Exchange Rates

The following table sets forth, for the periods indicated, certain information regarding the Noon Buying Rate in U.S. dollars per euro, rounded to the second decimal (Source: The Federal Reserve Board).

	High	Low	Average(1)	At period end
	(U.S. dollars per euro)			
Year ended December 31,				
2002	1.05	0.86	0.95	1.05
2003	1.26	1.04	1.13	1.26
2004	1.36	1.18	1.24	1.35
2005	1.35	1.17	1.24	1.18
2006	1.33	1.19	1.26	1.32

(1) Average of the Noon Buying Rates for the last business day of each month in the period.

	High	Low	At period end
	(U.S. dollars per euro)		
December 2006	1.33	1.31	1.32
January 2007	1.33	1.29	1.30
February 2007	1.32	1.30	1.32
March 2007	1.34	1.31	1.34
April 2007	1.37	1.34	1.37
May 2007	1.36	1.34	1.35
June 2007 (through June 12, 2007)	1.35	1.33	1.33

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 June 12, 2007 was $1.33 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 encounters competition from other oil and natural gas companies in all areas of its operations:

- In the Exploration & Production business for obtaining exploration and development rights, particularly outside of Italy. The current trend of the industry towards a reduction of the number of operators through takeovers or mergers might lead to stronger competition from operators with greater financial resources and a wider portfolio of development projects.
- In its domestic natural gas business, strong competition derives from both national and international natural gas suppliers, also following the impact of the liberalization of the Italian natural gas market introduced by Legislative Decree No. 164/2000 which provides for, among other things, the opening of the Italian market to competition, limitations to the size of gas companies relative to the market and third party access to transport infrastructure. In addition, Legislative Decree No. 164/2000 grants the Italian Authority for Electricity and Gas certain regulatory powers in the matters of natural gas pricing and access to infrastructure. Outside of Italy, particularly in Europe, Eni faces competition from large well-established players and other international oil and gas companies in growing its market share and acquiring new clients or retaining clients.
- In its domestic electricity business, Eni competes with other producers from Italy or outside of Italy who sell electricity on the Italian market.

- In retail marketing both in and outside Italy, 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. Once established, Eni's service stations compete primarily on the basis of pricing, services and availability of non-petroleum products. In Italy political and institutional forces are urging that the level of competition should be enhanced in the sector of retail marketing of fuels. Eni expects developments on this issue to further increase pressure on margins from the retail marketing of fuels.
- Competition in the oilfield services, construction and engineering industries is primarily on the basis of technical expertise, quality and number of services and availability of technologically advanced facilities (for example, vessels for offshore construction).

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

The exploration and production of oil and natural gas requires high levels of capital expenditure and entails particular economic risks. It is subject to natural hazards and other uncertainties including those relating to the physical characteristics of oil or natural gas fields. 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, environmental protection measures, control over the development and abandonment of fields and installations, and restrictions on production. The oil and gas industry is subject to the payment of royalties and income taxes, which tend to be higher than those payable in respect of many other commercial activities.

Exploratory drilling efforts may not be successful

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 are often uncertain, and drilling operations may be unsuccessful as a result of a variety of factors, including unexpected drilling conditions, pressure or irregularities in formations, equipment failures or fires, blow-outs and various forms of accidents, marine risks such as collisions and other adverse weather conditions and shortages or delays in the delivery of equipment. Exploring or drilling in offshore areas, in particular in deep water, is generally more complex and riskier than in onshore areas; so it is exploratory activity in remote areas or in challenging environmental conditions such as those in the Caspian Region or Alaska.
Failures in the exploration for oil and natural gas could have an adverse impact on Eni's future results of operations and financial condition. Because of the percentage of Eni's capital plans devoted to higher risk exploratory projects, it is likely that Eni will continue to experience significant exploration and dry hole expenses. In particular Eni plans to explore for oil and gas offshore, often in deep water or at deep drilling depths, where operations are more difficult and costly than on land or at shallower depths and in shallower waters. Deep water operations generally require a significant amount of time between a discovery and the time that Eni can produce and market the oil or gas, increasing both the operational and financial risks associated with these activities. In addition, lack of essential equipment such as a shortage of deep water rigs could further delay operations, thus increasing both operational and financial risks.
In addition, failure in finding additional commercial reserves could dampen future production of oil and natural gas which is highly dependent on the rate of success of exploratory activity.

