	High	Low	At period end
	(U.S. dollars per euro)		
October 2012	1.31	1.29	1.30
November 2012	1.30	1.27	1.30
December 2012	1.33	1.29	1.32
January 2013	1.36	1.31	1.36
February 2013	1.37	1.31	1.31
March 2013	1.31	1.28	1.28

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 April 5, 2013 was $1.3027 per euro 1.00.

Risk factors

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, we expect 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 and market dynamics. This is likely to increase competition in all our businesses, which may impact costs and margins.

- In the Exploration & Production segment Eni faces competition from both international oil companies 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 cost increases, its growth prospects and future results of operations and cash flows may be adversely affected.
- In the Gas & Power segment, Eni is facing increasingly strong competition on both the Italian market and the European market due to continuing slowdown in demand and macroeconomic uncertainties in the face of large gas availability on the marketplace which has driven the development of very liquid continental hubs to trade spot gas. Gas supplies to Europe were fuelled by material additions to global LNG availability by upstream producers and large upgrades of existing pipelines and construction of new backbones on several European routes over the latest few years to expand the import capacity from Russia and Algeria. Those developments were compounded by very significant increases in the production of shale gas in the United States which reduced the Country’s dependence on imported gas and resulted in diversion of important LNG volumes to Europe. In 2012, those fundamental shifts in market dynamics coupled with a demand downturn triggered intense pricing competition among gas operators which negatively affected profitability. Additionally, gas marketing operators, including Eni, were hit by diverging trends in the cost of gas supplies compared to selling prices. In fact, procurement costs of those operators were mainly indexed to the price of oil and its derivatives as provided by pricing formulas in long-term supply contracts, whereas selling prices were determined on the basis of spot prices at continental hubs which were pressured by weak demands, oversupplies and competition. Those trends resulted in the Company’s Gas & Power segment reporting sharply higher operating losses in 2012 (down to euro 3,221 million compared to a loss of euro 326 million in 2011). We believe that the outlook for our gas marketing business will remain weak in the short to medium term as the ongoing trends affecting the sector will take time to be reversed. Management forecasts that a better balance between demand and supply on the European market is unlikely to be achieved before 2014 or 2015. The described trends may negatively affect the Company’s future results of operations and cash flows in its natural gas business, also taking into account the Company’s contractual obligations to off-take minimum annual volumes of natural gas in accordance to its long-term gas supply contracts that include take-or-pay clauses. See the sector-specific risk section below.

- Eni also faces competition from large, well-established European utilities and other international oil and gas companies in growing its market share and acquiring or retaining clients. A number of large clients, particularly electricity producers and large industrial buyers, in both the domestic market and other European markets have entered the wholesale market of natural gas by directly purchasing gas from producers or sourcing it at the continental spot markets adding further pressures on the economics of gas operators, including Eni. Management believes that this trend will continue in the future. At the same time, a number of national gas producers from countries with large gas reserves are planning to sell natural gas directly to final clients, which would threaten the market position of companies like Eni which resell gas purchased from producing countries to final customers. These developments may increase the level of competition in both the Italian and other European markets and reduce Eni’s expected operating profit and cash flows in the gas business. Finally, following a law decree enacted in March 2012 from the Italian Government to spur competition in the Italian gas sector, management expects that the Company’s selling margins will likely come under pressure on sales at the regulated residential and service segments due to the implementation of a less favorable indexation mechanism of the raw material cost in supplies to such customers than in the past. This will be achieved by progressively introducing a spot-based indexation mechanism of the cost of gas replacing the current oil-linked formula which mirrors a basket of long-term supply contracts. We expect that similar measures will be introduced by other market regulators in European countries where Eni engages in selling gas to residential clients (see sector-specific risk factors below).
- In its domestic 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 on the Italian market.
- In the retail marketing of refined products both in Italy and abroad, Eni competes with third parties (including international oil companies and local operators such as supermarket chains) 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. In Italy, there is an ongoing pressure from political and administrative entities, including the Italian Antitrust Authority, to increase the level of competition in the retail marketing of fuels. The above mentioned law decree of March 2012 targeted the Italian fuel retail market, by relaxing commercial ties between independent operators of service stations and oil companies, enlarging options to build and operate fully-automated service stations, and opening up the merchandising of various kinds of goods and services at service stations. Eni expects developments in this field to further increase pressure on selling margins in the retail marketing of fuels and to reduce opportunities of increasing market share in Italy. Furthermore, the ongoing demand downturn in the Italian fuel market is expected to exacerbate competition among oil companies and other retail operators due to large product availability on the marketplace.
- In the Chemical segment, we are facing strong competition from well-established international players and state-owned petrochemical companies, particularly in the most commoditized market segments such as production of basic petrochemicals products and plastics. Many of those competitors based in the Far East and Middle East are able to benefit from cost advantages due to larger scale, looser environmental regulations, availability of cheaper feedstock, and more favorable location and proximity to end-markets. Excess capacity and sluggish economic growth may exacerbate competitive pressures. Furthermore, we expect that petrochemicals producers based in the U.S. will regain market share in the next future leveraging on a competitive cost structure due to the increasing availability of cheap feedstock deriving from the production of domestic shale gas. The Company expects continuing margin pressures in the foreseeable future as a result of those trends.
- 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.

The Company’s failure or inability to respond effectively to competition could adversely impact the Company’s growth prospects, future results of operations and cash flows.

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, storage and distribution of petroleum products, production of base chemicals and special products. By their nature the Group’s operation expose us 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 our activities. Eni’s future results from operations and liquidity depend on our ability to identify and mitigate the risks and hazards inherent to operating in those industries.

In exploration and production, we face 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 risks of 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 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), 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.

In the transportation area, the type of risk depends not only on the hazardous nature of the products transported, but also 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 dedicates a great deal of efforts and attention to safety, health, the environment and the prevention of risks; in pursuing compliance with applicable laws and policies; and in responding and learning from unexpected incidents. We seek to minimize these operational risks by carefully designing and building our 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 effectively could result in unexpected incidents, including releases, oil spills, explosions, 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 equipment and other property, all of which could lead to a disruption in operations. Our operations are often conducted in difficult or environmentally sensitive locations such as the Gulf of Mexico, the Caspian Sea and the Arctic, in which the consequences of any incident could be greater than in other locations. We also face risks once production is discontinued, because our activities require 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 maintains insurance coverage that include coverage for physical damage to our assets, third party liability, workers' compensation, pollution and other damage to the environment and other coverage. Our insurance is subject to caps, exclusion and limitation, and there is no assurance that such coverage will adequately protect us against liabilities from all potential consequences and damages. In light of the accident at the Macondo well in the Gulf of Mexico, we may not be able to secure similar coverage for the same costs. Future insurance coverage for our industry could increase in cost and may include higher retentions. Also, some forms of insurance may become unavailable in the future or unavailable on terms that we believe are economically acceptable.

The occurrence of the above mentioned 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.

