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.

In the Exploration & Production business, Eni encounters competition from other international oil companies for obtaining exploration and development rights, particularly outside Italy. The current trend of the industry towards a reduction of the number of operators via takeovers or mergers might lead to possibly stronger competition from operators with greater financial resources and a wider portfolio of development projects.

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 Italian market to competition, limitations to the size of gas companies relative to the market and third party access to transport infrastructure. In addition, Legislative Decree No. 164/2000 grants the Italian Authority for Electricity and Gas certain regulatory powers in the matters of natural gas pricing and access to infrastructure, among others. 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 international oil companies in its refinery and refined product marketing businesses. In retail marketing both in and outside Italy, Eni competes with third parties (including international oil companies and local operators such as supermarket chains) to obtain concessions to establish and operate service stations. Once established, Eni’s service stations compete primarily on the basis of pricing, services and availability of non-petroleum products. In Italy 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. 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. Exploring or drilling in offshore areas, in particular in deep water, is generally more complex and riskier than in onshore areas; so is exploratory activity in remote areas or in challenging environmental conditions as in the case of the Caspian Region or Alaska.

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. Deep water operations generally require a significant amount of time between a discovery and the time that Eni can produce and market the oil or gas increasing both the operational and financial risks associated with these activities. In addition, lack of necessary equipments such as a shortage of deep water rigs, could further delay operations, thus increasing both operational and financial risks.

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

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

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

- the outcome of negotiations with co-venturers, governments, suppliers, customers or others (including, for example, Eni's ability to negotiate favorable long-term contracts with customers, the development of reliable spot markets that may be necessary to support the development of particular production projects, or commercial arrangements for pipelines and related equipment to transport and market hydrocarbons);
- timely issuance of permits and licenses by governmental agencies;
- the occurrence of technical difficulties including delays in manufacturing and delivery of critical equipment, and, risks associated with the use of new technologies;
- changes in operating conditions and costs, including costs of third party equipment or services such as drilling rigs and shipping;
- the actual performance of the reservoir and natural field decline;
- the availability of third party equipment or services; and
- the ability and time necessary to realize suitable transport infrastructures to export production towards final markets.

Furthermore, deep water and other hostile environments, where the majority of Eni's planned and existing development projects are located, can exacerbate these problems. Delays and differences between estimated and actual timing of critical events may adversely affect the completion and start-up of production from such projects and, consequently, the actual returns on such projects.

Inability in replacing oil and natural gas reserves could adversely impact operations and earnings

Eni's operations and earnings are substantially dependent on our ability to develop and sell oil and natural gas. Unless we are able to replace produced oil and natural gas, our reserves will decline. Future oil and gas production are dependent on the company's ability to access new reserves through new discoveries, application of improved techniques, success in development activity, negotiation with countries and other owners of known reserves and acquisitions. An inability to replace reserves could adversely impact future production and future results of operations.

Lifting and development costs are increasing and this could reduce profit per BOE for the oil industry

Profit margins in the oil industry are being affected by a steady rising trend in lifting and development costs as a result of the following: (i) the increasingly high percentage of complex development projects (such as those in deep and ultra deep waters and in harsh environments) which bear higher development costs as compared to development projects in traditional environments; (ii) inflationary pressure affecting purchase prices of raw materials and services in connection to the worldwide economic recovery; and (iii) lack of specialized resources (such as engineers and other valuable technicians) especially in remote areas. Eni's management expects this rising trend of lifting and development costs to continue in the medium term and this could lead to a reduction in profit per BOE.

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 on 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 could 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’s reservoirs.

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

Political Considerations

Substantial portions of Eni’s hydrocarbon reserves are located in countries outside the EU and North America, some of which may be politically or economically less stable than EU or North American countries. At December 31, 2005, approximately 73% of Eni’s proved hydrocarbon reserves were located in such countries. Similarly, a substantial portion of Eni’s natural gas supply comes from countries outside the EU and North America. In 2005, approximately 60% of Eni’s supplies 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 operating in politically unstable countries Eni faces risks in connection with the following: (i) lack of well-established and reliable legal systems; (ii) other political developments and laws and regulations (such as expropriation or forced divestiture of assets and unilateral cancellation or modification of contract terms), for example in April 2006, Eni’s titles and mineral assets relating to an important oil field were transferred to the Venezuelan state oil company following its unilateral cancellation of the contract regulating oil activities in the field; (iii) restrictions on exploration, production, imports and exports; (iv) tax or royalty increases (including retroactive claims); and (v) civil unrest, for example in the first quarter of 2006 certain episodes of civil unrest in Nigeria caused disruptions at certain Eni oil producing facilities. See "Item 4 – Exploration & Production – Oil and Natural Gas Reserves"; and "Item 5 – Recent Developments".

