	High	Low	At period end
	(U.S. dollars per euro)		
October 2013	1.38	1.35	1.36
November 2013	1.36	1.34	1.36
December 2013	1.38	1.35	1.38
January 2014	1.37	1.35	1.35
February 2014	1.38	1.35	1.38
March 2014	1.39	1.37	1.38

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 New York Stock Exchange (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 4, 2014 was $1.3704 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, Eni expects that prices of energy commodities, in particular oil and gas, will be very volatile, with average prices and margins influenced by changes in the global supply and demand for energy as well as in the market dynamics. This is likely to increase competition in all of Eni’s businesses, which may impact costs and margins.

- 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, its growth prospects and future results of operations and cash flows may be adversely affected.
- In the Gas & Power segment, Eni faces strong competition from gas and energy players to sell gas and electricity to the industrial segment and the retail market both in Italy and across Europe. Competition has been fuelled by ongoing weak trends in demand due to the downturn and macroeconomic uncertainties, oversupplied markets and inter-fuel competition due to the rising use of coal in firing power plants and a growth in renewable sources of energy (such as photovoltaic and solar) which have materially impacted the use of gas in the production of electricity and consequently, gas sales to the thermoelectric industry. These market imbalances are owed to the fact that in past years, European operators committed to purchase large amounts of gas under long-term supply contracts, with take-or-pay clauses from the main producing countries bordering Europe (namely Russia and Algeria). These operators built large upgrades at existing pipelines and new infrastructures along several European routes to expand gas import capacity to the Continent. They did this based on certain long-term projections about gas demand growth. Due to the economic and financial crisis and inter-fuel competition, those projected increases in gas demand failed to materialize resulting in a situation of oversupply and pricing pressure. The "shale-gas revolution" in the United States was another fundamental trend that added to the oversupply condition in the European marketplace. The discovery and development of large deposits of shale gas in the United States have progressively reduced the country’s dependence on LNG imports to zero. As a result of this, upstream producers were forced to redirect large LNG supplies to markets elsewhere in the world, including Europe. Large gas availability on the marketplace in Europe fuelled by take-or-pay contracts and worldwide LNG streams has driven the development of very liquid continental hubs to trade spot gas. Shortly spot prices at continental hubs have become the main benchmarks to which selling prices are indexed in supplies to large industrial customers and thermoelectric utilities. The profitability of gas operators was negatively impacted by falling sales prices at those hubs, where prices have been pressured by intense competition among gas operators in the face of weak demand, oversupplies and the constraint to dispose of minimum annual volumes of gas to be purchased under long-tem

supply contracts. These negative trends were exacerbated by the fact that spot prices have ceased to track the oil prices to which Eni's long term supply contracts are linked, resulting in a decoupling between trends in prices and in costs. Due to those fundamental shifts in market dynamics and a current demand downturn, the Company's Gas & Power segment incurred operating losses in each of the latest three years (euro 2,967 million, euro 3,125 million and euro 326 million in 2013, 2012 and 2011, respectively). Our gas marketing business' outlook will remain weak for the foreseeable future as management believes that the ongoing negative trends of poor demand, continuing competition and oversupply have become structural headwinds. These developments may adversely affect the Company's future results of operations and cash flows in its gas business, also taking into account the Company's contractual obligations to collect minimum annual volumes of gas (pursuant to its long-term gas supply contracts with take-or-pay clauses) and the Company's efforts to re-negotiate new pricing terms of such contracts, which better track market prices compared to the original oil-linked indexation. See the sector-specific risk section below.

- Eni is also facing competition from large, well-established European utilities and other international oil and gas companies in growing its market share and acquiring or retaining customers. A number of large customers, particularly electricity producers and large industrial buyers have entered the wholesale market of 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 belonging to countries with large gas reserves have started to sell natural gas directly to final customers, entering in direct competition with players like Eni which resell gas purchased from producing countries to final customers. These developments may increase the level of competition and reduce Eni's expected operating profit and cash flows in the gas business. Further, gas prices in the residential market have historically been established by independent, governmental authorities in Italy and elsewhere in Europe. The indexation mechanisms used by those authorities have generally tracked a basket of petroleum products, mirroring the oil-indexed purchase prices of gas resellers like Eni, thus enabling resellers to pass a large part of cost increases of the raw material on to final customers in the retail market. In recent years, the Italian Authority has introduced a number of adjustments to the oil linked formula to take into account the public goal of containing the impact of energy inflation on households and other public services (such as hospitals and schools). Finally, following enactment in Italy of a new regulatory regime which became effective October 1, 2013, management expects that the Company's selling margins in the residential segment are likely to come under pressure 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 new mechanism establishes that the cost of the raw material be indexed to market benchmarks recorded at spot markets, and replaces the previous oil-linked mechanism which mirrored a basket of long-term supply contracts. The Company expects that similar measures will be introduced by other market regulators in European countries where Eni sells gas to residential customers (see sector-specific risk factors below). Management believes these developments will negatively impact future results of operations and cash flow.
- In its Gas & Power segment, Eni is vertically integrated in the production of electricity via its gas-fired power plants which currently use the combined-cycle technology. In the electricity business, Eni competes with other producers and traders from Italy or outside Italy who sell electricity in 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. The economics of the gas-fired electricity business have dramatically changed over the latest few years due to ongoing competitive trends. Spot prices of electricity in the wholesale market across Europe have decreased due to excess supplies driven by the growing production of electricity from renewable sources, which also benefit from governmental subsides, and a recovery in the production of coal-fired electricity generation which has been helped by a substantial reduction in the price of this fuel on the back of a massive oversupply of coal which occurred on a global scale. As a result of falling electricity prices, margins on the production of gas-fired electricity went into negative territory. We believe that the profitability outlook in this business will remain weak in the foreseeable future. Due to the projections of negative future cash flows, Eni decided to recognize an impairment charge of its power plants in the amount of approximately euro 1 billion in the 2013 consolidated accounts.
- In the retail marketing of refined products both in Italy and outside Italy, Eni competes with oil companies and non-oil operators (such as supermarket chains and other commercial operators) to obtain concessions to establish and operate service stations. Eni's service stations compete primarily on the basis of pricing, services and availability of non-petroleum products. In Italy, the latest administrative measures in this field have aimed to enhance the level of competition in the retail market of fuels, for example by easing the commercial ties between independent and other non-oil 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. These developments have boosted the level of competition in the marketplace adding further pressure on selling prices and reducing opportunities of increasing the market share in Italy. We expect that competitive pressures will continue in the foreseeable future due to anticipated weak trends in the domestic demand for fuels, oversupplies of refined products due to existing excess refining capacity in Europe and growing competition of products streams coming from Russia, the Middle East, East Asia and the United States. Finally, Eni's margins on refined products have been affected by production cost disadvantages due to unfavorable geographic location and lack of scale of

