liabilities	(53)		
Net effect of contribution	**139**	**34**	
Minority interest	(36)		
Gain on contribution	18		
Acquisition of investments	**121**	**34**	

Basis of presentation

The Consolidated Financial Statements of Eni Group for the Annual Report on Form 20-F have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (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 basis except for certain items that under IFRS must be recognized at fair value as described in the summary of significant accounting policies paragraph.

The Consolidated Financial Statements include the 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 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 of 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[1].

Immaterial subsidiaries excluded from consolidation, jointly controlled entities, associates and other interests are accounted for as described below under the item "Financial fixed assets".

Subsidiaries financial statements are audited by the independent auditors who examine and certify also the information required for the preparation of the Consolidated Financial Statements.

The 2008 Consolidated Financial Statements approved by Eni s Board of Directors on March 13, 2009 were audited by the independent auditor PricewaterhouseCoopers SpA (PwC). 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 sheet 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 acquired entity over the total fair value assigned to assets acquired and liabilities assumed is recognized as goodwill; negative goodwill is recognized in the profit and loss account.

Equity and net profit of minority shareholders are included in specific lines of the financial statements; this share of equity is determined using the fair value of assets and liabilities, excluding any related goodwill, at the time when control is acquired.

The purchase of additional ownership interests in subsidiaries from minority shareholders is recognized 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 the profit and loss account for the difference between proceeds from the sale and the divested portion of net equity.

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(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.

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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 for the 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 U.S. 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", respectively.

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, interalia, significant breaches of contracts, serious financial difficulties or the high probability of insolvency of the counterparty; asset write downs are included in the carrying amount[2].

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 with a derivative financial instrument. The latter are stated at fair value with effects of changes in fair value recognized in the profit and loss account rather than in 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[3].

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. Interests and dividends on financial assets stated at fair value with gains or losses reflected in the 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 for on the settlement date.

Receivables are carried 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

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(2) Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" and to IFRS 7 "Financial Instruments: Disclosures" that permit, with certain criteria met, an entity to reclassify held for trading and available-for-sale financial assets into financial instruments valuated at cost or at amortized cost have not produced any effect for Eni.

(3) Regarding the investment in OAO Gazprom Neft see Note 2 - Other financial assets held for trading or available for sale.

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 cost-to-cost method whereby 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 the profit and loss account.

Hedging instruments are described in the section "Derivative instruments".

Non-current assets

Property, plant and equipment[4]
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"[5].

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 a 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 which provide additional economic benefits 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 by third parties 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 its carrying value with the recoverable amount represented by the higher of fair value less costs to sell

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(4) Recognition and evaluation criteria of exploration and production activities are described in the section "Exploration and production activities" below.
(5) 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 undetermined 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.

and value in use. 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 prices for products which derive therefrom) 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 reflects a current market valuation of the time value of money and of those specific risks of the asset that are not reflected in the estimate of the future cash flows. In particular, the discount rate used is the Weighted Average Cost of Capital (WACC) adjusted for the specific country risk of the activity.

The evaluation of the specific country risk to be included in the discount rate is provided by external parties. WACC differs considering the risk associated with individual operating segments; in particular for the assets belonging to the Gas & Power and Engineering & Construction segments, taking into account the different risk compared with Eni, specific WACC rates have been defined (for Gas & Power segment on the basis of a sample of companies operating in the same segment; for Engineering & Construction segment on the basis of the market quotation); WACC used for impairments in the Gas & Power segment is adjusted to take into consideration the risk premium of the specific country of the activity while WACC used for impairments in the Engineering & Construction segment is not adjusted for country risk as most of the company assets are not located in a specific country. For the regulated activities, the discount rate to use for the measurement of value in use is equal to the rate of return defined by the Regulator. For the other segments, a single WACC is used considering that the risk is the same to that of Eni as a whole. Value in use is calculated net of the tax effect as this method results in values similar to those resulting from discounting pre-tax cash flows at a pre-tax discount rate deriving, through an iteration process, from a post-tax valuation. 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 and 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 amount to be amortized and the recoverability of the carrying amount are 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[6]. 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. Intangible assets also include public to private service concession arrangements in which: (i) the grantor controls or regulates what services the operator must provide with the infrastructure, to whom it must provide them and at what price; and (ii) the grantor controls through ownership, beneficial entitlement or otherwise any significant residual interest in the infrastructure at the end of the term of the arrangement. According to the terms of the agreements the operator has the right to operate the infrastructure, controlled by the grantor, in order to provide the public service [7] [8].

Exploration and production activities[9]

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 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 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.

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(6) Impairment charges recognized in an interim period 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.

(7) When the operator has a unconditional contractual right to riceive cash or another financial asset from or at the direction of the grantor, considerations received or receivable by the operator for construction or upgrade of the infrastructure are recognized as a financial asset.

(8) The accounting policy for service concession arrangement has been defined according to IFRIC 12 "Service concession arrangements" (IFRIC 12); the application of IFRIC 12 has determined for 2007 the reclassification of euro 3,218 million from the line item "Property, plant and equipment" to "Intangible assets"; the effects on profit and loss accounts are not material.

(9) 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".

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 accrual basis whilst exploration, development and production costs are accounted for according to the policies mentioned above.

The company s share of production volumes and reserves representing the profit oil includes the share of hydrocarbons which corresponds to the taxes to be paid, according to the contractual agreement, by the national government on the behalf of the company. As a consequence, the company has to recognize at the same time an increase in the taxable profit, through the increase of the revenues, and a tax expense.

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 are accounted for using the equity method[10]. Subsidiaries, joint ventures and associates excluded from consolidation are 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 investments are not traded in a public market and fair value cannot be reasonably determined, investments are accounted for at cost, adjusted for impairment losses; impairment losses may not be reversed[11].

The risk deriving from losses exceeding shareholders equity is recognized in a specific provision to the extent the parent company is required to fulfill 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, or at the

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(10) In the case of step acquisition of a significant influence (or joint control), the investment is recognized at the acquisition date of significant influence (joint 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 acquisition of significant influence (joint control) is taken to equity.

(11) Impairment charges recognised in an interim period 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.

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moment of its updating to reflect re-pricings contractually established. Receivables and financial assets to be held to maturity are recognized net of the allowance for impairment losses; when the impairment loss is definite the excess allowance for impairment losses is reversed. 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 the 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; charges to the profit and loss account charge are 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 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, net of any plan assets, are determined on the basis of actuarial assumptions and charged on an accrual basis during the employment period required to obtain the benefits.

The actuarial gains and losses of defined benefit plans are recognized pro-rata 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.

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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 year end.

Income related to partially rendered services is recognized in the measurement of accrued income if the stage of completion can be reliably determined and there is no significant uncertainty as to the collectability 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 recognized that are recoverable.

Revenues accrued in the year 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[12].

Requests of additional revenues, deriving from a change in the scope of 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 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.

