	High	Low	At period end
	(U.S. dollars per euro)		
October 2014	1.28	1.25	1.25
November 2014	1.26	1.24	1.24
December 2014	1.25	1.21	1.21
January 2015	1.20	1.13	1.13
February 2015	1.15	1.12	1.12
March 2015	1.12	1.05	1.08

Fluctuations in the exchange rate between the euro and the dollar affect the dollar equivalent of the euro price of the Shares on the Telematico and the dollar price of the ADRs on the NYSE. Exchange rate fluctuations also affect the dollar amounts received by owners of ADRs upon conversion by the Depository of cash dividends paid in euro on the underlying Shares. The Noon Buying Rate on March 31, 2015 was $1.08 per euro 1.00.

Risk factors

The risks described below may have a material adverse effect on our operational and financial performance. We invite our investors to consider these risks carefully.

Our operating results and cash flow and future rate of growth are exposed to the effects of fluctuating prices of crude oil, natural gas, oil products and chemicals

Prices of oil and natural gas have a history of volatility due to many factors that are beyond Eni's control. These factors include among other things:

(i) global and regional dynamics of oil and gas supply and demand. The price of crude oil dropped significantly in the last part of 2014 with oil prices falling from the level of approximately 110 $/BBL by mid-year down to below the 50-dollar mark. This decline was driven by surging crude oil output mainly in non-Opec countries, like the United States, Russia, Brazil and Canada, in the face of a continuing slowdown in global demand. Eni believes that global oil demand will grow at a moderate pace in the short to medium term due to sluggish economic activity in Europe and other macroeconomic uncertainties, and more efficient use of fuels and energy in OECD countries whereas crude oil production is forecast to grow at a higher pace than demand. We currently forecast 55 $/BBL for the full year 2015 which is lower than the average level achieved in 2014 of approximately 100 $/BBL. See "Item 5 – Management's expectations of operations";
(ii) global political developments, including sanctions imposed on certain producing countries and conflict situations;
(iii) global economic and financial market conditions;
(iv) the influence of the Organization of the Petroleum Exporting Countries ("OPEC") over world supply and therefore oil prices;
(v) prices and availability of alternative sources of energy (e.g., nuclear, coal and renewables);
(vi) weather conditions;
(vii) operational issues;
(viii) governmental regulations and actions;
(ix) success in development and deployment of new technologies for the recovery of crude oil and natural gas reserves and technological advances affecting energy consumption; and
(x) the effect of worldwide energy conservation and environmental protection efforts.

All these factors can affect the global balance between demand and supply for oil and prices of oil. Price fluctuations may have a material effect on the Group's results of operations and cash flow. Generally speaking, lower oil prices from one year to another reduce the Group consolidated results of operations and cash flow and vice versa. The effect of changes in oil prices on Eni's average realization for produced oil and therefore its revenues in the Exploration & Production segment is immediate. We estimate that our consolidated net profit and cash flow vary by approximately euro 0.15 billion for each one-dollar change in the price of the Brent crude oil benchmark with respect to our pricing scenario for the year 2015. See "Item 5 – Management's expectations of operations – Outlook". In addition to the adverse effect on revenues, profitability and cash flow, lower oil and gas prices could result in debooking of proved reserves, if they become uneconomic in this type of environment, and asset impairments. Depending on the materiality and rapidity of a decrease in crude oil prices, we may also need to review investment decisions and the viability of development projects.

Lower oil and gas prices over prolonged periods may also adversely affect Eni's results of operations and cash flows and hence the funds available to finance expansion projects, further reducing the Company's ability to grow future production and revenues. In addition, they may reduce returns at development projects either planned or being implemented forcing the Company to reschedule, postpone or cancel development projects. Finally, lower oil prices over prolonged periods may trigger a review of the future recoverability of the Company's carrying amounts of oil and gas properties, resulting in the recognition of significant impairment charges, and may impact shareholders returns, including dividends and share buybacks, or share price.

Eni estimates that movements in oil prices impact approximately 50% of Eni's current production. A further 35% of Eni's current production which derives from production sharing contracts is unaffected by crude oil price movements which instead impact the Company's volume entitlements (see disclosure below). Finally, Eni estimates that exposure to changes in crude oil prices of approximately 5-10% of Eni's production is offset by equivalent and contrary movements in the procurement costs of gas in Eni's long-term supply contracts which index the cost of gas to crude oil prices, reflecting Eni's decision late in 2013 to fully exploit the benefits of the natural hedging occurring between Eni's Exploration & Production and Gas & Power segments. In previous reporting periods Eni entered into commodity derivatives to protect margins on gas sales in Eni's gas & power business from exposure to crude oil changes and late in 2013 Eni discontinued this policy with a view to exploiting the natural hedge provided by Eni's production of crude oil. This development influenced Eni's results of operations in 2014 and will affect the Group's consolidated results going forward.

However, high oil and gas prices can adversely impact the demand for our products and consequently our profitability, especially in the refining & marketing businesses. Furthermore, a high price scenario may imply increase of costs and taxes and may negatively impact the share of production and reserve to which Eni is entitled under some Production Sharing Agreements (PSAs) (See the specific risks of the Exploration & Production segment below).

In gas markets, price volatility reflected the dynamics of demand and supply for natural gas. In 2014, gas demand in Europe dropped on average by approximately 12% in the 28-EU countries compared to the previous year driven by exceptionally mild weather conditions in the first part of the year and competition from coal and a growing share of electricity generation from renewables. Despite falling demand, gas supply has continued to increase due to a number of factors, mainly increased availability of liquefied natural gas ("LNG") on global scale, take-or-pay obligations provided by long-term supply contracts held by European gas wholesalers and the other trends described in the specific risk-factors section of our gas & power business below. The increased liquidity of European hubs put significant downward pressure on spot prices. We expect those trends to continue in the foreseeable future due to a weak outlook for gas demand and continued oversupplies. In case we fail to renegotiate our long-term gas supply contract in order to make our gas competitive as market conditions evolve, our profitability and cash flow in the Gas & Power segment would be significantly impacted by current downward trends in gas prices.

The Refining & Marketing segment is substantially affected by changes in European refining margins, which reflect changes in prices of crude oil and refined products. The prices of refined products depend on global and regional supply/demand balances, inventory levels, refinery operations, import/export balances and weather conditions. Furthermore, Eni's realized margins are also affected by price differentials between heavy crudes versus light ones, taking into account the ability of Eni's refineries to process complex crudes. This may represent a cost advantage for Eni when light-heavy differential widens. Finally, it is worth noting that the impact of changes in crude oil prices on Eni's refining businesses depends on the speed at which the prices of refined products adjust to reflect movements in oil prices, as a time lag exists between movements in oil prices and in prices of finished products. Generally speaking, when oil prices decline, depending also on the rapidity and materiality of the decline, our refining margins improve on the short term, and vice versa. However, we believe that in the current depressed environment for refining margins, lower costs of the crude oil feedstock could represent only a temporary boost to our refining margins due to the structural headwinds existing in the European industry. Those headwinds include excess capacity and the competitive pressure from oil products having a cheaper cost structure than ours. See "Competition" below.

Also our Chemical segment is subject to fluctuations in supply and demand for petrochemical products and movements in crude oil prices, to which costs of feedstock are indexed, with a consequent effect on prices and profitability. Similarly to our Refining & Marketing segment, our Chemical segment has been negatively impacted by structural headwinds tied to excess capacity, weak commodity demand in Europe and the competition from cheaper products coming from Asia and the United States. See "Competition" below. Based on these negative trends, we believe that any improvement in the oil-linked costs of the petrochemical feedstock will represent only a temporary boost to our margins of petrochemical products.

Competition

There is strong competition worldwide, both within the oil industry and with other industries, to supply energy to the industrial, commercial and residential energy markets

Eni faces strong competition in each of its business segments.

In the current uncertain financial and economic environment, Eni expects that prices of energy commodities, in particular oil and gas, will be very volatile, with average prices and margins influenced by changes in the global supply and demand for energy, as well as in the market dynamics. This is likely to increase competition in all of Eni's businesses, which may impact costs and margins. Competition affects license costs and product prices, with a consequent effect on our margins and our market shares. Eni's ability to remain competitive requires continuous focus on technological innovation, reducing unit costs and improving efficiency. It is also depends on our ability to get an access to new investment opportunities, both in Europe and worldwide.

- In the Exploration & Production segment, Eni faces competition from both international and state-owned oil companies for obtaining exploration and development rights, and developing and applying new technologies to maximize hydrocarbon recovery. Furthermore, Eni may face a competitive disadvantage because of its relatively smaller size compared to other international oil companies, particularly when bidding for large scale or capital intensive projects, and may be exposed to industry-wide cost increases to a greater extent compared to its larger competitors given its potentially smaller market power with respect to suppliers. If, as a result of those competitive pressures, Eni fails to obtain new exploration and development acreage, to apply and develop new technologies, and to control costs, its growth prospects and future results of operations and cash flows may be adversely affected.
- In the Gas & Power segment, Eni faces strong competition from gas and energy players to sell gas to the industrial segment, the thermoelectric sector and the retail customers both in the Italian market and in markets across Europe. Competition has been fuelled by ongoing weak trends in demand due to the downturn and macroeconomic uncertainties, oversupplies which have been supported by large availability of liquefied natural gas ("LNG") on global scale, and inter-fuel competition due to rising use of coal in firing power plants due to cost advantages and a dramatic growth in the adoption of renewable sources of energy (photovoltaic and solar) which have materially impacted the use of gas in the production of electricity and hence sales of gas to the thermoelectric industry. The extensive development of shale gas in the United States was another fundamental trend that aggravated the oversupply situation in Europe. The continuing growth in the production of shale gas in the United States increased global gas supplies.
  These market imbalances in Europe were exacerbated by the fact that throughout the last decade and up to a few years ago the market consensus projected that gas demand in the continent would grow steadily till 2020 and beyond driven by economic growth and increased use of gas in firing power production. European gas wholesalers including Eni committed well in advance to purchasing large amounts of gas under long-term supply contracts with so-called "take-or-pay" clauses from the main producing countries bordering Europe (namely Russia and Algeria) and invested heavily to upgrade existing pipelines and to build new infrastructure along several European routes in order to expand gas import capacity to continental markets. Long-term gas supply contracts with take-or-pay clauses expose gas wholesalers to a volume risk as they are contractually required to purchase minimum annual amounts of gas or, in case of failure, to pay the underlying price. Due to the trends described above of the prolonged economic downturn and inter-fuel competition, the projected increases in gas demand failed to materialize, resulting in a situation of oversupply and pricing pressure. As demand contracted across Europe, gas supplies built, thus driving the development of very liquid continental hubs to trade spot gas. Spot prices at continental hubs became the main benchmarks to which selling prices are indexed in supplies to large industrial customers and thermoelectric utilities. The profitability of gas operators was negatively impacted by falling sales prices at those hubs, where prices have been pressured by intense competition among gas operators in the face of weak demand, oversupplies and the constraint to dispose of minimum annual volumes of gas to be purchased under long-tem supply contracts. We believe that those headwinds have become structural ones and therefore we do not expect any meaningful improvement in the European gas sector for the foreseeable future. Gas demand will remain weak due to macroeconomic uncertainties and unclear EU policies regarding how to satisfy energy demand in Europe and the energetic mix. Supplies at continental hubs will continue building up also in view of a possible ramp-up of LNG exports from the United States due to steady growth in gas production and ongoing projects to reconvert LNG re-gasification facilities into liquefaction export units and the start of several LNG projects in the Pacific Region and elsewhere.
  We believe that these ongoing negative trends may adversely affect the Company's future results of operations and cash flows, also taking into account the Company's contractual obligations to off-take minimum annual volumes of gas in accordance to its long-term gas supply contracts with take-or-pay clauses.
- In its Gas & Power segment, Eni is vertically integrated in the production of electricity via its gas-fired power plants which currently use the combined-cycle technology. In the electricity business, Eni competes with other producers and traders from Italy or outside of Italy who sell electricity on the Italian market. Going forward, the Company expects continuing competition due to the projections of weak economic growth in Italy and Europe over the foreseeable future, also causing outside players to place excess production in the Italian market. The economics of the gas-fired electricity business have dramatically changed over the last

few years due to ongoing competitive trends. Spot prices of electricity in the wholesale market across Europe decreased due to excess supplies driven by the growing production of electricity from renewable sources, which also benefited from governmental subsides, and a recovery in the production of coal-fired electricity generation which was helped by a substantial reduction in the price of this fuel on the back of a massive oversupply of coal which occurred on a global scale. As a result of falling electricity prices, margins on the production of gas-fired electricity went into negative territory. Eni believes that the profitability outlook in this business will remain weak in the foreseeable future.