Eni’s refineries, and narrowing price differentials between the Brent benchmark and heavy crude qualities. This latter trend has reflected ongoing reduced supplies of heavy crudes in the Mediterranean Area, reversing the pattern observed historically whereby heavy crude qualities traded at a discount against the Brent benchmark due to their relatively smaller yield of valuable products. This negative trend has particularly hit Eni’s profitability of complex cycles which depends on the availability of cheaper crude qualities than the Brent crude in order to remunerate the higher operating costs of complex plants. This segment reported losses at the operating level in each of the latest three years (euro 1,492 million, euro 1,264 million and euro 273 million in 2013, 2012 and 2011, respectively) driven by the structural headwinds in the industry described above. Based on those trends we believe that the profitability outlook in our Refining & Marketing segment will remain negative over the foreseeable future.

- In the Chemical segment, Eni faces strong competition from well-established international players and state-owned petrochemical companies, particularly in the most commoditized market segments such as the production of basic petrochemical 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, Eni expects that petrochemical producers based in the United States will regain market share in the 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. This segment reported operating losses in each of the latest three years (euro 725 million, euro 681 million and euro 424 million in 2013, 2012 and 2011, respectively) including significant amounts of asset impairment losses, driven by the structural headwinds in the industry described above.
- Competition in the oilfield 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. In 2013, a soft demand environment, intense competition among oilfield service providers coupled with Company-specific issues at certain projects drove a substantial reversal in the profitability of Eni’s Engineering & Construction business segment which reported an operating loss of euro 98 million for the full year 2013. 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, transport of natural gas, storage and distribution of petroleum products, production of base chemicals, plastics and elastomers. By their nature the Group’s operations expose Eni to a wide range of significant health, safety, security and environmental risks. The magnitude of these risks is influenced by the geographic range, operational diversity and technical complexity of our activities. Eni’s future results from operations and liquidity depend on its ability to identify and mitigate the risks and hazards inherent to operating in those industries.

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

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

As for transportation activities related to all Eni’s segments of operations, 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 invests significant resources in order to upgrade the methods and systems for safeguarding the safety and health of employees, contractors and communities, and the environment; to prevent risks; to comply with applicable laws and policies; and to respond to and learn from unexpected incidents. Eni seeks to minimize these operational risks by carefully designing and building facilities, including wells, industrial complexes, plants and equipment, pipelines, storage sites and distribution networks, and managing its operations in a safe, compliant and reliable manner. Failure to manage these risks could effectively result in unexpected incidents, including releases or oil spills, blowouts, fire, mechanical failures and other incidents resulting in personal injury, loss of life, environmental damage, legal liabilities and/or damage claims, destruction of crude oil or natural gas wells as well as damage to equipment and other property, all of which could lead to a disruption in operations. Eni's operations are often conducted in difficult and/or environmentally sensitive locations such as the Gulf of Mexico, the Caspian Sea and the Arctic, in which the consequences of any incident could be greater than in other locations. Eni also faces 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 our ability to manage and control such risks. The Company maintains insurance to protect itself against the risk of damage to Company property and/or business interruption to the Company's main refining and petrochemical sites. In addition, the Company also maintains worldwide third-party liability insurance coverage for all of its subsidiaries. Management believes that its insurance coverage is in line with industry practice and sufficient to cover normal risks in its operations. However, the Company is not insured against all potential risks. In the event of a major environmental disaster, for example, Eni's liability may exceed the maximum coverage provided by its third-party liability insurance. The loss Eni could suffer in the event of such disaster would depend on all the facts and circumstances of the event and would be subject to a whole range of uncertainties, including legal uncertainty as to the scope of liability for consequential damages, which may include economic damage not directly connected to the disaster.

The occurrence of the 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 the Group reputation.

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

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

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

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

Eni has material operations relating to the exploration and production of hydrocarbons located offshore. In 2013, approximately 55% of our total oil and gas production for the year derived from offshore fields, mainly in Egypt, Libya, Norway, Italy, Angola, Congo, the Gulf of Mexico, United Kingdom and Nigeria. Offshore operations in the oil and gas industry are inherently riskier than onshore activities. As the Macondo accident in the Gulf of Mexico has shown, the potential impacts of offshore accidents and spills to health, safety, security and the environment can be catastrophic due to the objective difficulties in handling hydrocarbons containment and other factors. Further, offshore operations are subject to marine 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.

(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 geological play failure, unexpected drilling conditions, pressure or heterogeneities in formations, equipment failures, blowouts and other forms of accidents, and shortages or delays in the delivery of equipment. The Company also engages in exploration drilling activities offshore and also in deep and ultra-deep waters, in remote areas, in environmentally-sensitive locations (such as the Barents Sea). In these locations we generally experience more challenging conditions and incur higher exploration costs than onshore. Failure to discover commercial quantities of oil and natural gas could have an adverse impact on Eni’s future growth prospects, results of operations and liquidity. Because Eni plans to make investments in executing high-profile and high-risk exploration projects, it is likely that Eni will incur exploration and dry hole expenses in future years. These high-profile and high-risk projects generally involve sizeable plays located in deep and ultra-deep waters or at higher depths where operations are more challenging and costly than in other areas. Furthermore, deep and ultra-deep water operations may require significant time before commercial production of discovered reserves can commence, increasing both the operational and financial risks associated with these activities. The Company plans to conduct exploration projects offshore West Africa (Angola, Nigeria, Congo and Gabon), East Africa (Mozambique and Kenya), South-East Asia (Indonesia, Vietnam and other locations), Australia, the Barents Sea, the Black Sea and the Mediterranean (Cyprus). In 2013, the Company spent approximately euro 1.9 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 discover 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 executing several development projects to produce and market hydrocarbon reserves. Certain projects target the development of 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 its ability to implement, develop and operate major projects as planned. Key factors that may affect the economics of these projects include:

