

## Exchange Rates

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

	High	Low	Average <sup>(1)</sup>	At period end
	(U.S. dollars per euro)			
Year ended December 31,				
2006	1.33	1.19	1.26	1.32
2007	1.49	1.29	1.37	1.46
2008	1.60	1.24	1.47	1.39
2009	1.51	1.25	1.39	1.43
2010	1.46	1.19	1.33	1.34

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

	High	Low	At period end
	(U.S. dollars per euro)		
October 2010	1.41	1.37	1.39
November 2010	1.42	1.30	1.30
December 2010	1.34	1.31	1.34
January 2011	1.34	1.29	1.34
February 2011	1.38	1.34	1.35
March 2011	1.42	1.38	1.42

Fluctuations in the exchange rate between the euro and the U.S. dollar affect the dollar equivalent of the euro price of the Shares on the Mercato Telematico Azionario (Electronic Share Market or "MTA") and the U.S. dollar price of the ADRs on the NYSE. Exchange rate fluctuations also affect the U.S. dollar amounts received by owners of ADRs upon conversion by the Depository of cash dividends paid in euro on the underlying Shares. The Noon Buying Rate on March 31, 2011 was \$1.42 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 Exploration & Production business, 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 in many of these markets because of its relatively smaller size compared to other international oil companies, particularly when bidding for large scale or capital intensive projects, and may be exposed to industry-wide cost increases to a greater extent compared to its larger competitors given its potentially smaller market power with respect to suppliers. If, as a result of those competitive pressures, Eni fails to obtain new exploration and development acreage, to apply and develop new technologies, and to control cost increases, its growth prospects and future results of operations and cash flows may be adversely affected.
- In its natural gas business, Eni faces increasingly strong competition on both the Italian market and the European market driven by moderate growth prospects for demand over the short and medium-term, in the face of large gas availability on the marketplace. The latter was driven by material investments to expand

import capacity to Europe via pipeline which have been made by a number of operators, including Eni, in recent years. Also large availability of LNG on a worldwide scale has found an outlet at the European continental hubs driving the development of highly liquid spot gas markets. LNG availability was fuelled by the ramp-up of important upstream projects worldwide (new treatment trains in Qatar, Yemen and Russia) and commercial development of non-conventional gas resources in the USA which have reduced dependence on LNG imports. As natural gas is a commodity, gas oversupplies have caused suppliers to compete more aggressively on pricing thus pressuring gas margins in the whole sector. Management believes that a better balance between demand and supply on the European market will not be achieved until 2014 at the earliest.

The described trends may negatively affect the Company's future results of operations and cash flow in its natural gas business, also taking into account the Company's contractual obligations to off-take minimum annual volumes of natural gas in accordance to its long-term gas supply contracts that include take-or-pay clauses. See the sector-specific risk section below.

- Eni also faces competition from large, well-established European utilities and other international oil and gas companies in growing its market share and acquiring or retaining clients. A number of large clients, particularly electricity producers, in both the domestic market and other European markets have entered the wholesale market of natural gas by directly purchasing gas from producers and reselling it to wholesale or retail markets. At the same time, a number of national gas producers from countries with large gas reserves are planning to sell natural gas directly to final clients, which would threaten the market position of companies like Eni which resell gas purchased from producing countries to final customers. These developments may increase the level of competition in both the Italian and other European markets for natural gas and reduce Eni's operating profit and cash flows.
- In its domestic electricity business, Eni competes with other producers and traders from Italy or outside of Italy who sell electricity on the Italian market. The Company expects in the near future that increasing competition due to the weak GDP growth expected in Italy and Europe over the next one to two years will cause outside players to place excess production on the Italian market.
- In retail marketing of refined products both in and outside Italy, Eni competes with third parties (including international oil companies and local operators such as supermarket chains) to obtain concessions to establish and operate service stations. Once established, Eni's service stations compete primarily on the basis of pricing, services and availability of non-petroleum products. In Italy, there is pressure from political and administrative entities, including the Italian Antitrust Authority, to increase levels of competition in the retail marketing of fuels. Eni expects developments on this issue to further increase pressure on selling margins in the retail marketing of fuels.
- In the Petrochemical segment, we face intense competition from well-established international players and state-owned petrochemical companies, particularly in the most commoditized market segments. Many of those competitors may benefit from cost advantages due to larger scale, looser environmental regulations, availability of oil-based feedstock, and more favorable location and proximity to end-markets. Excess capacity and sluggish economic growth may exacerbate competitive pressures. The Company expects continuing margin pressures in the foreseeable future as a result of those trends.
- Competition in the oil field services, construction and engineering industries is primarily based on technical expertise, quality and number of services and availability of technologically advanced facilities (for example, vessels for offshore construction). Lower oil prices could result in lower margins and lower demand for oil services.

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

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

The exploration and production of oil and natural gas requires high levels of capital expenditures and entails particular economic risks. It is subject to natural hazards and other uncertainties including those relating to the physical characteristics of oil and natural gas fields.

Eni's results depend on its ability to identify and mitigate the risks and hazards inherent to operating in the crude oil and natural gas industry. The Company seeks to minimize these operational risks by carefully designing and building its facilities and conducting its operations in a safe and reliable manner. However, failure to manage these risks effectively could result in unexpected incidents, including releases, explosions or mechanical failures resulting in personal injury, loss of life, environmental damage, loss of revenues, legal liability and/or disruption to operations. As recent events in the Gulf of Mexico have shown, exploration and production carries certain inherent risks, especially deep water drilling. Accidents at a single well can lead to loss of life, environmental damage and consequently potential economic losses that could have a material and adverse effect on the business, results of operation and prospects of the Group. Eni has implemented and maintains a system of policies, procedures and compliance mechanisms to manage safety, health, environmental, reliability and efficiency risks; to verify compliance with applicable laws and policies; and to respond to and learn from unexpected incidents. Nonetheless,

in certain situations where Eni is not the operator, the Company may have limited influence and control over third parties, which may limit its ability to manage and control such risks. Eni maintains insurance coverage that include coverage for physical damage to our assets, third party liability, workers' compensation, pollution and other damage to the environment and other coverage. Our insurance is subject to caps, exclusion and limitation, and there is no assurance that such coverage will adequately protect us against liabilities from all potential consequences and damages. In light of the accident at the Macondo well in the Gulf of Mexico, we may not be able to secure similar coverage for the same costs. Future insurance coverage for our industry could increase in cost and may include higher retentions. Also, some forms of insurance may become unavailable in the future or unavailable on terms that we believe are economically acceptable.

The 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.