Revenues are stated net of returns, discounts, rebates, bonuses and direct taxation. The exchange of goods and services of a 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. Costs related to the purchase of the emission rights are taken to intangible assets net of any negative difference between the amount of emissions and the quotas assigned.

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, consistent with their actual remunerative nature. The instruments granted are recorded at fair value on the vesting date and are not subject to subsequent adjustments; the current portion is calculated pro-rata over the vesting period[13]. 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 charge to "Other reserves".

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(12) For service concession arrangements in which customers fees do not provide a distinction compensation for construction/update of the infrastructure and compensation for operating it and in the absence of external benchmarks which could be used to determine the respective fair value of these two items, revenues recognised during the construction phase are limited to the amount of the costs incurred.

(13) For stock grants, the period between the date of the award and the date of assignation of stock; for stock options, the period between the date of the award and the date at which the option can be exercised.

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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 the profit and loss account.

Exchange rate differences
Revenues and costs associated with transactions in currencies other than the functional currency are translated into the functional currency by applying the exchange rate at the date of the transaction.

Monetary assets and liabilities denominated in currencies other than the 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 denominated in currencies other than the functional currency valued at cost are translated at the initial exchange rate; non-monetary assets that are re-measured to fair value, recoverable amount or realizable value are translated at the exchange rate applicable at the date of re-measurement.

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 tax payables". 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 an 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 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 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". When there is objective evidence that an impairment loss has occurred (see "Current assets" paragraph) derivatives are recognized net of the allowance for impairment losses.

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 of 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 consistent 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 for hedge accounting are shown in the profit and loss account.

Economic effects of transactions, which relate to purchase or sales contracts for commodities entered into 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).

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Financial statements
Assets and liabilities of the balance sheet are classified as current and non-current. Items of the profit and loss account are presented by nature[14].

The statement of changes in shareholders equity includes profit and loss for the year, transactions with shareholders and other changes in shareholders equity.

The statement of cash flows is presented using the indirect method, whereby net profit is adjusted for the effects of non-cash 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 and past experience of other assumptions deemed reasonable in consideration of the information available at the time. The accounting policies and areas that require the most significant judgments and estimates to be used in the preparation of the Consolidated Financial Statements are in relation to the accounting for oil and natural gas activities, specifically in the determination of proved 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 judgments, 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 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 Consolidated 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

(14) Further information on financial instruments as classified in accordance with IFRS is provided in Note 29 - Guarantees, commitments and risks "Other information about financial instruments".

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 volume of estimated reserves, the lower 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, a reduced utilization of the plants and, for oil and gas properties, significant downward revisions of estimated proved reserve quantities or significant increase of the estimated development costs. 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 concerning: 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 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. The estimate of the future amount of production is based on assumptions related to the commodity future prices, lifting and development costs, market demand and to other factors. The discount rate reflects the current market valuation of the time value of money and of the specific risks of the asset not reflected in the estimate of the future cash flows.

Goodwill and other intangible assets with an 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 presently 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 do 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 obligation 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 (i.e. interest accretion) and any change in 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 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. They include 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.

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. However, 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 an 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 effects of future environmental legislations and rules; (iv) the effects 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 litigations 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 trends, estimated retirement dates and 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. Indicators used in selecting the discount rate include rates of annuity contracts and rates of return on high quality fixed-income investments. 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 individual employees involved, based principally on available actuarial data; and (v) determination of the 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 employee 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 deducting 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 conditions in that region and any assessment that is necessary to estimate with sufficient precision the total future costs as well as the expected timetable. Requests of additional income, deriving from a change in the scope of 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 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

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 comes into effect starting on January 1, 2009.

The revised IAS 1 "Presentation of Financial Statements" requires, 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 expenses directly recognized in equity, but excluded from net income, in accordance with IFRS. The revised standard comes into effect starting on January 1, 2009.

The revised IAS 23 "Borrowing Costs" requires 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 comes into effect starting on January 1, 2009.

The revised IFRS 2 "Share-based payment" specifies the accounting treatment of all cancellations of a grant of equity instruments to employees. It also imposes that vesting conditions are only service and performance conditions required in return for the equity instruments issued. The revised standard comes into effect starting on January 1, 2009.

IFRIC 13 "Customer Loyalty Programmes" 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 came into effect for annual periods beginning on or after July 1, 2008 (for Eni: 2009 financial statements).

Amendments to IAS 1 "Presentation of Financial Statements" and to IAS 32 "Financial Instruments: Presentation" define the conditions that the puttable instruments issued by companies have to meet in order to be classified as equity. Moreover it allowed the classification as equity of instruments issued by the company that impose on the company an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation. The amendments to IAS 1 and IAS 32 come into effect starting on January 1, 2009.

"Improvements to IFRS", defined in the context of the annual process of "Improvements to IFRS" regards only changes to the existing standards with a technical and editorial nature. The provisions come into effect starting on 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, (i) the acquisition-related costs to be accounted for separately from the business combination and then recognized as expenses rather than included in goodwill, (ii) the recognition in the income statement of any change to contingent consideration, and (iii) 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 the 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 July 3, 2008, IFRIC issued IFRIC 16 "Hedges of a Net Investment in a Foreign Operation" which defines the criteria for recognition and evaluation of hedges of a net investment in a foreign operation. In particular the interpretation defines, among other things, that the object of the hedge is the exchange differences between the functional currency of the foreign operation and the parent s functional currency and that the hedge instrument can be held by any Group company with the exception of the hedged foreign operation. This interpretation shall be applied for annual periods beginning on or after October 1, 2008 (for Eni: 2009 financial statements).

On November 27, 2008, IFRIC issued IFRIC 17 "Distributions of Non-cash Assets to Owner" which defines the criteria of recognition and evaluation of the distributions of assets other than cash when it pays dividends to its owner. It also applies in those situations in which an entity gives its owner a choice of receiving either non-cash assets or a cash alternative. In particular, an entity shall measure a liability to distribute non-cash assets as dividends to its owners at the fair value of the assets to be distributed. The liability, with any adjustments, is recognized as a contra to equity. When the entity settles the dividend payable, the difference, if any, between the carrying amount of the assets distributed and the fair value of the dividend payable is taken to profit or loss. This interpretation shall be applied for annual periods beginning on or after July 1, 2009 (for Eni: 2010 financial statements).

On January 29, 2008, IFRIC issued IFRIC 18 "Transfers of Assets from customers" which defines the criteria of recognition and evaluation of transfers of items of property, plant and equipment by service providers that receive such transfers from their customers. The interpretation is also applied in the cases in which the entity receives cash from a customer that must be used only to connect the customer to a network. When the definition of an asset is met, the asset is recognized at its fair value. When the connection is realized, the entity shall recognize the revenue for a period generally determined by the terms of the arrangement with the customer or, if the arrangement does not specify a term, over a period corresponding to the lower of the length of the supply and the useful life of the asset used to provide the ongoing service. This interpretation shall be applied for annual periods beginning on or after July 1, 2009 (for Eni: 2010 financial statements).