- the outcome of negotiations with co-venturers, governments and state-owned companies, suppliers, customers or others, including, for example, Eni’s ability to negotiate favorable long-term contracts to market gas reserves;
- the development of reliable spot markets that may be necessary to support the development of particular production projects, or commercial arrangements for pipelines and related equipment to transport and market hydrocarbons;
- timely issuance of permits and licenses by government agencies;
- the Company’s relative size compared to its main competitors which may prevent it from participating in large-scale projects or affect its ability to reap benefits associated with economies of scale, for example by obtaining more favorable contractual terms by suppliers of equipment and services;
- the ability to carefully carry out front-end design engineering at any development projects so as to prevent the occurrence of technical inconvenience during the execution phase;
- 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 in project execution on the part of international contractors who are awarded project construction activities generally based on the EPC (Engineering, Procurement and Construction) - turn key contractual scheme. We believe this kind of risk may be 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 Eni has been discovering increasingly important volumes of reserves in remote and harsh locations or environmentally sensitive locations (i.e. the Barents Sea, Alaska, the Gulf of Mexico, the Caspian Sea) where Eni is 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, inadequate front-end engineering, delays in the achievement of critical events and production start-up, and differences between scheduled and actual timing, as well as cost overruns may adversely affect the economic returns of our development projects. Failure to successfully deliver major projects could negatively impact results of operations, cash flow and the achievement of short-term targets of production growth. Finally, development and marketing of hydrocarbons reserves typically require several years after a discovery is made. This is because a development project involves an array of complex and lengthy activities, including appraising a discovery in order to evaluate its commercial potential, sanctioning a development project and building and commissioning related facilities. As a consequence, rates of return for such long-lead-time projects are exposed to the volatility of oil and gas prices and costs which may be substantially different from the prices and costs assumed when the investment decision was actually made, leading to lower rates of return. In addition, projects executed with partners and co-venturers reduce the ability of the Company to manage risks and costs, and Eni could have limited influence over and control of the operations, behaviors and performance of its partners. Furthermore, Eni may not have full operation control of the joint ventures in which it participates and may have exposure to counterparty credit risk and disruption of operation and strategic objectives due to the nature of its relationships.

We have experienced a few delays at a number of development projects located mainly in Algeria, the United Kingdom, Angola and Norway. Those delays were attributable to execution issues and delivery of critical equipment reflecting capacity constraints. These events have impacted 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 with 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. 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 reserves without the participation of international oil companies or if the Company fails to establish partnership with national oil companies, Eni's ability to access or develop additional reserves will be limited.

An inability to replace produced reserves by finding, acquiring and developing additional reserves could adversely impact future production levels and growth prospects. If Eni is unsuccessful, it may not meet its long-term targets of production growth and reserve replacement, and Eni's 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 future expected cash flows of the Group reserves to movements in crude oil price. 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 or disruptions due to local instability. We believe that crude oil prices were supported in 2013 by a number of interruptions in the output flows that occurred in countries like Libya, Nigeria and Syria due to local issues driven by political and social instability;

(iii) global and regional dynamics of demand and supply of oil and gas. We believes that global oil demand will grow at a moderate pace in the foreseeable future due to sluggish economic activity in Europe and other macroeconomic uncertainties, and more efficient use of fuels and energy in OECD countries;

(iv) prices and availability of alternative sources of energy. Eni believes that gas demand in Europe has been significantly 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. Eni expects 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.

We estimate that movements in oil prices impact our results with respect to approximately 50% of our current production. Of the remaining portion, 35% is derived from production sharing contracts and is substantially unaffected by crude oil price movements which instead impact the Company's volume entitlements (see paragraph "Inability to replace oil and natural gas reserves could adversely impact results of operations and financial condition" above). We expect that the Company results of operations from 2014 onwards will reflect our decision late in 2013 to fully exploit the benefits of the natural hedging occurring between our Exploration & Production and Gas & Power segments. We estimate that going forward the exposure to changes in crude oil prices of approximately 8-10% of our production will be offset by equal and opposite changes to the procurement costs of gas in our long-term supply contracts which, based on the existing agreements, index the cost of gas to crude oil prices. In previous reporting periods we entered into commodity derivatives to protect margins on gas sales in our Gas & Power business from exposure to crude oil changes due to the progressive de-coupling that has occurred between the selling prices which have been indexed to spot prices and the procurement oil-linked costs of gas, resulting in a growing exposure of the Gas & Power segment to crude oil price movements. Late in 2013, we discontinued this hedging policy with a view to exploiting the natural hedge provided by our equity production of crude oil. We expect that the operating results of the Gas & Power segment will be more volatile as long as the gas purchase costs remain indexed the oil prices; at the same time the Group results as a whole will be less exposed to crude oil prices movements than in past reporting periods. See the risk factors "Exposure to financial risks" below.

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

The production of oil and natural gas is highly regulated and is subject to conditions imposed by governments throughout the world in matters such as the award of exploration and production 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, Eni expects 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 costs and timing of development expenditures;
- changes in the prevailing tax rules, other government regulations and contractual conditions;
- results of drilling, testing and the actual production performance of Eni's reservoirs after the date of the estimates which may drive substantial upward or downward revisions; and
- changes in oil and natural gas prices which could affect the quantities of Eni's proved reserves since the estimates of reserves are based on prices and costs existing as of the date when these estimates are made. Lower oil prices or the projections of higher operating and development costs may impair the ability of the Company to economically produce reserves leading to downward reserve revisions.

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

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

(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 38%. The tax rate of the Company’s Exploration & Production segment for the fiscal year 2013 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 Eni’s oil and gas reserves and gas supplies are located in countries which are politically, socially and economically less stable than OECD countries. Therefore Eni is exposed to risks of material disruptions to its operations in those less stable countries. As of December 31, 2013, approximately 78% of Eni’s proved hydrocarbon reserves were located in such countries and 62% of Eni’s supplies of natural gas came from countries outside OECD countries.

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 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 December 31, 2013, receivables for euro 575 million relating to cost recovery under certain petroleum contracts in a non-OECD country were the subject of an arbitration proceeding;

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

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

(v) civil and social unrest, internal conflicts and other forms of political instability, sabotages, strikes, acts of violence and incidents. These risks could result in disruptions in the economic activity, loss of output, plant closure, project delays, the loss of our personnel or assets, cause us to evacuate our personnel from certain countries, cause us to increase spending on security worldwide, disrupt financial and commercial markets, including the supply of and pricing for oil and natural gas, and generate greater political and economic instability in some of the geographic areas in which we operate. Areas where we operate that have significant risk include, but are not limited to: the Middle East, Libya, Egypt, Algeria, Nigeria, Angola, Indonesia, Kazakhstan, Russia, and Venezuela. In addition, any possible reprisals as a consequence of military or other action, such as acts of terrorism in the United States or elsewhere, could have a material adverse effect on our business, consolidated results of operations, and consolidated financial condition. In 2013, our expected production levels in Nigeria, Libya and Algeria were negatively impacted by continuing social unrest, protests, strikes, acts of sabotage and theft which forced us to disrupt or reduce our producing activities with an estimated cumulative loss of output of 110 KBOE/d for the year, negatively affecting our results of operations and cash flow. In 2013, our production in Libya was 219 KBOE/d, down by 13% from 2012; in Nigeria it was 120 KBOE/d, down by 19% from 2012. Looking forward, we expect those risks will continue to affect our operations in those countries and we do not plan for any significant recovery in our production plateau in both countries over the next couple of years. For more information about the status of our operations in Libya see the paragraph below.