Development projects bear significant operational risks which may adversely affect actual returns on such projects

Eni is involved in numerous development projects for the production of hydrocarbon reserves, principally offshore. Eni's future results of operations rely upon its ability to develop and operate major projects as planned. Key factors that may affect the economics of those projects include:

- the outcome of negotiations with co-venturers, governments, suppliers, customers or others (including, for example, Eni's ability to negotiate favorable long-term contracts with customers, 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 ability to design development projects as to prevent the occurrence of technical inconvenience;
- delays in manufacturing and delivery of critical equipment, or shortages in the availability of such equipment;
- 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;
- changes in operating conditions and costs, including costs of third party equipment or services such as drilling rigs and shipping;
- the actual performance of the reservoir and natural field decline; and
- the ability and time necessary to build suitable transport infrastructures to export production towards final markets.

Furthermore, deep water and other hostile environments, where the majority of Eni's planned and existing development projects are located, can exacerbate these problems. Delays and differences between estimated and actual timing of critical events may adversely affect the completion and start up of production from such projects and, consequently, the actual returns on such projects. Finally, developing and market hydrocarbons reserves typically requires several years after a discovery is made. This is because a development project involves an array of complex and lengthy activities, including appraising a discovery in order to evaluate its commerciality, sanctioning a development project and building and commissioning related facilities. As a consequence, rates of return of such long-lead-time projects are exposed to the volatility of oil and gas prices which may be substantially lower with respect to prices assumed when the investment decision was actually made, leading to lower rates of return.

Inability in replacing 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. Future oil and gas production are 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. An inability to replace reserves could adversely impact future production and hence future results of operations and financial condition.

Lifting and development costs are trending up and this could reduce profit per BOE in the Exploration & Production segment

Profits per BOE in the Exploration & Production segment are being affected by a steady rising trend in lifting and development costs as a result of industry-wide operating factors: (i) the increasingly high percentage of complex development projects (such as those in deep and ultra deep waters and in harsh environments) which bear higher lifting and development costs as compared to development projects in traditional environments; (ii) continuing increases in the purchase prices of raw materials and services in connection with sector-specific inflation and a global economic recovery; and (iii) an increasingly severe shortage of specialized resources (such as engineers and other valuable technicians) and critical equipment (such as drilling rigs) especially in remote areas. Eni's management expects this rising trend in lifting and development costs to continue, in the medium-term leading to a reduction in our profit margins per BOE. If the Company is not able to compensate for lower unit profits with increased production volumes, its results of operations and financial condition will be negatively impacted.

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. Except with respect to single transactions, Eni does not hedge its exposure to price changes. 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 OPEC member countries which cover a significant portion of the worldwide 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;
(iv) prices and availability of alternative sources of energy;
(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 new technology.

All these factors can affect world supply and prices of oil. Such factors can also affect the prices of natural gas because natural gas prices are typically tied to the prices of certain crude and refined petroleum products. Lower crude oil prices have an adverse impact on Eni's results of operations and financial condition. Furthermore, lower oil and gas prices over prolonged periods may also reduce the rates of return of development projects either planned or being implemented, leading the Company to reschedule, postpone or cancel development projects. In addition, lower prices also affect liquidity, entailing lower resources to finance expansion projects, further dampening our ability to grow future production and revenues.

Uncertainties in Estimates of Oil and Natural Gas Reserves

Numerous uncertainties are inherent in estimating quantities of proved reserves and in projecting future rates of production and timing of development expenditures. The accuracy of 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;
- 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 production after the date of the estimates which may require substantial upward or downward revisions;
- changes in oil and natural gas prices which could have an effect on the quantities of Eni’s proved reserves because the estimates of reserves are based on prices and costs at the date when such estimates are made. In particular the reserves estimates are subject to revision as prices fluctuate due to the cost recovery feature under certain Production Sharing Agreements (PSAs); and
- the actual production performance of Eni’s reservoirs.