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 assets

1 Cash and cash equivalents

Cash and cash equivalents of euro 1,939 million (euro 2,114 million at December 31, 2007) included financing receivables originally due within 90 days for euro 616 million (euro 415 million at December 31, 2007). The latter were related to amounts on deposit with financial institutions accessible only on a 48-hour notice.

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:

(euro million)	Dec. 31, 2007	Dec. 31, 2008
Investments	**2,476**	**2,741**
Securities held for operating purposes		
Listed Italian treasury bonds	229	257
Listed securities issued by Italian and foreign financial institutions	27	45
Non-quoted securities	3	8
	259	**310**
Securities held for non-operating purposes		
Listed Italian treasury bonds	168	109
Listed securities issued by Italian and foreign financial institutions	5	67
Non-quoted securities	1	9
	174	**185**
Total other securities	**433**	**495**
	2,909	**3,236**

Equity instruments of euro 2,741 million (U.S. $3,815 million at December 31, 2008 exchange rate) comprised 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 currently listed at the London Stock Exchange where approximately 5% of the share capital is traded, while Gazprom currently holds a 75% stake. 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 from the acquisition date, at a price of U.S. $3.7 billion equaling the bid price, adjusted by subtracting dividends distributed and adding possible share capital increases, a contractual remuneration of 9.4% on the capital employed and related financing expenses.

The existing shareholder agreements establish that the governance of the investee will be modified to allow Eni to exercise significant influence through participation in the financial and operating policy decisions of the investee in the case that Gazprom does not exercise its call option. The carrying amount of the interest equals the strike price of the call option as of December 31, 2008. Eni decided not to adjust the carrying amount of the interest to the market prices at the balance sheet date resulting in U.S. $1,961 million for the following reasons: (i) if Gazprom decides to exercise the call option, the strike price will be equal to the current carrying amount; (ii) if Gazprom decides not to exercise the call option, Eni will be granted significant influence in the decision-making process of the investee and consequently will be in a position to account for the investee in accordance with the equity method of accounting provided by IAS 28 for interests in associates. Under the equity method, Eni is required to allocate the purchase price to the corresponding interest in net equity and the residual amount to fair values of the investee s assets and liabilities. Subsequently, the carrying amount is adjusted to reflect Eni s share of losses and profits of the investee. Based on available information and the outcome of an impairment test performed also with the support of an independent consultant, the equity method assessment would result in an amount not lower than the current carrying amount of the interest.

Other securities of euro 495 million (euro 433 million at December 31, 2007) were available-for-sale securities. At December 31, 2007 and December 31, 2008, Eni did not own financial assets held for trading.

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The effects of the valuation at fair value of securities are set out below:

(euro million)	Value at Dec. 31, 2007	Changes recognized in the reserves of shareholders' equity	Value at Dec. 31, 2008
Fair value	2	3	**5**
Deferred tax liabilities		(1)	(1)
Other reserves of shareholders equity	**2**	**2**	**4**

Securities held for operating purposes of euro 310 million (euro 259 million at December 31, 2007) were designed to provide coverage of technical reserves of Group s insurance company Eni Insurance Ltd for euro 302 million (euro 256 million at December 31, 2007).

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:

(euro million)	Dec. 31, 2007	Dec. 31, 2008
Trade receivables	15,609	16,444
Financing receivables:		
- for operating purposes - short-term	357	402
- for operating purposes - current portion of long-term receivables	27	85
- for non-operating purposes	990	337
	1,374	**824**
Other receivables:		
- from disposals	125	149
- other	3,568	4,805
	3,693	**4,954**
	20,676	**22,222**

Receivables are stated net of the allowance for impairment losses of euro 1,251 million (euro 935 million at December 31, 2007):

(euro million)	Value at Dec. 31, 2007	Additions	Deductions	Other changes	Value at Dec. 31, 2008
Trade receivables	595	251	(36)	(63)	**747**
Financing receivables		14		5	19
Other receivables	340	137	(26)	34	485
	935	**402**	**(62)**	**(24)**	**1,251**

The increase in trade receivables of euro 835 million was primarily related to the Gas & Power segment (euro 1,987 million), the Engineering & Construction segment (euro 513 million). These increases were partially offset by the decrease related to the Refining & Marketing segment (euro 1,036 million), Petrochemicals (euro 459 million) and Exploration & Production segment (euro 115 million).

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Trade and other receivables were as follows:

(euro million)	Dec. 31, 2008		
	Trade receivables	Other receivables	Total
Neither impaired nor past due	12,611	3,395	16,006
Impaired (net of the valuation allowance)	1,242	88	1,330
Not impaired and past due in the following periods:			
- within 90 days	1,812	502	2,314
- 3 to 6 months	231	68	299
- 6 to 12 months	248	294	542
- over 12 months	300	607	907
	2,591	**1,471**	**4,062**
	16,444	**4,954**	**21,398**

Trade receivables not impaired and past due primarily referred to high-credit-quality public administrations and other highly-reliable counterparties for oil, natural gas and chemical products supplies.

Allowances for impairment losses of traded receivables of euro 251 million (euro 98 million in 2007) primarily referred to Refining & Marketing segment (euro 72 million), Gas & Power segment (euro 65 million), Petrochemicals (euro 60 million) and Syndial SpA (euro 27 million). In comparison with 2007 the amount of the allowance is more than double as a consequence of the larger number of clients in financial difficulties after the worsening of general economic conditions over the last part of the year.

Allowances for impairment losses of other receivables of euro 137 million (euro 109 million in 2007) primarily referred to the Exploration & Production segment (euro 135 million) due primarily to impairment of certain receivables associated with cost recovery with respect to local state-owned co-venturers based on underlying petroleum agreements and modifications of the Company s interest in certain joint ventures.

Trade receivables included guarantees for work in progress for euro 213 million (euro 156 million at December 2007).

Other receivables for euro 227 million associated with cost recovery in the Exploration & Production segment are currently undergoing arbitration procedure. No impairment loss has been recognized as the Company and the third party are in the process of defining a transaction on amicable terms.

Receivables for financing operating activities of euro 487 million (euro 384 million at December 31, 2007) included euro 399 million due from not consolidated subsidiaries, joint ventures and associates (euro 246 million at December 31, 2007) and euro 47 million cash deposit to provide coverage of Eni Insurance Ltd technical reserves (euro 112 million at December 31, 2007). Receivables for financing non-operating activities amounted to euro 337 million (euro 990 million at December 31, 2007) of which euro 173 million related to the current portion of a restricted deposit held by Eni Lasmo Plc as a guarantee of a debenture and euro 88 million related to deposit of Eni Insurance Ltd. The decrease of euro 653 million related for euro 898 million to the discharge of a collateral cash deposit made by Eni SpA to guarantee certain cash flow hedging derivatives.

