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 (1)	At period end
	(U.S. dollars per euro)			
Year ended December 31,				
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	1.44
2010	1.46	1.19	1.33	1.34
2011	1.49	1.29	1.39	1.29

(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 2011	1.42	1.32	1.40
November 2011	1.38	1.33	1.34
December 2011	1.35	1.29	1.29
January 2012	1.32	1.27	1.32
February 2012	1.35	1.30	1.34
March 2012	1.33	1.30	1.33

Fluctuations in the exchange rate between the euro and the dollar affect the dollar equivalent of the euro price of the Shares on the Telematico and the dollar price of the ADRs on the NYSE. Exchange rate fluctuations also affect the dollar amounts received by owners of ADRs upon conversion by the Depository of cash dividends paid in euro on the underlying Shares. The Noon Buying Rate on March 30, 2012 was $1.3334 per euro 1.00.

Risk Factors

Competition

There is strong competition worldwide, both within the oil industry and with other industries, to supply energy to the industrial, commercial and residential energy markets.

Eni faces strong competition in each of its business segments. In the current uncertain financial and economic environment, we expect that prices of energy commodities, in particular oil and gas, will be very volatile, with average prices and margins influenced by changes in supply and demand. This is likely to exacerbate competition in all our businesses, which may impact costs and margins.

- 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 slow demand growth in the face of large gas availability on the marketplace. Gas

supplies to Europe have been fuelled by material investments to expand the import capacity of the pipelines coming from Russia and Algeria which have been executed by a number of operators, including Eni, in recent years. Furthermore, we estimated that some 65 BCM of liquefaction capacity were added to worldwide gas availability in the three-year period 2008-2010 by upstream operators. This development coupled with an ongoing shift in the United States from gas imports to use of internal non-conventional gas resources caused the diversion of important LNG volumes to Europe where they are marketed at certain continental spot markets which have become increasingly liquid. Oversupplies on the European market coupled with weak demand growth triggered intense pricing competition among gas operators which squeezed profitability and reduced sales opportunities in the whole sector. This was due to decoupling trends between on one hand the rising cost of gas supplies that are mainly indexed to the price of oil and its derivatives as provided by pricing formulas in long-term supply contracts, and on the other hand weak selling prices at continental hubs pressured by competition. Those trends helped explain why the Company’s Gas & Power segment reported sharply lower results in 2011 (down by 39.3% compared to 2010) on the back of operating losses reported by its Marketing business. We believe that the outlook for our gas marketing business will remain weak in the short to medium term as the factors described above, in particular weak demand, oversupply and competition take time to be reversed. Management believes that a better balance between demand and supply on the European market is unlikely to be achieved before 2014. The described trends may negatively affect the Company’s future results of operations and cash flows 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 and large industrial buyers, in both the domestic market and other European markets have entered the wholesale market of natural gas by directly purchasing gas from producers or sourcing it at the continental spot markets adding further pressures on the economics of gas operators, including Eni. Management believes that this trend will continue in the future. At the same time, a number of national gas producers 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. Finally, following a decree from the Italian Government to spur competition in Italy, management expects that the Company’s margins on sales to residential customers and the service sector will be reduced due to the administrative implementation of a less favorable indexation of the raw material cost in supplies to such customers than in the past (see sector-specific risk factors below);
- 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 other players to place excess production on the Italian market;
- In the retail marketing of refined products both in Italy and abroad, 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. Eni’s service stations compete primarily on the basis of pricing, services and availability of non-petroleum products. In Italy, there is an ongoing pressure from political and administrative entities, including the Italian Antitrust Authority, to increase the level of competition in the retail marketing of fuels. The above mentioned decree from the Italian Government targeted the Italian fuel retail market too, by relaxing commercial ties between independent operators of service stations and oil companies, enlarging the options to build and operate fully-automated service stations, and opening up the merchandising of various kinds of goods and services at service stations. Eni expects developments in this field to further increase pressure on selling margins in the retail marketing of fuels and to reduce opportunities of increasing market share in Italy;
- In the Petrochemical segment, we face strong 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; and
- 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 and other Group’s operations

The exploration and production of oil and natural gas requires high levels of capital expenditures and entails certain economic risks. It is subject to natural hazards and other uncertainties including those relating to the physical characteristics of oil and natural gas fields. In addition, the Group engages in processing, transportation, refining and petrochemical activities, storage and distribution of petroleum products, natural gas transportation, distribution and storage, and production of base chemical and specialty products, which involve a wide range of operational risks.

