Risk Factors

Competition

There is strong competition worldwide, both within the oil industry and with other industries, in supplying energy to the industrial, commercial and residential energy markets. A number of Eni's competitors have merged or may have the intention to merge and so lead to possibly stronger competition from competitors with greater financial resources. In its Exploration & Production business, particularly outside Italy, Eni encounters competition from other major international oil companies for obtaining exploration and development rights. In its natural gas business, Eni encounters increasingly strong competition from both national and international natural gas suppliers, also following the impact of the liberalization of the Italian natural gas market introduced by Legislative Decree No. 164/2000 which provides for, among other things, the opening of the entire Italian market to competition, which was completed in 2003, limits to the size of gas companies relative to the market and third parties access to transport infrastructure. In its electricity business, Eni competes with other producers from Italy or outside Italy which sell electricity on the Italian market. Eni faces competition from several major international oil companies in its refinery and refined product marketing businesses. In the retail market, Eni competes with third parties both in Italy and outside Italy (including major international oil companies, companies owned by oil producing nations and local operators) to obtain concessions to establish and operate service stations. Once established, Eni's service stations compete primarily on the basis of services and availability of non-petroleum products. In Italy plans for the upgrading and efficiency improvement of the national service station network can advance only in accordance with the evolution of the regulatory framework, which lags behind that of other major European countries. Eni also faces significant competition from certain international operators in the oilfield services, construction and engineering industries. Such competition is primarily on the basis of technical expertise, quality and number of services and availability of technologically advanced facilities (for example vessels for offshore construction).

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

The exploration and production of oil and natural gas requires high levels of capital expenditure and entails particular economic risks and opportunities. It is subject to natural hazards and other uncertainties including those relating to the physical characteristics of oil or natural gas fields. The production of oil and natural gas is highly regulated and is subject to intervention by governments throughout the world in matters such as the award of exploration and production interests, the imposition of specific drilling and other work obligations, environmental protection measures, control over the development and abandonment of fields and installations, and restrictions on production. In addition, the oil and gas industry is subject to the payment of royalties and excise duties, which tend to be higher than those payable in respect of many other commercial activities.

Exploratory drilling efforts may not be successful

Drilling for oil and gas involves numerous risks including the risk of dry holes or failure to find commercial quantities of hydrocarbons. The costs of drilling, completing and operating wells are often uncertain, and drilling operations may be unsuccessful as a result of a variety of factors, including, among others, unexpected drilling conditions, pressure or irregularities in formations, equipment failures or fires, blow-outs and various forms of accidents, marine risks such as collisions and other adverse weather conditions and shortages or delays in the delivery of equipment.

Failure in the activity of exploration of oil and natural gas could have an adverse impact on Eni’s future results of operations and financial condition. Because of the percentage of Eni’s capital plans devoted to higher risk exploratory projects, it is likely that Eni will continue to experience significant exploration and dry hole expenses. In particular Eni plans to explore for oil and gas offshore, often in deep water or at deep drilling depths, where operations are more difficult and costly than on land or at shallower depths and in shallower waters. Deepwater operations generally require a significant amount of time between a discovery and the time that Eni can produce and market the oil or gas, increasing both the operational and financial risks associated with these activities.

In addition, failure in finding additional commercial reserves could dampen future production of oil and natural gas which is highly dependent on the rate of success of exploratory activity.

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

Eni is involved in numerous development projects for the production of hydrocarbon reserves, principally offshore. Key factors that may affect the timing and outcome of those projects include, among others, project approvals by joint venture partners, timely issuance of permits and licenses by governmental agencies; manufacturing and delivery schedules of critical equipment, such as offshore platforms and floating production units, mechanical and technical difficulties, risks associated with the use of new technologies, and commercial arrangements for pipelines and related equipment to transport and market hydrocarbons. Furthermore, deepwater and other hostile environments, where the majority of Eni’s planned and existing development projects are located, can exacerbate these problems. Delays and differences between estimated and actual timing of critical events may adversely affect the completion of and start-up of production from such projects and, consequently, the actual returns on such projects.