- Our Refining & Marketing business faces strong competition in the marketing of refined products to final customers in the retail and wholesale markets in Italy and in certain countries in Europe where we have an established presence. The economics of this business have progressively deteriorated over the latest years due to structural headwinds in the industry. Refining and distribution margins have been negatively impacted by a combination of drivers, including weak demand for fuels due to the economic downturn particularly in Italy, high crude oil feedstock costs, trends in oil-linked costs of energy and other plant utilities, excess refining capacity across Europe and increasing competition of products streams coming from Russia, the Middle East, East Asia and the United States. This latter trend is particularly worrisome as refiners in those areas can leverage on cost advantages due to plans scale and availability of cheap raw materials. The United States for example, have become a net exporter of refined products, particularly gasoline and middle distillates, due to the tight oil revolution which has improved the competitiveness of U.S.-based refiners as prices of U.S. crudes are generally lower than the Brent crude to which crude oil purchases of European refiners are mainly indexed. Instead, Eni’s margins of refined products were affected by cost disadvantages due to unfavorable geographic location and lack of scale of Eni’s refineries. Furthermore, narrowing price differentials between the Brent benchmark and heavy crude qualities hit Eni’s profitability of complex cycles which depends upon the availability of cheaper crude qualities than the Brent crude in order to remunerate the higher operating costs of complex plants. This latter trend reflected reduced supplies of heavy crudes in the Mediterranean area, reversing the pattern observed historically whereby heavy crude qualities traded at a discount vs. the Brent benchmark due to their relatively smaller yield of valuable products. These trends negatively affected Eni’s integrated refining and marketing results of operations and cash flows in recent years. This segment reported losses at the operating level and negative cash flows for several consecutive years. In 2014, operating losses amounted to euro 2.23 billion. We believe that these competitive headwinds have become structural trends and looking forward we do not expect any reversal of those trends in the foreseeable future, thus negatively impacting the profitability outlook in our Refining & Marketing segment over the foreseeable future.
  In the retail marketing of refined products both in Italy and abroad, Eni competes with oil companies and non-oil operators (such as supermarket chains and other commercial operators) to obtain concessions to establish and operate service stations. Eni’s service stations compete primarily on the basis of pricing, services and availability of non-petroleum products. Eni expects that competitive pressures will continue in the foreseeable future.
- In the Chemical segment, Eni faces strong competition from well-established international players and state-owned petrochemical companies, particularly in the most commoditized segments such as the production of basic petrochemical products and plastics. Many of those competitors based in the Far East and the Middle East are able to benefit from cost advantages due to scale, favorable environmental regulations, availability of cheap feedstock and proximity to end-markets. Excess capacity and sluggish economic growth in Europe have exacerbated competitive pressures with negative impacts on profitability. Furthermore, petrochemical producers based in the United States have regained market share, as their cost structure has become competitive due to the availability of cheap feedstock deriving from the production of domestic shale gas. The Company expects continuing margin pressures in its petrochemical segment in the foreseeable future as a result of those trends which we believe have become structural headwinds. This segment has reported losses at the operating level and negative cash flows for several consecutive years, driven by the trends in the industry described above. In 2014, operating losses amounted to euro 704 million. Management believes that the profitability outlook in Eni’s petrochemical segment will remain negative over the foreseeable future due to anticipated weak trends in European demand for petrochemical commodities, strong competitive pressures and overcapacity.
- Competition in the oil field services, construction and engineering industries is primarily based on technical expertise, quality and number of services and availability of technologically advanced facilities (for example, vessels for offshore construction). Lower oil prices could result in lower margins and lower demand for oil services. Failure or inability to respond effectively to competition could adversely impact the Company’s growth prospects, future results of operations and cash flows in this business. In 2014, the Company’s Engineering & Construction segment returned to profit following the sizeable losses incurred in the previous year. However the level of profitability in 2014 was below management’s own targets and initial guidance as the execution of legacy, low-margin contracts dragged down profitability. Furthermore, there was a slow ramp-up of activities at newly acquired orders due to market uncertainties and a continuing deterioration in the competitive environment. The business outlook remains challenging due to a number of headwinds. These include strong competitive pressures and risks and uncertainties relating to the acceptance by customers of the works done in the execution of certain legacy contracts which are still in progress. Finally a slowdown in oil prices may force oil companies to revise their capital budget plans and postpone investment decision. This trend may hurt profitability of our oilfield services and engineering segment in the next future years.

Safety, security, environmental and other operational risks

The Group engages in the exploration and production of oil and natural gas, processing, transportation, and refining of crude oil, transport of natural gas, storage and distribution of petroleum products, production of base chemicals, plastics and elastomers. By their nature the Group’s operations expose Eni to a wide range of significant health, safety, security and environmental risks. The magnitude of these risks is influenced by the geographic range, operational diversity and technical complexity of Eni’s activities. Eni’s future results from operations and liquidity depend on its ability to identify and mitigate the risks and hazards inherent to operating in those industries.

In Exploration & Production, Eni faces natural hazards and other operational risks including those relating to the physical characteristics of oil and natural gas fields. These include the risks of eruptions of crude oil or of natural gas, discovery of hydrocarbon pockets with abnormal pressure, crumbling of well openings, leaks that can harm the environment and the security of Eni’s personnel and risks of blowout, fire or explosion. Accidents at a single well can lead to loss of life, damage or destruction to property, environmental damage and consequently potential economic losses that could have a material and adverse effect on the business, results of operation, liquidity, reputation and prospects of the Group.

Eni’s activities in the Refining & Marketing and Chemical segments also entail health, safety and environmental risks related to the overall life cycle of the products manufactured, and to raw materials used in the manufacturing process, such as oil-based feedstock, catalysts, additives and monomer feedstock. These risks can arise from the intrinsic characteristics of the products involved (flammability, toxicity, or long-term environmental impacts such as greenhouse gas emissions and risks of various forms of pollution and contamination of the soil and the groundwater), their use, emissions and discharges resulting from their manufacturing process, and from recycling or disposing of materials and wastes at the end of their useful life.

All of Eni’s segments of operations involve, to varying degrees, the transportation of hydrocarbons. Risks in transportation activities depend both on the hazardous nature of the products transported, and on the transportation methods used (mainly pipelines, maritime, river-maritime, rail, road, gas distribution networks), the volumes involved and the sensitivity of the regions through which the transport passes (quality of infrastructure, population density, environmental considerations). All modes of transportation of hydrocarbons are particularly susceptible to a loss of containment of hydrocarbons and other hazardous materials, and, given the high volumes involved, could present a significant risk to people and the environment.

The Company invests significant resources in order to upgrade the methods and systems for safeguarding the safety and health of employees, contractors and communities, and the environment; to prevent risks; to comply with applicable laws and policies; and to respond to and learn from unexpected incidents. Eni seeks to minimize these operational risks by carefully designing and building facilities, including wells, industrial complexes, plants and equipment, pipelines, storage sites and distribution networks, and managing its operations in a safe, compliant and reliable manner. Failure to manage these risks could effectively result in unexpected incidents, including releases or oil spills, blowouts, fire, mechanical failures and other incidents resulting in personal injury, loss of life, environmental damage, legal liabilities and/or damage claims, destruction of crude oil or natural gas wells, as well as damage to equipment and other property, all of which could lead to a disruption in operations. Eni’s operations are often conducted in difficult and/or environmentally sensitive locations such as the Gulf of Mexico, the Caspian Sea and the Arctic. In such locations, the consequences of any incident could be greater than in other locations. Eni also faces risks once production is discontinued, because Eni’s activities require decommissioning of productive infrastructure and environmental site remediation.

Furthermore, in certain situations where Eni is not the operator, the Company may have limited influence and control over third parties, which may limit its ability to manage and control such risks.

Eni’s insurance subsidiary provides insurance coverage to Eni’s entities, generally up to $1.1 billion in case of offshore incident and $1.5 billion in case of incident at onshore facilities (refineries). In addition, the Company also maintains worldwide third-party liability insurance coverage for all of its subsidiaries. Management believes that its insurance coverage is in line with industry practice and sufficient to cover normal risks in its operations. However, the Company is not insured against all potential risks. In the event of a major environmental disaster like BP Deepwater Horizon, for example, Eni’s third-party liability insurance would not provide any material coverage and thus the Company’s liability would far exceed the maximum coverage provided by its insurance. The loss Eni could suffer in the event of such a disaster would depend on all the facts and circumstances of the event and would be subject to a whole range of uncertainties, including legal uncertainty as to the scope of liability for consequential damages, which may include economic damage not directly connected to the disaster.

The occurrence of the events mentioned above could have a material adverse impact on the Group’s business, competitive position, cash flow, results of operations, liquidity, future growth prospects, shareholders’ return and damage the Group’s reputation.

The Company cannot guarantee that it will not suffer any uninsured loss and there can be no guarantee, particularly in the case of a major environmental disaster or industrial accident, that such loss would not have a material adverse effect on the Company.

Risks associated with the exploration and production of oil and natural gas

The exploration and production of oil and natural gas requires high levels of capital expenditures and are subject to natural hazards and other uncertainties, including those relating to the physical characteristics of oil and gas fields. A description of the main risks facing the Company’s business in the exploration and production of oil and gas is provided below.

(i) Eni’s oil and natural gas offshore operations are particularly exposed to health, safety, security and environmental risks

Eni has material operations relating to the exploration and production of hydrocarbons located offshore. In 2014, approximately 55% of Eni’s total oil and gas production for the year derived from offshore fields, mainly in Egypt, Libya, Norway, Italy, Angola, the Gulf of Mexico, Congo, United Kingdom and Nigeria. Offshore operations in the oil and gas industry are inherently riskier than onshore activities. As the Macondo accident in the Gulf of Mexico has shown, the potential impacts of offshore accidents and spills to health, safety, security and the environment can be catastrophic due to the objective difficulties in handling hydrocarbons containment and other factors. Further, offshore operations are subject to marine risks, including severe storms and other adverse weather conditions and vessel collisions, as well as interruptions or termination by governmental authorities based on safety, environmental and other considerations. Failure to manage these risks could result in injury or loss of life, damage to property, environmental damage, and could result in regulatory action, legal liability, loss of revenues and damage to Eni’s reputation and could have a material adverse effect on Eni’s operations, results, liquidity, reputation and prospects.