Other receivables were as follows:

(euro million)	Dec. 31, 2007	Dec. 31, 2008

Accounts receivable from:		
- joint venture operators in exploration and production	1,699	2,242
- Italian government entities	386	378
- insurance companies	253	146
	2,338	**2,766**
Prepayments for services	194	857
Receivables relating to factoring operations	182	171
Other receivables	979	1,160
	3,693	**4,954**

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Receivables deriving from factoring operations of euro 171 million (euro 182 million at December 31, 2007) were related to Serfactoring SpA and consisted primarily of advances for factoring operations with recourse and receivables for factoring operations without recourse.

Receivables with related parties are described in Note 37 - 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, 2007					Dec. 31, 2008				
(euro million)	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	861	299		809	1,969	466	263		1,155	1,884
Products being processed and semi finished products	74	27		15	116	48	17		3	68
Work in progress			553		553			953		953
Finished products and goods	1,962	703		17	2,682	2,528	557		92	3,177
Advances			179		179					
	2,897	**1,029**	**732**	**841**	**5,499**	**3,042**	**837**	**953**	**1,250**	**6,082**

Inventories increased by euro 583 million primarily due to: (i) an increase in the trade value of the inventories in the Gas & Power segment reflecting favorable trends in the gas price formulas (euro 661 million); and (ii) inclusion in consolidation of Distrigas NV (euro 322 million). Those increases were partially offset by a decrease of euro 718 million in the trade value of crude oil and petroleum products inventories in the Refining & Marketing segment primarily due to the impact of falling oil and petroleum product prices resulting in the recognition of a provision to write inventories down to their net realizable value at the year end.

Contract work in progress for euro 953 million (euro 553 million at December 31, 2007) are net of prepayments for euro 274 million (euro 577 million at December 31, 2007) within the limits of contractual considerations.

Inventories are stated net of the valuation allowance of euro 697 million (euro 75 million at December 31, 2007):

(euro million)	Value at Dec. 31, 2007	Additions	Deductions	Other changes	Value at Dec. 31, 2008
	75	628	(5)	(1)	**697**

The additions of euro 628 million (euro 9 million in 2007) primarily related to the Refining & Marketing segment (euro 402 million) and to Petrochemicals (euro 215 million) as a consequence of the alignment of the inventories to their net realizable values at the closing date.

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5 Current tax assets

Current tax assets were as follows:

(euro million)	Dec. 31, 2007	Dec. 31, 2008
Italian subsidiaries	634	53
Foreign subsidiaries	69	117
	703	**170**

The euro 533 million decrease in the current income tax assets primarily referred to Eni SpA which has used the tax receivables to offset the tax payables for 2008 year (euro 554 million).

6 Other current tax assets

Other current tax assets were as follows:

(euro million)	Dec. 31, 2007	Dec. 31, 2008
VAT	376	623
Excise and customs duties	316	167
Other taxes and duties	141	340
	833	**1,130**

7 Other current assets

Other current assets were as follows:

(euro million)	Dec. 31, 2007	Dec. 31, 2008
Fair value of non-hedging derivatives	629	1,608
Fair value of cash flow hedge derivatives	10	474
Other assets	441	267
	1,080	**2,349**

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The fair value of derivative contracts which do not meet the criteria to be classified as hedges under IFRS was as follows:

	Dec. 31, 2007			Dec. 31, 2008		
(euro million)	Fair value	Purchase commitments	Sale commitments	Fair value	Purchase commitments	Sale commitments
Non-hedging derivatives on exchange rate						
Interest currency swap	170	821	291	141	403	200
Currency swap	69	1,596	2,881	202	2,654	1,712
Other	3	18	11	314	111	1,202
	242	**2,435**	**3,183**	**657**	**3,168**	**3,114**
Non-hedging derivatives on interest rate						
Interest rate swap	91	248	3,466	29	217	703
Other					4	
	91	**248**	**3,466**	**29**	**221**	**703**
Non-hedging derivatives on commodities						
Over the counter	12	75	22	864	1,270	2,709
Other	284	2	1,218	58	65	53
	296	**77**	**1,240**	**922**	**1,335**	**2,762**
	629	**2,760**	**7,889**	**1,608**	**4,724**	**6,579**

Fair value of the derivative contracts is determined using market quotations provided by the primary info-provider, or in the absence of market information, appropriate valuation methods used in the marketplace.

The increase in the fair value of the non-hedging derivatives of euro 979 million referred to the fair value of the derivatives deriving from the consolidation of Distrigas NV after the acquisition of control by the Gas & Power segment (euro 637 million).

Fair value of the cash flow hedges of euro 474 million referred to Distrigas NV (euro 293 million) and to Exploration & Production segment (euro 181 million). The Distrigas NV derivatives were designated to hedge surpluses or deficits of gas to achieve a proper balance in the gas portfolio and sales/purchases of amounts of gas and oil products at fixed price. Fair value related to the Exploration & Production segment referred to the fair value of the future sale agreements of the proved oil reserves with a deadline by 2009. Those derivatives were entered into to hedge exposure to variability in future cash flows deriving from the sale in the 2008-2011 period of approximately 2% of Eni s proved reserves as of December 31, 2006 corresponding to 125.7 mmBBL, decreasing to 79.7 mmBOE as of the end of December 2008 due to transactions settled in the year. These hedging transactions were undertaken in connection with acquisitions of oil and gas assets in the Gulf of Mexico and Congo that were executed in 2007.

Fair value of contracts expiring by 2009 is given in Note 20 - Other current liabilities; fair value of contracts expiring beyond 2009 is given in Note 15 - Other non-current receivables and in Note 25 - Other non-current liabilities. The effects of the evaluation at fair value of cash flow hedge derivatives are given in the Note 27 - Shareholders equity and in the Note 32 - Finance income (expense).

The nominal value of cash flow hedge derivatives referred to purchase and sale commitments for euro 1,069 million and euro 3,130 million. Information on the hedged risks and the hedging policies is given in Note 29 - Guarantees, commitments and risks.

Other assets amounted to euro 267 million (euro 441 million at December 31, 2007) and included prepayments and accrued income for euro 63 million (euro 297 million at December 31, 2007), rentals for euro 31 million (euro 21 million at December 31, 2007), and insurance premiums for euro 11 million (euro 10 million at December 31, 2007).