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

Crude oil prices are subject to international supply and demand and other factors that are beyond Eni's control. OPEC member countries control production of a significant portion of the worldwide supply of oil and can exercise substantial influence over its price levels. International geopolitical tensions and political developments, including sanctions imposed on certain oil-producing countries on the basis of resolutions of the United Nations, can also affect world supply and prices of oil. Such factors can also affect the prices of natural gas because natural gas prices are typically tied to the prices of certain crudes and refined petroleum products. Lower crude oil prices have an adverse impact on Eni's results of operations.

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 judgement;
- whether the prevailing tax rules, other government regulations and contractual conditions will remain the same as on the date estimates are made;
- results of drilling, testing and production after the date of the estimates may require substantial upward or downward revisions;
- changes in oil and natural gas prices could have an effect on the quantities of Eni's proved reserves because the estimates of reserves are based on prices and costs at the date when such estimates are made. In particular the reserves estimates are subject to revision as prices fluctuate due to the cost recovery feature under certain Production Sharing Agreements (PSAs); and
- the production performance of Eni reservoirs.

Many of these factors, assumptions and variables involved in estimating proved reserves are beyond Eni's control and may prove to be incorrect over time. Accordingly, the estimated reserves could be materially different from the quantities of oil and natural gas that ultimately will be recovered. Additionally, any downward revision in Eni’s estimated quantities of proved reserves could have adverse consequences on Eni’s financial results, such as increased depreciation, depletion and amortization charges and/or impairment charges, which would reduce earnings and shareholders' equity.

Political Considerations

Substantial portions of Eni's hydrocarbons reserves are located in countries outside the EU and North America, certain of which may be politically or economically less stable than EU or North American countries. At December 31, 2004, approximately 73% of Eni's proved hydrocarbons reserves were located in such countries. See "Item 4 – Exploration & Production – Oil and Natural Gas Reserves". Similarly, a substantial portion of Eni's natural gas supply comes from countries outside the EU and North America. In 2004, approximately 38% of Eni's domestic supply of natural gas came from such countries. See "Item 4 – Gas & Power – Natural Gas Supplies". Adverse political and economic developments in any such producing country may affect Eni’s ability to continue operating in that country, either temporarily or permanently, and affect Eni’s ability to access oil and gas reserves. In August 1996, the United States adopted the Iran and Libya Sanctions Act (the "Sanctions Act"). On April 23, 2004 the President of the United States terminated the application of the Sanctions Act to Libya, with the remaining economic sanctions against Libya lifted on September 23, 2004. The Sanctions Act still applies to Iran and authorizes the President of the United States to impose sanctions from a six–sanction menu under certain circumstances against any person, including any foreign company, making investments in Iran, thus contributing directly and significantly to the enhancement of Iran’s ability to develop its hydrocarbons resources. The Sanctions Act is scheduled to expire on August 5, 2006. Eni does not believe that enforcement of the Sanctions Act against it would have a material adverse effect on its financial condition or results of operations. Iran and Libya continue to be designated by the U.S. Office of Global Security Risks as States sponsoring terrorism. For a description of Eni's operations in Iran and Libya see "Item 4 – Information on the Company – Exploration and Production – North Africa and Rest of the World."