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 our oil and gas fields. A description of the main risks facing our business in the exploration and production of oil and gas is provided below.

i) Our oil and natural gas offshore operations are particularly exposed to health, safety, security and environmental risks

We have material operations relating to the exploration and production of hydrocarbons located offshore. In 2012, approximately 52% of our total oil and gas production for the year derived from offshore fields, mainly in Egypt, Libya, Norway, Italy, Angola, the Gulf of Mexico, Congo, UK and Nigeria. Offshore operations in the oil and gas industry are inherently riskier than onshore activities. As the Macondo accident occurred 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. Also offshore operations are subject to marine perils, 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 our reputation and could have a material adverse effect on our operations or financial condition. In 2012, a gas leak following a well operation occurred at a wellhead platform of the Elgin/Franklin gas field, located in the UK North Sea. The field was operated by an international oil company with Eni holding 21.87% interest in the field. We incurred costs to restart the platform operations and reported a significant loss of production for the year (down by 7 mmBBL). We may also incur environmental liabilities which may arise from the incident.

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 variety of factors, including unexpected drilling conditions, pressure or heterogeneities in formations, equipment failures, blow-outs and other forms of accidents, marine risks such as collisions and adverse weather conditions and shortages or delays in the delivery of equipment. Exploration drilling in offshore areas, particularly in deep waters, is generally more challenging and riskier than in onshore areas; the same is true for exploratory activity in remote areas or in challenging environmental conditions in environmentally-sensitive locations such as those we are experiencing in the Barents Sea. 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 significant investments in executing high-risk exploration projects, it is likely that Eni will incur significant exploration and dry hole expenses in future years. Eni plans to explore for oil and gas onshore and offshore. A number of exploration projects are planned in deep and ultra-deep waters or at deep drilling depths, where operations are more challenging and costly than in other areas. Deep water operations generally may require significant time before commercial production of 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, Liberia, Ghana and Gabon), East Africa (Mozambique), the South-East Asia (Indonesia, Vietnam and other locations), Australia, the Barents Sea and the Black Sea. In 2012, the Company spent approximately euro 1.8 billion to conduct exploration projects and it plans to spend approximately euro 1.4 billion on average in the next four-year plan on exploration activities.

Unsuccessful exploration activities and failure to find additional commercial reserves could reduce future production of oil and natural gas which is highly dependent on the rate of success of exploratory activity.

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

Eni is conducting several development projects to produce and market hydrocarbon reserves. Certain projects target to develop reserves in high-risk areas, particularly offshore and in remote and hostile environments or environmentally sensitive locations. Eni’s future results of operations and liquidity depend heavily on our 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 goods and services;
- the ability to design development projects so as to prevent the occurrence of technical inconvenience;
- delays in manufacturing and delivery of critical equipment, or shortages in the availability of such equipment, causing cost overruns and delays;
- 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 at project execution on the part of international contractors who are awarded project construction activities generally based on the EPC (engineering, procurement, construction) – turn key contractual scheme. We believe that this is mainly due to lack of contractual flexibility, poor quality of front-end design engineering and commissioning delays;
- changes in operating conditions and cost overruns. In recent years, the industry has been impacted by escalating costs of certain critical productive factors including specialized workforce, procurement costs and costs for leasing third party equipment or purchase services such as drilling rigs as a result of industry-wide cost inflation, bottlenecks and other constraints in the worldwide production capacity available to build

critical equipment and facilities and growing complexity and scale of projects, including environmental and safety costs. Furthermore, there has been an evolution in the location of our projects, as we have been discovering increasingly important volumes of reserves in remote and harsh locations or environmentally sensitive locations (i.e. the Barents Sea, Alaska, the Jamal Peninsula, the Caspian Sea) where we are experiencing significantly higher operating costs and environmental, safety and other costs than in other locations. The Company expects that costs in its upstream operations will continue to rise in the foreseeable future;
- 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.

Poor project execution, delays in the achievement of critical events and production start-up, differences between scheduled and actual timing, as well as cost overruns may adversely affect the economic returns of our development projects. Failure to deliver major projects successfully could negatively impact our results of operations, cash flow and short-term targets of production growth. Finally, developing and marketing hydrocarbons reserves typically requires several years after a discovery is made. This is because a development project involves an array of complex and lengthy activities, including appraising a discovery in order to evaluate its 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 cost, and Eni could have limited influence over and control of the operations, behaviors and performance of its partners. Furthermore, Eni may not have full operation control of the joint ventures in which participates and may have exposure to counterparty credit risk and disruption of operation and strategic objectives due to the nature of its relationships.

We have incurred material cost overruns and substantial delay in the scheduling of production start-up at the Kashagan oilfield, where development is ongoing. These negative trends were driven by a number of factors including depreciation of the U.S. dollar versus the euro and other currencies; cost escalation of goods and services required to execute the project; an original underestimation of the costs and complexity to operate in the North Caspian Sea due to lack of benchmarks; design changes to enhance the operability and safety standards of the offshore facilities. The partners of the venture are currently targeting the achievement of the first commercial production by the first half of 2013 in accordance to the updated development plan covering Phase 1 of the field development which was agreed with the Kazakh Authorities in the course of 2012. See "Item 4 – Exploration & Production – Caspian Sea" for a full description of the material terms of the Kashagan project.

We have also experienced a few delays at a number of development projects located mainly in Algeria, the UK, Angola and Norway. Those delays were attributable to execution issues and delivery of critical equipment reflecting capacity constraints. These events will impact the timing profile of our planned production growth in the short term.

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 associated with reduced future cash flows of those projects on capitalized costs.

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 Production Sharing Agreements ("PSAs") and similar contractual schemes. In accordance to such 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. In 2012, the Company’s reserve replacement was negatively affected by lower entitlements in its PSAs and in the economics of marginal productions for an estimated amount of 62 mmBOE, which however did not impair the Company’s ability to fully replace reserves produced in the year. See "Item 4 – Business overview – Exploration & Production" and "Item 5 – Management’s expectations of operations". 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 countries and other owners of known reserves and acquisitions. In a number of reserve-rich countries, national oil companies control a large portion of oil and gas reserves that remain to be developed. To the extent that national oil companies decide to develop those reserve without the participation of international oil companies or if our Company fails to establish partnership with national oil companies, our 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 we are unsuccessful, we may not meet our long-term targets of production growth and reserve replacement, and our future total proved reserves and production will decline, negatively affecting Eni's future results of operations and financial condition.

v) Changes in crude oil and natural gas prices may adversely affect Eni's results of operations

The exploration and production of oil and gas is a commodity business with a history of price volatility. The single largest variable that affects the Company's results of operations and financial condition is crude oil prices. Lower crude oil prices have an adverse impact on Eni's results of operations and cash flows. Eni generally does not hedge exposure of the Group reserves to fluctuations in future cash flows due to crude oil price movements. As a consequence, Eni's profitability depends heavily on crude oil and natural gas prices. Crude oil and natural gas prices are subject to international supply and demand and other factors that are beyond Eni's control, including among other things:

(i) the control on production exerted by the Organization of the Petroleum Exporting Countries ("OPEC") member countries which control a significant portion of the world's supply of oil and can exercise substantial influence on price levels;

(ii) global geopolitical and economic developments, including sanctions imposed on certain oil-producing countries on the basis of resolutions of the United Nations or bilateral sanctions;

(iii) global and regional dynamics of demand and supply of oil and gas; we believe that the current economic slowdown may have affected global demand for oil. In 2012, gas demand in Europe and Italy fell sharply due to the economic downturn. This trend negatively affected gas prices at our North Sea fields;

(iv) prices and availability of alternative sources of energy. We believe that gas demand in Europe has been impacted by a shift to the use of coal in firing power plants due to cost advantages compared to gas, as well as the rising contribution of renewable energies in satisfying energy requirements. We expect those trends to continue in the future;

(v) governmental and intergovernmental regulations, including the implementation of national or international laws or regulations intended to limit greenhouse gas emissions, which could impact the prices of hydrocarbons; and

(vi) success in developing and applying new technology.