While the occurrence of those events is unpredictable, it is likely that the occurrence of such events could cause Eni to incur material production losses or facility disruptions, and thus adversely impact Eni’s results of operations and cash flow.

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

As at the end of 2013, approximately 28% of the Company’s proved oil and gas reserves were located in North Africa and the Middle East. In 2011, several North African and Middle Eastern oil producing countries experienced an extreme level of political instability that resulted in changes in governments, unrest and violence and consequential economic disruptions.

The instability of the socio-political framework in those countries still represents an area of concern involving risks and uncertainties for the foreseeable future; particularly in Libya in 2013, Eni’s production performance was negatively impacted due to force majeure events reflecting ongoing instability in the socio-political context of the Country. It is worth mentioning that in Libya Eni is currently engaged in the recovery of the full production plateau at its producing assets in the Country, following the internal conflict of 2011 that forced the Company to shut down almost all its producing facilities including gas exports for a period of about 8 months with a material impact on production volumes and operating results of that year. Due to the complexity of the transition period, which the Country is currently undergoing, Eni is still in the process of restoring the full production plateau. For the full year 2013 Eni’s facilities in Libya produced the level of 219 KBOE/d, which is lower than the pre-crisis production plateau of approximately 270 KBOE/d attained in 2010.

In Egypt the internal situation seems to be still complex and in 2013, a new wave of political unrest and civil clashes occurred, jeopardizing the economic activities in the Country. However, the Company has not experienced any disruption at its producing activities in the Country to date.

The Company believes that the political outlook in North Africa and the Middle East remains an area of risk for the Company’s operations, results and strategic development.

Risks associated with our presence in sanction targets

Eni is currently conducting certain residual oil and gas operations in Iran. The legislation and other regulations in the United States and the European Union that target Iran and persons who have certain dealings with Iran may lead to the imposition of sanctions on any persons doing business in Iran or with Iranian counterparties, unless specific authorizations, exceptions and assurances apply, as it is currently the case for Eni.

United States measures towards Iran

The United States enacted the Iran Sanctions Act of 1996 (ISA), which required the President of the United States to impose sanctions against any entity that is determined to have engaged in certain activities, including 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) which sanctions activities that 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 expanded the list of sanctions available to the President of the United States while at the same time providing that an investigation need not be initiated, and may be terminated once began, 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.

It should be noted that 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, it will not be regarded as a company of concern for its past Iran-related activities.

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

Between the end of 2011 and 2013, the United States adopted new measures designed to intensify the scope of U.S. sanctions against Iran, in particular related to 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, the Iran Threat Reduction and Syrian Human Rights Acts of August 10, 2012 (ITRSHRA), which expanded the ISA/CISADA scope by increasing from three to five the minimum number of sanctions to be imposed in case of violations of the energy sector restrictions; the National Defense Authorization Acts - 2012, related to transactions with the Iranian Central Bank and transactions for the acquisition of Iranian crude oil and the National Defense Authorization Acts - 2013, which, inter alia, adds the shipbuilding sector to those areas subject to sanctions. A waiver was granted to Italy and other EU Member States in March 2012, in September 2013 and lastly renewed in March 2014 for a further 180-day period.

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

European Union restrictive measures towards Iran

On July 26, 2010, the European Union adopted restrictive measures regarding Iran (referred to as the "EU measures"). Among other things, the supply of equipment and technology is prohibited in the following sectors of the oil and gas industry in Iran: refining, liquefied natural gas, exploration and production. The prohibition extends to technical assistance, training and financing and financial assistance in connection with such items. Transactions arising from contracts signed before the sanctions entered into force are allowed.

On March 23, 2012, the Council of the European Union enacted a regulation, repealing the measures adopted on July 26, 2010, prohibiting the import, transport and purchase of Iranian crude oil and petroleum products. The rules allow for the performance of contracts, entered into force before January 23, 2012, whereby the supply of Iranian crude oil and petroleum products is intended to reimburse outstanding receivables due to entities under the jurisdiction of EU Member States.

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

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

The European measures provide for 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 Co 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. According to these waivers, Eni received from the competent European Member States' Authorities the relevant authorizations in order to carry out its upstream and oil import activities.

Eni has been operating in Iran for several years under four service contracts (South Pars, Darquain, Dorood and Balal, these latter two projects being operated by another international oil company) entered into with the 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 oilfields, and is entitled to recovery of expenditures made, as well as a service fee. 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. 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. In 2013, Eni incurred $2 million to provide such activities and services and does not expect to incur further operating costs in this respect since the relevant obligations are going to expire.

Eni's projects in Iran are currently in the cost recovery phase. Therefore, Eni has ceased making any further investment in the Country and is not planning to make additional capital expenditures in Iran in future years. In 2013, Eni's production in Iran averaged 4 KBOE/d, representing less than 1% of the Eni Group's total production for the year. Eni's entitlement in 2013 represented approximately 3% of the overall production from the oil and gas fields that Eni has developed in Iran. Eni believes that the results from its Iranian activities are immaterial to the Group's results of operations and cash flow.

The Company's Refining & Marketing segment has historically purchased amounts of Iranian crude oil under term contracts and on a spot basis. Eni purchased 976 ktonnes and 498 ktonnes in 2011, and 2012, respectively. Eni paid NIOC $742 million in 2011 and $396 million in 2012. In June 2012, as a consequence of the European restrictive measures Eni ceased to buy Iranian crude oil. In accordance with the European Union sanctions regime, Eni has been authorized by the competent European Authorities to import only volumes necessary to collect outstanding receivables towards Iranian counterparties.

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

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

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

In previous years Eni has had marginal commercial transactions with Syria

Our contacts with Syria have regarded mainly the purchase of limited amounts of Syrian-originated crude oil and certain preliminary activities under a contract awarded to our partially-owned subsidiary Saipem SpA as described below. All such activities have ceased since 2012.