*Exploratory drilling efforts may be unsuccessful*

Drilling for oil and gas involves numerous risks including the risk of dry holes or failure to find commercial quantities of hydrocarbons. The costs of drilling, completing and operating wells are often uncertain, and drilling operations may be unsuccessful as a result of a variety of factors, including unexpected drilling conditions, pressure or irregularities in formations, equipment failures or fires, blow-outs and various forms of accidents, marine risks such as collisions and adverse weather conditions and shortages or delays in the delivery of equipment. Exploring or drilling in offshore areas, particularly in deep waters, is generally more complex and riskier than in onshore areas; the same is true for exploratory activity in remote areas or in challenging environmental conditions such as those we are experiencing in the Caspian region or Alaska. 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 invest significant capital expenditures in executing high risk exploration projects, it is likely that Eni will incur significant exploration and dry hole expenses in future years. Eni plans to explore for oil and gas offshore; a number of projects are planned in deep and ultra-deep waters or at deep drilling depths, where operations are more difficult and costly than in other areas. Deep water operations generally require a significant amount of time before commercial production of reserves can commence, increasing both the operational and financial risks associated with these activities. The Company plans to conduct risky exploration projects offshore the Gulf of Mexico, Egypt, Angola, Italy, Australia, Nigeria and Norway. In 2010, the Company invested approximately euro 1 billion in executing exploration projects and it plans to spend approximately euro 0.9 billion per annum on average over the next four years.

Furthermore, shortage of deep water rigs and failure to find additional commercial reserves could reduce future production of oil and natural gas which is highly dependent on the rate of success of exploratory activity.

*The oil and gas industry may face increased regulation both in the USA and elsewhere that could increase the cost of regulatory compliance and may require changes to our drilling operations and exploration and development plans and may lead to higher royalties and taxes*

The recent incident at the BP-operated Macondo well in the Gulf of Mexico is likely to result in more stringent regulation of oil and gas activities in the U.S. and elsewhere, particularly relating to environmental and health and safety protection controls and oversight of drilling operations, as well as access to new drilling areas. The U.S. Government had imposed a six-month moratorium, which was suspended in October 2010, on certain offshore drilling activities. The moratorium forced Eni's management to reschedule certain projects and caused delays in linking a few wells to production facilities, which had a negligible impact on the Company's production for the year. In addition, the Group incurred operating costs related to inactivity or redeployment of certain drilling rigs which were booked before the moratorium. During the first months of 2011, Eni expects to resume the operations that had been previously authorized and then suspended following the moratorium. Planned activities for which authorizations have still to be granted may be rescheduled due to uncertainties in the timing of obtaining the necessary authorizations from the U.S. Authorities. Similar actions have been taken by governments elsewhere in the world. The European Parliament has increased regulations in the area of environmental protection in the field of hydrocarbon extraction and Italian Authorities have passed legislation that would introduce certain restrictions to activities for exploring and producing hydrocarbons. These new regulations and legislation, as well as evolving practices, could increase the cost of compliance and may require changes to our drilling operations and exploration and development plans and may lead to higher royalties and taxes.

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

Eni is involved in a number of development projects for producing hydrocarbon reserves. Certain projects are planned to develop reserves in high risk areas, particularly offshore and in remote and hostile environments. Eni's future results of operations and liquidity rely upon its ability to 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, suppliers, customers or others including, for example, Eni's ability to negotiate favorable long-term contracts with customers; the development of reliable spot markets that may be necessary to support the development of particular production projects, or commercial arrangements for pipelines and related equipment to transport and market hydrocarbons. Furthermore, 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;
- timely issuance of permits and licenses by government agencies;
- the Company's relative size compared to its main competitors which may prevent it from affording opportunities to participate in large-scale projects or affect its ability to reap benefits associated with economies of scale, for example by obtaining more favorable contractual terms by suppliers of goods and services;
- the ability to design development projects so as to prevent the occurrence of technical inconvenience;
- delays in manufacturing and delivery of critical equipment, or shortages in the availability of such equipment, causing cost overruns and delays;
- risks associated with the use of new technologies and the inability to develop advanced technologies to maximize the recoverability rate of hydrocarbons or gain access to previously inaccessible reservoirs;
- changes in operating conditions and costs. The industry has been impacted for a few years to date by rising trends in the cost for certain critical productive factors including specialized labor, procurement costs and costs for leasing third party equipment or purchase services such as drilling rigs as a result of industry-wide cost inflation. 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.

Furthermore, deep waters and other hostile environments, where the majority of Eni's planned and existing development projects are located, can exacerbate these problems. Delays and differences between scheduled and actual timing of critical events, as well as cost overruns may adversely affect actual returns of development projects. Finally, developing and marketing hydrocarbons reserves typically requires several years after a discovery is made. This is because a development project involves an array of complex and lengthy activities, including appraising a discovery in order to evaluate its commercial potential, sanctioning a development project and building and commissioning related facilities. As a consequence, rates of return for such long-lead-time projects are exposed to the volatility of oil and gas prices which may be substantially lower with respect to prices assumed when the investment decision was actually made, leading to lower rates of return. For example, we have experienced material cost overruns and a substantial delay in the scheduling of production start-up at the Kashagan field, where development is ongoing. Those negative trends were driven by a number of factors including depreciation of the U.S. dollar versus the euro and other currencies; cost escalation of goods and services required to execute the project; an original underestimation of the costs and complexity to operate in the North Caspian Sea due to lack of benchmarks; design changes to enhance the operability and safety standards of the offshore facilities. The partners of the venture are currently discussing an update of the expenditures and time schedule to complete the Phase 1 which were included in the development plan approved in 2008 by the relevant Kazakh Authorities. The Consortium continues to target the achievement of first commercial oil production by end of 2012. However, the timely delivery of Phase 1 depends on a number of factors which are presently under review.

See "Item 4 – Exploration & Production – Caspian Sea" for a full description of the material terms of the Kashagan project.

In the event 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.

*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. In 2010, the Company's reserve replacement was negatively affected by lower entitlements in its PSAs for an estimated amount of 80 mmBOE, which however did not impair the Company's ability to fully replace reserves produced in the year. Due to ongoing trends in crude oil prices, the Company expects a risk of lower production and reserve entitlement relating to its PSA contracts to occur in 2011. See "Item 4 – Business Overview – Exploration & Production" and "Item 5 – Management's Expectations of Operations". Future oil and gas production is dependent on the Company's ability to access new reserves through new discoveries, application of improved techniques, success in development activity, negotiation with countries and other owners of known reserves and acquisitions. An inability to replace reserves could adversely impact future production levels and growth prospects, thus negatively affecting Eni's future results of operations and financial condition.

#### *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 flow. Eni generally does not hedge exposure to fluctuations in future cash flows due to crude oil price movements. As a consequence, Eni's profitability depends heavily on crude oil and natural gas prices.

Crude oil and natural gas prices are subject to international supply and demand and other factors that are beyond Eni's control, including among other things:

- (i) the control on production exerted by the Organization of the Petroleum Exporting Countries ("OPEC") member countries which control a significant portion of the world's supply of oil and can exercise substantial influence on price levels;
- (ii) global geopolitical and economic developments, including sanctions imposed on certain oil-producing countries on the basis of resolutions of the United Nations or bilateral sanctions;
- (iii) global and regional dynamics of demand and supply of oil and gas; in the current economic downturn we have experienced a significant reduction in worldwide demand for crude oil and in the European gas demand which have negatively impacted crude oil and natural gas prices;
- (iv) prices and availability of alternative sources of energy;
- (v) governmental and intergovernmental regulations, including the implementation of national or international laws or regulations intended to limit greenhouse gas emissions, which could impact the prices of hydrocarbons; and
- (vi) success in developing and applying new technology.