(ii) Exploratory drilling efforts may be unsuccessful

Exploration drilling for oil and gas involves numerous risks including the risk of dry holes or failure to find commercial quantities of hydrocarbons. The costs of drilling, completing and operating wells have margins of uncertainty, and drilling operations may be unsuccessful as a result of a large variety of factors, including geological play failure, unexpected drilling conditions, pressure or heterogeneities in formations, equipment failures, well control (blowouts) and other forms of accidents, and shortages or delays in the delivery of equipment. The Company also engages in exploration drilling activities offshore, also in deep and ultra-deep waters, in remote areas and in environmentally sensitive locations (such as the Barents Sea). In these locations, the Company generally experiences more challenging conditions and incurs higher exploration costs than onshore or in shallow waters. Failure to discover commercial quantities of oil and natural gas could have an adverse impact on Eni’s future growth prospects, results of operations and liquidity. Because Eni plans to make investments in executing exploration projects, it is likely that the Company will incur significant amounts of dry hole expenses in future years. Some of these activities are high-risk high reward projects that generally involve sizeable plays located in deep and ultra-deep waters or at higher depths where operations are more challenging and costly than in other areas. Furthermore, deep and ultra-deep water operations will require significant time before commercial production of discovered reserves can commence, increasing both the operational and financial risks associated with these activities. The Company plans to conduct exploration projects offshore West Africa (Angola, Nigeria, Congo, and Gabon), East Africa (Mozambique, Kenya and South Africa), South-East Asia (Indonesia, Vietnam, Myanmar and other locations), Australia, the Norwegian Barents Sea, the Mediterranean and offshore Gulf of Mexico. In 2014, the Company spent euro 1.4 billion to conduct exploration projects and plans to spend approximately euro 1.2 billion on average in the next four-year plan on exploration activities. Unsuccessful exploration activities and failure to discover additional commercial reserves could reduce future production of oil and natural gas which is highly dependent on the rate of success of exploratory program.

(iii) Development projects bear significant operational risks which may adversely affect actual returns

Eni is executing several development projects to produce and market hydrocarbon reserves. Certain projects target the development of reserves in high-risk areas, particularly deep offshore and in remote and hostile environments or environmentally sensitive locations. Eni’s future results of operations and liquidity depend heavily on its ability to implement, develop and operate major projects as planned. Key factors that may affect the economics of these projects include:

- the outcome of negotiations with co-venturers, governments and state-owned companies, suppliers, customers or others, including, for example, Eni’s ability to negotiate favorable long-term contracts to market gas reserves;
- the development of reliable spot markets that may be necessary to support the development of particular production projects, or commercial arrangements for pipelines and related equipment to transport and market hydrocarbons;
- timely issuance of permits and licenses by government agencies;
- the Company’s relative size compared to its main competitors which may prevent it from participating in large-scale projects or affect its ability to reap benefits associated with economies of scale, for example by obtaining more favorable contractual terms by suppliers of equipment and services;
- the ability to carefully carry out front-end engineering design so as to prevent the occurrence of technical inconvenience during the execution phase;
- timely manufacturing and delivery of critical equipment by contractors, shortages in the availability of such equipment or lack of shipping yards where complex offshore units such as FPSO and platforms are built; these events may cause cost overruns and delays impacting the time-to-market of the reserves;
- risks associated with the use of new technologies and the inability to develop advanced technologies to maximize the recoverability rate of hydrocarbons or gain access to previously inaccessible reservoirs;
- poor performance in project execution on the part of contractors who are awarded project construction activities generally based on the EPC (Engineering, Procurement and Construction) – turn key contractual scheme. Eni believes this kind of risk may be due to lack of contractual flexibility, poor quality of front-end engineering design and commissioning delays;
- changes in operating conditions and cost overruns. In recent years, the industry has been adversely impacted by the growing complexity and scale of projects which drove cost increases and delays, including higher environmental and safety costs. Due to the recent downtrend in crude oil prices, the Company will seek to renegotiate construction contracts, daily rates for rigs and other field services and costs for materials and other productive factors to preserve margins at its development projects. In case it fail to obtaining the planned cost reductions, its profitability in the Exploration & Production segment could be adversely affected;
- the actual performance of the reservoir and natural field decline; and
- the ability and time necessary to build suitable transport infrastructures to export production to final markets.

Events such as the ones described above of poor project execution, inadequate front-end engineering design, delays in the achievement of critical events and project milestones, delays in the delivery of production facilities and other equipment by third parties, differences between scheduled and actual timing of the first oil, as well as cost overruns may adversely affect the economic returns of Eni’s development projects. Failure to successfully deliver major projects on time and on budget could negatively impact results of operations, cash flow and the achievement of short-term targets of production growth. Finally, development and marketing of hydrocarbons reserves typically require several years after a discovery is made. This is because a development project involves an array of complex and lengthy activities, including appraising a discovery in order to evaluate its commercial potential, sanctioning a development project and building and commissioning related facilities. As a consequence, rates of return for such long-lead-time projects are exposed to the volatility of oil and gas prices and costs which may be substantially different from the prices and costs assumed when the investment decision was actually made, leading to lower rates of return. In addition, projects executed with partners and co-venturers reduce the ability of the Company to manage risks and costs, and Eni could have limited influence over and control of the operations and performance of its partners. Furthermore, Eni may not have full operation control of the joint ventures in which it participates and may have exposure to counterparty credit risk and disruption of operation and strategic objectives due to the nature of its relationships.

For example in the Kashagan offshore field, in the Kazakh section of the Caspian Sea, the latest issue related to the downtime of a pipeline which forced the consortium to shut down production after the start-up. The damaged pipeline needs to the replaced with the consequence of additional costs to the project and the production will resume in late 2016.

Finally, in case the Company is unable to develop and operate major projects as planned, particularly if the Company fails to accomplish budgeted costs and time schedules, it could incur significant impairment charges of capitalized costs associated with reduced future cash flows of those projects.

(iv) Inability to replace oil and natural gas reserves could adversely impact results of operations and financial condition

Eni’s results of operations and financial condition are substantially dependent on its ability to develop and sell oil and natural gas. Unless the Company is able to replace produced oil and natural gas, its reserves will decline. In addition to being a function of production, revisions and new discoveries, the Company’s reserve replacement is also affected by the entitlement mechanism in its PSAs and similar contractual schemes. Pursuant to these contracts, Eni is entitled to a portion of a field’s reserves, the sale of which is intended to cover expenditures incurred by the Company to develop and operate the field. The higher the reference prices for Brent crude oil used to estimate Eni’s proved reserves, the lower the number of barrels necessary to recover the same amount of expenditures. The opposite occurs incase of lower oil prices. Future oil and gas production is dependent on the Company’s ability to access new reserves through new discoveries, application of improved techniques, success in development activity, negotiation with national oil companies and other entities owners of known reserves and acquisitions. In a number of reserve-rich countries, national oil companies decide to develop portion of oil and gas reserves that remain to be developed. To the extent that national oil companies decide to develop those reserves without the participation of international oil companies or if the Company fails to establish partnership with national oil companies, Eni’s ability to access or develop additional reserves will be limited.

An inability to replace produced reserves by finding, acquiring and developing additional reserves could adversely impact future production levels and growth prospects. If Eni is unsuccessful in meeting its long-term targets of production growth and reserve replacement, Eni’s future total proved reserves and production will decline and this will negatively affect future results of operations and liquidity.

(v) Eni expects that tightening regulation in oil and gas activities following the Macondo accident will lead to rising compliance costs and other restrictions

The production of oil and natural gas is highly regulated and is subject to conditions imposed by governments throughout the world in matters such as the award of exploration and production leases, the imposition of specific drilling and other work obligations, income taxes and taxes on production, environmental protection measures, control over the development and abandonment of fields and installations, and restrictions on production. Following the Macondo accident in the Gulf of Mexico, governments throughout the world have enacted stricter regulations on environmental protection, risk prevention and other forms of restrictions to drilling and other well operations. These new regulations and legislation, as well as evolving practices, increase the burden of compliance costs by requiring industry participants to adopt new security and risk prevention measures and procedures. They may also require changes to Eni’s drilling operations and exploration and development plans and may lead to higher royalties and taxes.

(vi) Uncertainties in estimates of oil and natural gas reserves

Several uncertainties are inherent in estimating quantities of proved reserves and in projecting future rates of production and timing of development expenditures. The accuracy of proved reserve estimates depend on a number of factors, assumptions and variables, among which the most important are the following:
- the quality of available geological, technical and economic data and their interpretation and judgment;
- projections regarding future rates of production and costs and timing of development expenditures;
- changes in the prevailing tax rules, other government regulations and contractual conditions;
- results of drilling, testing and the actual production performance of Eni’s reservoirs after the date of the estimates which may drive substantial upward or downward revisions; and
- changes in oil and natural gas prices which could affect the quantities of Eni’s proved reserves since the estimates of reserves are based on prices and costs existing as of the date when these estimates are made. Lower oil prices or the projections of higher operating and development costs may impair the ability of the Company to economically produce reserves leading to downward reserve revisions.

Reserve estimates are subject to revisions as prices fluctuate due to the cost recovery mechanism under the Company’s production sharing agreements and similar contractual schemes.

The prices used in calculating our estimated proved reserves are, in accordance with U.S. SEC requirements, calculated by determining the unweighted arithmetic average of the first-day-of-the-month commodity prices for the preceding 12 months. For the 12-months ended December 31, 2014, average prices used to calculate our estimated proved reserves were based on 101 $/BBL for the Brent crude oil. Commodity prices declined significantly in the fourth quarter of 2014 and if such prices do not increase significantly, our future calculations of estimated proved reserves will be based on lower commodity prices which could result in our having to remove non-economic reserves from our proved reserves in future periods. This effect will be partially counterbalanced by an increase of reserves corresponding to the additional production entitlement under the PSA relating to cost oil: i.e. because of lower oil and gas prices the reimbursement of expenditures incurred by the Company requires additional volumes of reserves.

Many of these factors, assumptions and variables involved in estimating proved reserves are subject to change over time therefore impacting the estimates of oil and natural gas reserves. Accordingly, the estimated reserves reported as of the end of the period covered by this filing could be significantly different from the quantities of oil and natural gas that will ultimately be recovered. Any downward revision in Eni’s estimated quantities of proved reserves would indicate lower future production volumes, which could adversely impact Eni’s results of operations and financial condition.

(vii) Oil and gas activity may be subject to increasingly high levels of income taxes

The oil and gas industry is subject to the payment of royalties and income taxes which tend to be higher than those payable in many other commercial activities. In addition, in recent years, Eni has experienced adverse changes in the tax regimes applicable to oil and gas operations in a number of countries where the Company conducts its upstream operations. As a result of these trends, management estimates that the tax rate applicable to the Company's oil and gas operations is materially higher than the Italian statutory tax rate for corporate profit which currently stands at 38 per cent.

The tax rate of the Company's Exploration & Production segment for the fiscal year 2014 was estimated at approximately 60 per cent. Eni believes that the tax rate in the Company's Exploration & Production segment for the fiscal year 2015 will trend higher due to a projected higher share of taxable profit which will be reported in countries with higher taxation than this segment average.