Eni's results depend on its ability to identify and mitigate the risks and hazards inherent to operating in those industries. The Company seeks to minimize these operational risks by carefully designing and building its facilities, including wells, industrial complexes, plants and equipment, pipelines, storage sites and distribution networks, 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, and increase in cost, legal liability and/or damage or destruction of crude oil or natural gas wells as well as equipment and other property, all of which could lead to a disruption in operations. We also face risks once production is discontinued, because our activities require environmental site remediation.

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

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

In the transportation area, the type of risk depends not only on the hazardous nature of the products transported, but also on the transportation methods used (mainly pipelines, maritime, river-maritime, rail, road, gas distribution networks), the volumes involved, and the sensitivity of the regions through which the transport passes (quality of infrastructure, population density, environmental considerations). All modes of transportation of hydrocarbons are particularly susceptible to a loss of containment of hydrocarbons and other hazardous materials, and, given the high volumes involved, could present a significant risk to people and the environment.

The Company dedicates a great deal of efforts and attention to safety, health, the environment and the prevention of risks; in pursuing compliance with applicable laws and policies; and in responding and learning 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.

Our oil and natural gas offshore operations are particularly exposed to health, safety, security and environmental risks

We have material operations relating to the exploration and production of hydrocarbons located offshore. In 2011, approximately 60% of our total oil and gas production for the year derived from offshore fields, mainly in Egypt, Norway, Italy, Angola, Gulf of Mexico, UK, Congo, Nigeria and Libya. Offshore operations in the oil and gas industry are inherently riskier than onshore activities. As recent events in the Gulf of Mexico have shown, the potential impacts of offshore accidents and spills to health, safety, security and the environment can be catastrophic due to the objective difficulties in handling hydrocarbons containment and other factors. Also offshore operations are subject to marine perils, including severe storms and other adverse weather conditions and vessel collisions, as well as interruptions or termination by governmental authorities based on safety, environmental and other considerations. Failure to manage these risks could result in injury or loss of life, damage to property, environmental damage, and could result in regulatory action, legal liability, loss of revenues and damage to our reputation and could have a material adverse effect on our operations or financial condition. On March 25, 2012 a gas leak following a well operation occurred at a wellhead platform of the Elgin/Franklin gas field which is located in the UK North Sea. The field is operated by an international oil company. We believe that this oil company is taking all necessary steps to handle the situation. We have a 21.87% interest in the field. We are closely monitoring the situation to assess any possible liability to Eni which may arise from the incident.

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

The production of oil and natural gas is highly regulated and is subject to conditions imposed by governments throughout the world in matters such as the award of exploration and production interests, the imposition of specific drilling and other work obligations, income taxes and taxes on production, environmental protection measures, control over the development and abandonment of fields and installations, and restrictions on production. Following the Macondo incidents in the Gulf of Mexico, the U.S. government imposed a moratorium on certain offshore drilling activities, which was subsequently lifted in October 2010. Our activities in the Gulf of Mexico slowed down as a result of a stricter authorization process for the permits concessions. After the termination of the moratorium, in the first months of 2011, the suspended operations were restarted and the planned operations for 2011 were completed as scheduled with negligible impact on the Company's production for the year. We expect that governments throughout the world will implement stricter regulation on environmental protection, risk prevention and other forms of restrictions to drilling and other well operations. These new regulations and legislation, as well as evolving practices, could increase the cost of compliance and may also require changes to our drilling operations and exploration and development plans and may lead to higher royalties and taxes.

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 Gabon, Togo, Congo, Mozambique, in the Arctic and Barents Sea, the Black Sea and the Caspian Sea, among others. In 2011, the Company invested approximately euro 1.2 billion in executing exploration projects and it plans to spend approximately euro 1.4 billion per annum on average over the next four years which represents a steep increase from management's previous plans.

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.