All these factors can affect the global balance between demand and supply for oil and prices of oil.

Lower oil and gas prices over prolonged periods may also adversely affect Eni's results of operations and cash flows by: (i) reducing rates of return of development projects either planned or being implemented, leading the Company to reschedule, postpone or cancel development projects, or accept a lower rate of return on such projects; (ii) reducing the Group's liquidity, entailing lower resources to fund expansion projects, further dampening the Company's ability to grow future production and revenues; and (iii) triggering a review of future recoverability of the Company's carrying amounts of oil and gas properties, which could lead to the recognition of significant impairment charges.

vi) We expect 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 interests, 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, we expect that governments throughout the world will implement stricter regulation 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, could increase the cost of compliance and may also require changes to our drilling operations and exploration and development plans and may lead to higher royalties and taxes.

vii) 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 depends 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 timing of development expenditures;

- whether the prevailing tax rules, other government regulations and contractual conditions will remain the same as on the date estimates are made;
- results of drilling, testing and the actual production performance of Eni's reservoirs after the date of the estimates which may require 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.

In particular the reserve estimates are subject to revisions as prices fluctuate due to the cost recovery mechanism under the Company's PSAs and similar contractual schemes.

Many of these factors, assumptions and variables involved in estimating proved reserves are beyond Eni's control and may change over time and impact the estimates of oil and natural gas reserves. Accordingly, the estimated reserves could be significantly different from the quantities of oil and natural gas that will ultimately be recovered. Additionally, 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.

viii) 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 44%. The tax rate of the Company's Exploration & Production segment for the fiscal year 2012 was approximately 60%.

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, 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, 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.

Political considerations

A substantial portion of our oil and gas reserves and gas supplies are located in countries which are politically, socially and economically less stable than OECD countries. Therefore we are exposed to risks of material disruptions to our operations in those less stable countries. As of December 31, 2012, approximately 80% of Eni's proved hydrocarbon reserves were located in such countries and 59% of Eni's supplies of natural gas came from countries outside OECD countries. See "Item 4 – Exploration & Production and Gas & Power" for more information about the Group reserve locations and natural gas supplies.

Adverse political, social and economic developments 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 issues:

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

(ii) unfavorable developments in laws, regulations and contractual arrangements leading, for example, to expropriations 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 with 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 481 million relating to cost recovery under a petroleum contract 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) civil and social unrest leading to sabotages, acts of violence and incidents. For example, we experienced continuing acts of sabotage and theft in Nigeria which caused significant production losses and negatively affected our results of operations in the Country for the year 2012.

See "Item 4 – Exploration & Production – Oil and natural gas reserves".

While the occurrence of those events is unpredictable, it is likely that the occurrence of such events could cause Eni to incur material losses or facility disruptions, by this way adversely impacting Eni's results of operations and cash flows.

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

As of end of 2012, approximately 30% of the Company's proved oil and gas reserves were located in North Africa and Middle East. In 2011, several North African and Middle Eastern oil producing countries experienced an extreme level of political instability that has resulted in changes in governments, unrest and violence and consequential economic disruptions. This instability is currently continuing to affect the region. The 2011 situation was particularly serious in Libya where the political instability escalated to turn out into an internal revolution and conflict which caused material disruptions to our operations in the country for a period of eight months. After the end of the conflict in late 2011, Eni was able to restart its all fields, producing facilities and gas exports through the GreenStream pipeline. In the course of 2012, the Company has progressively built up production volumes and achieved a level of approximately 258 kBOE/d on average for the year. However, we were unable to restore the full production plateau at our fields contrary to our initial planning assumptions, due to the complexity of the transition period which the Country is currently undergoing.

We believe that the political outlook in North Africa and Middle East remains an area of risks for our operations, results and strategic development.

Risks associated with our presence in sanction targets

Our activities in Iran could lead to sanctions under relevant U.S. legislation

Eni is currently conducting oil and gas operations in Iran. The legislation and other regulations of the United States 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.

The United States enacted the Iran Sanctions Act of 1996 (as amended, "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 investment in Iran's petroleum sector. The ISA was amended in July 2010 by the Comprehensive Iran Sanctions, Accountability and Divestment Act of 2010 ("CISADA"). As a result, in addition to sanctions for knowingly investing in Iran's petroleum sector, parties engaging in business activities in Iran now may be sanctioned under the ISA for knowingly providing to Iran refined petroleum products, and for knowingly providing to Iran goods, services, technology, information or support that could directly and significantly either: (i) facilitate 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 also expanded the menu of sanctions available to the President of the United States by three, from six to nine, and requires the President to impose three of the nine sanctions, as opposed to two of six, if the President has determined that a party has engaged in sanctionable conduct. The new sanctions include a prohibition on transactions in foreign exchange by the sanctioned company, a prohibition of any transfers of credit or payments between, by, through or to any financial institution to the extent the interest of a sanctioned company is involved, and a requirement to "block" or "freeze" any property of the sanctioned company that is subject to the jurisdiction of the United States. Investments in the petroleum sector that commenced prior to the adoption of CISADA appear to remain subject to the pre-amended version of the ISA, except for the mandatory investigation requirements described below, but no definitive guidance has been given. The new sanctions added by CISADA would be available to the President with respect to new investments in the petroleum sector or any other sanctionable activity occurring on or after July 1, 2010. CISADA also adopted measures designed to reduce the President's discretion in enforcement under the ISA, including a requirement for the President to undertake an investigation upon being presented with credible evidence that a person is engaged in sanctionable activity. CISADA also added to the ISA provisions 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. The President also may waive sanctions, subject to certain conditions and limitations.

The United States maintains 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, we are 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 our 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 our share price. Even if our activities in and with respect to Iran do not subject us 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.

With regard to the trading of crude oil, the above mentioned measures (in particular, the Iran Threat Reduction and Syrian Human Rights Acts of August 10, 2012, and the National Defense Authorization Acts 2012) provide for a ban on carrying out transactions associated with the purchase of crude oil and a ban on owning, operating or insuring any vessels used to transport Iranian crude. Both bans may be granted a waiver by the U.S. State Department (based on the National Defense Authorization Act for the Fiscal Year 2012) covering the home-country of an entity or the country of destination of the crude oil. A waiver granted to Italy and other EU Member States in March 2012 and lastly renewed on March 13, 2013 for a further 180-day period.