Many of these factors, assumptions and variables involved in estimating proved reserves are beyond Eni’s control and may prove to be incorrect over time. Accordingly, the estimated reserves could be materially different from the quantities of oil and natural gas that ultimately will 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.

Oil and gas activity may be subject to increasingly high levels of income taxes, production taxes and royalties

Eni operates in different countries in the world and any of these countries could modify their tax laws, regarding both income taxes and other kind of taxes, in ways that would adversely affect Eni’s results of operations and its financial condition.
Adverse changes in tax regimes of each jurisdiction in which Eni operates may occur anytime, regardless of the level of stability of the political and legislative framework in each of our countries of operations. In addition, in the long-term, the marginal tax rate in the oil and gas industry tends to change in correlation with the price of crude oil which could make it difficult for Eni to translate higher oil prices into increased net profit.

Political Considerations

A substantial portion of our oil and gas reserves and gas supplies are located in politically, socially and economically unstable countries where we are exposed to material disruptions to our operations

Substantial portions of Eni’s hydrocarbon reserves are located in countries outside the EU and North America, some of which may be politically or economically less stable than EU or North American countries. At December 31, 2006, approximately 70% of Eni’s proved hydrocarbon reserves were located in such countries. Similarly, a substantial portion of Eni’s natural gas supply comes from countries outside the EU and North America. In 2006, approximately 60% of Eni’s supplies of natural gas came from such countries. See "Item 4 – Gas & Power – Natural Gas Supplies". Adverse political, social and economic developments in any such producing country may affect Eni’s ability to continue operating in that country, either temporarily or permanently, and affect Eni’s ability to access oil and gas reserves. Particularly Eni faces risks in connection with the following: (i) lack of well-established and reliable legal systems and uncertainties surrounding enforcement of contractual rights; (ii) unfavorable developments in laws and regulations leading for example to expropriation or forced divestiture of assets and unilateral cancellation or modification of contractual terms. A case in point is the expropriation of Eni’s titles and mineral assets relating to an important oil field in Venezuela which occurred in 2006, following the unilateral cancellation of the contract regulating oil activities in this field by the Venezuelan state oil company; (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, in the 2006 episodes of social unrest in Nigeria which caused disruptions at certain Eni oil producing facilities, reducing our production in this Country by approximately 1.7% from the previous year. These episodes have been recurring in the first months of 2007. See "Item 4 – Exploration & Production – Oil and Natural Gas Reserves"; and "Item 5 – Recent Developments". While the occurrence of these events is unpredictable, it is possible that they can have a material adverse impact on Eni’s results of operations and financial condition.

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

In August 1996, the United States adopted the Iran and Libya Sanctions Act (the "Sanctions Act") with the objective of denying Iran and Libya the ability to support acts of international terrorism and fund the development or acquisition of weapons of mass destruction. In September 2006, the Sanctions Act was amended and extended until December 2011.

This Act now applies only to Iran and authorizes the President of the United States to impose sanctions from a six-sanction menu under certain circumstances against any person, including any foreign company, making investments in Iran, thus contributing directly and significantly to the enhancement of Iran's ability to develop its hydrocarbons resources, or against any persons that knowingly contribute to certain military programs of Iran. Eni cannot predict interpretations of, or the implementation policy of the U.S. Government under, ISA with respect to Eni's current or future activities in Iran or other areas. It is possible that in future years Eni's activities in Iran may be sanctioned under relevant U.S. legislation. Adding to Eni's risks arising from this matter, a bill to amend and extend the extra-territorial reach of the economic sanctions imposed by the United States with respect to Iran has been passed by the U.S. House of Representatives and may lead to the passage of new laws in this area. Iran continues to be designated by the U.S. State Department as a State sponsoring terrorism. For a description of Eni's operations in Iran see "Item 4 – Information on the Company – Exploration & Production – North Africa and Rest of World".

Cyclicality of the Petrochemical Industry

The petrochemical industry is subject to cyclical fluctuations in demand, with consequent effects on prices and profitability exacerbated by the highly competitive environment of the industry. Eni's petrochemicals operations, which are located mainly in Italy, have been in the past and may be adversely affected in the future by worldwide excess installed production capacity, as well as by economic slowdowns in many industrialized countries. The dislocation of petrochemical activities to geographic areas like the Far East and oil producing countries which provide long-term competitive advantages has weakened the competitiveness of petrochemicals operations in industrialized countries, including Eni's petrochemical operations. Petrochemical operations in industrialized countries are also less competitive than those located in the above-mentioned areas due to stricter regulatory frameworks and growing environmental concerns which prevail in industrialized countries.