In August 1996, the United States adopted the Iran and Libya Sanctions Act (the "Sanctions Act") with the objective of denying Iran and Libya the ability to support acts of international terrorism and fund the development or acquisition of weapons of mass destruction. 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. However, a bill to amend and extend the extra-territorial reach of the economic sanctions imposed by the United States with respect to Iran has been passed by the U.S. House of Representatives and may lead to the passage of new laws in this area. Iran continues to be designated by the U.S. State Department as a State sponsoring terrorism. For a description of Eni’s operations in Iran and Libya see "Item 4 – Information on the Company – Exploration and Production – North Africa and Rest of World".

Cyclicality of the Petrochemical Industry

The petrochemical industry is subject to cyclical fluctuations in demand, with consequent effects on prices and profitability exacerbated by the highly competitive environment of the industry. Eni’s petrochemicals operations, which are located mainly in Italy, have been in the past and may 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. 164/2000 opened completely the Italian natural gas market starting on January 1, 2003. This means that all customers in Italy are free to choose their supplier of natural gas. The decree, among other things, introduced rules which have a significant impact on Eni’s activity, as the company is present in all the phases of the natural gas chain, in particular:

- until December 31, 2010, antitrust thresholds for operators will be calculated as a percentage share of national consumption 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; and (ii) effective January 1, 2003, 50% for sales to final customers. Compliance with these ceilings is verified annually by comparing the allowed average percentage on a three year basis for volumes input or sold to the average percentage obtained by each operator in the same three year period. Allowed percentages are calculated net of losses (in the case of sales) and volumes of natural gas consumed in own operations. 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, LNG facilities and distribution of natural gas in urban centers by means of low pressure networks are activities of public relevance and criteria for determining tariffs of those activities are set by the Authority for Electricity and Gas; and
- third parties are allowed to access natural gas infrastructure – which comprises, among other things, high pressure trunklines, low pressure networks and storage sites – according to certain conditions set by the Authority for Electricity and Gas.

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

Eni'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 15 years. Existing contracts, which in general contain take-or-pay clauses, will ensure total delivery of approximately 67.3 BCM/y of natural gas (Russia 28.5, Algeria 21.5, the Netherlands 9.8, 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 and sales volumes in Italy, Eni signed multi-year contracts with third party importers in Italy and started implementing a strategy of increasing natural gas sales in the rest of Europe in order to sell outside Italy natural gas volumes available under its take-or pay contracts, exceeding mandatory thresholds. In prior years Eni sold the majority of its natural gas availability on the Italian market. 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 impact of the build-up of Eni's supplies to the above mentioned Italian importers.

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.

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

Over the medium term, Eni plans to increase its natural gas sales in Europe also to absorb its natural gas availability under take-or-pay contracts. Should Eni fail to increase natural gas sales in Europe as planned, Eni may be unable to sell all the volumes of natural gas purchased under take-or-pay contracts, and this could adversely impact 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 the natural gas volumes which Eni is committed to purchase under take-or-pay contract obligations

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

The Italian Government, Parliament and regulatory authorities 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 regulation of the Italian natural gas market. Also an institutional debate is ongoing in Italy regarding the liberalization of the natural gas market and this may produce significant developments on this matter. A brief description follows of certain recently enacted laws and certain proceedings before the Authority for Electricity and Gas and the Italian Antitrust Authority in order to allow investors to gain some insight of the complexity of this matter. For a full discussion of laws and procedures described herein see "Item 4 – Regulation of the Italian Hydrocarbons Industry – Gas & Power ".