Other sanctions programs have been adopted by various governments and regulators with respect to Iran, including a series of resolutions from the United Nations Security Council, and measures imposed by various countries based on and to implement these United Nations Security Council resolutions. On July 26, 2010, the European Union adopted new restrictive measures regarding Iran (referred to as the "EU measures"). Among other things, the supply of equipment and technology in the following sectors of the oil and gas industry in Iran are prohibited: refining, liquefied natural gas, exploration and production. The prohibition extends to technical assistance, training and financing and financial assistance in connection with such items. Extension of loans or credit to, acquisition of shares in, entry into joint ventures with or other participation in enterprises in Iran (or Iranian owned enterprises outside of Iran) engaged in any of the targeted sectors also is prohibited.

On March 23, 2012 the Council of the European Union enacted regulation prohibiting the import, transport and purchase of Iranian crude oil and petroleum products. The rules allow for the performance of contracts, entered into 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.

In the last months of 2012, the Council of the European Union adopted new measures providing for additional restrictive measures against Iran including:

- export prohibition on key naval equipment and technology for ship-building, maintenance or refit;
- prohibition in trade in graphite, raw or semi-finished metals, such as aluminum and steel, and software for certain industrial processes;
- ban on the import, purchase or transport of Iranian natural gas;
- prohibitions on the provision of flagging and classification services to Iranian oil tankers and cargo vessels; and
- prohibition on the supply of vessels designed for the transport or storage of Iranian oil and petrochemical products.

The new measures also prohibit transactions between the European Union and Iranian banks and financial institutions, unless an authorization is granted in advance by the relevant Member State and include 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, starting from April 15, 2013.

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

The European measures provide a waiver of certain prohibitions (i.e. embargo on oil and gas key technologies, prohibition to supply of vessels for the purpose of transporting Iranian oil, asset freeze of the National Iranian Corp and its subsidiaries) in order to perform obligations under contracts entered into before January 23, 2012, which provide for the supply of Iranian crude oil and petroleum products as a reimbursement of outstanding receivables due to entities under the jurisdictions of EU member states by Iranian counterparties (such as the case of Eni service contracts described therein). Under this waiver Eni is allowed to carry out its upstream and oil import activities. In this respect, Eni is in close contact with the competent European authorities in order to obtain the relevant authorizations, certain of which have already been received.

Eni Exploration & Production segment 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 National Iranian Oil Co (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 oil fields, and is entitled to recovery of expenditures made, as well as a service fee. The service contracts do not provide for payments to be made by Eni, as contractor, to the Iranian Government (e.g. leasing fees, bonuses, significant amounts of local taxes); all material future cash flows relate to the payment to Eni of its dues. All projects mentioned above have been completed or substantially completed; the Darquain project, is in the process of final commissioning and is being handed over to the NIOC. In this respect, we expect to incur operating costs in the range of approximately $10 to $20 million per year over the next few years for contractual support activities and services. In 2012, we incurred $22 million to provide such activities and services.

Eni Exploration & Production 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 2012, Eni's production in Iran averaged 3 kBOE/d, representing less than 1% of the Eni Group's total production for the year. Eni's entitlement in 2012 represented less than 3% of the overall production from the oil and gas fields that we have developed in Iran. Eni believes that the results from its Iranian exploration and production are immaterial to the Group's results.

After 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 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, we will not be regarded as a company of concern for our past Iran related activities.

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

Such restrictive measures are: the Executive Orders 13590 of November 21, 2011 and 13622 of July 31, 2012 and 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 among those subject to sanctions.

The new provisions impose, inter alia, sanctions on persons that are determined to have engaged in certain activities in support of Iran's energy and petrochemicals sector that are not specifically targeted by the ISA, as amended by CISADA.

Those activities include:

- the provision of goods, services, technology or support that have a fair market value above certain monetary thresholds and that could directly and significantly contribute to the maintenance or enhancement of Iran's ability to develop its petroleum resources or to the maintenance or expansion of Iran's domestic production of petrochemical products;
- the purchase of petrochemical products from Iran, and the supply of financial, material, technological support for, or goods or services in support of the National Iranian Oil Co (NIOC); and
- the participation in a joint oil and gas development venture with Iran, outside Iran, if that venture was established after January 1, 2002.

As discussed above, pursuant to the Darquain service contract, entered into prior to the date of these measures, Eni is providing services in advance of the hand over of the oilfield to NIOC and retains certain technical assistance and service obligations, and an obligation to provide, upon request, spare parts and supplies for field maintenance and operations. We do not believe that Eni's activities in Iran (the completion of existing contracts which has already been notified to the U.S. administration when the Special Rule was applied) are sanctionable under the mentioned measures. However, 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 such measures. If sanctions were imposed, their impact could be material and adverse to Eni.

Our Refining & Marketing segment has historically purchased amounts of Iranian crude oil under a term contract with the NIOC and on a spot basis. We purchased 1.63 mmtonnes, 976 ktonnes and 498 ktonnes in 2010, 2011 and 2012, respectively. We paid NIOC $888 million in 2010, $742 million in 2011 and $396 million in 2012, for those purchases.

In addition, in 2010 we purchased crude oil from international traders and oil companies who, based on bills of loading and shipping documentation available to us, we believe purchased the crude oil from Iranian companies. Purchases were mainly on spot basis. In 2010, we purchased 2.09 mmtonnes of crude oil amounting to $1.1 billion.

Also as a consequence of EU restrictive measures, in June 2012 Eni ceased to import Iranian crude oil with the exception of those volumes necessary to collect outstanding receivables towards Iranian counterparties, as allowed by the European Union sanctions regime.

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

Finally, our 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. Eni plans to suspend all contracts by April 2013 to comply with EU restrictions.

We will continue to monitor closely legislative and other developments in the United States and the European Union in order to determine whether our remaining interests in Iran could subject us to application of either current or future sanctions under the OFAC sanctions, the ISA, the EU Measures or otherwise. If any of our 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 our business, plans to raise financing, sales and reputation.

We have commercial transactions with Syria where we mainly purchase from time to time volumes of crude oil

Our operations in Syria have mainly been limited to transactions carried out by our Refining & Marketing segment with Syrian Petrol Co, an entity controlled by the Syrian Government, for the purchase of crude oil under term purchase contracts or on a spot basis, based on prevailing market conditions.

We purchased 321 ktonnes and 243 ktonnes in 2010 and 2011, respectively. We paid Syrian Petrol Co $163 million in 2010 and $175 million in 2011, for those purchases. No crude oil purchases were made in 2012.

We also purchased small amounts of crude oil from international traders who, based on bills of lading and shipping documentation available to us, we believe purchased those raw materials from Syrian companies.

In 2010, our Engineering & Construction segment was awarded by Dijla Petroleum Co, an affiliate of the Syrian National Oil Co, a contract for the central processing facility to be installed at the Khurbet East oil field, on Block 26.

Other than as described above, Eni is not currently investing in the country, and it has no contractual arrangements in place to invest in the Country.

We have a limited presence in the Democratic Republic of Congo

In August 2010, we signed a farm-in agreement with the UK-based Surestream Petroleum to acquire the 55% interest and the operatorship in the Ndunda Block in the Democratic Republic of Congo. Currently we are not conducting any activity in this Country.