Management believes that the marginal tax rate in the oil and gas industry tends to increase in correlation with higher oil prices which could make it more difficult for Eni to translate higher oil prices into increased net profit. However, the Company does not expect that the marginal tax rate will decrease in response to falling oil prices. Adverse changes in the tax rate applicable to the Group profit before income taxes in its oil and gas operations would have a negative impact on Eni's future results of operations and cash flows.

In the current uncertain financial and economic environment also due to falling oil prices, governments are facing greater pressure on public finances, which may increase their motivation to intervene in the fiscal framework for the oil and gas industry, including the risk of increased taxation, windfall taxes, nationalization and expropriations.

Eni's results depend on its ability to identify and mitigate the above mentioned risks and hazards which are inherent to Eni's operation.

(viii) The present value of future net revenues from our proved reserves will not necessarily be the same as the current market value of our estimated crude oil and natural gas reserves and, in particular, may be reduced due to the recent significant decline in commodity prices

Investors should not assume the present value of future net revenues from our proved reserves is the current market value of our estimated crude oil and natural gas reserves. In accordance with U.S. SEC rules, we base the estimated discounted future net revenues from proved reserves on the 12-month unweighted arithmetic average of the first-day-of-the-month commodity prices for the preceding twelve months. Actual future prices may be materially higher or lower than the U.S. SEC pricing used in the calculations. Actual future net revenues from crude oil and natural gas properties will be affected by factors such as:

- the actual prices we receive for sales of crude oil and natural gas;
- the actual cost and timing of development and production expenditures;
- the timing and amount of actual production; and
- changes in governmental regulations or taxation.

The timing of both our production and our incurrence of expenses in connection with the development and production of crude oil and natural gas properties will affect the timing and amount of actual future net revenues from proved reserves, and thus their actual present value. In addition, the 10% discount factor we use when calculating discounted future net revenues may not be the most appropriate discount factor based on interest rates in effect from time to time and risks associated with our reserves or the crude oil and natural gas industry in general.

At December 31, 2014, the net present value of our proved reserves totaled approximately euro 59.6 billion. The average prices used to estimate our proved reserves and the net present value at December 31, 2014, as calculated in accordance with U.S. SEC rules, were 101 $/BBL for the Brent crude oil. Actual future prices may materially differ from those used in our year-end estimates.

Commodity prices have decreased significantly in recent months. Holding all other factors constant, if commodity prices used in our year-end reserve estimates were in line with the pricing environment existing in the first quarter of 2015, our PV-10 at December 31, 2014 could decrease significantly.

Political considerations

A substantial portion of Eni's oil and gas reserves and gas supplies are located in countries where the socio-political framework and macroeconomic outlook is less stable than those of the OECD countries. In those less stable countries Eni is exposed to a wide range of risks and uncertainties which could materially impact the ability of the Company to conduct its operations in a safe, reliable and profitable manner. As of December 31, 2014, approximately 79% of Eni's proved hydrocarbon reserves were located in such countries and 60% of Eni's supplies of natural gas derived from non-OECD countries.

Adverse political, social and economic developments, such as internal conflicts, revolutions, establishment of non-democratic regimes, protests, strikes and other forms of civil disorder, contraction of economic activity and financial difficulties of the local governments with repercussions on the solvency of state institutions, inflation levels, exchange rates and similar events in any of those less stable countries may negatively affect Eni's ability to continue operating in an economic way, either temporarily or permanently, and Eni's ability to access oil and gas reserves. In particular, Eni faces risks in connection with the following, possible issues:

(i) lack of well-established and reliable legal systems and uncertainties surrounding enforcement of contractual rights;

(ii) unfavorable enforcement of laws, regulations and contractual arrangements leading, for example, to expropriations, nationalizations or forced divestitures of assets and unilateral cancellation or modification of contractual terms. Eni is facing increasing competition from state-owned oil companies who are partnering Eni in a number of oil and gas projects and properties in the host countries where Eni conducts its upstream operations. These state-owned oil companies can change contractual terms and other conditions of oil and gas projects in order to obtain a larger profit share from a given project, thereby reducing Eni's profit share. Furthermore, as of the balance sheet date receivables for euro 663 million relating to cost recovery under certain petroleum contracts in a non-OECD country were the subject of an arbitration proceeding;

(iii) restrictions on exploration, production, imports and exports;

(iv) tax or royalty increases (including retroactive claims); and

(v) political and social instability which could result in civil and social unrest, internal conflicts and other forms of protest and disorder such as strikes, riots, sabotage, acts of violence and similar incidents. These risks could result in disruptions in economic activity, loss of output, plant closures and shutdowns, project delays, the loss of personnel or assets. They may force Eni to evacuate personnel for security reasons and to increase spending on security worldwide. They may disrupt financial and commercial markets, including the supply of and pricing for oil and natural gas, and generate greater political and economic instability in some of the geographic areas in which Eni operates. Areas where Eni operates where the Company is exposed to the political risk include, but are not limited to: Libya, Egypt, Algeria, Nigeria, Angola, Indonesia, Kazakhstan, Venezuela, Iraq, Iran and Russia. In addition, any possible reprisals as a consequence of military or other action, such as acts of terrorism in the United States or elsewhere, could have a material adverse effect on Eni's business, consolidated results of operations, and consolidated financial condition. In recent years, Eni's production levels in Libya were negatively impacted by acts of local conflict, social unrest, protests, strikes, which forced Eni to temporarily interrupt or reduce its producing activities, negatively affecting Eni's results of operations and cash flow. Also Eni's activities in Nigeria have been impacted in recent years by continuing episodes of theft, acts of sabotage and other similar disruptions which have jeopardized the Company's ability to conduct operations in full security, particularly in the onshore area of the Niger Delta. Looking forward, Eni expects that those risks will continue to affect Eni's operations in those countries. Particularly, the uncertain socio-political outlook in Libya and unsafe operational conditions onshore Nigeria were factored in the Company's projections of future production levels in these two countries. For more information about the status of Eni's operations in Libya see "Risks associated with continuing political instability in North Africa and the Middle East" below.

In the current low oil price environment, the financial outlook of few countries where Eni's hydrocarbons reserves are located has significantly deteriorated due to a contraction in the proceeds associated with the exploitation of hydrocarbons resources. This may increase the risk of default which may lead to higher political and macroeconomic instability. Furthermore in few cases, Eni is partnering with the national oil companies of such countries in executing oil&gas development projects. A possible sovereign default might jeopardize the financial feasibility of ongoing projects or increase the financial exposure of Eni which would be forced to finance the share of development expenditures of the first party.

There are certain instances where Eni is contractually obligated to finance the share of costs of the first party. This risk is mitigated by the customary default clause which states that in case of a default, the non-defaulting party is entitled to compensate its claims with the share of production of the defaulting party.

While the occurrence of those events is unpredictable, it is likely that the occurrence of such events could adversely impact Eni financial exposure.

Risks associated with continuing political instability in North Africa and the Middle East

As of the end of 2014, approximately 27% of the Company's proved oil and gas reserves were located in North Africa and the Middle East. Since 2011, several North African and Middle Eastern oil producing countries have been experiencing an extreme level of political instability that has resulted in changes of governments, internal conflict, unrest and violence which led to economic disruptions and shutdowns in industrial activities.

The instability of the socio-political framework in those countries still represents an area of concern involving risks and uncertainties for the foreseeable future. Particularly, the internal situation in Libya continues to represent an issue to Eni's management. Following the internal conflict of 2011 and the fall of the regime which forced the Company to shutdown almost all its producing facilities including gas exports for a period of about 8 months, a period of social and political instability began which turned into disorders, strikes, protests and a resurgence of the internal conflict. These events jeopardized Eni's ability to perform its industrial activity in safety, forcing the Company to interrupt its operations on certain occasions as precautionary measure. These events were fairly frequent in 2013 and more sporadic in 2014. In 2014, Eni's facilities in Libya produced on average 233 KBOE/d, registering a small increase compared to 2013.

The political instability in Egypt hindered the Country's access to the financial markets, and resulted in continued difficulties for the local oil and gas companies to fulfill financial obligations towards international oil companies including trade payables due to Eni which supplies its oil and gas entitlements to local companies. Eni has not experienced any disruptions at its producing activities in the Country to date.

The Company believes that the political outlook in North Africa and the Middle East remains an area of risk for the Company's operations, results, liquidity and prospects. In light of the recent developments in Libya, management decided to strengthen security measures at the Company's production installations and facilities in the Country. However, we did not suffer any significant production shutdowns in the first part of 2015 up to the filing date.

Risks associated with Eni's presence in sanction targets

Eni is currently engaging in residual oil and gas operations in Iran. The legislation and other regulations in the United States and the European Union that target Iran and persons who have certain dealings with Iran may lead to the imposition of sanctions on any persons doing business in Iran or with Iranian counterparties, unless specific authorizations, exceptions and assurances apply, as is currently the case for Eni. With reference to recent sanctions imposed on Russia, see "An escalation of the political crisis in Russia and Ukraine could affect Eni's business in particular and the global energy supply generally" below.

United States measures towards Iran

The United States enacted the Iran Sanctions Act of 1996 (ISA), which required the President of the United States to impose sanctions against any entity that is determined to have engaged in certain activities, including investing in Iran's petroleum sector. The ISA was amended in July 2010 by the Comprehensive Iran Sanctions, Accountability and Divestment Act of 2010 (CISADA) which targets activities that either: (i) support the maintenance or expansion of Iran's domestic production of refined petroleum products, or (ii) contribute to the enhancement of Iran's ability to import refined petroleum products.

CISADA expanded the list of sanctions available to the President of the United States while at the same time providing that an investigation need not be initiated, and may be terminated once begun, if the President certifies in writing to the U.S. Congress that the person whose activities in Iran were the basis for the investigation is no longer engaging in those activities or has taken significant steps toward stopping the activities, and that the President has received reliable assurances that the person will not knowingly engage in any sanctionable activity in the future.

After the passage of CISADA, Eni engaged in discussions with officials of the U.S. State Department, which administers the ISA, regarding Eni's activities in Iran. On September 30, 2010, the U.S. State Department announced that the U.S. Government, pursuant to a provision of the ISA added by CISADA that allows it to avoid making a determination of sanctionability under the ISA with respect to any party that provides certain assurances, would not make such a determination with respect to Eni based on Eni's commitment to end its investments in Iran's energy sector and not to undertake any new energy-related activity. The U.S. State Department further indicated at that time that, as long as Eni acts in accordance with these commitments, it will not be regarded as a company of concern for its past Iran-related activities.

The United States maintains, however, broad and comprehensive economic sanctions targeting Iran that are administrated by the U.S. Treasury Department's Office of Foreign Assets Control ("OFAC sanctions"). These sanctions generally restrict the dealings of U.S. citizens and persons subject to the jurisdiction of the United States. In addition, Eni is aware of initiatives by certain U.S. states and U.S. institutional investors, such as pension funds, to adopt or consider adopting laws, regulations or policies requiring divestment from, or reporting of interests in, companies that do business with countries designated as states sponsoring terrorism. CISADA specifically authorized certain state and local Iran-related divestment initiatives. If Eni's operations in Iran are determined to fall within the scope of divestment laws or policies, sales resulting from such divestment laws and policies, if significant, could have an adverse effect on the value of Eni's shares. Even if Eni's activities in and with respect to Iran do not expose it to sanctions or divestment, companies with investments in the oil and gas sectors in Iran may suffer reputational harm as a result of increased international scrutiny.