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

Eni is progressing or plans to start several development projects to produce and market hydrocarbon reserves. Certain projects target to develop reserves in high risk areas, particularly offshore and in remote and hostile environments. Eni's future results of operations and liquidity depend heavily on its ability to implement, develop and operate major projects as planned. Key factors that may affect the economics of these projects include:

- the outcome of negotiations with co-venturers, governments, suppliers, customers or others including, for example, Eni's ability to negotiate favorable long-term contracts to market gas reserves; the development of reliable spot markets that may be necessary to support the development of particular production projects, or commercial arrangements for pipelines and related equipment to transport and market hydrocarbons. 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 participating in large-scale projects or affect its ability to reap benefits associated with economies of scale, for example by obtaining more favorable contractual terms by suppliers of goods and services;
- the ability to design development projects as to prevent the occurrence of technical inconvenience;
- delays in manufacturing and delivery of critical equipment, or shortages in the availability of such equipment, 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. Over the last several years, the industry has been impacted by rising costs 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 and growing complexity and scale of projects, including environmental and safety costs. Furthermore, there has been an evolution in the location of our projects, as we have been discovering increasingly important volumes of reserves in remote and harsh environments (i.e. the Barents Sea, Alaska, the Yamal Peninsula, the Caspian Sea and Iraq) where we are experiencing significantly higher operating costs and environmental, safety and other costs than in other areas of activity. 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.

Delays and differences between scheduled and actual timing of critical events, as well as cost overruns may adversely affect the actual returns of our 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 and costs which may be substantially different with respect to prices/costs assumed when the investment decision was actually made, leading to lower rates of return. For example, we have experienced material cost increase and overruns and a substantial delay in the scheduling of production start-up at the Kashagan field, where development is ongoing. These 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 with Kazakh Authorities an update of the expenditures to complete the Phase 1 which were included in the development plan approved in 2008. The consortium partners continue to target the achievement of first commercial oil production by end of 2012 or in early 2013.

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 2011, the Company’s reserve replacement was negatively affected by lower entitlements in its PSAs for an estimated amount of 97 mmBOE, which however did not impair the Company’s ability to fully replace reserves produced in the year. See "Item 4 – Business Overview – Exploration & Production" and "Item 5 – Outlook". Future oil and gas production is dependent on the Company’s ability to access new reserves through new discoveries, application of improved techniques, success in development activity, negotiation with countries and other owners of known reserves and acquisitions. In a number of reserve-rich countries, national oil companies control a large portion of oil and gas reserves that remain to be developed. To the extent that national oil companies decide to develop those reserves without the participation of international oil companies or if our Company fails to establish partnership with national oil companies, our ability to access or develop additional reserves will be limited.

An inability to replace produced reserves by finding, acquiring and developing additional reserves could adversely impact future production levels and growth prospects. If we are unsuccessful, we may not meet our long-term targets of production growth and reserve replacement, and our future total proved reserves and production will decline, 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 flows. 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; we believe that the current economic slowdown may have affected global demand for oil. The economic downturn has particularly hit gas demand in Europe and Italy in the second half of 2011 and we expect a moderate recovery beginning in 2012 and continuing over the next few years. However, there are still risks of a financial collapse of the eurozone which could trigger a new wave of financial crises and push the world back into recession, leading to lower demand for oil and gas and lower prices;

(iv) prices and availability of alternative sources of energy. We believe that gas demand in Europe in 2011 has been impacted by a shift to the use of coal in firing power plants due to the fact of being relatively cheaper than gas, as well as a rising contribution of renewable energies in satisfying energy requirements. We expect those trends to continue in the future;

(v) governmental and intergovernmental regulations, including the implementation of national or international laws or regulations intended to limit greenhouse gas emissions, which could impact the prices of hydrocarbons; and

(vi) success in developing and applying new technology.

All these factors can affect the global balance between demand and supply for oil and prices of oil.

Lower oil and gas prices over prolonged periods may also adversely affect Eni's results of operations and cash flows by: (i) reducing rates of return of development projects either planned or being implemented, leading the Company to reschedule, postpone or cancel development projects, or accept a lower rate of return on such projects; (ii) reducing the Group's liquidity, entailing lower resources to fund expansion projects, further dampening the Company's ability to grow future production and revenues; and (iii) triggering a review of future recoverability of the Company's carrying amounts of oil and gas properties, which could lead to the recognition of significant impairment charges.

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 these estimates are made. In particular the reserve 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&gas industry is subject to the payment of royalties and income taxes which tend to be higher than those payable in many other commercial activities. In addition, in recent years, Eni has experienced adverse changes in the tax regimes applicable to oil and gas operations in a number of countries where the Company conducts its upstream operations. As a result of these trends, management estimates that the tax rate applicable to the Company's oil and gas operations is materially higher than the Italian statutory tax rate for corporate profit which currently stands at 42%. In 2011, management estimates that the tax rate of the Company's Exploration & Production segment was approximately 58%, which is calculated excluding the impact of an adjustment to deferred taxation triggered by a change of tax rate applicable to a Company's production sharing agreement.