All these factors can affect the global balance between demand and supply for oil and prices of oil. Such factors can also affect the prices of natural gas because natural gas prices for the major part of our supplies are typically indexed to the prices of crude oil and certain refined petroleum products.

Furthermore, lower oil and gas prices over prolonged periods may also adversely affect Eni's results of operations and cash flow 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 impairments charges.

#### *Uncertainties in Estimates of Oil and Natural Gas Reserves*

Numerous uncertainties are inherent in estimating quantities of proved reserves and in projecting future rates of production and timing of development expenditures. The accuracy of proved reserve estimates depends on a number of factors, assumptions and variables, among which the most important are the following:

- the quality of available geological, technical and economic data and their interpretation and judgment;
- projections regarding future rates of production and timing of development expenditures;
- whether the prevailing tax rules, other government regulations and contractual conditions will remain the same as on the date estimates are made;
- results of drilling, testing and the actual production performance of Eni's reservoirs after the date of the estimates which may require substantial upward or downward revisions; and

- changes in oil and natural gas prices which could affect the quantities of Eni's proved reserves since the estimates of reserves are based on prices and costs existing as of the date when those estimates are made. In particular the reserves estimates are subject to revisions as prices fluctuate due to the cost recovery mechanism under the Company's PSAs and similar contractual schemes.

Many of these factors, assumptions and variables involved in estimating proved reserves are beyond Eni's control and may change over time and impact the estimates of oil and natural gas reserves. Accordingly, the estimated reserves could be significantly different from the quantities of oil and natural gas that will ultimately be recovered. Additionally, any downward revision in Eni's estimated quantities of proved reserves would indicate lower future production volumes, which could adversely impact Eni's results of operations and financial condition.

#### *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 those 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 of 38%. In 2010, management estimates that the tax rate of the Company's Exploration & Production segment 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 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.

#### **Political Considerations**

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

Substantial portions of Eni's hydrocarbon reserves are located in countries outside the EU and North America, some of which may be politically or economically less stable than EU or North American countries. As of December 31, 2010, approximately 80% of Eni's proved hydrocarbon reserves were located in such countries. Similarly, a substantial portion of Eni's natural gas supplies comes from countries outside the EU and North America. In 2010, approximately 60% of Eni's supplies of natural gas came from such countries. See "Item 4 - Gas & Power - Natural Gas Supplies". Adverse political, social and economic developments in any of those countries may 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. Particularly 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. For example, Sonatrach, the Algerian national oil company, is seeking to modify the contractual terms of certain PSAs in which Eni is a party to achieve a redistribution of the tax burden of such PSAs. Sonatrach alleges that it is currently bearing part of the tax burden attributable to Eni following the enactment of certain modifications to the country's tax regime. In case those negotiations result in a negative outcome for Eni, the future profitability of certain of Eni's PSAs in Algeria will be reduced. For more information on this matter see "Item 4 - Exploration & Production - Algeria". Furthermore, as of the balance sheet date receivables for euro 482 million relating cost recovery under a petroleum contract in a non-OECD country were the subject of an arbitration proceeding. Similar issues are also being experienced in Kazakhstan where there is a dispute in relation to certain unresolved items of expenditure incurred by the operating company Karachaganak Petroleum Operating BV which has led to the Kazakh Authorities making certain claims against the company on the base of audits performed relating to prior years 2003-2007. Parties are negotiating in order to settle the dispute;
- (iii) restrictions on exploration, production, imports and exports;
- (iv) tax or royalty increases (including retroactive claims); and

(v) civil and social unrest leading to sabotages, acts of violence and incidents.

See "Item 4 – Exploration & Production – Oil and Natural Gas Reserves". While the occurrence of those events is unpredictable, it is likely that the occurrence of such events could cause Eni to incur material losses or facility disruptions, by this way adversely impacting Eni's results of operations and cash flows.

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

In recent months, several North African and Middle Eastern oil producing countries have experienced and continue to experience an extreme level of political instability that has resulted in changes in governments, unrest and violence and consequential economic disruptions. Further material changes are likely but largely unpredictable. Such instability is affecting, in particular, Libya. In 2010, approximately 15% of Eni's production originated from Libya and a material amount of Eni's proved reserves were located in Libya. Following suspension of activities at several of Eni's producing sites in Libya and the closure of the GreenStream pipeline transporting gas from Libya to Italy, Eni's production in Libya as of end of March 2011, was flowing at a rate ranging from 70 to 75 KBOE/d compared to an expected level for 2011 of approximately 280 KBOE/d. Production is continuing to decline. Closure of the GreenStream pipeline has also been impacting our gas sales in the Gas & Power Division. The majority of Eni's employees in Libya have left the country. Due to the outbreak of political unrest in Libya, in February and March 2011, the US, the UN, the EU and several countries implemented certain sanctions in relation to Libya. Future developments in Libya, which we are currently unable to predict, may have a material adverse effect on Eni's financial condition, results of operations and Libyan assets. Please see Item 4 for additional details of our operations in Libya and the impact of recent developments on our operations.

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

Eni is currently conducting oil and gas operations in Iran. The legislation and other regulations of the USA that target Iran and persons who have certain dealings with Iran may lead to the imposition of sanctions on any persons doing business in Iran or with Iranian counterparties.

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

CISADA also adopted measures designed to reduce the President's discretion in enforcement under the ISA, including a requirement for the President to undertake an investigation upon being presented with credible evidence that a person is engaged in sanctionable activity. CISADA also added to the ISA provisions that an investigation need not be initiated, and may be terminated once begun, if the President certifies in writing to the U.S. Congress that the person whose activities in Iran were the basis for the investigation is no longer engaging in those activities or has taken significant steps toward stopping the activities, and that the President has received reliable assurances that the person will not knowingly engage in any sanctionable activity in the future. The President also may waive sanctions, subject to certain conditions and limitations.

The USA maintains broad and comprehensive economic sanctions targeting Iran that are administrated by the U.S. Treasury Department's Office of Foreign Assets Control ("OFAC sanctions"). These sanctions generally restrict the dealings of U.S. citizens and persons subject to the jurisdiction of the USA. In addition, we are aware of initiatives by certain U.S. states and U.S. institutional investors, such as pension funds, to adopt or consider adopting



laws, regulations or policies requiring divestment from, or reporting of interests in, companies that do business with countries designated as states sponsoring terrorism. CISADA specifically authorized certain state and local Iran-related divestment initiatives. If our operations in Iran are determined to fall within the scope of divestment laws or policies, sales resulting from such divestment laws and policies, if significant, could have an adverse effect on our share price. Even if our activities in and with respect to Iran do not subject us to sanctions or divestment, companies with investments in the oil and gas sectors in Iran may suffer reputational harm as a result of increased international scrutiny.