Between the end of 2011 and 2013, the United States adopted new measures designed to intensify the scope of U.S. sanctions against Iran, in particular related to Iran's energy and financial sectors.

Such restrictive measures are: the Executive Orders 13590 of November 21, 2011 and 13622 of July 31, 2012, the Iran Threat Reduction and Syrian Human Rights Acts of August 10, 2012 (ITRSHRA), which expanded the ISA/CISADA scope by increasing from three to five the minimum number of sanctions to be imposed in case of violations of the energy sector restrictions; the National Defense Authorization Acts - 2012, related to transactions with the Iranian Central Bank and transactions for the acquisition of Iranian crude oil and the National Defense Authorization Acts - 2013, which, inter alia, adds the shipbuilding sector to those areas subject to sanctions.

While Eni has no formal assurances that the U.S. State Department's 2010 determination of non-sanctionability under the ISA would similarly extend to sanctions under the measures issued in 2011, 2012 and 2013, during this period, Eni has continued to inform the U.S. State Department of its Iran-related activities. Eni does not believe that its activities in Iran (the completion of existing contracts which were notified to the U.S. Administration when the Special Rule was applied) are sanctionable under such more recent measures described above.

European Union restrictive measures towards Iran

On March 23, 2012, the Council of the European Union enacted a regulation which prohibits the supply, import and transport of Iranian crude oil and petroleum products. The rules waive the execution of contracts entered into force before January 23, 2012, whereby the supply of Iranian crude oil and petroleum products is intended to reimburse outstanding receivables due to entities under the jurisdiction of EU Member States. According to these waivers, Eni received by the empowered European Member States' Authorities the relevant authorizations in order to carry out its oil import activities from Iran. This waiver is renewed from time to time.

In 2012, the Council of the European Union adopted a new round restrictive measures against Iran including among others: prohibition of transactions between the European Union and Iranian banks and financial institutions, unless an authorization is granted in advance by the relevant Member State, an embargo on the supply to Iran and use in Iran of key equipment or technology which could be used in the sectors of the oil, natural gas and petrochemical industries from April 15, 2013.

Furthermore, the new measures designate new Iranian entities as subject to asset freeze, including the Iranian oil and gas industry companies (the National Iranian Oil Co - NIOC and its subsidiary operating companies).

Eni has been operating in Iran for several years under four service contracts (South Pars, Darquain, Dorood and Balal, these latter two projects being operated by another international oil company) entered into with the NIOC between 1999 and 2001, and no other exploration and development contracts have been entered into since then. Under such service contracts, Eni has carried out development operations in respect of certain oilfields, and is entitled to recovery of expenditures made, as well as a service fee. All projects mentioned above have been completed: the Darquain project was handed over to NIOC in the final months of 2014 and as such Eni's obligations to provide technical assistance, commissioning services and spare parts and supplies for field maintenance and operations have been winded down. In 2014, Eni incurred operating expenses of $1 million to provide such activities and services and does not expect to incur further operating costs in this respect. Therefore, Eni's only involvement in the Country will be the recovery of its past investments.

Eni's projects in Iran are currently in the cost recovery phase. Therefore, Eni has ceased making any further investment in the Country and is not planning to make additional capital expenditures in Iran in future years. In 2014, Eni's production in Iran averaged less than 1 KBOE/d, and is negligible in comparison with Eni Group's total production. Eni's entitlement in 2014 represented approximately 1 per cent of the overall production from the oil and gas fields that Eni has developed in Iran. Eni believes that the results from its Iranian activities are immaterial to the Group's results of operations and cash flow.

Eni has no involvement in Iran’s refined petroleum sector and does not export refined petroleum to Iran.

Finally, Eni’s Chemical segment licensed a number of technologies in Iran in past years, relating to plastics/elastomers and relevant raw materials, but it never supplied equipment or materials for plant construction. By April 2013, Eni had suspended all contracts to comply with EU restrictions.

Eni will continue to monitor closely legislative and other developments in the United States and the European Union in order to determine whether its remaining interests in Iran could subject Eni to application of either current or future sanctions under the OFAC sanctions, the ISA, the EU measures or otherwise. If any of its activities in and with respect to Iran are found to be in violation of any Iran-related sanctions, and sanctions are imposed on Eni, it could have an adverse effect on Eni’s business, plans to raise financing, sales and reputation.

An escalation of the political crisis in Russia and Ukraine could affect Eni’s business in particular and the global energy supply generally

The political crisis in Ukraine and the Crimean Peninsula unfolded in February 2014 and led to the impeachment of the President of Ukraine Viktor Yanukovych and the subsequent reaction by the Russian Federation. In March 2014, the announcement of the Supreme Council of Crimea and the City Council of Sevastopol of their intention to declare Crimea’s independence from Ukraine as a single united nation with the possibility of joining the Russian Federation as a federal subject was followed by a referendum where 96 per cent of those who voted in Crimea supported joining Russia. The Russian Federation annexed Crimea immediately after the result of the referendum. The Ukrainian Parliament, the United States and the European Union consider the referendum to be illegal and unconstitutional. Sanctions were imposed by the EU and the United States on officials and politicians from Russia and Crimea. Subsequently, allegations that the Russian Government has provided military and other support to separatists in Ukraine have led to further EU and U.S. sanctions.

Eni is closely monitoring developments to the political situation in Russia, Ukraine and the Crimea Region, is adapting its business activities to the sanctions already adopted by the relevant authorities and will adapt to any further related regulations and/or economic sanctions that could be adopted by the authorities.

Among other activities, Eni is currently part of a strategic co-operation agreement for exploration activities in the Russian sections of the Barents Sea and the Black Sea. Contracts pertaining to this exploration were entered into before enactment of the restrictive measures. Eni also holds a 50% interest in the Blue Stream pipeline which links the Russian and Turkish coasts and transport volumes of gas which are jointly supplied by Eni and is Russian partner to Turkish companies.

The EU and U.S.-enacted sanctions are mainly target the financial sector and the energy sector in Russia. The EU sanctions relating to the upstream sector in Russia may negatively impact our ongoing activities, mainly in the exploration sector, unless the Company obtains a waiver from the relevant EU Authorities for projects entered into before enactment of restrictions. Eni started the required authorization procedure before the relevant EU Authorities. However, the outcome is uncertain and we cannot exclude major delays in certain ongoing upstream projects in Russia.

It is possible that wider sanctions covering the Russian energy, banking and/or finance industries may be implemented, which may be targeted at specific individuals or companies or more generally. Further sanctions imposed on Russia, Russian individuals or Russian companies by the international community, such as sanctions enacting restrictions on purchases of Russian gas by European companies or restricting dealings with Russian counterparties could adversely impact Eni’s business, results of operations and cash flow. In addition, an escalation of the crisis and of imposed sanctions could result in a significant disruption of energy supply and trade flows globally, which could have a material adverse effect on the Group’s business, financial conditions, results of operations and future prospects.

Risks in the Company Gas & Power business

(i) Risks associated with the trading environment and competition in the industry

The Company expects that the profitability outlook in its Gas & Power segment will be negatively affected by a projected weak demand recovery, strong competitive pressures and oversupplies. We believe that these downtrends have become structural headwinds. Gas demand was severely hit by the economic slowdown in Europe and, more importantly, a steep fall in consumption in the thermoelectric sector. The latter trend was affected by an ongoing expansion of renewable sources of electricity which have benefited from governmental subsides across Europe, whilst coal has displaced gas on a large scale in firing power plants due to cost advantages and lowering rates for obtaining emission allowances in Europe due to the economic downturn. Coal prices have seen a dramatic fall in recent years due to a massive glut of coal on a global scale. We do not expect any meaningful recovery in demand for the foreseeable future. In the face of weak demand, supplies on the European marketplace have continued to increase due to a number of factors. First of all, before the beginning of the downturn, gas wholesaler operators in Europe (overestimating the projected growth rates in demand) were committed to purchase large amounts of gas under long-term supply contracts with producing countries also bearing the volume risk as a result of the take-or-pay clause of those contracts. They also built large pipeline upgrades to import gas to Europe. Secondly, several LNG projects came on stream, which improved the liquidity of spot markets. Finally, production of shale gas in the United States continued to ramp-up forcing LNG exporters from the Gulf Region and other areas to redirect their LNG supplies to other markets, contributing to increase global gas supplies. Besides certain operators in the United States are planning to build or are actually building LNG export facilities. Those trends drove the expansion of very liquid European hubs where spot prices have become the prevailing benchmark of sale contracts, particularly in the industrial and thermoelectric segments. Spot prices have been on a downtrend over the last few years pressured by oversupplies and weak demand. This trend hit the profitability of European gas marketing operators, including Eni. In particular, Eni’s results of operations were adversely impacted by a faster than anticipated alignment between continental benchmarks and spot prices at Italian hubs leading to sharply lower price realizations in the Italian wholesale market, which is the main market to the Company Gas & Power segment. Adding to the pressure, reduced sales opportunities due to weak demand forced operators to compete even more aggressively on pricing to limit the financial risks associated with the take-or-pay clause provided by the long term supply contracts. Eni forecasts that market conditions will remain unfavorable in the gas sector in Italy and Europe for the foreseeable future due to the structural headwinds described above, volatile commodity prices and lack of visibility. Eni anticipates a number of risk factors to the profitability outlook of the Company’s gas marketing business over the next two to three years. Those include weak demand growth due to a projected slow recovery in the Euro-zone and macroeconomic uncertainties, declining thermoelectric consumption due to inter-fuel competition, continuing oversupplies and strong competition. Eni believes that those trends will negatively impact the gas marketing business future results of operations and cash flows by reducing gas selling prices and margins, also considering Eni’s obligations under its take-or-pay supply contracts.

The Company is seeking to improve its cost competitiveness by renegotiating more favorable contractual terms with Eni’s long-term suppliers. If it fails to achieve this its profitability could be adversely affected

The Company’s long-term supply contracts provide clauses whereby the parties are entitled to renegotiate pricing terms and other contractual conditions from time to time to reflect a changed market environment. The Company plans to renegotiate better terms and pricing of Eni’s long-term supply contracts in the coming years to align its cost structure which comprise the raw material purchase cost and the associated logistic costs to prices prevailing in the marketplace in order to preserve the profitability of its gas operations and to fulfill the contractual obligation of off-taking the annual minimum take in its long-term supply contracts. If it fails to obtain the planned benefits, future results and cash flow could be adversely affected.

The outcome of the planned renegotiations is uncertain in respect of both the amount of the economic benefits which will be ultimately achieved and the timing of recognition in profit. Should we fail to obtain revised contractual terms, we will evaluate whether to commence arbitration proceedings to satisfy our claims. However, arbitration proceedings may require complex and lengthy processes in order to reach a ruling, thus adding to the uncertainty about the final outcome of those renegotiations. Considering also ongoing price renegotiations with Eni long-term buyers, results of gas marketing activities are subject to an increasing rate of volatility and unpredictability.