Cyclicality of the petrochemical industry

The petrochemical industry is subject to fluctuations in demand in response to macroeconomic cycles, leading to volatile results of operations and cash flow. It is a highly competitive industry due to lack of entry barriers, product commoditization and excess capacity, which may exacerbate the impact of any demand downturns on the results reported by our Chemicals business. Eni’s chemical operations have been facing increasing competition from Asian companies and the petrochemical arm of national oil companies based in the Middle East which can leverage on long-term competitive advantages in terms of lower operating costs and cheaper feedstock costs. In particular, Eni’s competitors based in the Middle East are benefiting from the large availability of gas-based feedstock which provides a cost advantage compared to the oil-based feedstock used at Eni’s operations. Management also expects that U.S.-based petrochemical companies will regain competitiveness in the medium term leveraging on the large domestic availability of raw materials which can be extracted from shale gas.

Our chemical operations are located mainly in Italy and Western Europe where the expenses to comply with environmental, safety and security rules may be higher than in most Asian countries due to an established regulatory framework and public environmental sensitivity. Additionally, our petrochemical operations lack sufficient scale and competitiveness at a number of sites owing also to geographic location and other structural weaknesses. Due to poor industry fundamentals, intense competitive pressures, high feedstock costs, coupled with company-specific factors, our chemical operations incurred substantial operating losses in recent years. In 2012, our chemicals operations reported sharply higher operating losses compared to the year earlier, down to euro 683 million (down by 61%) driven by unprofitable product margins particularly in the basic petrochemicals and polyethylene businesses which were impaired by high oil-based feedstock costs, and lower sales volumes amidst a demand downturn. Looking forward, management expects that in the foreseeable future results and cash flow at our chemical business could be adversely affected by a weak economic outlook in Italy and Europe. Furthermore, rising costs of oil-based feedstock represent a risk to the profitability of the Company's petrochemical operations as it may be difficult to preserve products margins due to the high level of competition in the industry and the commoditized nature of many of Eni's products.

Risks in the Company Gas & Power business

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

In 2012, the Company's gas marketing business reported sharply lower operating losses due to a demand downturn and increasing competitive pressures arising from large gas availability in the marketplace. We expect negative market conditions to affect results and liquidity in 2013 and beyond

The Company's gas marketing business has reported operating losses and negative cash flow in 2012 and 2011 due to a demand downturn and changed competitive dynamics in the European gas sector. Gas demand has been severely hit by the economic slowdown and lower consumption in the thermoelectric sector. The latter trend was affected by an ongoing expansion of renewable sources of electricity and a shift away from gas to the use of coal in firing power plants due to cost advantages. In the face of weak demand, supplies on the marketplace have continued to increase fuelled by pipeline upgrades, growing availability of LNG and the fact that the U.S. have reduced their dependence on LNG imports due to large development of domestic production of shale gas further adding to global LNG supplies. Those trends have driven the expansion of very liquid continental 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 latest few years reflecting oversupplies and weak demand. This trend has hit the profitability at European gas marketing operators, including Eni. Those operators procured their gas supplies under long-term contracts with producing countries whereby the cost of gas is generally indexed to the price of crude oil and other derivatives and margins were squeezed due to a decoupling between spot prices and the oil-linked costs of purchased gas. Adding to the pressure was the circumstance that reduced sales opportunities forced operators to aggressively compete on pricing to limit the financial risks associated with the take-or-pay clause provided by the long-term supply contracts. On their part, large clients adopted opportunistic supply patterns, in order to take advantage of the large availability of spot gas. Finally governmental administrations in several European countries have commenced to review the indexation mechanism of supply tariffs in the retail sector in order to make residential customers benefit from the ongoing trend in gas spot markets. Against this backdrop, our gas marketing business reported sharply higher operating losses down to euro 3,221 million due also to material impairment charges to align the asset book values to their lower values-in-use to reflect a reduced profitability outlook.

Management expects industrial conditions in the gas sector in Italy and Europe to remain unfavorable over the short to the medium term due to continuing market imbalances and strong competition. We forecasts that weak gas demand due to the current economic downturn and uncertainties, the persistence of oversupplies and strong competition will represent risk factors to the profitability outlook of the Company gas marketing business over the next two to three years. Short-term perspectives are anticipated to be highly adverse in Italy where the economic recovery is feeble, the price of gas to industrial and other large clients is likely to align to the pricing level at the continental hubs and finally gas margins are expected to be affected by the liberalization measures enacted by the Italian Government intended to reduce the cost of gas to residential users (see below). We believe 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 (see below).

We are seeking to improve our cost competitiveness by renegotiating more favorable contractual terms with our long-term suppliers. If we fail to achieve this our profitability could be adversely affected

Our 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 in a changed market environment. We are seeking to renegotiate better terms and pricing of our long-term supply contracts in the next future years to align our cost structure to prices prevailing in the marketplace in order to preserve the profitability of our gas operations. If we fail to obtain the planned benefits, our future results and cash flow could be adversely affected. Furthermore, we believe that our results will become more volatile and unpredictable in future years as contractual renegotiations take time to define, possibly leading to large one-off price adjustments recorded in the reporting period when the new terms are agreed upon. In addition, in case the parties are entitled to fail to arrange renewed contractual terms, both of them may seek an arbitration ruling, which increases the uncertainty regarding a final outcome of the renegotiation process. Similarly, we expect that a number of our clients whom we supply to on long-term basis, will request price revisions and other contractual changes.

We expect that current imbalances between demand and supply in the European gas market will persist for sometime

In 2012, gas demand fell by 2% in Europe and by 4% in Italy due to the economic downturn and sharply lower gas consumptions in the thermoelectric sector. Management estimates that gas demand will grow at an average rate of approximately 1.7% in Italy and Europe until 2020. Those estimates have been revised downward from previous management projections to factor in the risks associated with a number of ongoing trends:

- uncertainties and volatility in the macroeconomic cycle; particularly the current downturn in Europe will weigh on the short-term perspectives of a rapid recovery in gas demand;
- growing adoption of consumption patterns and life-styles characterized by wider sensitivity to energy efficiency; and
- EU policies intended to reduce GHG emissions and promote renewable energy sources. For further information about the Company's outlook for gas demand see "Item 4 – Gas & Power".

The projected moderate dynamics in demand will not be enough to balance current oversupplies on the marketplace over the next two to three years according to management's estimates. Gas oversupplies have been increasing in recent years as new, large investments to upgrade import pipelines to Europe have come online from Russia and Algeria, and large availability of LNG on a worldwide scale has found an outlet at the European continental hubs driving the development of very liquid spot gas markets. Furthermore, in the near future management expects the start-up of new infrastructures in various European entry points which will add large amounts of new import capacity over the next few years. Those include a new line of the Nord Stream pipeline connecting Russia to Germany through the Baltic Sea as well as new LNG facilities. In Italy, the gas offered will increase moderately in the next future as a new LNG plant is expected to start operations at Livorno with a 4 BCM treatment capacity and effects are in place of Law Decree No. 130/2010 about storage capacity which is expected to increase by 4 BCM by 2015.