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

Eni Exploration & Production Division has been operating in Iran for several years under four Service Contracts (South Pars, Darquain, Dorood and Balal, these latter two projects being operated by another international oil company) entered into with the National Iranian Oil Co (NIOC) between 1999 and 2001, and no other exploration and development contracts have been entered into since then. Under such Service Contracts, Eni has carried out development operations in respect of certain oil fields, and is entitled to recovery of expenditures made, as well as a service fee. The service contracts do not provide for payments to be made by Eni, as contractor, to the Iranian Government (e.g. leasing fees, bonuses, significant amounts of local taxes); all material future cash flows relate to the payment to Eni of its dues. All projects mentioned above have been completed or substantially completed; the last one, the Darquain project, is in the process of final commissioning and is being handed over to the NIOC. Eni Exploration & Production projects in Iran are currently in the cost recovery phase. Therefore, Eni has ceased making any further investment in the country and is not planning to make additional capital expenditures in Iran in any year subsequent to 2010. Eni's other significant involvement in Iran is that, from time to time, Eni may purchase Iranian-origin crude oil. Eni has no involvement in Iran's refined petroleum sector, and does not export refined petroleum to Iran. In addition, we have occasionally entered into licensing agreement with certain Iranian counterparties for the supply of technologies in the petrochemical sector. In 2010, Eni's production in Iran averaged 21 KBOE/d, representing approximately 1% of the Eni Group's total production for the year. Eni's entitlement in 2010 represented less than 10% of the overall production from the oil and gas fields that we have developed in Iran. Eni does not believe that the results from its Iranian activities have or will have a material impact on the Eni Group's results.

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

With respect to segments other than Exploration & Production, our Refining & Marketing segment has historically purchased amounts of Iranian crude oil under a term contract with the NIOC and on a spot basis. We purchased 1.42 mmt tonnes, 980 ktonnes and 1.63 mmt tonnes in 2008, 2009 and 2010, respectively. We paid NIOC \$953 million in 2008, \$419 million in 2009 and \$888 million in 2010 for those purchases.

In addition in the three-year period 2008-2010 we purchased crude oil from international traders and oil companies who, based on bills of loading and shipping documentation available to us, we believe purchased the crude oil from Iranian companies. Purchases were mainly on spot basis. In 2008, we purchased 1.3 mmt tonnes of crude oil amounting to \$830 million; in 2009, we purchased 278 ktonnes of crude oil amounting to \$147 million and in 2010, we purchased 2.09 mmt tonnes of crude oil amounting to \$1.1 billion.

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



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

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

We purchased 329 ktonnes, 241 ktonnes and 321 ktonnes in 2008, 2009 and 2010, respectively. We paid Syrian Petrol Company \$227 million in 2008, \$92 million in 2009 and \$163 million in 2010 for those purchases.

In 2008, we also purchased 184 ktonnes of crude oil amounting to \$73 million and in 2010 we purchased 115 ktonnes of crude oil amounting to \$59 million, in each case from international traders who, based on bills of loading and shipping documentation available to us, we believe purchased those raw materials from Syrian companies.

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. However, we have recently been exploring investment opportunities in Syria.

### ***Cyclicalities of the Petrochemical Industry***

The petrochemical industry is subject to cyclical fluctuations in demand in response to economic cycles, with consequential effects on prices and profitability exacerbated by the highly competitive environment of this industry. Eni's petrochemical operations have been in the past and may be adversely affected in the future by worldwide economic slowdowns, intense competitive pressures and excess installed production capacity. Furthermore, Eni's petrochemical operations face increasing competition from Asian companies and national oil companies' petrochemical divisions which can leverage on long-term competitive advantages in terms of lower operating costs and feedstock purchase costs. Particularly, Eni's petrochemical operations are located mainly in Italy and Western Europe where the regulatory framework and public environmental sensitivity are generally more stringent than in other countries, especially Far East countries, resulting in higher operating costs of our petrochemical operation compared to the Company's Asiatic competitors due to the need to comply with applicable laws and regulations in environmental and other related matters. Additionally, our petrochemical operations lack sufficient scale and competitiveness in a number of sites. Due to weak industry fundamentals, intense competitive pressures and high feedstock costs, our petrochemicals operations incurred substantial operating losses in both 2009 and 2008 of euro 675 million and euro 845 million, respectively. However, results in 2010 improved substantially and operating loss diminished to euro 86 million due to demand recovery, cost efficiencies and better unit margins, while the overall profitability was impaired by higher oil-based feedstock costs. Looking forward, management expects that while any strengthening in the global recovery may benefit demand for our products, continuing increases in the cost of oil represent a risk to the profitability of the Company's petrochemicals operation as it may be difficult transferring higher feedstock costs to end-prices of products 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 segment***

#### ***i) Risks associated with the Trading Environment and Competition in the Industry***

*In 2010, the Company's results of operations and cash flow were negatively affected by lower sales volumes and reduced unit margins due to increasing competitive pressures arising from large gas availability on the marketplace. We expect continuing competitive pressures and oversupply to affect our results in 2011 and beyond*

In 2010, gas demand in Italy and Europe rebounded from the depressed levels registered in the previous year, growing by 6% and 4%, respectively. Consumption volumes, however, remained below the pre-crisis levels seen in 2007. The Eni gas business failed to benefit from demand growth in 2010 as sales volumes declined by 6.4% from 2009 with Italy posting the largest decrease, with direct sales to customers down by 14.4% and sales to importers to Italy down by 19.5% driven by rising competitive pressures which also dragged down unit selling margins on gas sales in Italy. The Company's results in its European markets business unit were affected by lowering average gas selling margins as gas spot prices at continental hubs were dragged down by large availability of LNG and competitive pressures. While spot prices have increasingly been adopted as contractual benchmarks in selling formulae outside Italy, the Company's cost of supplies remained linked to trends in oil prices as provided by its long-term contractual arrangements to purchase gas from suppliers. As a result the Company's unit margins outside Italy fell sharply in 2010. Management believes that those trends will continue weighing on the gas business' future results of operations and cash flows over the next three years.

*A recovery in profitability of the Company's marketing business depends heavily on the management's assumption to be able to renegotiate better contractual terms within the Company's long-term gas supply contracts*

The industrial and financial forecasts for the next four-year plan of the gas business as well as the amount of the impairment loss recognized in 2010 Consolidated Financial Statements both take into consideration management assumptions that the Company's long-term gas purchase contracts will be renegotiated at better economic terms for Eni, so as to restore the competitiveness of the Company's cost position in the current depressed scenario for the gas sector. The renegotiation of revised contractual terms, including any price revisions and contractual flexibility, is established by such contractual clauses whereby parties are held to bring the contract back to the economic equilibrium in case of significant changes in the market environment, like the ones that have been occurring since the second half 2008. In the course of 2010, Eni has finalized a number of important contractual renegotiations by obtaining improved economic conditions for supplies and wider contractual flexibility with a benefit to its commercial programs. A number of renegotiations have been commenced or are due to commence in the upcoming months involving all the Company's main suppliers of gas based on long-term contracts. Should the outcome of those renegotiations fall short of management's expectations and absent a solid recovery in fundamentals of the gas sector, management believes that future results of operations and cash flows of the Company's gas business will be negatively affected with further consequences in terms of recoverability of the carrying amounts of the gas business assets. In 2010 Consolidated Financial Statements, the Company recorded an impairment loss of euro 425 million related to its goodwill in the European gas business; for further information see "Item 5 – Operating and Financial Review and Prospects – Group Results of Operations".