In 2011, our Refining & Marketing business purchased 243 ktonnes of crude oil from Syrian Petrol Co which we understand to be an affiliate of the Syrian Government. We paid $175 million for those transactions. Those amounts represented less than 1% of total volumes of crude oil purchased by this business segment for the year, which were equal to 31.4 mmtonnes, and the amount paid to Syrian Petrol Co represented significantly less than 1% of our consolidated purchases of goods and raw materials for the year (euro 61 billion). In 2011, we also purchased 165 ktonnes of crude oil for a purchase cost of $123 million from certain international traders who, according to bills of loading and shipping documentation available to us, we believe purchased that crude oil from Syrian companies.

In addition, in 2011, we sold 127 ktonnes of refined products, mainly gasoline, to a Syrian company amounting to $114 million. Those amounts represented significantly less than 1% of our sales volumes of refined products and consolidated net revenues for the year (45 mmtonnes and euro 108 billion, respectively). In 2011, we also sold limited amounts of refined products (61 ktonnes for a consideration of $61 million), mainly gasoline, to certain international traders who, according to bills of loading and shipping documentation available to us, then resold the products to Syrian companies. Finally, in 2011, we executed two time charter contracts for our vessels with international oil companies which involved Syrian ports.

In 2012, we suspended any crude-related operations and sale of refined products with Syria and no further purchases of crude oil from Syrian counterparties or sale of refined products to Syria have been made in 2012, in 2013 and up to date.

In 2011, our partially-owned subsidiary Saipem SpA carried out limited activities relating to the procurement of goods and preliminary arrangements with suppliers as part of a contract awarded in 2010 by Dijla Petroleum Co, which is an affiliate of the Syrian National Oil Co. This contract is a lump sum, turn-key contract to build a central processing facility with a daily capacity of 50,000 barrels of liquids at the Khurbet East oil field, for approximately euro 100 million. No activities have been executed in situ and the contract has then been suspended indefinitely due to security issues.

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 continue to believe that our operations in Syria have historically been and continue to be immaterial to our Group's consolidated revenues, operating profit, cash flow and assets.

Situation in Russia and Ukraine

Eni is closely monitoring developments of the situation in Ukraine and Crimea and any related regulations and/or economic sanctions that could be adopted by the authorities. It is possible that wider sanctions covering the Russian energy, banking and/or finance industries may be implemented. Among other activities, Eni: is part of a strategic cooperation agreement for exploration activities in the Russian sections of the Barents and Black Sea; holds a 50% interest in the Blue Stream pipeline (which links the Russian and Turkish coasts). Further sanctions imposed on Russia from the international community, such as, for example, enacting restrictions on purchases of Russian gas or restricting dealings with Russian counterparties could adversely impact Eni's results of operations and cash flow.

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 Chemical 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.

Eni's 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, Eni's petrochemical operations lack sufficient scale and competitiveness at a number of sites due in part to geographic location and other structural weaknesses. Due to poor industry fundamentals, intense competitive pressures, high feedstock costs, coupled with company-specific issues, Eni's chemical operations incurred losses at the operating level in each of the latest three years (euro 725 million, euro 681 million and euro 424 million in 2013, 2012 and 2011, respectively). 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 product 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

2013 marked the third consecutive year of operating losses at our Gas & Power segment which was driven by a prolonged demand downturn, strong competitive pressures and gas oversupplies. The Company expects those structural headwinds to continue to adversely impact results of operations and liquidity for the foreseeable future.

The Company’s gas marketing business reported operating losses and negative cash flow in each of the latest three years driven by changed competitive dynamics in the European gas sector on the back of a prolonged demand downturn. Gas demand has been severely hit by the economic slowdown in Europe and, more importantly, a steep fall of gas consumption in the thermoelectric sector. The latter trend was affected by an ongoing expansion of renewable sources of electricity which have benefited from governmental subsides across Europe, whilst coal has displaced gas on a large scale in firing power plants due to cost advantages and lowering rates for obtaining emission allowances in Europe due to the downturn. Coal prices have seen a dramatic fall in recent years due to a massive glut of coal on a global scale. In the face of weak demand, supplies on the European marketplace have continued to increase due to a number of factors. First of all, before the beginning of the downturn gas wholesaler operators in Europe grossly overestimated the projected growth rates in demand and committed to purchase large amounts of gas under long-tem supply contracts with producing countries also bearing the volume risk as a result of the take-or-pay clause of those contracts. They also built large pipeline upgrade to import gas to Europe. Secondly, several LNG projects came on stream, which improved the liquidity of spot markets. Finally, the fact that the United States has reduced their dependence on LNG imports due to large increases in the domestic production of shale gas. This latter development has further added to global LNG supplies. These 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 last few years reflecting oversupplies and weak demand. This trend has hit the profitability of European gas marketing operators, including Eni. Particularly, our results of operations for 2013 were adversely impacted by a faster than anticipated alignment between continental benchmarks and spot prices at Italian hubs leading to sharply lower price realizations in the Italian wholesale market. In addition trends in sales prices have not been reflected in the procurement costs of gas supplies as European gas operators procure 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 which have diverged from trends in gas spot prices. Therefore wholesale margins on gas were squeezed due to this decoupling which has occurred between spot prices and the oil-linked costs of purchased gas. Adding to the pressure, reduced sales opportunities due to weak demand forced operators to compete even more aggressively on pricing to limit the financial risks associated with the take-or-pay clause provided by the long-term supply contracts. 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 started 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. In Italy, administrative bodies have already enacted effective October 1, 2013 a new indexation mechanism of the cost of the raw material in pricing formulas of the safeguarded retail market whereby the cost of gas in currently indexed to spot prices thus replacing the previous oil-linked indexation. This development will reduce our margins in the residential sector. See "Regulation of the natural gas market in Italy" below.

We forecast that market conditions will remain unfavorable in the gas sector in Italy and Europe for the foreseeable future due to the structural headwinds described above, volatile commodity prices and lack of visibility. We anticipate a number of risk factors to the profitability outlook of the Company’s gas marketing business over the next two to three years. Those include weak demand growth due to a projected slow recovery in the Euro-zone and macroeconomic uncertainties, declining thermoelectric consumption due to inter-fuel competition, continuing oversupplies and strong competition. Eni believes that those trends will negatively impact the gas marketing business future results of operations and cash flows by reducing gas selling prices and margins, also considering Eni’s obligations under its take-or-pay supply contracts (see below).