Management believes that the marginal tax rate in the oil&gas industry tends to increase in correlation with higher oil prices which could make it more difficult for Eni to translate higher oil prices into increased net profit. However, the Company does not expect that the marginal tax rate will decrease in response to falling oil prices. Adverse changes in the tax rate applicable to the Group profit before income taxes in its oil and gas operations would have a negative impact on Eni's future results of operations and cash flows.

In the current uncertain financial and economic environment, governments are facing greater pressure on public finances, which may increase their motivation to intervene in the fiscal framework for the oil&gas industry, including the risk of increased taxation, nationalization and expropriations.

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, 2011, 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 2011, 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 with Eni in a number of oil and gas projects and properties in the host countries where Eni conducts its upstream operations. These state-owned oil companies can change contractual terms and other conditions of oil and gas projects in order to obtain a larger profit share from a given project, thereby reducing Eni's profit share. Furthermore, as of the balance sheet date receivables for euro 504 million relating to cost recovery under a petroleum contract in a non-OECD country were the subject of an arbitration proceeding. In Kazakhstan we signed a preliminary settlement agreement with the Kazakh Authorities to solve certain claims relating the recovery of expenditures incurred to develop the Karachaganak field which is operated by a consortium of contractor companies (being 32.5% Eni's interest in the initiative). The agreement, effective from June 30, 2012 after the satisfaction of conditions precedent, involves Kazakhstan's KazMunaiGas (KMG) acquiring a 10% interest in the project. This will be done by each of the contracting companies transferring 10% of their rights and interest in the Karachaganak Final Production Sharing Agreement (FPSA) to KMG. The contracting companies will receive $1 billion net cash post-tax consideration ($325 million being Eni's share);

(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 the course of 2011, several North African and Middle Eastern oil producing countries experienced an extreme level of political instability that has resulted in changes in governments, unrest and violence and consequential economic disruptions. As of end of 2011, approximately 30% of the Company’s proved oil & gas reserves were located in North Africa.

The situation was particularly serious in Libya where the political instability escalated to turn out into an internal revolution and conflict. In 2010, approximately 15% of Eni’s production originated from Libya and a material amount of Eni’s proved reserves were located in Libya. The situation of conflict forced Eni to shut down almost all its producing facilities including exports through the GreenStream gas pipeline for a period of eight months, with the sole exception of certain gas fields to support local production of electricity for humanitarian purposes. The temporary shut down of the Company’s production operations and gas exports negatively affected the operating and financial performance of the Exploration & Production segment. Management estimated a loss of approximately 200 KBOE/d on average for the full year 2011 as a result of the Libyan disruptions. In the final months of 2011 due to the conclusion of the internal conflict and the ongoing gradual return to political and social normality in the country, the Company has been able to progressively restart production at its sites and facilities and reopen the GreenStream pipeline. Currently, Eni’s production in Libya is flowing near pre-crisis levels; management expects that the Company’s production in Libya will achieve 230-240 KBOE/d on average for the full year 2012 compared to 108 KBOE/d in 2011 and 267 KBOE/d in 2010.

Loss of Libyan gas during 2011 also negatively impacted results of operations of the Gas & Power segment due to a worsened supply mix and lower sales to certain Italian shippers who import the Libyan gas to Italy.

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 United States 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 United States enacted the Iran Sanctions Act of 1996 (as amended, "ISA"), which required the President of the United States to impose sanctions against any entity that is determined to have engaged in certain activities, including investment in Iran’s petroleum sector. The ISA was amended in July 2010 by the Comprehensive Iran Sanctions, Accountability and Divestment Act of 2010 ("CISADA"). 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 United States 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 United States. 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 United States 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 United States. 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 segment 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. In this respect, we expect to incur operating costs in the range of approximately US$10 to US$20 million per year over the next few years for contractual support activities and services.

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 future years.

In 2011, Eni’s production in Iran averaged 6 KBOE/d, representing less than 1% of the Eni Group’s total production for the year. Eni’s entitlement in 2011 represented less than 3% 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 exploration and production 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.