Non-current assets

8 Property, plant and equipment

Analysis of tangible assets is set out below:

(euro million)	Net value at the beginning of the year	Investments	Depreciation	Impairments	Change in the scope of consolidation	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, 2007										
Land	442	4			28		123	597	627	30
Buildings	1,406	74	(98)	(3)	115	(3)	(152)	1,339	3,123	1,784
Plant and machinery	32,494	1,774	(4,642)	(37)	31	(1.530)	4.885	32,975	78,030	45,055
Industrial and commercial equipment	230	163	(112)		40	(8)	38	351	1,434	1,083
Other assets	328	86	(83)	(3)	1	(11)	23	341	1,361	1,020
Tangible assets in progress and advances	6,229	6,263		(97)	235	(648)	(666)	11,316	11,969	653
	41,129	**8,364**	**(4,935)**	**(140)**	**450**	**(2,200)**	**4,251**	**46,919**	**96,544**	**49,625**
Dec. 31, 2008										
Land	597	8			(7)		27	625	655	30
Buildings	1,339	101	(105)	(29)	(122)	7	(341)	850	3,055	2,205
Plant and machinery	32,975	3,486	(5,648)	(652)	1.299	123	4,535	36,118	86,714	50,596
Industrial and commercial equipment	351	180	(158)	(3)		1	230	601	1,722	1,121
Other assets	341	124	(83)	(6)	(13)	5	9	377	1,563	1,186
Tangible assets in progress and advances	11,316	8,183		(653)	2.344	414	(4,342)	17,262	18,481	1,219
	46,919	**12,082**	**(5,994)**	**(1,343)**	**3.501**	**550**	**118**	**55,833**	**112,190**	**56,357**

Capital expenditures of euro 12,082 million (euro 8,364 million at December 31, 2007) primarily related to the Exploration & Production segment (euro 7,611 million), the Engineering & Construction segment (euro 2,015 million), the Gas & Power segment (euro 1,318 million) and the Refining & Marketing segment (euro 941 million). Capital expenditures included capitalized finance expenses of euro 236 million (euro 180 million at December 31, 2007) essentially related to the Exploration & Production segment (euro 109 million), the Refining & Marketing segment (euro 44 million) and the Gas & Power segment (euro 42 million). The interest rate used for the capitalization of finance expense ranged from 3.5% to 5.1% (4.4% and 5.2% at December 31, 2007).

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

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The break-down by segment of impairments amounting to euro 1,343 million (euro 140 at December 31, 2007) and the associated tax effect is provided below:

(euro million)	2007	2008
Impairment		
Exploration & Production	86	765
Refining & Marketing	52	292
Petrochemicals		279
Other segments	2	7
	140	**1,343**
Fiscal effect		
Exploration & Production	30	213
Refining & Marketing	19	108
Petrochemicals		88
Other segments		2
	49	**411**
Impairment net of the relevant fiscal effect		
Exploration & Production	56	552
Refining & Marketing	33	184
Petrochemicals		191
Other segments	2	5
	91	**932**

In assessing whether impairment is required, the carrying value of the asset is compared with its recoverable amount. The recoverable amount is the higher of the asset s fair value less costs to sell and value in use. Given the nature of Eni s activities, information on the fair value of an asset is usually difficult to obtain unless negotiations with potential purchasers are taking place. Consequently the recoverable amount used in assessing the impairment charges described below is value in use. Value in use is calculated by discounting the estimated cash flows determined on the basis of the best information available at the moment of the assessment deriving from: (i) the Company s four-year plan approved by the top management which provides information on expected oil and gas production, sales volumes, capital expenditures, operating costs and margins and industrial and marketing set-up, as well as trends in the main monetary variables, including inflation, nominal interest rates and exchange rates. For the subsequent years beyond the plan horizon, a real growth rate ranging from 0% to 2% has been used; (ii) the commodity prices have been assessed based on the forward prices prevailing in the market place as of the balance sheet date for the first four years of the cash flow projections and the long-term price assumptions adopted by the Company s management for strategic planning purposes for the following years (see "Basis of presentation").

Post-tax cash flows are discounted at the rate which corresponds for the Exploration & Production, Refining & Marketing and Petrochemicals segments to the Company s weighted average cost of capital, adjusted to consider the risks specific to each country of activity. The post-tax WACC usalign="bottom">

Liabilities:

Junior subordinated debentures

Level 2

41,238 41,238 41,238 41,238

Derivative financial instrument

Level 3

- - 141 141

(1) See Note 9 for a description of the fair value hierarchy as well as a disclosure of levels for classes of these financial assets.

The fair value estimates as of March 31, 2013 and December 31, 2012 were based on pertinent information available to management as of the respective dates. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, current estimates of fair value may differ significantly from amounts that might ultimately be realized in a market exchange on any subsequent date.

Note 11. Accumulated Other Comprehensive Income

The following table sets forth the balance of each component of accumulated other comprehensive income as of March 31, 2013 and December 31, 2012, and the changes in the balance of each component thereof during the three month period ended March 31, 2013, net of taxes.

	Unrealized Gains on Available-for-Sale Securities	Derivative Financial Instrument	Total
Balance, December 31, 2012	$ 19,663	$ (92)	$ 19,571
Other comprehensive income (loss) before reclassifications	(1,460)	92	(1,368)
Amounts reclassified from accumulated other comprehensive income	(441)	-	(441)
Net current-period other comprehensive income (loss)	(1,901)	92	(1,809)
Balance, March 31, 2013	$ 17,762	$ -	$ 17,762

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Item 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

The following is management's discussion and analysis of the financial condition and results of operations of Atlantic American Corporation ("Atlantic American" or the "Parent") and its subsidiaries (collectively with the Parent, the "Company") as of and for the three month period ended March 31, 2013. This discussion should be read in conjunction with the unaudited condensed consolidated financial statements and notes thereto included elsewhere herein, as well as with the audited consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

Atlantic American is an insurance holding company whose operations are conducted primarily through its insurance subsidiaries: American Southern Insurance Company and American Safety Insurance Company (together known as "American Southern") and Bankers Fidelity Life Insurance Company ("Bankers Fidelity"). Each operating company is managed separately, offers different products and is evaluated on its individual performance.

Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect reported amounts and related disclosures. Actual results could differ significantly from those estimates. The Company has identified certain estimates that involve a higher degree of judgment and are subject to a significant degree of variability. The Company's critical accounting policies and the resultant estimates considered most significant by management are disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2012. During the three month period ended March 31, 2013, there were no changes to the critical accounting policies or related estimates from those disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

Recently Issued Accounting Standards

For a discussion of recently issued accounting standards applicable to the Company, see Note 2 of the accompanying notes to the unaudited condensed consolidated financial statements.

Overall Corporate Results

The following presents the Company's revenue, expenses and net income for the three month period ended March 31, 2013 and the comparable period in 2012:

	Three Months Ended March 31,	
	2013	2012
	(In thousands)	
Insurance premiums	$ 33,019	$ 30,681
Investment income	2,905	2,883
Realized investment gains, net	678	958
Other income	48	29
Total revenue	36,650	34,551
Insurance benefits and losses incurred	23,362	22,672
Commissions and underwriting expenses	9,283	7,033

Other expense		2,417		2,469
Interest expense		577		657
Total benefits and expenses		35,639		32,831
Income before income taxes	$	1,011	$	1,720
Net income	$	922	$	1,657

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Management evaluates operating income and believes it is a useful metric for investors, potential investors, securities analysts and others because it isolates the “core” results of the Company before considering certain items that are either beyond the control of management (such as taxes, which are subject to timing, regulatory and rate changes depending on the timing of the associated revenues and expenses) or are not expected to regularly impact the Company’s operational results (such as any realized investment gains, which are not a part of the Company’s primary operations and are, to an extent, subject to discretion in terms of timing of realization).