The Company is seeking to improve its 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

The Company’s long-term supply contracts provide clauses whereby the parties are entitled to renegotiate pricing terms and other contractual conditions from time to time to reflect a changed market environment. The Company is currently seeking to renegotiate better terms and pricing of our long-term supply contracts to align its cost structure to prices prevailing in the marketplace in order to preserve the profitability of its gas operations and to reduce the annual minim take of its contracts dictated by the take-or-pay clause in order to be more flexible in the current weak demand environment. If Eni fails to obtain the planned benefits, future results and cash flow could be adversely affected. Furthermore, management believes that the results of the Gas & Power segment 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 fail to arrange renewed contractual terms, both of them may seek an arbitration ruling, which would increase the uncertainty regarding the final outcome of the renegotiation process. A number of clients, to whom Eni supply on long-term basis, have already requested, and may request in the future, price revisions and other contractual changes.

The Company expects that current imbalances between demand and supply in the European gas market will persist for sometime

Gas demand fell significantly in 2013, down by 7% and 1% in Italy and Europe respectively, driven by the economic downturn and sharply lower gas consumption in the thermoelectric sector. While there are signs that demand may have finally bottomed by end of 2013, there is still little visibility on the evolution of gas demand due to the risks and uncertainties associated with a number of ongoing trends:

- uncertainties and volatility in the macroeconomic cycle; particularly the anticipated slow recovery of the economic activity in Europe will weigh on the prospects of any sustainable rebound in gas demand;
- EU policies intended on one hand to reduce greenhouse gas emissions which should negatively impact the consumption of coal in producing electricity to advantage of gas; on the other hand continuing subsides to promote the development of renewable energy sources might jeopardize a recovery in gas-fired thermoelectric production which management still consider to be potentially the main engine of growth in gas demand;
- concrete developments following the announcement made by certain national governments in Europe to shut down nuclear plants; and
- growing adoption of consumption patterns and life-styles characterized by wider sensitivity to energy efficiency.

Against these ongoing trends, management has revised downward its estimates for gas demand: an almost flat demand environment in Italy and Europe has been assumed up to 2017 compared to previous years' assumptions made in the industrial plan 2013-2016 of a growth rate of 1.7-1.8%. It is worth mentioning that the projected levels of European gas demand in 2017 are significantly lower than the pre-crisis levels registered in 2008 as a result of weak fundamentals.

The projected moderate dynamics in demand might not be enough to balance the current situation of oversupply in the marketplace over the next two to three years according to management's estimates. Gas supplies have been built up in recent years as new, large investments to upgrade import pipelines to Europe have come online from Russia and Algeria and gas wholesalers have contracted important volume of supplies under long-tem arrangement in past years, forecasting certain trends in demand which actually failed to materialize. 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 North 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 future as a new LNG plant is expected to start operations in 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. Those negatives will be partially tempered by a declining availability of LNG on a worldwide scale which has been absorbed by growing energy requirements from East Asian economies. In addition Europe's internal production is maturing. However, in the long-term management expects the start-up of an array of LNG projects which are expected to contribute significantly to global LNG supplies, as well as an increasing willingness as part of the United States to support the development of gas exports from the domestic production. Overall we expect a well supplied global gas market in the long term.

These trends represent risks to the Company's future results of operations and cash flows in its gas business.

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

In order to secure long-term access to gas availability, particularly with a view of supplying the Italian gas market and anticipating certain trends in gas demand which actually failed to materialize, Eni has signed a number of long-term gas supply contracts with national operators of key producing countries that supply the European gas markets. These contracts have 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 an average residual life of approximately 14 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 collect minimum, preset 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 collect pre-paid volumes of gas in later years during the period of contract execution. Amounts of cash prepayments and time schedules for collecting 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 prepayments range from 10 to 100% of the full price.

The right to collect 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 collect 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 collection. Similar considerations apply to ship-or-pay contractual obligations.

Management believes that the current market outlook pointing to weak gas demand growth and large gas availability, the possible evolution of sector-specific regulation, as well as strong competitive pressures in 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 incurred 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 1.9 billion and has paid the relevant cash advances.

Considering ongoing market trends and the Company’s outlook for its sales volumes which are anticipated to remain flat or to decrease slightly in 2014 and in subsequent years, management believes that the Company’s ability to fulfill its minimum take obligations under current take-or-pay contracts might be at risk. In order to reduce the financial risk the Company may decide to dispose of its gas availability deriving from its minimum take obligations by selling that gas at lower prices thus negatively impacting the results of operations.

In addition to the financial risk, failure to collect 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 take-or-pay 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. Furthermore, the deferred costs recognized in the balance sheet is stated at the purchase cost or the net realizable value, whichever is lower, thus exposing the Company to losses in case gas prices continue to fall. Finally, the Company expects to incur financing costs considering the cash advances already paid to its suppliers.

As a result of those risks, the Company’s selling margins, results of operations and cash flow may be negatively affected.

(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 (the AEEG) is entrusted with certain powers in the matter of natural gas pricing. Specifically, the AEEG 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 AEEG 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. Historically, the indexation mechanism set by the AEEG essentially provided that the cost of the raw material in the pricing formula to the residential sector was indexed to crude oil prices. This allowed Eni to maintain profitable operations in the retail market since selling prices mirrored supply costs.

However, following a wave of governmental measures intended to spur competition in the domestic markets, the AEEG with Resolution No. 196 effective October 1, 2013, reformulated the pricing mechanism of gas supplies to retail customers by introducing a full indexation of the raw material cost component of the tariff to spot prices. The new tariff regime intends to partially offset the negative impact to be born by wholesalers by introducing certain tariff components, applicable for the next two thermal years, in order to provide a gradual transition from oil-linked prices to spot market determined prices, to cover the costs of the transition to the new supply formula and to favor an effective renegotiation of long-term contracts for importing gas. Management believes that this development is likely to negatively affect the profitability of the Company's sales in the residential market in Italy because it is expected that trends in spot prices will be less favorable than the oil-linked cost of gas supplies to the Group, thus limiting the ability to pass cost increases to clients. This is likely to adversely affect the Company’s future results and cash flow.

Antitrust and competition law

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

Environmental, health and safety regulations

Eni has incurred in the past and expects to incur significant 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, petrochemical and other Group's operations, limit or prohibit drilling activities in certain protected areas, require to remove and dismantle drilling platforms and other equipment and well plug-in once oil and gas operations have terminated, provide for measures to be taken to protect the safety of the workplace and health of communities involved by the Company's activities, and impose criminal or civil liabilities for polluting the environment or harming employees' or communities' health and safety resulting from oil, natural gas, refining, petrochemical and other Group's operations.