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

Management estimates that long-term demand growth will achieve an average rate of 1.7% and 1.1% in Italy and Europe, respectively, until 2020. Those estimates have been revised down from previous management projections to factor in the expected impacts associated with a number of ongoing trends:

- uncertainties and volatility in the current macroeconomic cycle;
- growing adoption of consumption patterns and life-style characterized by wider sensitivity to energy efficiency;
- EU policies intend to reducing GHG emissions and promoting renewable energy source. For further information about the Company's outlook for gas demand see "Item 4 – Gas & Power".

The projected moderate dynamics in demand development will not be sufficient to balance current oversupplies on the marketplace over the next three years according to management's estimates. Gas oversupplies have been increasing in recent years as new, large investments to upgrade import pipelines to Europe have come online from Russia, Libya and Algeria, and large availability of LNG on a worldwide scale has found an outlet at the European continental hubs driving the development of very liquid spot gas markets. Also, certain Eni's competitors are currently assessing the economic feasibility of new gas import infrastructures, targeting 5-10 BCM of capacity expansion online from 2015-2016 according to management's assumptions.

Management believes that a better balance between demand and supply will not be achieved until 2014, at the earliest. Those 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 off-take obligations in connection with its take-or-pay, long-term gas supply contracts*

In order to secure long-term access to gas availability, particularly with a view of supplying the Italian gas market, Eni has signed a number of long-term gas supply contracts with key producing countries that supply the European gas markets. Those contracts have been ensuring approximately 80 BCM of gas availability from 2010 (including the Distrigas portfolio of supplies) with a residual life of approximately 19 years and a pricing mechanism indexed to the price of crude oil and its derivatives (gasoil, fuel oil, etc.). The contracts provide take-or-pay clauses whereby the Company is required to collect minimum pre-determined volumes of gas in each year of the contractual term or, in case of failure, to pay the whole price, or a fraction of that price, applied to uncollected volumes 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 pre-payments and time schedules for collecting pre-paid gas vary from contract to contract. Generally, cash pre-payments are calculated on the basis of the energy prices current in the year of non-fulfillment with the balance due in the year when the gas is actually collected. Amounts of pre-payments range from 10 to 100 percent 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, rights to collect pre-paid gas in future years can be exercised provided that the Company

has fulfilled its minimum take obligation in a given year and within the limit of the maximum annual quantity that can be collected in each contractual year. In this case, Eni will pay the residual price calculating it as the percentage that complements 100%, based on the arithmetical average of monthly base prices current in the year of the off-take. Similar considerations apply to ship-or-pay contractual obligations.

Management believes that the current outlook for moderate gas demand growth and large gas availability on the marketplace, the possible evolution of sector-specific regulation, as well as the de-coupling between trends in gas prices indexed to oil versus gas benchmark prices at spot markets, represent risks factors to the Company's ability to fulfill its minimum take obligations associated with its long-term supply contracts.

In 2009 and 2010, Eni 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 for an amount of euro 1.44 billion as of December 31, 2010. The Company's ability to recover those pre-paid volumes within contractual terms will depend in future years on a number of factors, including the possible evolution of the market environment and the competitiveness of Eni's cost position, with this latter being influenced by the Company's ability to renegotiate better contractual terms of its long-term purchase contracts (see paragraph above).

In case Eni fails to off-take the contractual minimum amounts, it will be exposed to a price risk, because the purchase price Eni will ultimately be required to pay is based on prices prevailing after the date on which the off-take obligation arose. In addition, Eni is subject to the risk of not being able to dispose of pre-paid volumes. The Company also expects to incur financing costs to pay cash advances corresponding to contractual minimum amounts. As a result, the Company's selling margins, results of operations and cash flow may be negatively affected.

For further information on the Company's take-or-pay contracts see "Item 4 - Gas & Power - Purchases".

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

Over the medium-term, Eni plans to increase its natural gas sales in Europe leveraging on its natural gas availability under take-or-pay purchase contracts, availability of transport rights and storage capacity, and widespread commercial presence in Europe which benefited from synergies from integrating the Belgian gas operator Distrigas acquired in 2009. Should Eni fail to increase natural gas sales in Europe as planned due to poor strategy execution or competition, Eni's future growth prospects, results of operations and cash flows might be adversely affected also taking account that Eni might be unable to fulfill its contractual obligations to purchase certain minimum amounts of natural gas based on its take-or-pay purchase contracts currently in force.

#### **ii) Risks associated with sector-specific regulations in Italy**

*The natural gas market in Italy is highly regulated in order to favor the opening of the market and development of competition*

In 2010, the regulated period for gas antitrust thresholds defined by Legislative Decree No. 164 of May 23, 2000 expired. Those thresholds defined maximum allowed limits of gas volumes (imported or domestically produced) input into the national transport network and marketed to final customers, applicable to each operator.

That system of antitrust thresholds was replaced with a mechanism of market shares enacted by Legislative Decree No. 130 of August 13, 2010. The Decree introduced a 40% ceiling to the wholesale market share of each Italian gas operator. This ceiling can be raised to 55.9% in case an operator commits itself to building new storage capacity in Italy for a total of 4 BCM within five years. The new capacity shall be allocated to industrial and power generation customers. In case of breaching the mandatory thresholds, an operator is obliged to execute gas release measures at regulated prices. Eni plans to build new storage capacity and, in the meantime, intends to adopt measures and bear the associated expenses to make 50% of that planned capacity available to requesting customers (for further information see "Operating Review of the Gas & Power Division - Paragraph Regulation"). Eni believes that this new gas regulation will increase competitiveness in the wholesale natural gas market in Italy.

Further material aspects regarding the Italian gas sector regulations are regulated access to infrastructures (transport backbones, storage fields, distribution networks and LNG terminals), the unbundling of activities relating to infrastructures within vertically-integrated group companies, from July 1, 2008 (as defined by Decision No. 11/2007 and updated by Resolution No. 253/2007 of the Authority for Electricity and Gas). Also the Italian Authority for Electricity and Gas is entrusted with certain powers in the matters of setting tariffs for transport, distribution, storage and re-gasification services, as well as in approving specific codes for each regulated activity,

monitoring natural gas prices and setting pricing mechanisms for supplies to residential users consuming less than 200,000 CM/y. See next paragraph.