Cyclicality of the Petrochemical Industry

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

Liberalization of the Italian Natural Gas Market

Legislative Decree No. 164 dated May 23, 2000 opened the Italian natural gas starting on January 1, 2003. This means that all customers in Italy are free to choose their supplier of natural gas. The decree, among other things, introduced rules which have a significant impact on Eni's activity, as the company is present in all the phases of the natural gas chain, in particular:

- until December 31, 2010 antitrust thresholds for operators calculated as a percentage share of national consumption set as follows: (i) effective January 1, 2002, 75% for imported or domestically produced natural gas volumes input into the national transport network and destined to sales; this percentage is to decrease by 2 percentage points per year until it reaches 61% in 2009; (ii) effective January 1, 2003, 50% for sales to final customers. These ceilings are calculated on a three-year base net of losses (in the case of sales) and volumes of natural gas consumed in own operations. In accordance with Article 19, paragraph 4 of Legislative Decree No. 164/2000 the volumes of natural gas consumed in own operations by a company or its subsidiaries are excluded from the calculation of ceilings for sales to end customers and for volumes input into the Italian network to be sold in Italy;
- transport of natural gas by means of high pressure trunklines, storage of natural gas and distribution of natural gas in urban centers by means of low pressure networks are activities of public relevance and criteria for determining tariffs of those activities are set by the Authority for Electricity and Gas (the "Authority for Electricity and Gas"), and
- third parties are allowed to access natural gas infrastructure – which comprises, among other things, high pressure trunklines, low pressure networks and storage sites – according to set conditions.

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

Eni's natural gas margin[1] *in Italy may decrease permanently compared to historical levels*

In order to meet the expected growth of the Italian natural gas market over the medium and long-term, Eni entered into long-term purchase contracts with producing countries that currently have a residual average term of approximately 16 years. Existing contracts, which in general contain take-or-pay clauses, will ensure total delivery of approximately 67.3 billion cubic meters of natural gas per year (Russia 28.5, Algeria 21.5, the Netherlands 10, Norway 6 and Nigeria 1.5) by 2008. The above quantities are based on the annual contract quantity of the relevant contract. The average annual minimum quantity that Eni is committed to purchase under its take-or-pay obligations is approximately 85% of said quantities. In order to comply with the above mentioned regulatory thresholds relating to volumes input into the national transport network, Eni signed multi-year contracts with third party importers to sell natural gas volumes exceeding the thresholds outside of the Italian territory; in prior years those volumes were imported into Italy and sold to Italian consumers by Eni. This change in the sale mix is structural and is adversely affecting Eni's results of operations. Further, management expects Eni's margins on natural gas in Italy to come under pressure in future years due to the entry into the market of new competitors, including the above mentioned third parties which purchase natural gas from Eni outside the Italian territory and resell it to Italian customers.

Eni growth prospects in Italy are limited by regulation

Due to the antitrust threshold on direct sales in Italy, management expects Eni's natural gas sales in Italy to increase at a rate that cannot exceed the growth rate of natural gas demand in Italy. Management believes this development might have a material adverse impact on Eni's results of operations.

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

Natural gas imports for the next few years were planned by Eni based on the highest flexibility allowed by long-term supply contracts, assuming the availability of the transport capacity on the Italian transport infrastructure. However, the current Network Code as set by the Authority for Electricity and Gas with Decision No. 137 of July 17, 2002, in implementation of Article 24, paragraph 5 of Legislative Decree No. 164/2000, established priority criteria for the allocation of transport capacity of natural gas at points where international transport infrastructure connects with Italian transport infrastructure (the so-called entry points to the Italian transport system) which are not consistent with Eni’s own planning assumptions. Under the current Network Code, entitlement periods can last no longer than five years. In particular the allocation rules establish that take-or-pay contracts entered into before 1998 are entitled to priority in the assignment of available transport capacity to the extent of average daily contractual volumes. There is therefore no guaranteed access priority for Eni's contracted volumes exceeding average daily contractual volumes. In fact, take-or-pay contracts entered into by Eni before 1998 envisage Eni's right to withdraw daily volumes larger than the average daily contractual volume; this contractual flexibility provided by the difference between the maximum daily volume Eni is entitled to and the average daily contractual volume is used when demand peaks, usually during the winter. In the event of congestion at entry points, natural gas volumes not receiving priority are assigned available transport capacity on a pro rata basis. Eni considers Decision No. 137/2002 to be inconsistent with the overall rationale of the European natural gas legislative framework, especially with reference to Directive 98/30/CE and Legislative Decree No. 164/2000, and is challenging Decision No. 137/2002 before the competent administrative courts. See "Item 4 – Regulation of the Italian Hydrocarbons Industry – Gas & Power". However, Eni cannot rule out a negative outcome in this matter. Accordingly, management believes that Eni's results of operations could be negatively affected should market conditions or regulatory constraints prevent Eni from selling its whole availability of natural gas under take-or pay contract obligations (i.e., in case congestion occurs at the entry points of the Italian transport infrastructure which would force Eni to withdraw a smaller volume of gas than the contractual minimum take). See "Item 5 – Management Expectations of Operations".