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

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

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

- costs to prevent, control, eliminate or reduce certain types of air and water emissions and handle waste and other hazardous materials, including the costs incurred in connection with government action to address climate change;
- remedial and clean-up measures related to environmental contamination or accidents at various sites, including those owned by third parties (see discussion below);
- damage compensation claimed by individuals and entities, including local, regional or state administrations, caused by our activities or accidents; and
- costs in connection with the decommissioning and removal of drilling platforms and other facilities, and well plugging.

Furthermore, in the countries where Eni operates or expects to operate in the near future, new laws and regulations, the imposition of tougher license requirements, increasingly strict enforcement or new interpretations of existing laws and regulations or the discovery of previously unknown contamination may also cause 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, Eni 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.

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

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

Eni has incurred in the past and may incur in the future material environmental liabilities in connection with 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 belief that Eni adopts high operational standards to ensure the safety of its operations and the protection of the environment and the health of people and employees, it is possible that incidents like blowouts, oil spills, contaminations 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.

We are exposed to claims under environmental requirements and, from time to time, such claims have been made against us. In Italy, environmental requirements and regulations typically impose strict liability. Strict liability means that in some situations we could be exposed to liability for clean-up and remediation costs, natural resource damages, and other damages as a result of our conduct that was lawful at the time it occurred or the conduct of prior operators or other third parties.

We are periodically notified of potential liabilities at Italian sites. These potential liabilities may arise from both historical Eni’s operations and the historical operations of companies that we have acquired, including a number of industrial sites that the Company disposed of, liquidated, closed or shut down in prior years where Group products have been produced, processed, stored, distributed or sold, such as chemical plants, mineral-metallurgic plants, refineries and other facilities. At those industrial locations Eni has commenced a number of initiatives to restore and clean-up proprietary or concession areas that were allegedly contaminated and polluted by the Group’s industrial activities. Notwithstanding the Group’s claims that it cannot be held liable for such past contaminations (as permitted by applicable regulations in case of declaration rendered by a guiltless owner i.e. as a result of our conduct that was lawful at the time it occurred) several public administrations have been acting against Eni to claim both the environmental damages, as well as measures to perform additional clean-up and remediation projects in a number of civil and administrative proceedings. We also could be subject to third-party claims, including punitive damages, with respect to environmental matters for which we have been named as a potentially responsible party. Our exposure at these sites may be materially impacted by unforeseen adverse developments both in the final remediation costs and with respect to the final allocation among the various parties involved at the sites.

We expect remedial and clean-up activities at our sites to continue the foreseeable future impacting Eni's liquidity. As of December 31, 2013, the Group has accrued risk provisions to cope with all existing environmental liabilities whereby both a legal or constructive obligation to perform a clean-up or other remedial actions is in place and the associated costs can be reasonably estimated. The accrued amounts represent the management's best estimates of the Company's liability.

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

As a result of those risks, liability for damages arising as a result of environmental laws could be substantial and could have a material adverse effect on our liquidity, consolidated results of operations, and consolidated financial condition.

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

Eni is the defendant in a number of civil actions and administrative proceedings arising in the ordinary course of business. In addition to existing provisions accrued as of December 31, 2013 to account for ongoing proceedings, it is possible that in future years Eni may incur significant losses in addition to the amounts already accrued in connection with pending legal proceedings due to: (i) uncertainty regarding the final outcome of each proceeding; (ii) the occurrence of new developments that management could not take into consideration when evaluating the likely outcome of each proceeding in order to accrue the risk provisions as of the date of the latest financial statements; (iii) the emergence of new evidence and information; and (iv) underestimation of probable future losses due to the circumstance that they are often inherently difficult to estimate.

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

Risks 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 price 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 list, which also includes heavy crude qualities, has a lower American Petroleum Institute (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 Chemical 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 are mainly benchmarked to gas spot prices quoted at continental hubs. In the current trading environment, spot prices at those hubs have ceased to track the oil prices to which Eni’s long-term supply contracts are indexed.

In addition, the AEEG 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 spot prices are progressively replacing oil prices in the indexation mechanism of the raw material cost in selling formulas to those customers. See the paragraph "Risks in the Company’s gas business" above for more information.

In the Refining & Marketing and Chemical 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 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. The prices of refined products depend on global and regional supply and 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 each of the latest three fiscal years, Eni’s refining margins were largely 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 to rise and price differentials may remain compressed.

In this context, management expects that the Company’s refining margins will remain at unprofitable levels in 2014 and possibly beyond.

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 each of the latest three fiscal years, Eni’s petrochemical business reported operating losses due to unprofitable margins on basic petrochemical products, mainly the margin on cracker, reflecting high oil-based feedstock costs and as demand for petrochemical commodities plunged due to the economic downturn. A weak demand outlook and rising oil-based feedstock costs are expected to continue to adversely affect Eni’s results of operations and liquidity in this business segment in 2014 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. Eni may also incur unanticipated costs or assume unexpected liabilities and losses in connection with companies or assets it acquires. If the integration and financial risks connected to acquisitions materialize, Eni’s financial performance and shareholders’ returns may be adversely affected.

Risks deriving from Eni’s exposure to weather conditions

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

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

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

Exposure to financial risk

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

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

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

The Group’s approach to risk management includes identifying, evaluating and managing the financial risk using a top-down approach whereby the Board of Directors is responsible for establishing the Group risk management strategy and setting the maximum tolerable amounts of risk exposure. The Group’s Chief Executive Officer is responsible for implementing the Group risk management strategy, while the Group’s Chief Financial Officer is in charge of defining policies and tools to manage the Group’s exposure to financial risk, as well as monitoring and reporting activities. Various Group committees are in charge of defining internal criteria, guidelines and targets of risk management activities consistent with the strategy and limits defined at Eni’s top level, to be used by the Group’s business units, including monitoring and controlling activities. Although Eni believes it has established sound risk management procedures, trading activities involve elements of forecasting and Eni is exposed to the risks of market movements, of incurring significant losses if prices develop contrary to management expectations and of default of counterparties.

Commodity risk

Commodity risk is the risk associated with fluctuations in the price of commodities which may impact the Group’s results of operations and cash flow. Exposure to commodity risk is both of a strategic and commercial nature. Generally, the Group does not hedge its strategic exposure to commodity risk. 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 to lock in the associated commercial margin.