In 2003, Law No. 290 was enacted which prohibits Eni from holding an interest higher than 20% in undertakings owning natural gas transport infrastructure in Italy (Eni currently holds a 50.07% 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 from 2003 through June 2004 on the Italian natural gas market, the Authority for Electricity and Gas and the Italian Antitrust Authority (the "Antitrust Authority") acknowledged that the overall level of competition of the Italian natural gas market is unsatisfactory due to the dominant position held by Eni in many phases of the natural gas chain. According to both the Authority for Electricity and Gas and the Antitrust Authority, the vertical integration of Eni in the supply, transport and storage of gas has restricted the development of competition in Italy notwithstanding the antitrust ceilings introduced by Legislative Decree 164/2000. It was further stated that the price of natural gas in Italy (in particular for the industrial sector) is higher than in other European countries.

In October 2005, the Authority for Electricity and Gas started an inquiry concerning the competitive behavior of operators selling natural gas to residential and commercial customers with the aim of defining measures to improve competition.

In February 2006, the Antitrust Authority closed an inquiry concerning Eni's competitive behavior concluding that Eni abused its dominant position with regard to its decision to suspend a plan for the upgrading of the import pipeline from Algeria and to unilaterally cancel certain contracts to sell the relevant transport capacity to third parties. Contracts were signed early in 2003 and the relevant upgrade is expected to become effective in 2007. The Antitrust Authority fined Eni by an amount of euro 290 million.

On May 5, 2006, the European Commission started an inquiry in order to verify an alleged abuse of dominant position on the part of Eni in violation of Article 82 of the EEC Treaty and Article 54 of the CES Agreement in the activities of international gas transport and wholesale and retail supply of gas.

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 developments on these matters.

Eni believes an oversupply of natural gas is likely to occur in the long-term (beyond 2009)

Eni plans to upgrade its natural gas import infrastructure from Algeria and Russia to Italy, with expected start-up in 2008 and late 2008/2009, respectively. Taking into account the build-up of supplies of natural gas from Libya through the Greeenstream gasline and of Eni's fourth long term take-or-pay purchase contract from Russia, an additional import capacity of 883 BCF/y is expected to be available for the Italian natural gas market starting in 2009. A large portion of this expected import capacity has been or is planned to be awarded to third parties. In addition, certain operators in the Italian natural gas market have publicly announced plans to develop LNG terminals in Italy. Eni expects at least one new LNG terminal with a 283 BCF/y capacity to start operations by 2009 thus adding new import capacity to the Italian market. Management believes the pace of demand growth in the Italian natural gas market may not meet the expected increase in supplies of natural gas market starting in 2009 and beyond. If this projections materialize, a decrease in natural gas margins is likely to occur.

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 monitoring 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. In particular, with Decision No. 248/2004 the Authority for Electricity and Gas established, among other things: (i) that an increase in the international price of Brent crude oil is only partially transferred on to residential and commercial users of natural gas in case international prices of Brent crude oil exceed the 35 dollars per barrel threshold; and (ii) that Italian natural gas importers – including Eni – must renegotiate supply contracts to wholesalers in order to take account of the reduction of the price of natural gas sold to residential and commercial users. A proceeding has commenced between the Authority for Electricity and Gas and Eni, which appealed Decision No. 248/2004 to an administrative court.

Eni’s management expects a negative outcome of this matter. Eni has accrued a material provision in its 2005 Consolidated Financial Statements in order to reflect the risks associated with this matter. In 2006 management expects Eni’s results of operations to be adversely impacted by a material amount in light of the high Brent crude oil prices, in the event Decision 248/2004 is implemented in its original form. See "Item 4 – Regulation of the Italian Hydrocarbons Industry – Gas & Power" and "Item 5 – Financial Review and Prospects".

Environmental Regulation

Eni may incur material operating costs and liabilities in relation to compliance with applicable environmental regulations and future 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 production, 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 certain operations and products of Eni, 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 on Eni’s Consolidated Financial Statements as a result of its compliance with such laws and regulations, there are risks that Eni may incur significant costs and liabilities in future years due to: (i) the chance of as yet unknown contamination; (ii) future developments in environmental regulation; (iii) the results of on-going surveys or surveys to be carried out on the environmental status of Eni’s industrial sites and other possible effects deriving from the implementation of Decree No. 471/1999 of the Ministry of Environment; (iv) the possible effects deriving from the implementation of certain enacted regulations 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 deriving from the application of European directive 2004/35/EC concerning environmental responsibility for prevention and reclamation of environmental damage; 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 results of operations on the basis of information available to date and taking account of existing provisions, Eni’s management cannot rule out that in future years Eni may incur material losses in connection with pending legal proceedings due to: (i) uncertainty regarding the outcome of each proceeding; (ii) the occurrence of new developments that management could not take into consideration when evaluating the likely outcome of each proceeding in order to accrue the risk provisions as of the date of the latest financial statements; (iii) the emergence of new evidence and information; and (iv) errors in the estimate of probable future losses.