A reconciliation of net income to operating income for the three month period ended March 31, 2013 and the comparable period in 2012 is as follows:

Reconciliation of Net Income to non-GAAP Measurement	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
	(In thousands)	
Net income	$ 922	$ 1,657
Income tax expense	89	63
Realized investment gains, net	(678)	(958)
Operating income	$ 333	$ 762

On a consolidated basis, the Company had net income of $0.9 million, or $0.04 per diluted share, for the three month period ended March 31, 2013, compared to net income of $1.7 million, or $0.07 per diluted share, for the three month period ended March 31, 2012. The decrease in net income during the three month period ended March 31, 2013 was primarily attributable to increased losses in the life and health operations, increases in advertising expense for television commercials and social media initiatives as well as a decrease in realized investment gains. Operating income decreased to $0.3 million in the three month period ended March 31, 2013 from $0.8 million in the comparable period of 2012. Premium revenue for the three month period ended March 31, 2013 increased $2.3 million, or 7.6%, to $33.0 million. The increase in premium revenue was primarily due to an increase in Medicare supplement business in the life and health operations. While premiums in the property and casualty operations decreased, profitability increased due to a more favorable loss experience in the three month period ended March 31, 2013 as compared to the same period in 2012.

A more detailed analysis of the individual operating companies and other corporate activities is provided below.

American Southern

The following summarizes American Southern’s premiums, losses, expenses and underwriting ratios for the three month period ended March 31, 2013 and the comparable period in 2012:

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
	(Dollars in thousands)	
Gross written premiums	$ 8,876	$ 9,549
Ceded premiums	(1,897)	(1,915)
Net written premiums	$ 6,979	$ 7,634
Net earned premiums	$ 8,927	$ 9,812
Net loss and loss adjustment expenses	5,322	8,019
Underwriting expenses	3,726	2,529

Underwriting loss	$ (121)		$ (736)
Loss ratio	59.6 %		81.7 %
Expense ratio	41.8		25.8
Combined ratio	101.4 %		107.5 %

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Gross written premiums at American Southern decreased $0.7 million, or 7.0%, during the three month period ended March 31, 2013 from the comparable period in 2012. The decrease in gross written premiums was primarily attributable to a decrease of $1.5 million in commercial automobile written premiums resulting from the cancellation by the company of two agencies and a trucking liability program in 2012 due to unfavorable loss experience. Partially offsetting the decrease in gross written premiums was an increase of $0.8 million in commercial automobile business written by an existing agency attributable to new business and rate increases on renewal business.

Ceded premiums decreased slightly during the three month period ended March 31, 2013 from the comparable period in 2012. The decrease in ceded premiums was primarily due to the decrease in related earned premiums. As American Southern's ceded premiums are determined as a percentage of earned premiums, a decrease in ceded premiums occurs when earned premiums decrease.

The following presents American Southern's net earned premiums by line of business for the three month period ended March 31, 2013 and the comparable period in 2012 (in thousands):

	Three Months Ended March 31,	
	2013	2012
	(In thousands)	
Commercial automobile	$ 5,862	$ 6,320
General liability	750	1,163
Property	599	442
Surety	1,716	1,887
Total	$ 8,927	$ 9,812

Net earned premiums decreased $0.9 million, or 9.0%, during the three month period ended March 31, 2013 from the comparable period in 2012. The decrease in net earned premiums was primarily attributable to the decline in commercial automobile and general liability earned premiums resulting from the cancellation by the company of two agencies and a trucking liability program as discussed previously as well as the cancellation of certain general liability programs in 2012. Premiums are earned ratably over their respective policy terms, and therefore premiums earned in the current year are related to policies written during both the current year and immediately preceding year.

Net loss and loss adjustment expenses at American Southern decreased $2.7 million, or 33.6%, during the three month period ended March 31, 2013 from the comparable period in 2012. As a percentage of premiums, net loss and loss adjustment expenses were 59.6% in the three month period ended March 31, 2013, compared to 81.7% in the three month period ended March 31, 2012. The decrease in the loss ratio was primarily due to more favorable loss experience in all lines of business during the three month period ended March 31, 2013 as compared to the same period of 2012. During the three month period ended March 31 2012, American Southern experienced significant increases in the frequency and severity of claims in the commercial automobile, general liability and surety lines of business which did not recur in the comparable 2013 period. The improvement in the current year loss ratio was primarily attributable to the rationalization of American Southern's book of business and strengthening of the underwriting guidelines with respect to such business.

Underwriting expenses increased $1.2 million, or 47.3%, during the three month period ended March 31, 2013 over the comparable period in 2012. As a percentage of premiums, underwriting expenses were 41.8% in the three month period ended March 31, 2013, compared to 25.8% in the three month period ended March 31, 2012. The increase in the expense ratio was primarily due to American Southern's variable commission structure, which compensates the company's agents in relation to the loss ratios of the business they write. During periods in which the loss ratio decreases, commissions and underwriting expenses will generally increase, and conversely, during periods in which the loss ratio increases, commissions and underwriting expenses will generally decrease. During the three month period ended March 31, 2013, these commissions at American Southern increased $1.2 million from the comparable period in 2012 due to the more favorable loss experience.

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Bankers Fidelity

The following summarizes Bankers Fidelity’s earned premiums, losses, expenses and underwriting ratios for the three month period ended March 31, 2013 and the comparable period in 2012:

	Three Months Ended March 31,					
	2013			2012		
	(Dollars in thousands)					
Medicare supplement	$	20,197		$	16,874	
Other health products		1,145			1,118	
Life insurance		2,750			2,877	
Total earned premiums		24,092			20,869	
Insurance benefits and losses		18,040			14,653	
Underwriting expenses		6,861			5,813	
Total expenses		24,901			20,466	
Underwriting income (loss)	$	(809	)	$	403	
Loss ratio		74.9	%		70.2	%
Expense ratio		28.5			27.9	
Combined ratio		103.4	%		98.1	%

Premium revenue at Bankers Fidelity increased $3.2 million, or 15.4%, during the three month period ended March 31, 2013 over the comparable period in 2012. Premiums from the Medicare supplement line of business increased $3.3 million, or 19.7%, during the three month period ended March 31, 2013, due primarily to an increase in business generated from the company’s core producers and newly appointed general agents, an increase in business issued in the state of Missouri as a result of favorable pricing compared to competitors, and active management and implementation of rate increases on renewal business, as appropriate. Other health product premiums increased slightly during the same comparable period, primarily as a result of new sales of the company’s short-term care products. Premiums from the life insurance line of business decreased $0.1 million, or 4.4%, during the three month period ended March 31, 2013 due to redemption and settlement of existing policy obligations exceeding the level of new sales activity.