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

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

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

Exchange rate risk

Movements in the exchange rate of the euro against the U.S. dollar can have a material impact on Eni's results of operations. Prices of oil, natural gas and refined products generally are denominated in, or linked to, U.S. dollars, while a significant portion of Eni's expenses are denominated in euros. Similarly, prices of Eni's petrochemical products are generally denominated in, or linked to, the euro, whereas expenses in the Chemical segment are denominated both in euros and U.S. dollars. Accordingly, a depreciation of the U.S. dollar against the euro generally has an adverse impact on Eni's results of operations and liquidity because it reduces booked revenues by an amount greater than the decrease in U.S. dollar-denominated expenses and may also result in significant translation adjustments that impact Eni's shareholders' equity. The Exploration & Production segment is particularly affected by movements in the U.S. dollar versus the euro exchange rates as the U.S. dollar is the functional currency of a large part of its foreign subsidiaries and therefore movements in the U.S. dollar versus the euro exchange rate affect year-on-year comparability of results of operations. In 2013, the Exploration & Production results of operations were adversely affected by an appreciation of 3.3% of the euro against the U.S. dollar determining a lower booked operating profit when translating the dollar – denominated profit of Eni's upstream subsidiaries into the Group presentation currency which is the euro.

Susceptibility to variations in sovereign rating risk

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

Interest rate risk

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

Liquidity risk

Liquidity risk is the risk that suitable sources of funding for the Group may not be available, or the Group is unable to sell its assets on the marketplace in order to meet short-term financial requirements and to settle obligations. Such a situation would negatively impact the Group results of operations and cash flows as it would result in Eni incurring higher borrowing expenses to meet its obligations or, under the worst conditions, the inability of Eni to continue as a going concern. European and global financial markets are currently subject to volatility amid concerns over the European sovereign debt crisis and weak macroeconomic growth, particularly in the Euro-zone. If there are extended periods of constraints in the financial markets, or if Eni is unable to access the financial markets (including cases where this is due to 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 the last couple of years, the Group has experienced a higher than normal level of counterparty failure due to the severity of the economic and financial downturn and has recorded a significant increase in the amount of trade receivables due at the balance sheet date. In Eni’s 2013 Consolidated Financial Statements, Eni accrued an allowance against doubtful accounts amounting to euro 384 million, mainly relating to the Gas & Power business. Management believes that this business is particularly exposed to credit risks due to its large and diversified customer base which include a large number of medium and small sized businesses and retail customers who have been particularly impacted by the financial and economic downturn. However, trade receivable amounts due at the balance sheet date have also increased in relation to supplies of the Group products to state-owned companies, public administrations and other governmental agencies in Italy and abroad also in the Exploration & Production segment. We believe that the credit risk represents an issue to the Company which will require management focus and commitment going forward.

Critical accounting estimates

The preparation of the Consolidated Financial Statements requires the use of estimates and assumptions that affect the assets, liabilities, revenues and expenses reported in the financial statements, as well as amounts included in the notes thereto, including discussion and disclosure of contingent liabilities. Estimates made are based on complex or subjective judgments and past experience and other assumptions deemed reasonable in consideration of the information available at the time. The accounting policies and areas that require the most significant judgments and estimates to be used in the preparation of the Consolidated Financial Statements are in relation to the accounting for oil and natural gas activities, specifically the determination of proved and proved developed reserves, impairment of fixed assets, intangible assets and goodwill, asset retirement obligations, business combinations, pensions and other post-retirement benefits, recognition of environmental liabilities and other risk provisions, and recognition of revenues in the oilfield services construction and engineering businesses. Although management believes these estimates to represent the best outcome of the estimation process, actual results could differ from such estimates, due to, among other things, the following factors: uncertainty, lack or limited availability of information, availability of new informative elements, variations in economic conditions such as prices, costs, other significant factors including evolution in technologies, industrial practices and standards (e.g. removal technologies) and the final outcome of legal, environmental or regulatory proceedings.

Digital infrastructure is an important part of maintaining 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 is 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. If our systems for protecting our digital security prove not to be sufficient, either due to intentional actions such as cyber attacks or due to negligence, we could be adversely affected by, among other things, loss or damage of intellectual property, proprietary information, or customer data, having our business operations interrupted, and increased costs to prevent, respond to, or mitigate potential risks to our digital infrastructure; also, in some circumstances, failures to protect digital infrastructure could result in injury to people, damage to assets, harm to the environment, breaches of regulations, litigation, legal liabilities and reparation costs.

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

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

Because 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, marketing of gas and LNG, refining and marketing of petroleum products, power generation, production and marketing of petrochemical products, commodity trading and oilfield services and engineering industries. Eni has operations in 85 countries and 83,887 employees as of December 31, 2013.

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 42 countries, including Italy, Libya, Egypt, Norway, the United Kingdom, Angola, Congo, Nigeria, the United States, Kazakhstan, Russia, Algeria, Australia, Venezuela, Iraq and Mozambique. In 2013, Eni average daily production amounted to 1,537 KBOE/d on an available-for-sale basis. As of December 31, 2013, Eni's total proved reserves amounted to 6,535 mmBOE; proved reserves of subsidiaries totaled 5,708 mmBOE; Eni's share of reserves of equity-accounted entities was 827 mmBOE. In 2013, Eni's Exploration & Production segment reported net sales from operations (including inter-segment sales) of euro 31,264 million and operating profit of euro 14,868 million.

Eni's Gas & Power segment engages in supply, trading and marketing of gas and electricity, international gas transport activities, and LNG supply and marketing. This segment also includes the activity of electricity generation that is ancillary to the marketing of electricity. In 2013, Eni's worldwide sales of natural gas amounted to 93.17 BCM. Sales in Italy amounted to 35.86 BCM, while sales in European markets were 47.35 BCM that included 4.67 BCM of gas sold to certain importers to Italy. Eni produces power at a number of operated sites in Italy with a total installed capacity of 5.3 GW as of December 31, 2013. In 2013, sales of power totaled 35.05 TWh. In 2013, Eni's Gas & Power segment reported net sales from operations (including inter-segment sales) of euro 32,212 million and operating loss of euro 2,967 million.

Eni's Refining & Marketing segment engages in crude oil supply and refining and marketing of petroleum products at retail and wholesale markets mainly in Italy and in the rest of Europe. In 2013, processed volumes of crude oil and other feedstock amounted to 27.38 mmtonnes and sales of refined products were 43.49 mmtonnes, of which 23.34 mmtonnes in Italy. Retail sales of refined products at Eni's service stations amounted to 9.69 mmtonnes in Italy and in the rest of Europe. In 2013, Eni's retail market share in Italy through its "Eni" and "Agip" branded network of service stations was 27.5%. In 2013, Eni's Refining & Marketing segment reported net sales from operations (including inter-segment sales) of euro 57,238 million and operating loss of euro 1,492 million.

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