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

Eni cannot predict future developments in the institutional debate ongoing in Italy regarding the liberalization of the natural gas market. One important development in this area was Law No. 290/2003, which prohibits Eni from holding an interest higher than 20% in undertakings owning natural gas transport infrastructure in Italy (Eni currently holds a 50.07% interest in Snam Rete Gas, which owns and manages approximately 97% of the Italian natural gas transport infrastructure). On the basis of the findings of a joint inquiry conducted in 2003 through June 2004 on the Italian natural gas market, the Authority for Electricity and Gas and the Italian Antitrust Authority (the "Antitrust Authority") acknowledged that the overall level of competition of the Italian natural gas market is unsatisfactory due to the dominant position held by Eni in many phases of the natural gas chain. According to both the Authority for Electricity and Gas and the Antitrust Authority, the vertical integration of Eni in the supply and transport of gas has restricted the development of competition in Italy notwithstanding the antitrust ceilings introduced by Legislative Decree 164/2000. It was further stated that the price of natural gas in Italy (in particular for the industrial sector) is higher than in other European countries. Accordingly, both the Authority for Electricity and Gas and the Antitrust Authority identified possible measures which in their opinion could enhance the level of competition in the natural gas market, among which the most important are: (i) the construction of new infrastructure for the import of natural gas; (ii) the creation of an independent transmission system operator (TSO) that owns and operates both the national high pressure transport grid and the storage of gas; and (iii) a framework for the assignment to third parties of natural gas volumes or natural gas contracts relating to Eni's long-term take-or-pay natural gas supply contracts.

In January 2005 the Antitrust Authority commenced an inquiry concerning Eni's alleged abuse of dominant position in violation of the competition rule as per Article 82 of the Treaty of Rome with the effect of preventing the entrance of Eni's competitors into the Italian gas sales market. See "Item 4 – Regulation of the Italian Hydrocarbons Industry – Gas & Power – Procedures against the Antitrust Authority".

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 for management and cannot exclude negative impacts on Eni's financial condition or results of operations in future years deriving from the development of these matters.

Should third parties' plans for the construction of LNG terminals be implemented as announced, Eni believes an oversupply of natural gas is likely to occur in the long-term (beyond 2007)

In the long-term Eni plans to upgrade its natural gas import infrastructure from Russia and Algeria in order to meet the expected growth of natural gas demand in Italy and to renegotiate its purchase contracts from those suppliers on a more favorable and flexible basis. Those plans are to be evaluated taking into account the developments of third parties' plans for the construction of a new LNG terminal in Italy. Two operators in the Italian natural gas market have publicly announced plans to develop LNG terminals in Italy. Should these LNG plans be implemented according to scheduled times, Eni believes a natural gas oversupply is likely to occur in the Italian natural gas market, based on current plans in 2008-2012, when the additional import capacity from Eni and third parties should come onstream. This scenario, if it occurs, is likely to cause a decrease in natural gas margins.