Liberalization of the Italian Natural Gas Market

Legislative Decree No. 164/2000 opened to competition the Italian natural gas selling market starting on January 1, 2003. This means that all customers in Italy are free to choose their supplier of natural gas. The decree, among other things, introduced rules which have a significant impact on Eni's activity, as the company is present in all the phases of the natural gas chain, in particular:

- until December 31, 2010, antitrust thresholds are in place for gas operators as follows: (i) effective January 1, 2002, no single operator can input into the national transport network imported or domestically produced gas volumes higher than 75% of final consumption, decreasing by 2 percentage points per year until it reaches 61% in 2009; and (ii) effective January 1, 2003, no single operator can market more than 50% of volumes sold to final customers.
  Compliance with these ceilings is verified on a yearly base by comparing the allowed average percentage on a three year basis for volumes input or sold to the average percentage obtained by each operator in the same three-year period. Allowed percentages are calculated net of losses (in the case of sales) and volumes of natural gas consumed in own operations. Based on a bill passed by the Italian upper house, Eni expects these antitrust thresholds to be renewed once they have expired in 2010;
- transport of natural gas by means of high pressure trunklines, storage of natural gas, LNG facilities and distribution of natural gas in urban centers by means of low pressure networks are activities of public relevance and criteria for determining tariffs of those activities are set by the Authority for Electricity and Gas; and
- third parties are allowed to access natural gas infrastructure – which comprises, among other things, high pressure trunklines, low pressure networks and storage sites – according to certain conditions set by the Authority for Electricity and Gas.

The new regulatory regime has the effect of limiting the size and profitability of Eni's natural gas business in Italy.

Eni has been experiencing significant pressure on its natural gas margins[1] *since the inception of the liberalization process in Italy. In addition, unfavorable trends in Italian demand and supply of gas could add further pressure.*

Since the inception of the liberalization process in the Italian natural gas market, Eni has been experiencing rising competition in its natural gas business entailing lower selling margins on gas due to the entry of new competitors into the market. Certain competitors of Eni's are supplied by the Company itself, generally on the basis of long-term contracts. In fact in order to comply with the above mentioned regulatory thresholds relating to volumes input into the national transport network and sales volumes in Italy, Eni sold part of its gas availability under its take-or-pay supply contracts to third parties importing said volumes to and marketing them on the Italian market. For more information on Eni's take-or-pay contracts, see "Item 4 – Gas & Power – Natural gas purchases".

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(1) For a definition of margin see "Glossary".

Over both the medium and the long-term, management expects Eni selling margins on gas in Italy to remain under pressure due to the impact of the build-up of Eni's supplies to the above mentioned competitors and possibly new competitors entering the Italian market also in light of ongoing or planned upgrading of import infrastructure to Italy. In fact, Eni is currently implementing its plans to upgrade its natural gas import infrastructure from Algeria and Russia to Italy to achieve an increase of 13 BCM per year in transport capacity, with expected start up in 2008 reaching full operation in 2009. Further 3 BCM per year of new import capacity will be achieved by upgrading the GreenStream gasline from Libya with expected start up in 2010, reaching full operation in 2011. A large portion of this expected additional capacity has been or is planned to be awarded to third parties. In addition, certain operators in the Italian natural gas market have publicly announced plans to develop new import infrastructure to Italy. In particular, Eni expects that a new LNG terminal with an 8 BCM per year capacity will commence operations by 2009 thus adding new import capacity to the Italian market. Over the long-term, management believes that should the pace of demand growth not match the expected increase in supplies to the Italian natural gas market, Eni's selling margins on gas could face a further increase in competitive pressure which would negatively affect Eni's results of operations and financial conditions.

Eni growth prospects in Italy are limited by regulation

Due to the antitrust threshold on direct sales in Italy, management expects Eni's natural gas sales in Italy to increase at a rate that cannot exceed the growth rate of natural gas demand in Italy.