Current, negative trends in gas demands and supplies may impair the Company’s ability to fulfill its minimum off-take obligations in connection with its take-or-pay, long-term gas supply contracts

In order to secure long-term access to gas availability, particularly with a view of supplying the Italian gas market and anticipating certain trends in gas demand which actually failed to materialize, Eni has signed a number of long-term gas supply contracts with national operators of key producing countries that supply the European gas markets. These contracts have a residual life of approximately 13 years. These contracts include take-or-pay clauses whereby the Company is required to off-take minimum, pre-set volumes of gas in each year of the contractual term or, in case of failure, to pay the whole price, or a fraction of that price, up to the minimum contractual quantity. The take-or-pay clause entitles the Company to off-take pre-paid volumes of gas in later years. Amounts of cash pre-payments and time schedules for off-taking pre-paid gas vary from contract to contract. Generally, cash pre-payments are calculated on the basis of the energy prices current in the year when the Company is scheduled to purchase the gas, with the balance due in the year when the gas is actually purchased. Amounts of prepayments range from 10 to 100 per cent of the full price.

The right to off-take pre-paid gas expires within a ten-year term in some contracts or remains in place until contract expiration in other arrangements. In addition, the right to off-take the pre-paid gas can be exercised in future years provided that the Company has fulfilled its minimum take obligation in a given year and within the limit of the maximum annual quantity. In this case, Eni will pay the residual price calculating it as the percentage that complements

100 per cent, based on the arithmetical average of monthly base prices current in the year of the off-take. Similar considerations apply to ship-or-pay contractual obligations.

Although during the recent supply contract round of renegotiations the minimum pre-set volumes of gas that the Company is required to off-take has been significantly reduced, management believes that the current market outlook which will be driven by a weak recovery in gas demand and large gas availability, as well as strong competitive pressures in the marketplace and the possible changes in the sector specific regulation represent a risk factor to the Company’s ability to fulfill its minimum take obligations associated with its long-term supply contracts, considering also the Company’s plans for its sales volumes which are anticipated to remain flat or to decrease slightly in 2015 and in the subsequent years.

This risk materialized during the sector downturn in 2009 through 2012 when the Company accumulated deferred costs amounting to euro 1.9 billion paying the related cash advances to its gas suppliers due to the incurrence of the take-or-pay clause. This amount was substantially reduced in the subsequent years by approximately 50% due to the benefits of contract renegotiations and other commercial initiatives.

(ii) Risks associated with sector-specific regulations in Italy

Risks associated with the regulatory powers entrusted to the Italian Authority for Electricity Gas and Water in the matter of pricing to residential customers

The Authority for Electricity Gas and Water (the “AEEGSI”) is entrusted with certain powers in the matter of natural gas pricing. Specifically, the AEEG has general surveillance power on pricing in the natural gas market in Italy and the power to establish selling tariffs for the supply of natural gas to residential and commercial users (as provided for by Resolution ARG/gas No. 64/2009) taking into account the public goal of containing the inflationary pressure due to rising energy costs. Accordingly, decisions of the AEEGSI on these matters may limit the ability of Eni to pass an increase in the cost of the raw material onto final consumers of natural gas.

Effective on October 1, 2013, AEEGSI with Resolution No. 196 reformulated the pricing mechanism of gas supplies to retail customers by introducing a full indexation of the raw material cost component of the tariff to spot prices which replaced an oil-linked indexation. The new regulatory regime negatively impacted the Gas & Power results of operations and cash flow in 2014 compared to 2013 due to unfavorable trends in hub-based pricing to residential compared to the previous oil-linked tariff.

Furthermore, this new regulation provides a mechanism of compensation which addresses the wholesaler operators, as in the case of Eni, who have long-term procurement contracts to supply the Italian market and is designed to promote effective renegotiations of these contracts. The compensation mechanism covers a three-year period and is intended to indemnify wholesalers of possible unfavorable spreads between the oil-linked average prices of gas imported to Italy and the spot prices of gas in sales to residential customers. Vice versa, in case of favorable trends in the above mentioned spreads, the wholesalers have an obligation to refund residential customers. Wholesalers are free to adhere to this compensation mechanism. Eni elected to adhere to it. In 2014, due to unfavorable trends in the cost of oil-linked supplies with respect to spot prices to which gas selling prices are indexed, based on the Authority’s index of procurement costs the Company recognized a gain of euro 60 million. However, due to the current downturn in crude oil prices, Eni is projecting that the oil-linked index of the procurement costs set by the Authority could determine a loss to Eni up to euro 480 million. This contingent liability reflects the fact that the Authority index is not reflective of the current setup of Eni’s portfolio of gas supply costs which due to the renegotiations achieved in 2014 is largely indexed to hub prices and therefore Eni’s procurement costs are not expected to benefit from a fall in oil-linked gas procurement costs. It is still possible that the Authority updates its index of procurement costs to better reflect the status of the gas portfolio of those wholesalers who achieved new pricing terms for their gas supplies. Alternatively, Eni might file an administrative appeal against any deliberations of the Authority on this matter which might possibly lead to unfair results to Eni.

Due to a structurally adverse competitive environment in our Refining & Marketing and Chemicals segments, our prospects to recover profitability depends on our ability to restructure those businesses

Our Refining & Marketing and Chemical segments have been unprofitable for many years to date. Those trends reflected (in addition to movements in the cost of crude oil), competitive disadvantages of our businesses due to industry excess capacity, lack of efficient scale at our refining and chemicals plants and competition from cheaper oil products and commodities coming from Asia, Russia and the United States. We believe that these trends will not reverse in the foreseeable future. We plan on rightsizing our production capacity in those businesses through plant closure, divestments, restructuring and plant conversion to production based on renewable feedstock. If we fail to implement capacity restructuring and rationalization as planned, our business, results of operations and financial condition and cash flow could be negatively impacted.

Antitrust and competition law

The Group's activities are subject to antitrust and competition laws and regulations in many countries of operations, especially in Europe. It is possible that the Group may incur significant loss provisions in future years relating to ongoing antitrust proceedings or new proceedings that may possibly arise. The Group is particularly exposed to this risk in its natural gas, refining and marketing and petrochemical activities due to the fact that Eni is the incumbent operator in those markets in Italy and a large European player. Furthermore, based on the findings of antitrust proceedings, plaintiffs could seek payment to compensate for any alleged damages as a result of antitrust business practices on part of Eni. Both these risks could adversely affect the Group's future results of operations and cash flows.

Environmental, health and safety regulations

Eni has incurred in the past and will incur material operating expenses and expenditures in relation to compliance with applicable environmental, health and safety regulations in future years

Eni is subject to numerous EU, international, national, regional and local environmental, health and safety laws and regulations concerning its oil and gas operations, refining, chemicals, hydrocarbons transportation and other activities. Generally, these laws and regulations require the acquisition of a permit before drilling for hydrocarbons may commence, restrict the types, quantities and concentration of various substances that can be released into the environment in connection with exploration, drilling and production activities, as well as refining, petrochemical and other Group's operations, limit or prohibit drilling activities in certain protected areas, require to remove and dismantle drilling platforms and other equipment and well plug-in once oil and gas operations have terminated, provide for measures to be taken to protect the safety of the workplace and health of communities involved by the Company's activities, and impose criminal or civil liabilities for polluting the environment or harming employees' or communities' health and safety resulting from oil, natural gas, refining, petrochemical and other Group's operations.

These laws and regulations also regulate emissions of substances and pollutants, handling of hazardous materials and discharges to surface and subsurface of water resulting from the operation of oil and natural gas extraction and processing plants, petrochemical plants, refineries, service stations, vessels, oil carriers, pipeline systems and other facilities owned by Eni. In addition, Eni's operations are subject to laws and regulations relating to the production, handling, transportation, storage, disposal and treatment of waste materials.

Breach of environmental, health and safety laws expose the Company's employees to criminal and civil liability and the Company to the incurrence of liabilities associated with compensation for environmental, health or safety damage, as well as damage to its reputation. Additionally, in the case of violation of certain rules regarding the safeguard of the environment and safety in the workplace, the Company can be liable for negligent or willful conduct on part of its employees as per Law Decree No. 231/2001.

Environmental, health and safety laws and regulations have a substantial impact on Eni's operations. Management expects that the Group will continue to incur significant amounts of operating expenses and expenditures in the foreseeable future to comply with laws and regulations addressing the safeguard of the environment, safety on the workplace, health of employees, contractors and communities involved by the Company operations, including:

- costs to prevent, control, eliminate or reduce certain types of air and water emissions and handle waste and other hazardous materials, including the costs incurred in connection with government action to address climate change;
- remedial and clean-up measures related to environmental contamination or accidents at various sites, including those owned by third parties (see discussion below);
- damage compensation claimed by individuals and entities, including local, regional or state administrations, in case Eni causes any kind of accident, pollution, contamination or other environmental liability involving its operations or the Company is found guilty of violating environmental laws and regulations; and
- costs in connection with the decommissioning and removal of drilling platforms and other facilities, and well plugging.

Furthermore, in the countries where Eni operates or expects to operate in the near future, new laws and regulations, the imposition of tougher license requirements, increasingly strict enforcement or new interpretations of existing laws and regulations or the discovery of previously unknown contamination may also cause Eni to incur material costs resulting from actions taken to comply with such laws and regulations, including:

- modifying operations;

- installing pollution control equipment;
- implementing additional safety measures; and
- performing site clean-ups.

As a further result of any new laws and regulations or other factors, Eni may also have to curtail, modify or cease certain operations or implement temporary shutdowns of facilities, which could diminish Eni’s productivity and materially and adversely impact Eni’s results of operations, including profits. Security threats require continuous assessment and response measures. Acts of terrorism against Eni’s plants and offices, pipelines, transportation or computer systems could severely disrupt businesses and operations and could cause harm to people.

Existing or future laws, regulations, treaties or international agreements related to greenhouse gases and climate change could have a negative impact on Eni’s business and may result in additional compliance obligations with respect to the release, capture, and use of carbon dioxide that could have a material adverse effect on Eni’s liquidity, consolidated results of operations, and consolidated financial condition.

Changes in environmental requirements related to greenhouse gases and climate change may negatively impact demand for oil and natural gas and production may decline as a result of environmental requirements (including land use policies responsive to environmental concerns). State, national, and international governments and agencies have been evaluating climate-related legislation and other regulatory initiatives that would restrict emissions of greenhouse gases in areas in which Eni conducts business. Because Eni’s business depends on the global demand for oil and natural gas, existing or future laws, regulations, treaties, or international agreements related to greenhouse gases and climate change, including incentives to conserve energy or use alternative energy sources, could have a negative impact on Eni’s business if such laws, regulations, treaties, or international agreements reduce the worldwide demand for oil and natural gas. Likewise, such restrictions may result in additional compliance obligations with respect to the release, capture, sequestration, and use of carbon dioxide that could have a material adverse effect on Eni’s liquidity, consolidated results of operations, and consolidated financial condition.

Risks of environmental, health and safety incidents and liabilities are inherent in many of Eni’s operations and products. Notwithstanding management’s belief that Eni adopts high operational standards to ensure the safety of its operations and the protection of the environment and the health of people and employees, it is possible that incidents like blowouts, oil spills, contaminations, pollution, release in the air, soil and ground water of pollutants and other dangerous materials, liquids or gases, and similar events could occur that would result in damage to the environment, employees and communities. The occurrence of any such events could have a material adverse impact on the Group business, competitive position, cash flow, results of operations, liquidity, future growth prospects, shareholders’ return and damage to the Group reputation.