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

On the basis of certain legislative provisions, the Authority for Electricity and Gas holds a general surveillance power on pricing in the natural gas market in Italy and the power to establish selling tariffs in the natural gas residential and commercial segments taking into account, among other things, the public interest goal of containing the inflationary pressure due to a rise in energy costs. The decisions of the Authority for Electricity and Gas on these matters may limit the ability of Eni to pass an increase in the cost of fuels on to the final consumers of natural gas. For example, Decision No. 248/2004 of the Authority for Electricity and Gas establishes, among other things: (i) that an increase in the international price of Brent crude oil is only partially transferred on to residential and commercial users of natural gas in the case where the international price of Brent crude oil exceeds the 35 dollar per barrel threshold; and (ii) that Italian natural gas importers – including Eni – must renegotiate supply contracts to wholesalers in order to take into account the reduction of the price of natural gas sold to residential and commercial users. Eni appealed this decision against an administrative court which temporarily suspended the decision of the Authority for Electricity and Gas.

However, Eni’s management believes that should this decision be implemented in its original form, a material negative impact on the operating income of Eni’s natural gas segment would occur in 2005. See "Item 4 – Regulation of the Italian Hydrocarbons Industry – Gas & Power".

Environmental Regulation

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

Eni is subject to numerous EU, national, regional and local environmental laws and regulations concerning its oil and gas operations, products and other activities, including legislation that implements international conventions or protocols. In particular, these laws and regulations require the acquisition of a permit before drilling for hydrocarbons may commence, restrict the types, quantities and concentration of various substances that can be released into the environment in connection with exploration, drilling and production activities, limit or prohibit drilling activities on certain protected areas, and impose criminal or civil liabilities for pollution resulting from oil, natural gas, refining and petrochemical operations. These laws and regulations may also restrict emissions and discharges to surface and subsurface water resulting from the operation of natural gas processing plants, petrochemicals plants, refineries, pipeline systems and other facilities that Eni owns. In addition, Eni’s operations are subject to laws and regulations relating to the generation, handling, transportation, storage, disposal and treatment of waste materials. Environmental laws and regulations have a substantial impact on Eni’s operations. Some risk of environmental costs and liabilities is inherent in particular operations and products of Eni, as it is with other companies engaged in similar businesses, and there can be no assurance that material costs and liabilities will not be incurred.

Although management, considering the actions already taken with the insurance policies to cover environmental risks and the provision for risks accrued, does not currently expect any material adverse effect upon Eni’s consolidated financial statements as a result of its compliance with such laws and regulations, there can be no assurance that there will not be a material adverse impact on Eni’s consolidated financial statements due to: (i) the possibility of as yet unknown contamination; (ii) the results of the on-going surveys and the other possible effects of statements required by Decree No. 471/1999 of the Ministry of Environment; (iii) the possible effects of future environmental regulation, such as the ones deriving from Decree No. 367 of the Ministry of Environment published in January 8, 2004, regarding the fixing of new quality standards for aquatic environment in relation to dangerous substances, and those that may derive from the legislative decree that the Italian Government will have to enact in order to implement Directive 2000/60/CE creating a framework for joint European action in the area of water; (iv) the effect of possible technological changes relating to future remediation; and (v) the possibility of litigation and the difficulty of determining Eni’s liability, if any, as against other potentially responsible parties with respect to such litigation and the possible insurance recoveries.

Legal Proceedings

Eni is a party to a number of civil actions and administrative proceedings arising in the ordinary course of business. Although Eni's management does not currently expect a material adverse effect on Eni's financial position and profitability on the basis of information available to date and taking account of the existing provisions, Eni's management cannot rule out that in future years Eni may incur material losses in connection with pending legal proceedings due to: (i) uncertainty; (ii) the occurrence of new developments that management could not take into consideration when evaluating the likely outcome of each proceeding in order to accrue the risk provisions as of the date of the latest financial statements; (iii) the emergence of new evidence and information; and (iv) errors in the estimate of probable future losses.