If Eni fails to grow natural gas sales in Europe as planned, Eni may be unable to fulfill its minimum take obligations under take-or-pay purchase contracts and this could adversely impact results of operations and financial condition.

Over the medium-term, Eni plans to increase its natural gas sales in Europe also to absorb its natural gas availability under take-or-pay contracts. Should Eni fail to increase natural gas sales in Europe as planned, some volumes of natural gas purchased under take-or-pay contracts might remain unsold, and this could adversely impact Eni's results of operations and financial condition.

Due to the regulated access to natural gas transport infrastructure in Italy, Eni may not be able to sell in Italy all the natural gas volumes it planned to import and, as a consequence, it may be unable to sell all the natural gas volumes which Eni is committed to purchase under take-or-pay contract obligations.

Over the next few years, Eni plans to import certain volumes of natural gas using the highest purchase flexibility as provided for by its take-or-pay purchase contracts. Eni also assumes that it will be entitled to the necessary transport capacity on the Italian transport infrastructure. However, Eni planning assumptions are inconsistent with current rules regulating the access to Italian transport infrastructure as provided for by the Network Code drafted under Decision No. 137 of July 17, 2002 of the Authority for Electricity and Gas. Such rules established certain priority criteria for the entitlement to transport capacity of natural gas at points where the Italian transport infrastructure connects with international transport networks (the so-called entry points to the Italian transport system). In particular current rules establish that take-or-pay contracts entered into before 1998, as in the case of Eni, have the right to a priority in the entitlement to available transport capacity equal to average daily contractual volumes. There is therefore no guaranteed access priority for Eni's contracted volumes exceeding average daily contractual volumes. In fact, take-or-pay contracts entered into by Eni before 1998 envisage Eni's right to off take daily volumes larger than the average daily contractual volume; this contractual flexibility provided by the difference between the maximum daily volume Eni is allowed to purchase and the average daily contractual volume is used when demand peaks, usually during the winter. In the event of congestion at entry points, natural gas volumes not receiving priority are entitled to available transport capacity in proportion with requests from operators. Eni considers Decision No. 137/2002 to be inconsistent with the overall rationale of the European natural gas legislative framework, especially with reference to Directive 98/30/CE and Legislative Decree No. 164/2000, and is challenging Decision No. 137/2002 before the competent administrative courts. See "Item 4 – Regulation of the Italian Hydrocarbons Industry – Gas & Power". However, Eni cannot rule out a negative outcome in this matter. Accordingly, management believes that Eni's results of operations could be adversely affected should market conditions and/or regulatory constraints prevent Eni from selling its whole availability of natural gas purchased to fulfill take-or pay contract obligations (e.g. in case a congestion occurs at the entry points of the Italian transport infrastructure. Eni would be forced to off take a smaller volume of gas than the minimum contractual off take). See "Item 5 – Management Expectations of Operations".

The Italian Government, Parliament and regulatory authorities in Italy and in Europe may take further steps to boost competition in the Italian natural gas market and such regulatory developments may adversely affect Eni's results of operations.

Institutional and political forces are urging a higher degree of competition in the Italian natural gas market and this may produce significant developments on this matter. A brief description follows of certain recently enacted laws and certain proceedings before the Authority for Electricity and Gas and the Italian Antitrust Authority in order to allow investors to gain some insight of the complexity of this matter. For a full discussion of laws and procedures described herein see "Item 4 – Regulation of the Italian Hydrocarbons Industry – Gas & Power".

In 2003, Law No. 290 was enacted which prohibits Eni from holding an interest higher than 20% in undertakings owning natural gas transport infrastructure in Italy (Eni currently holds a 50.04% interest in Snam Rete Gas, which owns and manages approximately 97% of the Italian natural gas transport infrastructure). The Italian Budget Law for 2007 establishes that the provisions to implement Law No. 290/2003 will be enacted through a decree from the Italian Prime Minister. The term for the disposal envisaged by Law No. 290/2003, which was initially fixed at December 31, 2008, will be redetermined in 24 months after the effective date of said decree from the Italian Prime Minister. Currently, Eni is unable to predict that date.