Benefits and losses increased $3.4 million, or 23.1%, during the three month period ended March 31, 2013 over the comparable period in 2012. As a percentage of premiums, benefits and losses were 74.9% in the three month period ended March 31, 2013, compared to 70.2% in the three month period ended March 31, 2012. The increase in the loss ratio was primarily attributable to unfavorable loss experience in the Medicare supplement line of business during the three month period ended March 31, 2013 as compared to the same period in 2012. During the three month period ended March 31, 2013, Bankers Fidelity experienced an increase in losses in the Medicare supplement line of business resulting from a disproportionate number of first quarter deductible reimbursements. As the company’s Medicare supplement product generally reimburses the annual Part B deductible of an insured, annual deductible reimbursements are generally incurred disproportionately at the beginning of a calendar year as opposed to the end of a calendar year. Such trends were even more pronounced in the first quarter of 2013. Bankers Fidelity continues to implement rate increases on its Medicare supplement business to help mitigate the impact of higher medical costs.

Underwriting expenses increased $1.0 million, or 18.0%, during the three month period ended March 31, 2013 over the comparable period in 2012. As a percentage of premiums, underwriting expenses were 28.5% in the three month period ended March 31, 2013, compared to 27.9% in the three month period ended March 31, 2012. The increase in the expense ratio was primarily attributable to increases in advertising and agency related expenses. Advertising expenses increased $0.5 million in the three month period ended March 31, 2013 over the comparable period in 2012 and included charges for television commercials and social media initiatives.

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INVESTMENT INCOME AND REALIZED GAINS

Investment income increased slightly during the three month period ended March 31, 2013 over the comparable period in 2012. The increase in investment income was primarily attributable to a higher average balance of fixed maturities held by the Company in the three month period ended March 31, 2013 as compared to the same period of 2012.

The Company had net realized investment gains of $0.7 million during the three month period ended March 31, 2013, compared to net realized investment gains of $1.0 million in the three month period ended March 31, 2012. The net realized investment gains in the three month periods ended March 31, 2013 and 2012 resulted from the disposition of several of the Company's investments in fixed maturities. Management continually evaluates the Company's investment portfolio and, as may be determined to be appropriate, makes adjustments for impairments and/or will divest investments.

INTEREST EXPENSE

Interest expense decreased $0.1 million, or 12.2%, during the three month period ended March 31, 2013 from the comparable period in 2012 due primarily to the termination of the Company's zero cost interest rate collar with Wells Fargo Bank, National Association ("Wells Fargo") on March 4, 2013, the stated maturity date, by its terms. The interest rate collar had a London Interbank Offered Rate ("LIBOR") floor of 4.77%. As a result of interest rates remaining below the LIBOR floor, the Company was required to make payments to Wells Fargo under the interest rate collar for all periods presented, through the maturity date.

OTHER EXPENSES

Other expenses (commissions, underwriting expenses, and other expenses) increased $2.2 million, or 23.1%, during the three month period ended March 31, 2013 over the comparable period in 2012. The increase in other expenses was primarily attributable to increased commission accruals at American Southern due to recent favorable loss experience. During the three month period ended March 31, 2013, these commissions at American Southern increased $1.2 million over the comparable period in 2012. The majority of American Southern's business is structured in a way that agents are compensated based upon the loss ratios of the business they place with the company. During periods in which the loss ratio decreases, commissions and underwriting expenses will generally increase, and conversely, during periods in which the loss ratio increases, commissions and underwriting expenses will generally decrease. Also contributing to the increase in other expenses was an increase in commission and underwriting costs in the life and health operations associated with the higher volume of business as well as increases in advertising and agency related expenses. On a consolidated basis, as a percentage of earned premiums, other expenses increased to 35.4% in the three month period ended March 31, 2013 from 31.0% in the three month period ended March 31, 2012. The increase in the expense ratio was primarily attributable to the increase in commission accruals and advertising expenses discussed previously.

INCOME TAXES

The primary differences between the effective tax rate and the federal statutory income tax rate for the three month period ended March 31, 2013 resulted from the dividends received deduction ("DRD") and the change in deferred tax asset valuation allowance. The current estimated DRD is adjusted as underlying factors change and can vary from the estimates based on, but not limited to, actual distributions from investments as well as the amount of the Company's taxable income. The change in deferred tax asset valuation allowance was due to the unanticipated utilization of certain capital loss carryforward benefits that had been previously reduced to zero through an existing valuation allowance reserve. The primary differences between the effective tax rate and the federal statutory income tax rate for the three month period ended March 31, 2012 resulted from the DRD, the small life insurance company deduction (“SLD”) and the change in deferred tax asset valuation allowance. The SLD varies in amount and is determined at a rate of 60 percent of the tentative life insurance company taxable income (“LICTI”). The SLD for any taxable year is reduced (but not below zero) by 15 percent of the tentative LICTI for such taxable year as it exceeds $3.0 million and is ultimately phased out at $15.0 million. The change in deferred tax asset valuation allowance was also due to the utilization of certain capital loss carryforward benefits.

LIQUIDITY AND CAPITAL RESOURCES

The primary cash needs of the Company are for the payment of claims and operating expenses, maintaining adequate statutory capital and surplus levels, and meeting debt service requirements. Current and expected patterns of claim frequency and severity may change from period to period but generally are expected to continue within historical ranges. The Company's primary sources of cash are written premiums, investment income and proceeds from the sale and maturity of its invested assets. The Company believes that, within each operating company, total invested assets will be sufficient to satisfy all policy liabilities and that cash inflows from investment earnings, future premium receipts and reinsurance collections will be adequate to fund the payment of claims and expenses as needed.

Cash flows at the Parent are derived from dividends, management fees, and tax-sharing payments, as described below, from the subsidiaries. The cash needs of the Parent are for the payment of operating expenses, the acquisition of capital assets and debt service requirements, as well as the repurchase of shares and payments of any dividends as may be authorized and approved by the Company's board of directors from time to time. At March 31, 2013, the Parent had approximately $27.9 million of unrestricted cash and investments.

The Parent's insurance subsidiaries reported statutory net income of $2.0 million for the three month period ended March 31, 2013 compared to statutory net income of nil for the three month period ended March 31, 2012. Statutory results are impacted by the recognition of all costs of acquiring business. In a scenario in which the Company is growing, statutory results are generally lower than results determined under GAAP. Statutory results for the Company's property and casualty operations may differ from the Company's results of operations under GAAP due to the deferral of acquisition costs for financial reporting purposes. The Company's life and health operations' statutory results may differ from GAAP results primarily due to the deferral of acquisition costs for financial reporting purposes, as well as the use of different reserving methods.

Over 90% of the invested assets of the Parent's insurance subsidiaries are invested in marketable securities that can be converted into cash, if required; however, the use of such assets by the Company is limited by state insurance regulations. Dividend payments to a parent corporation by its wholly owned insurance subsidiaries are subject to annual limitations and are restricted to the greater of 10% of statutory surplus or statutory earnings before recognizing realized investment gains of the individual insurance subsidiaries. At March 31, 2013, American Southern had $37.5 million of statutory surplus and Bankers Fidelity had $34.2 million of statutory surplus. In 2013, dividend payments by the Parent's insurance subsidiaries in excess of $9.6 million would require prior approval.