Risks deriving from changes in oil prices and in natural gas, refined and petrochemical products prices and margins

Operating results in certain of Eni's businesses, particularly the Exploration & Production, Refining & Marketing, Gas & Power and Petrochemical segments are affected by changes in the price of oil and by their impact on prices and margins of natural gas and refined and petrochemical products.

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

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

The favorable impact of higher oil prices on Eni's results of operations may be offset by the different trends of margins in Eni's downstream businesses

A time lag exists between movements in oil prices and movements in the prices and margins of natural gas and refined and petrochemical products. In particular, trends of natural gas margins in Eni's natural gas business tend to mitigate the impact of changes in oil prices on Eni's operating results due to different movements in prices of certain energy parameters to which natural gas purchase and sale prices are contractually indexed in different proportions and as measured over different reference periods.

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

The results of operations of Eni's Refining & Marketing segment are substantially affected by changes in European refining margins which reflect changes in relative prices of crude oil and refined products. Generally, a time lag exists between changes in oil prices and movements in refined products prices.

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

Eni's petrochemical products margins are affected by trends in demand and changes in oil prices which influence changes in cost of petroleum-based feedstock. Generally, an increase in oil price determines a decrease in petrochemical products margins in the short-term. Prolonged weakness of the European economy as well as Eni's own structural weaknesses have prevented Eni's Petrochemical segment from returning to profitability in recent years due to the inability to transfer increases of oil-based feedstocks into selling prices. Due to industry conditions and weak economic growth in Europe, management does not expect any significant and durable improvement in Petrochemicals segment profitability over the foreseeable future.

Exchange Rates

Movements in the exchange rate of the euro against the US 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, US dollars, while a significant portion of Eni's expenses is denominated in euro. Similarly, prices of Eni's petrochemical products generally are denominated in, or linked to, euro, whereas expenses in the Petrochemicals segment are denominated both in euro and US dollars. Accordingly a depreciation of the US dollar versus the euro generally has an adverse impact on Eni results of operations.

Weather in Italy and Seasonality

Significant changes in weather conditions in Italy from year to year may cause variations in demand for natural gas and some refined products; in colder years, demand is higher. Accordingly, the results of operations of the Gas & Power segment and, to a lesser extent, the Refining & Marketing segment, may be affected by such variations in weather conditions. In addition, Eni’s results of operations reflect the seasonality in demand for natural gas and certain refined products used in residential space heating, the demand for which is typically highest in the first quarter of the year, which includes the coldest months, and lowest in the third quarter, which includes the warmest months.

Interest Rates

Interest on Eni’s financial debt is primarily indexed at a spread to benchmark rates such as the Europe Interbank Offered Rate, "EURIBOR" and the London Interbank Offered Rate, "LIBOR". As a consequence, movements in interest rates can have a material impact on Eni’s financial expense in respect of its financial debt.

Critical Accounting Estimates

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

Eni shall adopt new accounting standards in 2005 that may affect the methods used by the financial community to evaluate Eni's performance and the value of Eni stock

Beginning in 2005 Eni, whose shares are listed on a regulated market of a Member State of the European Union, is required to prepare its financial statements in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standard Board (IASB) and adopted by the European Commission according to the procedure set forth in Article 6 of the European Regulation (CE) No. 1606/2002 of the European Parliament and European Council of July 19, 2002.

For a detailed description of the principle effects expected on Eni's financial statements due to the adoption of IFRS, see "Item 5. Operating and Financial Review and Prospects – Qualitative discussion of the impact of IFRS on Eni's financial statements".

Because Eni's financial statements prepared in accordance with IFRS will differ from Eni's financial statements prepared in accordance with Italian GAAP, the methods used by the financial community to assess our financial performance and value of our publicly traded securities, such as price-to-earnings ratios and debt-to-equity ratios, could be affected.

Item 4. INFORMATION ON THE COMPANY

History and Development of the Company

Eni SpA with its consolidated subsidiaries is engaged in the oil and gas, electricity generation, petrochemicals, oilfield services and engineering industries. Eni has operations in about 70 countries and 71,497 employees as of December 31, 2004.