On the basis of the findings of a joint inquiry conducted from 2003 through June 2004 on the Italian natural gas market, the Authority for Electricity and Gas and the Italian Antitrust Authority (the "Antitrust Authority") acknowledged that the overall level of competition of the Italian natural gas market is unsatisfactory due to the dominant position held by Eni in many phases of the natural gas chain. According to both the Authority for Electricity and Gas and the Antitrust Authority, the vertical integration of Eni in the supply, transport and storage of gas has restricted the development of competition in Italy notwithstanding the antitrust ceilings introduced by Legislative Decree No. 164/2000. It was further stated that the price of natural gas in Italy (in particular for the industrial sector) is higher than in other European countries.

In November 2006, the Authority for Electricity and Gas concluded an inquiry concerning the competitive behavior of operators selling natural gas to residential and commercial customers with the aim of defining measures to improve competition. The outcomes of this inquiry was that the retailing market for natural gas in Italy lacks a sufficient degree of competition due to current commercial practices and the existence of both entry and exit barriers. The Authority plans to implement measures to improve competition in this market.

In May 2007, the European Commission commenced anti-trust proceedings against Eni based on information obtained during inspections carried out in 2006 at the headquarters of Eni and of certain Eni subsidiaries. These proceedings against Eni are intended to verify the possible existence of any business conducts breaching European competition rules and preventing access to the Italian natural gas wholesale market by booking a majority share of transport capacity of certain international gas lines, thus limiting third party access to those infrastructures, and delaying or annulling certain plans for the upgrading of the international transport infrastructure.

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

Decisions of the Authority for Electricity and Gas in the matter of natural gas tariffs may diminish Eni’s ability to determine the price at which it sells natural gas to customers

On the basis of certain legislative provisions, the Authority for Electricity and Gas ("the Authority") holds a general monitoring power on pricing in the natural gas market in Italy and the power to establish selling tariffs for supply of natural gas to residential and commercial users taking into account, among other things, the public interest goal of containing the inflationary pressure due to a rise in energy costs. The decisions of the Authority on these matters may limit the ability of Eni to pass an increase in the cost of the imported gas on to the final consumers of natural gas. In particular following numerous decisions and a lengthy administrative procedure started in 2004 and finalized in March 2007, the Authority finally established a new indexation mechanism for updating the raw material cost component in supplies to residential and commercial users consuming less than 200,000 CM/y, establishing, among other things: (i) that an increase in the international price of Brent crude oil is only partially transferred on to residential and commercial users of natural gas in case international prices of Brent crude oil exceed the 35 dollars per barrel threshold; and (ii) that Italian natural gas importers – including Eni – must renegotiate supply contracts to wholesalers in order to take account of the reduction of the price of natural gas sold to residential and commercial users. While the final outcome of the Authority’s decision on Eni’s accounts was lighter than the initial setup proposed by the Authority of this new indexation mechanism, in future years management cannot exclude the possibility that the Authority could implement similar measures that may negatively affect Eni results of operations and financial condition. For more information on this issue (particularly the Authority’s Decisions No. 248/2004, 134/2006 and 79/2007) see "Item 4 – Regulation – Gas & Power".

Environmental, Health and Safety Regulation

Eni may incur material operating costs and liabilities in relation to compliance with applicable environmental, health and safety regulations

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. In particular, 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, limit or prohibit drilling activities in certain protected areas, 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 pollution resulting from oil, natural gas, refining and petrochemical operations.

These laws and regulations may also restrict emissions and discharges to surface and subsurface water resulting from the operation of natural gas processing plants, petrochemicals plants, refineries, pipeline systems and other facilities that Eni owns. In addition, Eni’s operations are subject to laws and regulations relating to the production, handling, transportation, storage, disposal and treatment of waste materials. Environmental, health and safety laws and regulations have a substantial impact on Eni’s operations. Risks of environmental, health and safety costs and liabilities are inherent in many of Eni’s operations and products, and there are risks that material expenses and liabilities may be incurred in relation to compliance with environmental, health and safety laws and regulations.

Eni’s results of operations and financial condition are exposed to risks deriving from future contaminations or the ascertain of as yet unknown contaminations, enactment of stricter environmental rules and regulations in the many jurisdictions in which Eni operates, or the arising of litigation with third parties.