On November 21, 2011, President Barack Obama issued an executive order (the "Iran Executive Order") authorizing sanctions on persons that are determined to have engaged in, after the date of the Iran Executive Order, certain activities in support of Iran’s energy and petrochemicals sector that are not specifically targeted by the ISA as amended by CISADA. Those activities include the provision to Iran of goods, services, technology or support that have a fair market value above certain monetary thresholds and that could directly and significantly contribute to the maintenance or enhancement of Iran’s ability to develop its petroleum resources or to the maintenance or expansion of Iran’s domestic production of petrochemical products. The type of sanctions from which the President may select is essentially identical to those contemplated by the ISA and CISADA, and other aspects of the Iran Executive Order similarly parallel the ISA, as amended by CISADA. As discussed above, pursuant to the Darquain service contract, entered into prior to the date of the Iran Executive Order, Eni is providing services in advance of the hand over to NIOC and has certain technical assistance and service obligations, and an obligation to provide, upon request, spare parts and supplies for the maintenance and operation of the field following hand over to NIOC. Nevertheless, the U.S. State Department has stated that the completion of existing contracts is not sanctionable under the Iran Executive Order. Accordingly, we do not believe that Eni’s activities in Iran are sanctionable under the Iran Executive Order. However, if Eni’s activities in Iran are determined to be targeted activities under the Iran Executive Order, or any of Eni’s activities in Iran are determined to be pursuant to an expansion, renewal or amendment of our pre-existing contracts, or a new contract, Eni may be subject to sanctions thereunder, and Eni has no assurances that the U.S. State Department’s 2010 determination of non-sanctionability under the ISA would similarly extend to sanctions under such Order. If sanctions were imposed, their impact could be material and adverse to Eni.

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 980 ktonnes, 1.63 mmtonnes and 976 ktonnes in 2009, 2010 and 2011, respectively. We paid NIOC $419 million in 2009, $888 million in 2010 and $742 million in 2011 for those purchases.

In addition, in 2009 and 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 2009, we purchased 278 ktonnes of crude oil amounting to $147 million; in 2010, we purchased 2.09 mmtonnes of crude oil amounting to $1.1 billion.

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.

On December 31, 2011, the United States enacted the National Defense Authorization Act for the Fiscal Year 2012 (the "2012 NDAA"), which includes sanctions targeting certain financial transactions involving Iran and in particular its banking institutions, including the Central Bank of Iran. These new sanctions, if fully implemented by the United States, are expected to make purchases of Iranian crude from Iran much more difficult due to the involvement of the Central Bank of Iran in such purchases. On January 23, 2012 the EU adopted a Council decision intended to forbid the import, purchase and transport of Iranian crude oil and petroleum products, except for supply contracts entered into before January 23, 2012 and to be performed not later than July 1, 2012. The decision allows for the supply of Iranian crude oil and petroleum products (or the proceeds derived from their supply) for the reimbursement of outstanding amounts due to entities under the jurisdiction of EU Member States, arisen with respect to contracts concluded before January 23, 2012. We do not believe that any possible termination of our purchases of crude oil from Iran would materially affect our refining and supply operations.

We will continue to monitor closely legislative and other developments in the United States 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 segment with Syrian Petrol Co, 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 241 ktonnes, 321 ktonnes and 243 ktonnes in 2009, 2010 and 2011, respectively. We paid Syrian Petrol Co $92 million in 2009, $163 million in 2010 and $175 million in 2011 for those purchases.

In 2010, we purchased 115 ktonnes of crude oil amounting to $59 million and 165 ktonnes of crude oil amounting to $123 million in 2011, 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.

In 2010, our Engineering & Construction segment was awarded by Dijla Petroleum Co, an affiliate of the Syrian National Oil Company, a contract for the central processing facility to be installed at the Khurbet East oil field, on Block 26.

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.

Cyclicality 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 have been facing 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 petrochemical operations incurred substantial operating losses in recent years. In 2011, our petrochemicals operations reported deeper operating loss compared to the year earlier, down to euro 424 million, due to sharply lower margins which were impaired by higher oil-based feedstock costs, and lower sales volumes which were affected by the economic downturn in the last part of the year. Looking forward, management expects that a weak economic outlook may affect overall demand for our products. Furthermore, continuing escalating costs of crude oil represent a risk to the profitability of the Company's petrochemical operations 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 2011, the Company's results of operations and cash flow were negatively affected by sharply lower unit margins due to increasing competitive pressures arising from large gas availability on the marketplace and weak demand growth. We expect continuing competitive pressures and market imbalances to affect our results in 2012 and beyond