Eni, the former Ente Nazionale Idrocarburi, a public law agency, established by Law 136 of February 10, 1953, was transformed into a joint stock company by Law Decree 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 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, VAT number 00905811006, 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;
- San Donato Milanese (Milan), Piazza Ezio Vanoni, 1.

Internet address: www.eni.it.

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

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

Agip SpA was merged into Eni SpA effective as of January 1, 1997 to become Eni's Exploration & Production Division. Eni conducts its exploration and production activities through its Exploration & Production Division and certain operating subsidiaries. Eni's exploration, development and production activities commenced in 1926, when Agip was formed by the Government with a mandate to explore for and develop oil and natural gas. Exploration and production operations are conducted in Italy, North Africa, West Africa, the North Sea, the Gulf of Mexico, South America, the Middle and Far East, the Caspian Sea and Australia. In 2004, Eni's hydrocarbon production averaged 1,586 KBOE/d and, at December 31, 2004, Eni's estimated proved reserves totalled 7,218 mmBOE with a life index of 12.1 years. In 2004, Eni's Exploration & Production segment had net sales from operations (including intersegment sales) of euro 15,349 million and operating income of euro 8,017 million.

Snam SpA was merged into Eni SpA effective as of February 1, 2002 to become Eni's Gas & Power Division. Eni conducts its natural gas and electricity generation activities through its Gas & Power Division and certain operating subsidiaries. Eni's natural gas supply, transmission and distribution activities commenced in the 1940s with the commercial sale of natural gas to industrial users in Northern Italy. In 2004, Eni's sales of natural gas to third parties totalled 50.39 billion cubic meters in Italy and 21.87 billion cubic meters in the rest of Europe; Eni's share of natural gas volumes sold by its affiliates totalled 7.32 billion cubic meters (of which 6.6 billion in the rest of Europe). Natural gas volumes consumed in operations by Eni and Eni's subsidiaries – mainly in electricity generation, refining and petrochemicals operations – totalled 3.70 billion cubic meters. Natural gas sales in Italy include: (i) sales to wholesalers, mainly local distribution companies, and to large industrial and thermoelectric customers which are supplied by a high and medium pressure pipeline network; (ii) sales to residential and commercial customers which are supplied by a low pressure pipeline network. Eni's high and medium pressure gas pipeline network for natural gas transport is about 30,000-kilometers long in Italy, while outside Italy Eni holds transmission rights on approximately 5,000 kilometers of high pressure pipelines. Eni's natural gas transport network in Italy is owned and managed by Snam Rete Gas SpA. Snam Rete Gas is listed on the Italian Stock Exchange, Eni's share being 50.07%. Snam Rete Gas transports natural gas on behalf of Eni and third parties ("shippers"); in 2004, its transported volumes were 80.41 billion cubic meters, of which 28.26 billion were on behalf of third parties. Eni, through its 100% subsidiary Italgas and other subsidiaries, is engaged in natural gas distribution activity in Italy serving 1,236 municipalities through a low pressure network consisting of over 47,000 kilometers of pipelines as of December 31, 2004.

Eni conducts its electricity generation activities through its wholly-owned subsidiary EniPower SpA, which owns and manages Eni's power stations of Livorno, Taranto, Mantova, Ravenna, Brindisi and Ferrera Erbognone with a total installed capacity of approximately 3.3 gigawatts as of December 31, 2004. In 2004, sold production of electricity totalled 13.85 terawatthour. Eni owns other minor power stations located in Eni's petrochemical plants and refineries whose production is mainly for internal consumption. The accounts of these power stations are reported within Eni's Refining & Marketing and Petrochemicals segments.

In 2004, Eni's Gas & Power segment had net sales from operations (including intersegment sales) of euro 17,258 million and operating income of euro 3,463 million.