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

The Authority for Electricity and Gas is entrusted with certain powers in the matters of natural gas pricing. Specifically, the Authority for Electricity and Gas holds a general surveillance power on pricing in the natural gas market in Italy and the power to establish selling tariffs for the supply of natural gas to residential and commercial users consuming less than 200,000 CM/y (qualified as non eligible customers as of December 31, 2002 as defined by Legislative Decree No. 164/2000) taking into account the public goal of containing the inflationary pressure due to rising energy costs. Accordingly, decisions of the Authority for Electricity and Gas on these matters may limit the ability of Eni to pass an increase in the cost of the raw material onto final consumers of natural gas. The indexation mechanism set by the Authority for Electricity and Gas with Resolution No. 64/2009 basically provides that the cost of the raw material in pricing formulae to the residential sector be indexed to movements in a basket of hydrocarbons. In 2010, the Authority for Electricity and Gas with Resolution ARG/gas 89/10 amended that indexation mechanism and established a fixed reduction of 7.5% of the raw material cost component in the final price of supplies to residential users be applied in the thermal year October 1, 2010-September 30, 2011. This resolution will negatively affect Eni's future results of operations and cash flows, considering the negative impact on unit margins in sales to residential customers. Administrative appeals against the Authority's resolution, which have been filed by many operators including Eni, might possibly impact that matter.

Management cannot exclude the possibility that in the future the Authority for Electricity and Gas could implement further measures in this matter which may negatively affect Eni results of operations and liquidity.

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

Other risk factors deriving from the regulatory framework are associated with regulation of the access to the Italian gas transport network that is currently set by Decision No. 137/2002 of the Authority for Electricity and Gas. The decision is fully-incorporated into the network code presently in force as prepared by the system's operator. The decision sets priority criteria for transport capacity entitlements at points where the Italian transport network connects with international import pipelines (the so-called entry points to the Italian transport system). Specifically, operators that are party to take-or-pay contracts, as in the case of Eni, are entitled to a priority in allocating available transport capacity within the limit of average daily contractual volumes. Gas volumes exceeding average daily contractual volumes are not entitled to any priority and, in case of congestion at any entry points, they are entitled available capacity on a proportionate basis together with all pending requests for capacity assignments. Under its take-or-pay purchase contracts, Eni may off-take daily volumes in excess of average daily contractual volumes. This flexibility is important to Eni's commercial programs as it is used when demand peaks, usually during the wintertime. In the event congestion occurs at entry points to the Italian transport network, based on current regulations, available transport capacity would be entitled firstly to operators having a priority right, i.e. holders of take-or-pay contracts within the limits of average daily contractual volumes. Then any residual available transport capacity would be allocated in proportion to all pending capacity requests. Eni believes that Decision No. 137/2002 is in contrast with the rationale of the European regulatory framework on the gas market as provided in European Directive No. 2003/55/EC. The Company, based on that belief, has commenced an administrative procedure to repeal Decision No. 137/2002 before an administrative court which recently confirmed in part Eni's position. An administrative appeals court also confirmed the Company's position. Specifically, the Court stated that the purchase of the contractual flexibility is an obligation on part of the importer, which responds to a collective interest. According to the Court, there is no reasonable motivation whereby volumes corresponding to such contractual flexibility should not be granted priority in access to the network, also in case congestion occurs. At the moment, however, no case of congestion occurred at entry points to the Italian transport infrastructure such to impairing Eni's marketing plans.

Management believes that Eni's results of operations and cash flows could be adversely affected should a combination of market conditions and regulatory constraints prevent Eni from fulfilling its minimum take contract obligations. See "Item 5 - Outlook".

*A number of mandatory gas release measures and other administrative measures have been recently implemented in Italy resulting in a negative impact on Eni's results of operations and liquidity. It is possible that similar measures will be implemented in future years*

Gas release measures are administrative acts whereby Eni is obliged to dispose of certain amounts of gas at set prices and conditions as provided in the relevant gas release measure. Those measures are intended to increase flexibility and liquidity in the gas market. This measure strongly affected Eni's marketing activity in Italy. In 2007, Eni agreed to adhere to a gas release program involving 4 BCM which were disposed of in a two-year period (from October 1, 2007 to September 30, 2009). For thermal year 2009/2010 Italian Law No. 99/2009 obliged Eni to dispose of 5 BCM of gas in yearly and half-yearly amounts. Although the allotment procedure (bid) was based on a minimum price set by the Ministry for Economic Development, only 1.1 BCM were awarded out of the planned 5 BCM. The price set by the Ministry was lower than the average price of Eni's sales in Italy.

For the next few years, based on indications made by the AEEG (in a report to the Parliament on the situation of the gas and electricity market in Italy as provided in Resolution PAS 3/2010), Eni cannot exclude the possibility that the Company may be obliged to implement new gas release programs. As a consequence, future results and cash flows could be negatively affected.

In 2010, a national trading platform was implemented where gas importers must trade volumes of gas corresponding to a legal obligation on part of Italian importers and producers. Under those provisions, importers from extra-EU countries are required to supply a set percentage of imported volumes in a given thermal year and to trade them at the national trading platform on a spot basis. Fulfillment of that obligation is a condition for the importer to be permitted to import gas from extra-EU countries. Also royalties in-kind owed to the Italian State on gas production are to be traded on that trading platform. The new trading platform is expected to develop a spot market for natural gas in Italy.

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

Italian administrative and governmental institutions and political forces are urging a higher degree of competition in the Italian natural gas market and this may produce significant developments in this area.

In 2003, Law No. 290 was enacted in Italy which prohibits Eni from holding an interest higher than 20% in undertakings owning natural gas transport infrastructures in Italy (Eni currently holds a 52.54% interest in Snam Rete Gas). A decree is expected to be enacted by the Italian Prime Minister to establish the relevant provisions to implement this mandatory disposal. The deadline for the disposal, which was initially scheduled for December 31, 2008, is to be rescheduled in a 24-month deadline following enactment of the decree from the Italian Prime Minister. Currently, Eni is unable to predict any development of this matter.

In recent years, both the Italian Authority for Electricity and Gas and the Italian Antitrust Authority (the "Antitrust Authority") have conducted several reviews and inquiries on the status of Italian natural gas market, targeting the overall level of competition, the degree of opening to competition of the residential sector, levels of entry-exit barriers, and other areas such as sub-investment in the storage sector. Both the Authority for Electricity and Gas and the Antitrust Authority believe that the vertical integration of Eni in the supply, transport, distribution, storage and marketing of gas may hamper development of a competitive gas market in Italy.

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

For more information on these issues see "Item 4 - Regulation - Gas & Power".

#### ***Antitrust and competition law***

The Group's activities are subject to antitrust and competition laws and regulations in many countries of operations, especially in Europe. In the years prior to 2008, Eni recorded significant loss provisions due to unfavorable developments in certain antitrust proceedings before the Italian Antitrust Authority, and the European Commission. It is possible that the Group may incur significant loss provisions in future years relating ongoing antitrust proceedings or new proceedings that may possibly arise. The Group is particularly exposed to this risk in its natural gas and refining and marketing activities due to the fact that Eni is the incumbent operator in those markets in Italy and a large European gas player. See Note 34 to the Consolidated Financial Statements for a full description of Eni's main pending antitrust proceedings.