These developments will be tempered by an expected increase in worldwide gas demand driven by economic growth in China and other emerging economies, a slowdown in additions of new worldwide LNG capacity, and mature field decline in Europe.

Those trends represent risks to the Company's future results of operations and cash flows in its gas business. See "Item 4 – Gas & Power" for further information about our long-term expectations on gas demand and supply.

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, Eni has signed a number of long-term gas supply contracts with key producing countries that supply the European gas markets. These contracts have been ensuring approximately 80 BCM of gas availability from 2010 (including the Distrigas portfolio of supplies and excluding Eni's other subsidiaries and affiliates) with a residual life of approximately 16 years and a pricing mechanism that indexes the cost of gas to the price of crude oil and its products (gasoil, fuel oil, etc.). These contracts include take-or-pay clauses whereby the Company is required to off-take minimum pre-determined 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 during the period of contract execution. Amounts of cash prepayments and time schedules for off-taking pre-paid gas vary from contract to contract. Generally, cash prepayments 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 pre-payments range from 10 to 100 percent 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%, 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.

Management believes that the current outlook pointing to weak gas demand growth and large gas availability on the marketplace, the possible evolution of sector-specific regulation, as well as strong competitive pressures on the marketplace represent risk factors to the Company’s ability to fulfill its minimum take obligations associated with its long-term supply contracts.

Since the beginning of the downturn in the European gas market late in 2009, Eni has triggered the take-or-pay clause as the Company collected lower volumes than its minimum take obligations in each of those years accumulating deferred costs amounting to euro 2.37 billion and has paid almost the whole of the relevant cash advances.

Considering ongoing market trends and the Company’s outlook for its sales volumes which are anticipated to remain stable in 2013 and to increase at a moderate pace in subsequent years, as well as the expected benefit associated with contract renegotiations which may temporarily reduce the annual minimum take and other commercial initiatives, management believes that the Company’s exposure to take-or-pay contracts will need continuing monitoring and will continue to give rise to financial risk in future years.

In addition to the financial risk, failure to off-take the contractual minimum amounts exposes the Company to a price risk, because the purchase price Eni will ultimately be required to pay is based on future energy prices which may be higher than the energy prices prevailing when the off-take obligation arose. In addition, Eni is subject to the risk of not being able to dispose of pre-paid volumes should the total addressable market be smaller than the Company’s gas availability in the relevant period. Finally, the Company expects to incur financing costs considering the cash advances already paid to its suppliers. As a result, the Company’s selling margins, results of operations and cash flow may be negatively affected. For further information on the Company’s take-or-pay contracts see "Item 4 – Gas & Power – Purchases".

Eni plans to increase natural gas sales in Europe. If Eni fails to achieve projected growth targets, this could adversely impact future results of operations and liquidity

Over the medium term, Eni plans to increase its natural gas sales in Europe leveraging on its natural gas availability under take-or-pay purchase contracts, availability of transport rights and storage capacity, and widespread commercial presence in Europe. Should Eni fail to increase natural gas sales in Europe as planned due to poor strategy execution or competition, Eni’s future growth prospects, results of operations and cash flows might be adversely affected also taking account that Eni might be unable to fulfill its contractual obligations to purchase certain minimum amounts of natural gas based on its take-or-pay purchase contracts currently in force.

ii) Risks associated with sector-specific regulations in Italy

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

The Authority for Electricity and Gas is entrusted with certain powers in the matters of natural gas pricing. Specifically, the Authority for Electricity and Gas holds a general surveillance power on pricing in the natural gas market in Italy and the power to establish selling tariffs for the supply of natural gas to residential and commercial users consuming less than 50,000 CM/y (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 Authority for Electricity and Gas 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. The indexation mechanism set by the Authority for Electricity and Gas basically provides that the cost of the raw material in the pricing formula to the residential sector be indexed to movements in a basket of hydrocarbons. The Authority for Electricity and Gas modified in a few occasions that indexation mechanism by introducing price adjustments to benefit the residential customers.

Finally, the Italian law decree on liberalizations enacted in March 2012 entrusted the AEEG with the task to gradually introduce reference to the price of certain benchmarks quoted at continental hubs in the indexation mechanism of the cost of gas in the pricing of sales to the above mentioned customers. In compliance with the recently enacted law, the AEEG published a consultation document regarding the reform of the gas retail prices proposing, starting from April 2013, 20% of the retail gas price raw material component shall be linked to spot prices (up from current 5%). Starting from October 2013, the raw material component is planned to be 100% spot based; this should be partially offset by the introduction of new tariff components, applicable for the next two thermal years, in order to grant a gradual transition from oil-linked prices to spot market determined prices, to cover the costs of the transition to new supply formulas and to favor an effective renegotiation of long-term contracts for importing gas. Management believes that this development will negatively affect the profitability of the Company sales in the residential market in Italy because we expect that trends in spot prices will be less favorable than the oil-linked cost of gas supplies to the Group, thus limiting our ability to pass cost increases to our clients. This will adversely affect our future results and cash flow.

Recent liberalization measures in the gas storage sector

At the beginning of 2013, the Minister of Economic Development and the Italian Authority for Electricity and Gas introduced new criteria for the allocation of gas storage capacities pursuant to Article 14 of Law Decree No. 1/2012. In particular:

- the natural gas storage capacity which becomes available as a result of the decreased amount of strategic storage and of new methods for calculating the modulation storage obligations is assigned to industrial companies and regasifiers; and
- the modulation storage capacity for the needs of "vulnerable customers" is assigned partly with competitive bidding procedures, and partly under existing procedures.

The Italian Government has taken steps to increase competition in the Italian natural gas market. Further regulatory developments are possible in the future which may adversely affect Eni’s results of operations and cash flows

The Italian Government has long supported a higher degree of competition in the Italian natural gas market and this may produce significant developments in this area.

In March 2012, a law decree on liberalizations was enacted which established new measures to enhance competition in the Italian natural gas market. Among those measures, there was a provision that required Eni to divest its shareholding in Snam, the Italian dominant player in the field of gas transportation, distribution and storage. The divestiture of a significant stake in Snam was made to an entity controlled by the Italian State, effective October 15, 2012; as part of the transaction Eni lost control over the investee.

Management believes the institutional debate on the degree of competition in the Italian natural gas market and the regulatory activity to be areas of concern and cannot exclude negative impacts deriving from developments on these matters on Eni’s future results of operations and cash flows.

For more information on these issues see "Item 4 – Regulation of Eni’s businesses – Gas & Power".

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 petrochemicals activities due to the fact that Eni is the incumbent operator in those markets in Italy and a large European player. See "Item 18 – note 34 of the Notes to the Consolidated Financial Statements" for a full description of Eni’s main pending antitrust proceedings. 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 regulation

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, products 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, petrochemicals and other Group 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 exposes 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 due to 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 to comply with laws and regulations addressing safeguard of the environment, safety on the workplace, health of employees 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, caused by our activities or accidents; and
- costs in connection with the decommissioning and removal of drilling platforms and other facilities, and well plugging.