The Parent provides certain administrative and other services to each of its insurance subsidiaries. The amounts charged to and paid by the subsidiaries include reimbursements for various shared services and other expenses incurred directly on behalf of the subsidiaries by the Parent. In addition, there is in place a formal tax-sharing agreement between the Parent and its insurance subsidiaries. It is anticipated that this agreement will provide the Parent with additional funds from profitable subsidiaries due to the subsidiaries' use of the Parent's tax loss carryforwards, which totaled approximately $4.7 million at March 31, 2013.

The Company has two statutory trusts which exist for the exclusive purpose of issuing trust preferred securities representing undivided beneficial interests in the assets of the trusts and investing the gross proceeds of the trust preferred securities in junior subordinated deferrable interest debentures ("Junior Subordinated Debentures"). The outstanding $18.0 million and $23.2 million of Junior Subordinated Debentures mature on December 4, 2032 and May 15, 2033, respectively, are callable quarterly, in whole or in part, only at the option of the Company, and have an interest rate of three-month LIBOR plus an applicable margin. The margin ranges from 4.00% to 4.10%. At March 31, 2013, the effective interest rate was 4.4%. The obligations of the Company with respect to the issuances of the trust preferred securities represent a full and unconditional guarantee by the Parent of each trust's obligations with respect to the trust preferred securities. Subject to certain exceptions and limitations, the Company may elect from time to time to defer Junior Subordinated Debenture interest payments, which would result in a deferral of distribution payments on the related trust preferred securities. The Company has not made such an election.

The Company intends to pay its obligations under the Junior Subordinated Debentures using existing cash balances, dividend and tax-sharing payments from the operating subsidiaries, or from potential future financing arrangements.

The Company had a zero cost interest rate collar with Wells Fargo, which terminated on March 4, 2013, the stated maturity date, by its terms. There were no balances outstanding under the zero cost interest rate collar at that time.

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At March 31, 2013, the Company had 70,000 shares of Series D Preferred Stock ("Series D Preferred Stock") outstanding. All of the shares of Series D Preferred Stock are held by an affiliate of the Company's controlling shareholder. The outstanding shares of Series D Preferred Stock have a stated value of $100 per share; accrue annual dividends at a rate of $7.25 per share (payable in cash or shares of the Company's common stock at the option of the board of directors of the Company) and are cumulative. In certain circumstances, the shares of the Series D Preferred Stock may be convertible into an aggregate of approximately 1,754,000 shares of the Company's common stock, subject to certain adjustments and provided that such adjustments do not result in the Company issuing more than approximately 2,703,000 shares of common stock without obtaining prior shareholder approval; and are redeemable solely at the Company's option. The Series D Preferred Stock is not currently convertible. At March 31, 2013, the Company had accrued but unpaid dividends on the Series D Preferred Stock totaling $0.1 million.

Cash and cash equivalents decreased from $19.0 million at December 31, 2012 to $18.8 million at March 31, 2013. The decrease in cash and cash equivalents during the three month period ended March 31, 2013 was primarily attributable to net cash used in operating activities of $2.8 million and the purchase of shares for treasury for $0.3 million. Partially offsetting the decrease was net cash provided by investing activities of $2.9 million resulting from the sale and maturity of securities exceeding investment purchases.

The Company believes that existing cash balances as well as the dividends, fees, and tax-sharing payments it receives from its subsidiaries and, if needed, additional borrowings from financial institutions, will enable the Company to meet its liquidity requirements for the foreseeable future. Management is not aware of any current recommendations by regulatory authorities, which, if implemented, would have a material adverse effect on the Company's liquidity, capital resources or operations.

Item 4. Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Securities Exchange Act of 1934 (the "Exchange Act") reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Management necessarily applies its judgment in assessing the costs and benefits of such controls and procedures, which, by their nature, can provide only reasonable assurance regarding management's control objectives. The Company's management, including the Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures can prevent all possible errors or fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. There are inherent limitations in all control systems, including the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple errors or mistakes. Additionally, controls can be circumvented by the individual acts of one or more persons. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and, while our disclosure controls and procedures are designed to be effective under circumstances where they should reasonably be expected to operate effectively, there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Because of the inherent limitations in any control system, misstatements due to possible errors or fraud may occur and may not be detected. An evaluation was performed under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act). Based on that evaluation, our management, including the Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

There have been no changes in our internal control over financial reporting that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report contains and references certain information that constitutes forward-looking statements as that term is defined in the federal securities laws. Those statements, to the extent they are not historical facts, should be considered forward-looking statements, and are subject to various risks and uncertainties. Such forward-looking statements are made based upon management's current assessments of various risks and uncertainties, as well as assumptions made in accordance with the "safe harbor" provisions of the federal securities laws. The Company's actual results could differ materially from the results anticipated in these forward-looking statements as a result of such risks and uncertainties, including those identified in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2012, subsequent quarterly reports on Form 10-Q and the other filings made by the Company from time to time with the Securities and Exchange Commission. The Company undertakes no obligation to update any forward-looking statement as a result of subsequent developments, changes in underlying assumptions or facts, or otherwise.

PART II. OTHER INFORMATION

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On October 30, 2012, the Board of Directors of the Company approved a plan that allows for the repurchase of up to 750,000 shares of the Company's common stock (the "Repurchase Plan") on the open market or in privately negotiated transactions, as determined by an authorized officer of the Company. Any such repurchases can be made from time to time in accordance with applicable securities laws and other requirements.

Other than pursuant to the Repurchase Plan, no purchases of common stock of the Company were made by or on behalf of the Company during the periods described below.

The table below sets forth information regarding repurchases by the Company of shares of its common stock on a monthly basis during the three month period ended March 31, 2013.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs
January 1 – January 31, 2013	10,968	$3.32	10,968	733,137
February 1 – February 28, 2013	40,000	3.29	40,000	693,137
March 1 – March 31, 2013	30,000	3.46	30,000	663,137
Total	80,968	$3.36	80,968	

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Item 6. Exhibits

10.1	Atlantic American Corporation 2012 Equity Incentive Plan.
10.2	Form of Atlantic American Corporation 2012 Equity Incentive Plan Director Restricted Stock Agreement.
10.3	Form of Atlantic American Corporation 2012 Equity Incentive Plan Employee Restricted Stock Agreement.
31.1	Certification of the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document. *
101.SCH	XBRL Taxonomy Extension Schema. *
101.CAL	XBRL Taxonomy Extension Calculation Linkbase. *
101.DEF	XBRL Taxonomy Extension Definition Linkbase. *
101.LAB	XBRL Taxonomy Extension Label Linkbase. *
101.PRE	XBRL Taxonomy Extension Presentation Linkbase. *

* Furnished herewith (not filed). Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, are deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability under those sections.

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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 thereunto duly authorized.

	ATLANTIC AMERICAN CORPORATION	
		(Registrant)
Date: May 14, 2013	By:	/s/ John G. Sample, Jr. John G. Sample, Jr. Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)

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EXHIBIT INDEX

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