Eni has incurred in the past and may incur in the future material environmental provisions in connection with the environmental impact of its past and present industrial activities. Eni is also exposed to claims under environmental requirements and, from time to time, such claims have been made against us. In Italy, environmental requirements and regulations typically impose strict liability. Strict liability means that in some situations Eni could be exposed to liability for clean-up and remediation costs, natural resource damages, and other damages as a result of Eni’s conduct that was lawful at the time it occurred or the conduct of prior operators or other third parties. Also plaintiffs may seek to obtain compensation for damage resulting from events of contamination and pollution or in case the Company is found guilty of having violated any environmental laws or regulations.

Eni is periodically notified of potential liabilities at Italian sites. These potential liabilities may arise from both historical Eni operations and the historical operations of companies that Eni has acquired. Many of those potential liabilities relate to certain industrial sites that the Company disposed of, liquidated, closed or shut down in prior years where Group products were produced, processed, stored, distributed or sold, such as chemical plants, mineral-metallurgic plants, refineries and other facilities. At those industrial locations Eni has commenced a number of initiatives to restore and clean-up proprietary or concession areas that were allegedly contaminated and polluted by the Group’s industrial activities. Notwithstanding the Group’s position that it cannot be held liable for contaminations occurred in past years or (as permitted by applicable regulations in case of declaration rendered by a guiltless owner i.e. as a result of Eni’s conduct that was lawful at the time it occurred) or because Eni took over operations from third parties, nonetheless several public administrations used Eni for environmental and other damages and for clean-up and remediation measures in addition to those which were performed by the Company.

Eni expects remedial and clean-up activities at Eni’s sites to continue in the foreseeable future impacting Eni’s liquidity. As of December 31, 2014, the Group has accrued risk provisions to cope with all existing environmental liabilities whereby both a legal or constructive obligation to perform a clean-up or other remedial actions is in place and the associated costs can be reasonably estimated. The accrued amounts represent the management’s best estimates of the Company’s liability.

Management believes that it is possible that in the future Eni may incur significant environmental expenses and liabilities in addition to the amounts already accrued due to: (i) the likelihood of as yet unknown contamination; (ii) the results of ongoing surveys or surveys to be carried out on the environmental status of certain of Eni’s industrial sites as required by the applicable regulations on contaminated sites; (iii) unfavorable developments in ongoing litigation on the environmental status of certain of the Company’s sites where a number of public administrations and the Italian Ministry of the Environment act as plaintiffs; (iv) the possibility that new litigation might arise; (v) the probability that new and stricter environmental laws might be implemented; and (vi) the circumstance that the extent and cost of environmental restoration and remediation programs are often inherently difficult to estimate leading to underestimation of the future costs of remediation and restoration, as well as unforeseen adverse developments both in the final remediation costs and with respect to the final liability allocation among the various parties involved at the sites.

As a result of those risks, environmental liabilities could be substantial and could have a material adverse effect on Eni’s liquidity, consolidated results of operations, and consolidated financial condition.

Risks related to legal proceedings and compliance with anti-corruption legislation

Eni is the defendant in a number of civil actions and administrative proceedings arising in the ordinary course of business. In addition to existing provisions accrued as of December 31, 2014 to account for ongoing proceedings, it is possible that in future years Eni may incur significant losses in addition to the amounts already accrued in connection with pending legal proceedings due to: (i) uncertainty regarding the final outcome of each proceeding; (ii) the occurrence of new developments that management could not take into consideration when evaluating the likely outcome of each proceeding in order to accrue the risk provisions as of the date of the latest financial statements; (iii) the emergence of new evidence and information; and (iv) underestimation of probable future losses due to the circumstance that they are often inherently difficult to estimate.

Certain legal proceedings where Eni or its subsidiaries or its officers are parties involve the alleged breach of anti-corruption laws and regulations and ethical misconduct. Ethical misconduct and non-compliance with applicable laws and regulations, including non-compliance with anti-bribery and anti-corruption laws, by Eni, its partners, agents or others that act on the Group’s behalf, could expose Eni and its employees to criminal and civil penalties and could be damaging to Eni’s reputation and shareholder value.

Risks from acquisitions

Eni constantly monitors the oil and gas market in search of opportunities to acquire individual assets or companies in order to achieve its growth targets or complement its asset portfolio. Acquisitions entail an execution risk – a significant risk, among other matters, that the acquirer will not be able to effectively integrate the purchased assets so as to achieve expected synergies. In addition, acquisitions entail a financial risk – the risk of not being able to recover the purchase costs of acquired assets, in case a prolonged decline in the market prices of oil and natural gas occurs. Eni may also incur unanticipated costs or assume unexpected liabilities and losses in connection with companies or assets it acquires. If the integration and financial risks connected to acquisitions materialize, Eni’s financial performance and shareholders’ returns may be adversely affected.

Risks deriving from Eni’s exposure to weather conditions

Significant changes in weather conditions in Italy and in the rest of Europe from year to year may affect demand for natural gas and some refined products. In colder years, demand for such products is higher. Accordingly, the results of operations of the Gas & Power segment and, to a lesser extent, the Refining & Marketing segment, as well as the comparability of results over different periods may be affected by such changes in weather conditions. In general, the effects of climate change could result in less stable weather patterns, resulting in more severe storms and other weather conditions that could interfere with Eni’s operations and damage Eni’s facilities. Furthermore, Eni’s operations, particularly offshore production of oil and natural gas, are exposed to extreme weather phenomena that can result in material disruption to Eni’s operations and consequent loss or damage of properties and facilities.

Eni’s crisis management systems may be ineffective and Eni may be the target of cyber attacks

Eni has developed contingency plans to continue or recover operations following a disruption or incident. An inability to restore or replace critical capacity to an agreed level within an agreed time frame could prolong the impact of any disruption and could severely affect business and operations. Likewise, Eni has crisis management plans and capability to deal with emergencies at every level of its operations. If Eni does not respond or is not seen to respond in an appropriate manner to either an external or internal crisis, its business and operations could be severely disrupted.

Exposure to financial risk

Eni’s business activities are inherently exposed to financial risk. This includes exposure to market risk, including commodity price risk, interest rate risk and foreign currency risk, as well as liquidity risk, and credit risk.

Eni’s primary source of exposure to financial risk is the volatility in commodity prices. Generally, the Group does not hedge its strategic exposure to the commodity risk associated with its plans to find and develop oil and gas reserves, volume of gas purchased under its long-term gas purchase contracts which are not covered by contracted sales, its refining margins and other activities. The Group’s risk management objectives in addressing commodity risk are to optimize the risk profile of its commercial activities by effectively managing economic margins and safeguarding the value of Eni assets. To achieve this, Eni engages in risk management activities seeking both to hedge Group’s exposures and to profit from short-term market opportunities and trading. The Group’s risk management has evolved particularly in response to the major changes which have occurred in the competitive landscape of the gas marketing business, gas volatile margins and development of liquid gas spot markets.

Eni is engaged in substantial trading and commercial activities in the physical markets. Eni also uses financial instruments such as futures, options, Over The Counter (OTC) forward contracts, market swaps and contracts for differences related to crude oil, petroleum products, natural gas and electricity in order to manage the commodity risk exposure. Eni also uses financial instruments to manage foreign exchange and interest rate risk.

The Group’s approach to risk management includes identifying, evaluating and managing the financial risk using a top-down approach whereby the Board of Directors is responsible for establishing the Group risk management strategy and setting the maximum tolerable amounts of risk exposure. The Group’s Chief Executive Officer is responsible for implementing the Group risk management strategy, while the Group’s Chief Financial and Risk Management Officer is in charge of defining policies and tools to manage the Group’s exposure to financial risk, as well as monitoring and reporting activities.

Various Group committees are in charge of defining internal criteria, guidelines and targets of risk management activities consistent with the strategy and limits defined at Eni’s top level, to be used by the Group’s business units, including monitoring and controlling activities. Although Eni believes it has established sound risk management procedures, trading activities involve elements of forecasting and Eni is exposed to the risks of market movements, of incurring significant losses if prices develop contrary to management expectations and of default of counterparties.

Commodity risk

Commodity risk is the risk associated with fluctuations in the price of commodities which may impact the Group’s results of operations and cash flow. Exposure to commodity risk is both of a strategic and commercial nature. Generally, the Group does not hedge its strategic exposure to commodity risk. However, the Group actively manages its exposure to commercial risk arising when a contractual sale of a commodity has occurred or it is highly probable that it will occur and the Group aims to lock in the associated commercial margin.

The Group’s risk management policies have evolved particularly in response to the deep changes occurred in the competitive landscape of the gas marketing business, volatile gas margins and development of liquid markets to trade spot gas. These policies also contemplate the use of derivative contracts for speculative purposes whereby Eni is seeking to profit from opportunities available in the gas market based, among other things, on its expectations regarding trends in future prices.

As part of those trading activities, the Company is implementing strategies of asset-backed trading in order to maximize the economic value of the flexibilities associated with its assets. Management believes that the price risks related to asset-backed trading activities are mitigated by the natural hedge granted by the assets’ availability.

These derivative contracts entered into for trading purposes may lead to gains, as well as losses, which, in each case, may be significant. Those derivatives are accounted for through profit and loss, resulting in higher volatility in Eni’s earnings.

Exchange rate risk

Movements in the exchange rate of the euro against the U.S. dollar can have a material impact on Eni’s results of operations. Prices of oil, natural gas and refined products generally are denominated in, or linked to, U.S. dollars, while a significant portion of Eni’s expenses are denominated in euros. Similarly, prices of Eni’s petrochemical products are generally denominated in, or linked to, the euro, whereas expenses in the Chemical segment are denominated both in euros and U.S. dollars. Accordingly, a depreciation of the U.S. dollar against the euro generally has an adverse impact on Eni's results of operations and liquidity because it reduces booked revenues by an amount greater than the decrease in U.S. dollar-denominated expenses and may also result in significant translation adjustments that impact Eni's shareholders' equity. The Exploration & Production segment is particularly affected by movements in the U.S. dollar versus the euro exchange rates as the U.S. dollar is the functional currency of a large part of its foreign subsidiaries and therefore movements in the U.S. dollar versus the euro exchange rate affect year-on-year comparability of results of operations. In 2014, the Exploration & Production results of operations were marginally affected by trends in exchange rate of the euro against the U.S. dollar as the average exchange rate for the full year was substantially flat at 1 EUR = 1.33 US$. However, the decline of the euro against the U.S. dollar in the fourth quarter 2014 resulted in a appreciation of approximately 12% of the U.S. dollar at the closing rate on December 31, 2014 with respect to the closing rate at December 31, 2013 which movements boosted the Group net equity by approximately euro 5 billion as a result of the translation differences of the net assets of dollar-denominated subsidiaries. This trend has continued in the first quarter of 2015.

Susceptibility to variations in sovereign rating risk

Eni's credit ratings are potentially exposed to risk in reductions of sovereign credit rating of Italy. On the basis of the methodologies used by Standard & Poor's and Moody's, a potential downgrade of Italy's credit rating may have a potential knock-on effect on the credit rating of Italian issuers such as Eni and make it more likely that the credit rating of the Notes or other debt instruments issued by the Company could be downgraded.

Interest rate risk

Interest on Eni's debt is primarily indexed at a spread to benchmark rates such as the Europe Interbank Offered Rate, "Euribor", and the London Interbank Offered Rate, "Libor". As a consequence, movements in interest rates can have a material impact on Eni's finance expense in respect to its debt. Additionally, spreads offered to the Company may rise in connection with variations in sovereign rating risks or company rating risks, as well as the general conditions of capital markets.