In addition, growing public concerns in the EU and globally that rising greenhouse gas emissions and climate change may significantly affect the environment and society could adversely affect our businesses, including the possible enactment of stricter regulations that increase our operating costs, affect product sales and reduce profitability. For more discussion about this topic see "Item 4 – Environmental regulations".

Furthermore, in the countries where we operate or expect 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 us 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, we may also have to curtail, modify or cease certain operations or implement temporary shutdowns of facilities, which could diminish our productivity and materially and adversely impact our results of operations, including profits.

Security threats require continuous assessment and response measures. Acts of terrorism against our plants and offices, pipelines, transportation or computer systems could severely disrupt businesses and operations and could cause harm to people.

Eni has incurred in the past and may incur in the future material environmental liabilities in connection to the environmental impact of its past and present industrial activities. Also plaintiffs may seek to obtain compensation for damage resulting from events of contamination and pollution

Risks of environmental, health and safety incidences and liabilities are inherent in many of Eni's operations and products. Notwithstanding management's beliefs that Eni adopts high operational standards to ensure safety of its operations and to protect the environment and health of people and employees, it is possible that incidents like blow-outs, oil spills, contaminations 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.

Environmental laws also require the Company to remediate and clean-up the environmental impacts of prior disposals or releases of chemicals or petroleum substances and pollutants by the Company. Such contingent liabilities may exist at various sites that the Company disposed of, closed or shut down in prior years where the Group products have been produced, processed, stored, distributed or sold, such as chemicals plants, mineral-metallurgic plants, refineries and other facilities. The Company is particularly exposed to the risk of environmental liabilities in Italy where several industrial installations operated by Eni were located which were subsequently divested, closed, liquidated or shut down. 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 claimed that it cannot be held liable for such past contaminations as permitted by applicable regulations in case of declaration rendered by a guiltless owner – particularly regulations that enacted into Italian legislation the Directive No. 2004/35/EC – plaintiffs and several public administrations have been acting against Eni to claim both the environmental damage and measures to perform additional clean-up and remediation projects in a number of civil and administrative proceedings. Remedial and clean-up activities with respect to the Company’s sites are expected to continue in the foreseeable future, impacting our liquidity as with reference to the balance sheet date 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 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 Company’s site where a number of public administrations and the Italian Ministry for 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 future environmental restoration and remediation programs are often inherently difficult to estimate.

Legal Proceedings

Eni is 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 the balance sheet date to account for ongoing proceedings, it is possible that in future years Eni may incur significant losses in addition to 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. For more information see disclosure of pending litigation in "Item 18 – note 34 of the Notes to the Consolidated Financial Statements".

Risks related to changes in the price of oil, natural gas, refined products and chemicals

Operating results in Eni’s Exploration & Production, Refining & Marketing, and Chemical segments are affected by changes in the price of crude oil and by the impacts of movements in crude oil prices on margins of refined and petrochemical products.

Eni’s results of operations are affected by changes in international oil prices

Overall, lower oil prices have a net adverse impact on Eni’s results of operations. The effect of lower oil prices on Eni’s average realizations for produced oil is generally immediate. Furthermore, Eni’s average realizations for produced oil differ from the price of Brent crude marker primarily due to the circumstance that Eni’s production slate, which also includes heavy crude qualities, has a lower API gravity compared with Brent crude (when processed the latter allows for higher yields of valuable products compared to heavy crude qualities, hence higher market price).

The favorable impact of higher oil prices on Eni’s results of operations may be offset in part by opposite trends in margins for Eni’s downstream businesses

The impact of changes in crude oil prices on Eni’s downstream businesses, including the Gas & Power, the Refining & Marketing and the Chemicals businesses, depends upon the speed at which the prices of gas and products adjust to reflect movements in oil prices.

In the Gas & Power segment, increases in oil price represent a risk to the profitability of the Company sales as gas supplies are mainly indexed to the cost of oil and certain refined products, while selling prices, particularly outside Italy, are increasingly benchmarked to gas spot prices quoted at continental hubs. In the current trading environment, spot prices at those hubs are particularly depressed due to oversupply conditions. In 2012, the de-coupling between trends in the oil-linked costs of supplies and spot prices of gas sales was the main driver of the operating loss incurred by our gas marketing business. We expect that such unfavorable trend will continue in 2013 and beyond due to ongoing rising trends in crude oil prices and weak spot prices pressured by sluggish industry fundamentals and competition.

In addition, the Italian Authority for Electricity and Gas and other European regulatory authorities may limit the ability of the Company to pass cost increases linked to higher oil prices onto selling prices in supplies to residential customers and small businesses as we expect a shift to spot prices in the indexation mechanism of the raw material cost which may replace the oil-linked indexation in selling formulas to those customers. See the paragraph "Risks in the Company’s gas business" above for more information.

In addition, in light of the changed European gas market environment, Eni has adopted new risk management policies. These policies contemplate the use of derivative contracts to mitigate the exposure of Eni’s future cash flows to future changes in gas prices; such exposure had been exacerbated in recent years by the fact that spot prices at European gas hubs have ceased to track the oil prices to which Eni’s long-term supply contracts are linked.

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 future prices. These contracts may lead to gains as well as losses, which, in each case, may be significant. All derivative contracts that are not entered into for hedging purposes in accordance with IFRS will be accounted through profit and loss, resulting in higher volatility of the gas business’ operating profit. Please see "Item 5 – Financial review – Management’s expectations of operations" and "Item 11 – Quantitative and qualitative disclosures about market risk".

In the Refining & Marketing and Chemicals businesses a time lag exists between movements in oil prices and in prices of finished products.

Eni’s results of operations are affected by changes in European refining margins

Results of operations at Eni’s Refining & Marketing segment are substantially affected by changes in European refining margins which reflect changes in relative 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. Furthermore, Eni’s realized margins are also affected by relative price movements of heavy or sour crude qualities versus light or sweet crude qualities, taking into account the ability of Eni’s refineries to process complex crudes that represent a cost advantage when market prices of heavy crudes are relatively cheaper than the marker Brent price.

In 2012, Eni’s refining margins were unprofitable as the high cost of oil was only partially transferred to final prices of fuels pressured by weak demand, high worldwide and regional inventory levels and excess refining capacity particularly in the Mediterranean area. Furthermore, the profitability of complex cycles was impaired due to shrinking price differentials between heavy crudes versus light ones. Management does not expect any significant recovery in industry fundamentals over the short to medium term. The sector as a whole will continue to suffer from weak demand and excess capacity, while the cost of oil feedstock may continue rising and price differentials may remain compressed.

In this context, management expects that the Company’s refining margins will remain at unprofitable levels in 2013 and possibly beyond. In addition, due to a reduced outlook for refining margins and the persistence of weak industry fundamentals, management took substantial impairment charges amounting to euro 846 million before tax to align the book value of the Company’s refining plants to their lower values-in-use which impacted 2012 results of operations.