Risks 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 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 euro. Similarly, prices of Eni's petrochemical products are generally denominated in, or linked to, the euro, whereas expenses in the Petrochemicals segment are denominated both in euro and U.S. dollars. Accordingly a depreciation of the U.S. 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 to 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 judgment. Although these critical accounting estimates are thoroughly applied and underlying amounts are fairly determined, management cannot rule out that actual outcomes may differ from such estimates, due to, among other things, the following factors: uncertainty, lack or limited availability of information; the availability of new informative elements, variations in economic conditions such as prices, significant factors (e.g., removal technologies and costs) and the final outcome of legal, environmental or regulatory proceedings. See "Item 5 – Critical Accounting Estimates".

Item 4. INFORMATION ON THE COMPANY

History and Development of the Company

Eni SpA with its consolidated subsidiaries is engaged in the oil and gas, electricity generation, petrochemicals, oilfield services and engineering industries. Eni has operations in about 70 countries and 72,258 employees as of December 31, 2005.

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

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

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

Internet address: www.eni.it.

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

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

Eni conducts its exploration and production activities through its Exploration & Production Division and certain operating subsidiaries. Eni's exploration, development and production activities commenced in 1926, when Agip SpA was established by the Italian Government with a mandate to explore for and develop oil and natural gas. Agip SpA was merged into Eni SpA effective as of January 1, 1997 to become Eni's Exploration & Production Division.

Eni is engaged in exploration and production of hydrocarbons in Italy, North Africa, West Africa, the North Sea, the Gulf of Mexico, Australia, South America and areas with great development potential such as the Caspian Sea, the Middle and Far East, India and Alaska. In 2005, Eni's hydrocarbon production available for sale averaged 1,693 KBOE/d and, at December 31, 2005, Eni's estimated proved reserves totalled 6,837 mmBOE with a life index of 10.8 years. In 2005, Eni's Exploration & Production segment had net sales from operations (including intersegment sales) of euro 22,477 million and operating profit of euro 12,574 million.

Eni conducts its natural gas and electricity generation activities through its Gas & Power Division and certain operating subsidiaries. Eni's natural gas supply, transmission and distribution activities commenced in the 1940s with the commercial sale of natural gas to industrial users in Northern Italy. Snam SpA was merged into Eni SpA effective as of February 1, 2002 to become Eni's Gas & Power Division. In 2005, Eni's sales of natural gas to third parties totalled 52.47 BCM in Italy and 23.44 BCM in the rest of Europe; Eni's share of natural gas volumes sold by its affiliates totalled 8.53 BCM (of which 7.85 billion was sold in the rest of Europe). Natural gas volumes consumed in operations by Eni and Eni's subsidiaries – mainly in electricity generation, refining and petrochemicals operations – totalled 5.54 BCM. Natural gas sales in Italy include: (i) sales to wholesalers, mainly local companies selling natural gas to residential and commercial customers, and to large industrial and thermoelectric customers which are supplied by a high and medium pressure pipeline network; and (ii) sales to residential and commercial customers which are supplied by a low pressure pipeline network. Eni's high and medium pressure gas pipeline network for natural gas transport is about 30,700-kilometer long in Italy, while outside Italy Eni holds transmission rights on approximately 5,000 kilometers of high pressure pipelines. Eni's natural gas transport network in Italy is owned and managed by Snam Rete Gas SpA. Snam Rete Gas is listed on the Italian Stock Exchange, Eni's share being 50.07%. Snam Rete Gas transports natural gas on behalf of Eni and third parties ("shippers"); in 2005 its transported volumes were 85.10 BCM, of which 30.22 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 1,282 municipalities through a low pressure network consisting of approximately 48,000 kilometers of pipelines as of December 31, 2005.

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 4.5 gigawatt as of December 31, 2005. In 2005, sold production of electricity totalled 22.77 terawatthours. 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 2005, Eni's Gas & Power segment had net sales from operations (including intersegment sales) of