Although management, considering remedial actions already performed the existing insurance policies to cover environmental risks and the provision for risks accrued, does not currently expect any material adverse effect on Eni’s consolidated financial statements as a result of the environmental impact of its operations and compliance with applicable environmental laws and regulations, there are risks that Eni may incur significant costs and liabilities in future years due to: (i) the chance of as yet unknown contamination; (ii) future developments in environmental, health and safety regulation, particularly implementation of measures decided at both international and country level to reduce or limit greenhouse gas emissions; (iii) the results of on-going surveys or surveys to be carried out on the environmental status of Eni’s industrial sites as required by the applicable regulations on contamined site; and (iv) the possibility of litigation and the difficulty of determining Eni’s liability, if any, as against other potentially responsible parties with respect to such litigation and the possible insurance recoveries.

Legal Proceedings

Eni is party to a number of civil actions and administrative proceedings arising in the ordinary course of business. Although Eni’s management does not currently expect a material adverse effect on Eni’s financial condition and results of operations on the basis of information available to date and taking account of existing provisions, Eni’s management cannot rule out that in future years Eni may incur material losses in connection with pending legal proceedings due to: (i) uncertainty regarding the 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) errors in the estimate of probable future losses.

Risks related to Changes in the Price of Oil, Natural Gas, Refined Products and Chemicals

Operating results in certain Eni’s businesses, particularly the Exploration & Production, Refining & Marketing, and Petrochemicals segments are affected by changes in the price of oil and by their impact on prices and 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 of oil prices is generally immediate. However Eni’s average realization for oil differs from the price of marker crude Brent due primarily to the circumstance that Eni’s production slate, which also includes heavy crudes, has a lower API gravity compared with Brent crude (when processed the latter allows for higher yields of valuable products compared to heavy crudes, hence higher market price).

The favorable impact of higher oil prices on Eni’s results of operations may be offset by the different trends of margins in 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 Petrochemicals businesses, depends upon the speed at which the prices of gas and products adjust to reflect these changes. Wholesale margins in the Gas & Power business are substantially independent from fluctuations in crude oil prices as purchase and selling prices of natural gas are contractually indexed to prices of crude oil and certain refined products according to similar pricing schemes. On the contrary, in the Refining & Marketing and Petrochemicals businesses a time lag exists between movements in oil prices and movements in the prices of finished products.

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

The results of operations of 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 as outlined above.

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

Eni’s petrochemical products margins are affected by trends in demand and changes in oil prices which influence changes in cost of petroleum-based feedstock. Generally, an increase in oil price determines a decrease in petrochemical products margins in the near term.

Risks from Acquisitions

In addition to its plans for organic growth, Eni constantly monitors the oil and gas market in search of opportunities to acquire individual assets or corporations as a way to grow. Acquisitions normally entail an execution risk – the risk that the acquirer will not be able to effectively integrate the purchased assets so as to achieve expected synergies. In addition, in the current high oil price environment, acquisitions can 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 and no hedging transaction is put in place. We also 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 may be adversely affected.

Exchange Rates

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 Petrochemicals 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 results of operations and financial condition because it reduces booked revenues by an amount greater than the decrease in dollar-denominated expenses.

Risks deriving from Eni’s Exposure to Weather Conditions and Seasonality Factors

Significant changes in weather conditions in Italy and in the rest of Europe from year to year may cause variations in 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, may be affected by such variations in weather conditions. In addition, Eni’s results of operations reflect the seasonality in demand for natural gas and certain refined products used in residential space heating, the demand for which is typically highest in the first quarter of the year, which includes the coldest months and lowest in the third quarter, which includes the warmest months. Furthermore, extreme weather phenomena can result in material disruption to our operations, particularly to offshore production of oil and natural gas.

Interest Rates

Interest on Eni’s financial 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 financial expense in respect to its finance debt.

Critical Accounting Estimates

The preparation of financial statements entails accounting estimates that are characterized by a high degree of uncertainty, complexity and judgment. Although these critical accounting estimates are thoroughly applied and underlying amounts are fairly determined, management cannot rule out that actual outcomes may differ from such estimates, due to, among other things, the following factors: uncertainty, lack or limited availability of information; the availability of new informative elements, variations in economic conditions such as prices, significant factors (e.g. removal technologies and costs) and the final outcome of legal, environmental or regulatory proceedings. See "Item 5 – Critical Accounting Estimates".