Eni’s results of operations are affected by changes in petrochemical margins

Eni’s margins on petrochemical products are affected by trends in demand for petrochemical products and movements in crude oil prices to which purchase costs of petroleum-based feedstock are indexed. Given the commoditized nature of Eni petrochemical products, it is difficult for the Company to transfer higher purchase costs for oil-based feedstock to selling prices to customers. In 2012, Eni’s petrochemicals business reported sharply higher operating losses down to euro 683 million due to unprofitable margins on basic petrochemicals products, mainly the margin on cracker, reflecting high oil-based feedstock costs and as demand for petrochemicals commodities plunged due to the economic downturn. A weak demand outlook and rising oil-based feedstock costs will continue to adversely affect Eni’s results of operations and liquidity in this business segment in 2013 and possibly beyond.

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. We also may incur unanticipated costs or assume unexpected liabilities and losses in connection with companies or assets we acquire. If the integration and financial risks connected to acquisitions materialize, our 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 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 our operations and damage our facilities. Furthermore, our operations, particularly offshore production of oil and natural gas, are exposed to extreme weather phenomena that can result in material disruption to our operations and consequent loss or damage of properties and facilities.

Our crisis management systems may be ineffective

We have 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, we have crisis management plans and capability to deal with emergencies at every level of our operations. If we do not respond or are not seen to respond in an appropriate manner to either an external or internal crisis, our 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 the market risk, including commodity price risk, interest rate risk and foreign currency risk, as well as liquidity risk, and credit risk.

Our 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, we execute 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 deep changes occurred in the competitive landscape of the gas marketing business, gas volatile margins and development of liquid gas spot markets.

We are engaged in substantial trading and commercial activities in the physical markets. We also use 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. We also use 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 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 Groups' 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 we believe we have 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. For further discussion on this issues see paragraph "Changes in crude oil and natural gas prices may adversely affect Eni’s results of operations" above and "Item 11 – Quantitative and qualitative disclosures about market risk".

On the other hand, the Group actively manages its exposure to commercial risk which arises when a contractual sale of a commodity has occurred or it is highly probable that it will occur and the Group aims at locking in the associated commercial margin. The Group’s risk management objectives are to optimize the risk profile of its commercial activities by effectively managing economic margins and safeguarding the value of Eni assets. Also, as part of its risk management activities the Group enters trading activities in order to seek to profit from short-term market opportunities. The Group’s risk management has evolved particularly in response to the deep changes occurred in the competitive landscape of the gas marketing business, gas volatile margins and development of liquid markets to trade spot gas. To achieve those targets, Eni enters into commodity derivatives transactions in both commodity and financial markets:

(i) to hedge the risk of variability in future cash flows on already contracted or highly probable future sales exposed to commodity risk depending on the circumstance that costs of supplies may be indexed to different market and oil benchmarks compared to the indexing of selling prices. As tight correlation exists between such commodity derivatives transactions and underlying physical contracts, those derivatives are treated in accordance with hedging accounting in compliance with IAS 39, where possible; and

(ii) to pursue speculative purposes such as altering the risk profile associated with a portfolio of contracts (purchase contracts, transport entitlements, storage capacity) or leveraging any pricing differences in the marketplace, seeking to increase margins on existing assets in case of favorable trends in the commodity pricing environment or seeking a potential profit based on expectations of trends in future prices.

Furthermore, the Company is implementing strategies of asset-backed trading in order to maximize the economic value of the flexibilities associated with its assets. Price risks related to asset backed trading activities are mitigated by the natural hedge granted by the assets’ availability.

These derivative contracts entered to 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 operating profit, particularly in the gas marketing business.

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.

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 we are unable to access the financial markets, including due to our financial position or market sentiment as to our prospects, at a time when cash flows from our business operations may be under pressure, our ability to maintain our long-term investment program may be impacted with a consequent effect on our growth rate, and may impact shareholder returns, including dividends or share price.

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 failure due to the severity of the economic and financial downturn. In Eni's 2012 Consolidated Financial Statements, Eni accrued an allowance against doubtful accounts amounting to euro 164 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 middle and small businesses and retail customers who are particularly impacted by the current global financial and economic downturn.

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, and 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. See "Item 5 – Critical accounting estimates".

Digital infrastructure is an important part of maintaining our operations, and a breach of our 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 our digital infrastructure are critical to maintaining the availability of our business applications, including the reliable operation of technology in our various business operations and the collection and processing of financial and operational data, as well as the confidentiality of certain third-party information. A breach of our digital security, either due to intentional actions or due to negligence, could cause serious damage to business operations and, in some circumstances, could result in injury to people, damage to assets, harm to the environment, breaches of regulations, litigation, legal liabilities and reparation costs.

Our auditor, like all other independent registered public accounting firms operating in Italy, is 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 our annual reports filed with the 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 SEC rules and PCAOB professional standards.

Because our 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, our 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 our 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 the oil and gas exploration and production, gas marketing operations, power generation, chemicals, oilfield services and engineering industries. Eni has operations in 90 countries and 77,838 employees as of December 31, 2012.

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 Stefano Lucchini, 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 43 countries, including Italy, Libya, Egypt, Norway, the UK, Angola, Congo, the United States, Kazakhstan, Russia, Algeria, Australia, Venezuela, Iraq and Mozambique. In 2012, Eni average daily production amounted to 1,631 kBOE/d on an available-for-sale basis. As of December 31, 2012, Eni’s total proved reserves amounted to 7,166 mmBOE; proved reserves of subsidiaries totaled 5,667 mmBOE; Eni’s share of reserves of equity-accounted entities was 1,499 mmBOE. In 2012, Eni’s Exploration & Production segment reported net sales from operations (including inter-segment sales) of euro 35,881 million and operating profit of euro 18,451 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. Following the divestment of a stake of 30% less one share in Snam and deconsolidation of the regulated business of gas infrastructures in Italy effective in 2012, the Gas & Power segment includes only results and activities of the Marketing of gas and the International transport activity. In 2012, Eni’s worldwide sales of natural gas amounted to 95.32 BCM, including 2.73 BCM of gas sales made directly by Eni’s Exploration & Production segment in Europe and in the United States. Sales in Italy amounted to 34.78 BCM, while sales in European markets were 51.02 BCM that included 2.73 BCM of gas sold to certain importers to Italy.

Eni produces power and steam at a number of operated sites in Italy with a total installed capacity of 5.3 GW as of December 31, 2012. In 2012, sales of power totaled 42.58 TWh. In 2012, Eni’s Gas & Power segment reported net sales from operations (including inter-segment sales) of euro 36,200 million and operating loss of euro 3,221 million.

Eni’s Refining & Marketing segment engages in crude oil supply, refining and marketing of petroleum products mainly in Italy and in the rest of Europe. In 2012, processed volumes of crude oil and other feedstock amounted to 30.01 mmtonnes and sales of refined products were 48.33 mmtonnes, of which 23.79 mmtonnes in Italy. Retail sales of refined products at operated service stations amounted to 10.87 mmtonnes including Italy and the rest of Europe. In 2012, Eni’s retail market share in Italy through its "Eni" and "Agip" branded network of service stations was 31.2%. In 2012, Eni’s Refining & Marketing segment reported net sales from operations (including inter-segment sales) of euro 62,656 million and operating loss of euro 1,303 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 this entity are reported within the Gas & Power segment with regard to the results recorded 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.