Liquidity risk

Liquidity risk is the risk that suitable sources of funding for the Group may not be available, or the Group is unable to sell its assets on the marketplace in order to meet short-term financial requirements and to settle obligations. Such a situation would negatively impact the Group results of operations and cash flows as it would result in Eni incurring higher borrowing expenses to meet its obligations or, under the worst conditions, the inability of Eni to continue as a going concern. European and global financial markets are currently subject to volatility amid concerns over the European sovereign debt crisis and weak macroeconomic growth, particularly in the Euro-zone. If there are extended periods of constraints in the financial markets, or if Eni is unable to access the financial markets (including cases where this is due to Eni's financial position or market sentiment as to Eni's prospects) at a time when cash flows from Eni's business operations may be under pressure, Eni's ability to maintain Eni's long-term investment program may be impacted with a consequent effect on Eni's growth rate, and may impact shareholder returns, including dividends or share price.

The oil and gas industry is capital intensive. We make and expect to continue to make substantial capital expenditures in our business for the exploration, development, exploitation and production of oil and natural gas reserves.

Historically, our capital expenditures have been financed with cash generated by operations, proceeds from asset disposal, borrowings under our credit facility and proceeds from the issuance of debt and bonds. The actual amount and timing of future capital expenditures may differ materially from our estimates as a result of, among others, changes in commodity prices, available cash flows, lack of access to capital, unbudgeted acquisitions, actual drilling results, the availability of drilling rigs and other services and equipment, the availability of transportation capacity, and regulatory, technological and competitive developments.

Our cash flows from operations and access to capital markets are subject to a number of variables, including but not limited to:
- the amount of our proved reserves;
- the volume of crude oil and natural gas we are able to produce and sell from existing wells;
- the prices at which crude oil and natural gas are sold;
- our ability to acquire, find and produce new reserves; and

• the ability and willingness of our lenders to extend credit or of participants in the capital markets to invest in our bonds.

If revenues or our ability to borrow decrease significantly due to factors like a prolonged decline in crude oil and natural gas prices, we might have limited ability to obtain the capital necessary to sustain our planned capital expenditures. If cash generated by operations, cash from asset disposal, or cash available under our liquidity reserve or our credit facilities is not sufficient to meet capital requirements, the failure to obtain additional financing could result in a curtailment of operations relating to development of our reserves, which in turn could adversely affect our business, financial condition, results of operations, and cash flows and our ability to achieve our growth plans.

In addition, funding our capital expenditures with additional debt will increase our leverage and the issuance of additional debt will require a portion of our cash flows from operations to be used for the payment of interest and principal on our debt, thereby reducing our ability to use cash flows to fund capital expenditures and dividends.

Credit risk

Credit risk is the potential exposure of the Group to losses in case counterparties fail to perform or pay due amounts. Credit risks arise from both commercial partners and financial ones. In recent years, the Group has experienced a higher than normal level of counterparty default due to the severity of the economic and financial downturn and the amount of trade receivables overdue at the balance sheet date has increased significantly. In Eni’s 2014 Consolidated Financial Statements, Eni accrued an allowance against doubtful accounts amounting to euro 531 million (compared to euro 384 million), mainly relating to the Gas & Power business. Management believes that this business is particularly exposed to credit risks due to its large and diversified customer base which include a large number of medium and small sized businesses and retail customers who have been particularly impacted by the financial and economic downturn. However, trade receivable amounts due at the balance sheet date have also increased in relation to supplies of the Group’s products to state-owned companies, public administrations and other governmental agencies in Italy and abroad. Eni believes that the management of doubtful accounts represents an issue to the Company which will require management focus and commitment going forward. In the future we cannot exclude the recognition of significant provisions for doubtful accounts.

Critical accounting estimates

The preparation of the Consolidated Financial Statements requires 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 and 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 the determination of proved and proved developed reserves, impairment of fixed assets, intangible assets and goodwill, asset retirement obligations, business combinations, pensions and other post-retirement benefits, recognition of environmental liabilities and other risk provisions and recognition of revenues in the oilfield services construction and engineering businesses. Although management believes these estimates to represent the best outcome of the estimation process, actual results could differ from such estimates, due to, among other things, the following factors: uncertainty, lack or limited availability of information, availability of new informative elements, variations in economic conditions such as prices, costs, other significant factors including evolution in technologies, industrial practices and standards (e.g. removal technologies) and the final outcome of legal, environmental or regulatory proceedings.

Digital infrastructure is an important part of maintaining Eni’s operations, and a breach of Eni’s digital security could result in serious damage to business operations, personal injury, damage to assets, harm to the environment, breaches of regulations, litigation, legal liabilities and reparation costs

The reliability and security of Eni’s digital infrastructure is critical to maintaining the availability of Eni’s business applications, including the reliable operation of technology in Eni’s various business operations and the collection and processing of financial and operational data, as well as the confidentiality of certain third-party information. If Eni’s systems for protecting Eni’s digital security prove not to be sufficient, either due to intentional actions such as cyber attacks or due to negligence, Eni could be adversely affected by, among other things, loss or damage of intellectual property, proprietary information, or customer data, having Eni’s business operations interrupted, and increased costs to prevent, respond to, or mitigate potential risks to Eni’s digital infrastructure; also, in some circumstances, failures to protect digital infrastructure could result in injury to people, damage to assets, harm to the environment, breaches of regulations, litigation, legal liabilities and reparation costs.

The Company’s auditors, like all other independent registered public accounting firms operating in Italy, are not permitted to be subject to inspection by the Public Company Accounting Oversight Board, and accordingly, investors may be deprived of the benefits of such inspection

The independent registered public accounting firm that issues the audit reports included in Eni’s annual reports filed with the U.S. Securities and Exchange Commission (the U.S. SEC), as auditor of companies that are traded publicly in the United States and firms registered with the Public Company Accounting Oversight Board, or PCAOB, is required by the laws of the United States to undergo regular inspections by the PCAOB to assess its compliance with U.S. SEC rules and PCAOB professional standards.

Because Eni’s auditor is a registered public accounting firm in Italy, a jurisdiction where the PCAOB is currently unable under Italian law to conduct inspections pending the mutual agreement between the PCAOB and the Italian Authorities, Eni’s auditor, like all other independent registered public accounting firms in Italy, is currently not inspected by the PCAOB. Inspections of audit firms that the PCAOB has conducted where allowed have identified deficiencies in those firms’ audit procedures and quality control procedures, which may be addressed as part of the inspection process to improve future audit quality. The lack of PCAOB inspections in Italy prevents the PCAOB from regularly evaluating Eni’s auditor’s audits and quality control procedures. As a result, the inability of the PCAOB to conduct inspections of auditors in Italy may deprive investors of the benefits of PCAOB inspections.

Item 4. INFORMATION ON THE COMPANY

History and development of the Company

Eni SpA with its consolidated subsidiaries engages in oil and gas exploration, development and production, marketing of gas, electricity and LNG, power generation, refining and marketing of petroleum products, production and marketing of petrochemical products, commodity trading and oilfield services and engineering industries. Eni has operations in 83 countries and 84,405 employees as of December 31, 2014.

Eni, the former Ente Nazionale Idrocarburi, a public law agency, established by Law No. 136 of February 10, 1953, was transformed into a joint stock company by Law Decree No. 333 published in the Official Gazette of the Republic of Italy No. 162 of July 11, 1992 (converted into law on August 8, 1992, by Law No. 359, published in the Official Gazette of the Republic of Italy No. 190 of August 13, 1992). The Shareholders' Meeting of August 7, 1992 resolved that the company be called Eni SpA. Eni is registered at the Companies Register of Rome, register tax identification number 00484960588, R.E.A. Rome No. 756453. Eni is expected to remain in existence until December 31, 2100; its duration can however be extended by resolution of the shareholders.

Eni's registered head office is located at Piazzale Enrico Mattei 1, Rome, Italy (telephone number: +39-0659821). Eni branches are located in:
- San Donato Milanese (Milan), Via Emilia, 1; and
- San Donato Milanese (Milan), Piazza Ezio Vanoni, 1.

Internet address: eni.com

The name of the agent of Eni in the United States is Pasquale Salzano, 485 Madison Avenue, New York, NY 10002.

Eni's principal segments of operations are described below.

Eni's Exploration & Production segment engages in oil and natural gas exploration and field development and production, as well as LNG operations in 40 countries, including Italy, Libya, Egypt, Norway, the United Kingdom, Angola, Congo, Nigeria, the United States, Kazakhstan, Russia, Algeria, Australia, Venezuela, Iraq, Ghana and Mozambique. In 2014, Eni average daily production amounted to 1,517 KBOE/d on an available-for-sale basis. As of December 31, 2014, Eni's total proved reserves amounted to 6,602 mmBOE; proved reserves of subsidiaries totaled 5,772 mmBOE; Eni's share of reserves of equity-accounted entities was 830 mmBOE. In 2014, Eni's Exploration & Production segment reported net sales from operations (including inter-segment sales) of euro 28,488 million and operating profit of euro 10,766 million.

Eni's Gas & Power segment engages in supply, trading and marketing of gas and electricity, international gas transport activities, and LNG supply and marketing. This segment also includes the activity of electricity generation that is ancillary to the marketing of electricity. In 2014, Eni's worldwide sales of natural gas amounted to 89.17 BCM. Sales in Italy amounted to 34.04 BCM, while sales in European markets were 55.13 BCM which included 4.01 BCM of gas sold to certain importers to Italy. Eni produces power at a number of operated sites in Italy with a total installed capacity of 4.9 GW as of December 31, 2014. In 2014, sales of power totaled 33.58 TWh. In 2014, Eni's Gas & Power segment reported net sales from operations (including inter-segment sales) of euro 28,250 million and operating profit of euro 186 million.

Eni's Refining & Marketing segment engages in crude oil supply and refining and marketing of petroleum products at retail and wholesale markets mainly in Italy and in the rest of Europe. In 2014, processed volumes of crude oil and other feedstock amounted to 25.03 mmtonnes and sales of refined products were 44.41 mmtonnes, of which 22.76 mmtonnes in Italy. Retail sales of refined products at Eni's service stations amounted to 9.21 mmtonnes in Italy and in the rest of Europe. In 2014, Eni's retail market share in Italy through its "Eni" and "Agip" branded network of service stations was 25.5%. In 2014, Eni's Refining & Marketing segment reported net sales from operations (including inter-segment sales) of euro 56,153 million and operating loss of euro 2,229 million.

Eni also engages in commodity risk management and asset-backed trading activities. Through the trading department of the parent company and its wholly-owned subsidiary Eni Trading & Shipping SpA, the Group engages in derivative activities targeting the full spectrum of energy commodities on both the physical and financial trading venues. The objective of this activity is both to hedge part of the Group exposure to the commodity risk and to optimize commercial margins by entering speculative derivative transactions. Eni Trading & Shipping SpA and its subsidiaries also provide Group companies with crude oil and products supply, trading and shipping services. The results of the activity of commodity risk management and other services are reported within the Gas & Power segment with regard to the results on commodity risk management activities relating to gas and electricity; while the portion of results which pertains to oil and products trading derivatives and supply and shipping services are reported within the Refining & Marketing segment.