Furthermore, based on the findings of antitrust proceedings, plaintiffs could seek payment to compensate for any alleged damages as a result of antitrust business practices on part of Eni. Both these risks could adversely affect the Group's future results of operations and cash flows.

### **Environmental, Health and Safety Regulation**

*Eni may incur material operating expenses and expenditures in relation to compliance with applicable environmental, health and safety regulations*

Eni is subject to numerous EU, international, national, regional and local environmental, health and safety laws and regulations concerning its oil and gas operations, products and other activities. Generally, these laws and regulations require the acquisition of a permit before drilling for hydrocarbons may commence, restrict the types, quantities and concentration of various substances that can be released into the environment in connection with exploration, drilling and production activities, as well as refining, petrochemicals and other Group operations, limit or prohibit drilling activities in certain protected areas, 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 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. In 2009, new regulations were enacted in Italy relating to monitoring the route of waste from production up to its disposal/recycling, also prosecuting any unlawful conducts. The Company anticipates that it will incur operating costs to comply with this new regulation in 2011 when the new system of monitoring waste becomes fully-operational. Breach of environmental, health and safety laws exposes the Company's employees to criminal and civil liability and the Company to the incurrence of liabilities associated with compensation for environment health or safety damage. Additionally, in the case of violation of certain rules regarding safety in the workplace, the Company can be liable as provided for by a general EU rule on businesses liability due to negligent or willful conduct on part of their employees as adopted in Italy with 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 environmental, health and safety laws and regulations, also taking into account possible future developments in environmental regulations in Italy and in other countries where Eni operates, particularly current and proposed fuel and product specifications, emission controls and implementation of increasingly strict measures decided at both international and country level to reduce greenhouse gas emissions. For more discussion about this latter topic see "Item 4 - Environmental Regulations".

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

Risks of environmental, health and safety incidences and liabilities are inherent in many of Eni's operations and products. Notwithstanding management's beliefs that Eni adopts high operational standards to ensure safety of its operations and to protect the environment and health of people and employees, it is possible that incidents like blow-outs, oil spills, contaminations and similar events could occur that would result in damage to the environment, employees and communities. Environmental laws also require the Company to remediate and clean-up the environmental impacts of prior disposals or releases of chemicals or petroleum substances and pollutants by the Company. Such contingent liabilities may exist for various sites that the Company disposed of, closed or shut down in prior years where the Group products have been produced, processed, stored, distributed or sold, such as chemicals plants, mineral-metallurgic plants, refineries and other facilities. The Company is particularly exposed to the risk of environmental liabilities in Italy where the vast majority of the Group industrial installations are localized and also due to the circumstance that the Group engaged in a number of industrial activities in past years that were subsequently divested, closed, liquidated or shut down. At those industrial sites Eni has commenced in recent years a number of remedial plans to restore and clean-up proprietary or concession areas that were contaminated and polluted by the Group's industrial activities in previous years. Notwithstanding the Group claimed that it cannot be held liable for such past contaminations as permitted by applicable regulations in case of declaration rendered by a guiltless owner - particularly regulations that enacted into Italian legislation the Directive No. 2004/35/EC - a number of civil and administrative proceedings have arisen relating to both the environmental damage and

administrative prescriptions on how to perform individual cleaning-up project. In 2010, Eni proposed a global transaction to the Italian Ministry for the Environment related to nine sites of national interest where the Group has been performing clean-up activities in order to define the scope of work of each clean-up project and settle all pending administrative and civil litigation. To account for this proposal, the Group accrued a pre-tax risk provision amounting to euro 1.1 billion in its 2010 Consolidated Financial Statements.

Remedial actions with respect to other Company's sites are expected to continue in the foreseeable future, impacting our liquidity as 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 amount represents the management's best estimates of future environmental expenses to be incurred.

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

#### ***Legal Proceedings***

Eni is party to a number of civil actions and administrative proceedings arising in the ordinary course of business. In addition to existing provisions accrued as of the balance sheet date to account for ongoing proceedings, it is possible that in future years Eni may incur significant losses in addition to amounts already accrued in connection with pending legal proceedings due to: (i) uncertainty regarding the final outcome of each proceeding; (ii) the occurrence of new developments that management could not take into consideration when evaluating the likely outcome of each proceeding in order to accrue the risk provisions as of the date of the latest financial statements; (iii) the emergence of new evidence and information; and (iv) underestimation of probable future losses due to the circumstance that they are often inherently difficult to estimate. See disclosure of pending litigation in Note 34 to the Consolidated Financial Statements.

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

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

##### *Eni's results of operations are affected by changes in international oil prices*

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

##### *The favorable impact of higher oil prices on Eni's results of operations may be offset in part by different 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 Petrochemical 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 the oil price represent a risk to the Company as gas supplies are mainly indexed to the cost of oil and certain refined products, while selling prices, particularly outside Italy, are increasingly linked to certain market benchmarks quoted at continental hubs. In the current trading environment,



spot prices at those hubs are particularly depressed due to oversupply conditions. In addition, the Italian Authority for Electricity and Gas 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 the Italian Authority for Electricity and Gas regulates the indexation mechanism of the raw material cost in selling formulae to those customers. See the paragraph "Risks in the Company's gas business" above for more information.

In addition, in light of changes in the European gas market environment, Eni has recently adopted new risk management policies. These policies contemplate the use of derivative contracts to mitigate the exposure of Eni's future cash flows to future changes in gas prices; such exposure had been exacerbated in recent years by the fact that spot prices at European gas hubs have ceased to track the oil prices to which Eni's long-term supply contracts are linked. These policies also contemplate the use of derivative contracts for speculative purposes whereby Eni will seek to profit from opportunities available in the gas market based, among other things, on its expectations regarding future prices. These contracts may lead to gains as well as losses, which, in each case, may be significant. All derivative contracts that are not entered into for hedging purposes in accordance with IFRS will be accounted through profit and loss, resulting in higher volatility of the gas business' operating profit. Please see "Item 5 - Financial Review - Outlook" and "Item 11 - Quantitative and Qualitative Disclosures About Market Risk".

In the Refining & Marketing and Petrochemical 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 the Eni's Refining & Marketing segment are substantially affected by changes in European refining margins which reflect changes in relative prices of crude oil and refined products. The prices of refined products depend on global and regional supply/demand balances, inventory levels, refinery operations, import/export balances and weather. Furthermore, Eni's realized margins are also affected by relative price movements of heavy crude qualities versus light 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 2010, Eni's refining margins were unprofitable as the high cost of oil was only partially transferred to final prices of fuels at the pump pressured by weak demand, high worldwide and regional inventory levels and excess refining capacity. Management does not expect any significant recovery in industry fundamentals over the next four-year industrial plan. The sector as a whole will continue to suffer from weak demand and excess capacity, while the cost of oil feedstock may continue rising and price differentials may remain compressed. In this context, management expects that the Company's refining margins will remain at below break-even levels in 2011 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. Rising oil-based feedstock costs will continue to negatively affect Eni's results of operations and liquidity in this business segment in 2011.