Item 4. INFORMATION ON THE COMPANY

History and Development of the Company

Eni SpA with its consolidated subsidiaries is engaged in the oil and gas, electricity generation, petrochemicals, oilfield services and engineering industries. Eni has operations in about 70 countries and 73,572 employees as of December 31, 2006.

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: www.eni.it.

The name of the agent of Eni in the United States is Viscusi Enzo, 666 Fifth Ave., New York, NY 10103.

Eni's principal segments of operations and subsidiaries are described below.

Eni conducts its exploration and production activities through its Exploration & Production Division and certain operating subsidiaries. Eni's exploration, development and production activities commenced in 1926, when Agip SpA was established by the Italian Government with a mandate to explore for and develop oil and natural gas. Agip SpA was merged into Eni SpA effective as of January 1, 1997 to become Eni's Exploration & Production Division.
Eni is engaged in exploration and production of hydrocarbons in Italy, North Africa, West Africa, the North Sea, the Gulf of Mexico, Australia, South America and areas with great development potential such as the Caspian Sea, the Middle and Far East, India and Alaska. In 2006, Eni's hydrocarbon production available for sale averaged 1,720 KBOE/d and, at December 31, 2006, Eni's estimated proved reserves totaled 6,436 mmBOE with a life index of 10.0 years. In 2006, Eni's Exploration & Production segment reported net sales from operations (including inter-segment sales) of euro 27,173 million and operating profit of euro 15,580 million.

Eni conducts its natural gas and electricity generation activities through its Gas & Power Division and certain operating subsidiaries. Eni's natural gas supply, transmission and distribution activities commenced in the 1940s with the commercial sale of natural gas to industrial users in Northern Italy. In past years, Eni conducted its natural gas operations through the subsidiary Snam SpA. Snam SpA was merged into Eni SpA effective as of February 1, 2002 to become Eni's Gas & Power Division. In 2006, Eni's sales of natural gas to third parties totaled 50.94 BCM in Italy and 27.93 BCM in the rest of Europe; Eni's share of natural gas volumes sold by its affiliates totaled 7.65 BCM (of which 6.88 BCM was sold in the rest of Europe). Natural gas volumes consumed in operations by Eni and Eni's subsidiaries – mainly in electricity generation, refining and petrochemicals operations – totaled 6.13 BCM. Natural gas sales in Italy include: (i) sales to wholesalers, mainly local companies selling natural gas to residential and commercial customers, and to large industrial and thermoelectric customers who are supplied by a high and medium pressure pipeline network; and (ii) sales to residential and commercial customers which are supplied by a low pressure pipeline network. Eni's high and medium pressure gas pipeline network for natural gas transport is about 30,890-kilometer long in Italy, while outside Italy Eni holds transmission rights on approximately 5,000 kilometers of high pressure pipelines. Eni's natural gas transport network in Italy is owned and managed by Snam Rete Gas SpA. Snam Rete Gas is listed on the Italian Stock Exchange, Eni's share being 50.04%. Snam Rete Gas transports natural gas on behalf of Eni and third parties ("shippers"); in 2006 its transported volumes were 87.99 BCM, of which 30.9 BCM were on behalf of third parties. Eni, through its 100% subsidiary Italgas and other subsidiaries, is engaged in natural gas distribution activity in Italy serving 1,317 municipalities through a low pressure network consisting of approximately 48,700 kilometers of pipelines as of December 31, 2006.
Eni conducts its electricity generation activities through its wholly-owned subsidiary EniPower SpA, which owns and manages Eni's power stations in Livorno, Taranto, Mantova, Ravenna, Brindisi, Ferrera Erbognone and Ferrara with a total installed capacity of approximately 4.9 GW as of December 31, 2006. In 2006, sold production of electricity totaled 24.82 TWh. Eni owns other minor power stations located in Eni's petrochemical plants and refineries whose production is mainly for internal consumption. The accounts of these power stations are reported within Eni's Refining & Marketing and Petrochemicals segments.