#### ***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 - an important risk, among other matters, that the acquirer will not be able to effectively integrate the purchased assets so as to achieve expected synergies. In addition, acquisitions entail a financial risk - the risk of not being able to recover the purchase costs of acquired assets, in case a prolonged decline in the market prices of oil and natural gas occurs. We also may incur unanticipated costs or assume unexpected liabilities and losses in connection with companies or assets we acquire. If the integration and financial risks connected to acquisitions materialize, our financial performance may be adversely affected.

**Credit risk**

Credit risk is the potential exposure of the Group to losses in case counterparties fail to perform or pay due amounts. Credit risks arise from both commercial partners and financial ones. In recent years, the Group has experienced a higher than normal level of counterparty failure due to the severity of the economic and financial downturn. In our 2010 Consolidated Financial Statements, we accrued an allowance against doubtful accounts amounting to euro 201 million, mainly relating the Gas & Power business. Management believes that the Gas & Power business is particularly exposed to credit risks due to its large and diversified customer base which include a large number of middle and small businesses and retail customers where impacts of the economic and financial downturn were particularly severe.

**Exchange Rates**

Movements in the exchange rate of the euro against the U.S. dollar can have a material impact on Eni's results of operations. Prices of oil, natural gas and refined products generally are denominated in, or linked to, U.S. dollars, while a significant portion of Eni's expenses are denominated in euros. Similarly, prices of Eni's petrochemical products are generally denominated in, or linked to, the euro, whereas expenses in the Petrochemical segment are denominated both in euros and U.S. dollars. Accordingly, a depreciation of the U.S. dollar against the euro generally has an adverse impact on Eni results of operations and liquidity because it reduces booked revenues by an amount greater than the decrease in U.S. dollar-denominated expenses. 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.

**Risks deriving from Eni's Exposure to Weather Conditions**

Significant changes in weather conditions in Italy and in the rest of Europe from year to year may affect demand for natural gas and some refined products; in colder years, demand is higher. Accordingly, the results of operations of the Gas & Power segment and, to a lesser extent, the Refining & Marketing segment, as well as the comparability of results over different periods may be affected by such changes in weather conditions.

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.

**Interest Rates**

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.

**Critical Accounting Estimates**

The preparation of financial statements requires management to make certain accounting estimates that are characterized by a high degree of uncertainty, complexity and judgment. These estimates affect the reported amount of the Company's assets and liabilities, as well as the reported amount of the Company's income and expenses for a given period. 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. See "Item 5 – Critical Accounting Estimates".

## Item 4. INFORMATION ON THE COMPANY

### History and Development of the Company

Eni SpA with its consolidated subsidiaries is engaged in the oil and gas exploration and production, gas marketing operations, management of gas infrastructures, power generation, petrochemicals, oil field services and engineering industries. Eni has operations in 79 countries and 79,941 employees as of December 31, 2010.

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

Eni's registered head office is located at Piazzale Enrico Mattei 1, Rome, Italy (telephone number: +39-0659821). Eni branches are located in:

- San Donato Milanese (Milan), Via Emilia, 1; and
- San Donato Milanese (Milan), Piazza Ezio Vanoni, 1.

Internet address: [www.eni.com](http://www.eni.com).

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

Eni's principal segments of operations are described below.

Eni's Exploration & Production segment engages in oil and natural gas exploration and field development and production, as well as LNG operations in 43 countries, including Italy, the UK, Norway, Libya, Egypt, Angola, Nigeria, Congo, the USA, Kazakhstan, Iraq, Russia, Venezuela and Australia. In 2010, Eni produced 1,757 KBOE/d on an available for-sale basis. As of December 31, 2010, Eni's total proved reserves of subsidiaries stood at 6,332 mmBOE; Eni's share of reserves of equity-accounted entities amounted to 511 mmBOE. In 2010, Eni's Exploration & Production segment reported net sales from operations (including inter-segment sales) of euro 29,497 million and operating profit of euro 13,866 million.

Eni's Gas & Power segment engages in supply, trading and marketing of gas and electricity, managing gas infrastructures for transport, distribution, storage, re-gasification, and LNG supply and marketing. This segment also includes the activity of power generation that is ancillary to the marketing of electricity. In 2010, Eni's worldwide sales of natural gas amounted to 97.06 BCM, including 5.65 BCM of gas sales made directly by the Eni's Exploration & Production segment in Europe and the USA. Sales in Italy amounted to 34.29 BCM, while sales in European markets were 54.52 BCM that included 8.44 BCM of gas sold to certain importers to Italy.

Through Snam Rete Gas, Eni operates an Italian network of high and medium pressure pipelines for natural gas transport that is approximately 31,600-kilometer long, while outside Italy, Eni holds capacity entitlements on a network of European pipelines extending for approximately 4,400 kilometers made up of high pressure pipelines to import gas from Russia, Algeria, Libya and Northern European production basins to European markets. Snam Rete Gas, through its 100-percent owned subsidiary Italgas and other subsidiaries, is engaged in natural gas distribution activity in Italy serving 1,330 municipalities through a low pressure network consisting of approximately 50,307 kilometers of pipelines as of December 31, 2010. Snam Rete Gas, through its wholly-owned subsidiary Stoccaggi Gas Italia operates in natural gas storage activities in Italy through eight storage fields. Eni produces power and steam at its operated sites of Livorno, Taranto, Mantova, Ravenna, Brindisi, Ferrera Erbognone, Ferrara and Bolgiano with a total installed capacity of 5.3 GW as of December 31, 2010. In 2010, sales of power totaled 39.54 TWh. Eni operates a re-gasification terminal in Italy and holds indirect interest or capacity entitlements in a number of LNG facilities in Europe, Egypt and the USA. In 2010, Eni's Gas & Power segment reported net sales from operations (including inter-segment sales) of euro 29,576 million and operating profit of euro 2,896 million.

Eni's Refining & Marketing segment engages in crude oil supply, refining and marketing of petroleum products mainly in Italy and in the rest of Europe, as well as crude oil and trading and shipping products. In 2010, processed volumes of crude oil and other feedstock amounted to 34.80 mmt tonnes and sales of refined products were 46.80 mmt tonnes, of which 27.01 mmt tonnes were in Italy. Retail sales of refined product at operated service stations amounted to 11.73 mmt tonnes including Italy and the rest of Europe. In 2010, Eni's retail market share in Italy through its "eni" and "Agip" branded network of service stations was 30.4%. In 2010, Eni's Refining & Marketing segment reported net sales from operations (including inter-segment sales) of euro 43,190 million and operating profit of euro 149 million.