Management expects the outlook in the gas sector in Italy and Europe to remain unfavorable over the short to the medium term. In 2011, gas demand in Europe fell by 10% (down by 6% in Italy) due to the economic downturn, an expansion in the use of renewable sources, a shift to coal in thermoelectric production due to cost advantages, as well as unusual weather conditions. The profitability of the gas sector in 2011 was severely hit by reduced demand, oversupply and the high rate of liquidity at the continental hubs. Reduced sales opportunities forced operators to aggressively compete on pricing, particularly those operators which were exposed the most to take-or-pay supply contracts. On their part, large clients adopted opportunistic supply patterns, in order to take advantage of the large availability of spot gas on the marketplace. These drivers led to a squeeze in marketing margins due to decoupling trends between on one hand the rising cost of gas supplies that are indexed to the price of oil and its derivatives as provided by pricing formulas in long-term supply contracts, on the other hand weak selling prices at continental hubs which have become the prevailing benchmark in selling contracts. In Italy competitive pressures dragged down gas margins, too. Against this backdrop, Eni's gas marketing business reported operating losses down to euro 710 million, reversing the prior-year profit of euro 555 million.

Management forecasts that weak gas demand due to the current economic downturn, the persistence of oversupplies on the marketplace and strong competition will represent risk factors to the profitability outlook of the Company gas marketing business over the next two to three years. Short-term perspectives are anticipated to be extremely unfavorable in Italy where the economic recovery is feeble, risks are ongoing of gas being replaced by coal in the thermoelectric production as well as renewables, and finally gas margins are expected to be pressured by recently announced liberalization measures by the Italian Government intended to reduce the cost of gas to residential users (see below). Furthermore, management expects that the price of gas to industrial and other large clients will progressively converge to the pricing level at the continental hubs. It is likely that those trends will negatively impact the Marketing business future results of operations and cash flows by pressuring gas margins, also considering Eni's obligations under its take-or-pay supply contracts (see below).

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

Management estimates that gas demand will grow at an average rate of approximately 2% in Italy and Europe till 2020. Those estimates have been revised downward from previous management projections to factor in the risks associated with a number of ongoing trends:

- uncertainties and volatility in the macroeconomic cycle; particularly the current downturn in Europe will weigh on the short-term perspectives of a rapid recovery in gas demand;
- growing adoption of consumption patterns and life-styles characterized by wider sensitivity to energy efficiency; and
- EU policies intended to reduce GHG emissions and promote renewable energy sources. For further information about the Company's outlook for gas demand see "Item 4 – Gas & Power".

The projected moderate dynamics in demand will not be enough to balance current oversupplies on the marketplace over the next two to 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. Furthermore, in the near future management expects the start-up of new infrastructures in various European entry points which will add approximately 50-60 BCM of new import capacity over the next few years. Those include the Medgaz pipeline connecting Algeria to the Iberian Peninsula, the Nord Stream pipeline connecting Russia to Germany through the Baltic Sea as well as new LNG facilities, particularly a new plant is set to commence operations in the Netherlands with a process capacity of up to 12 BCM. Further 27 BCM of new supplies will be secured by a second line of the Nord Stream later and new storage capacity will come online. In Italy, the gas offered will increase moderately in the next future as a new LNG plant is expected to start operations at Livorno with a 4 BCM treatment capacity and effects are in place of Law Decree No. 130/2010 about storage capacity (see below) which is expected to increase by 4 BCM by 2015. In addition the GreenStream pipeline is expected to achieve full operations in 2012 and gas supplies from Libya will be restarted. These developments will be tempered by an expected increase in worldwide gas demand driven by economic growth in China and other emerging economies, a slowdown in additions of new worldwide LNG capacity, and mature field decline in Europe.

Those trends represent risks to the Company’s future results of operations and cash flows in its gas business, particularly our internal forecast about a rebalancing between demand and supplies in Europe which we expect by the end of our four-year industrial plan. See "Item 4 – Gas & Power" for further information about our long-term expectations on gas demand and supply.

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. These contracts have been ensuring approximately 80 BCM of gas availability from 2010 (including the Distrigas portfolio of supplies and excluding Eni’s other subsidiaries and affiliates) with a residual life of approximately 17 years and a pricing mechanism that indexes the cost of gas to the price of crude oil and its products (gasoil, fuel oil, etc.). These contracts 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 speaking, 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 weak gas demand growth and large gas availability on the marketplace, the possible evolution of sector-specific regulation, as well as strong competitive pressures on the marketplace represent risk factors to the Company’s ability to fulfill its minimum take obligations associated with its long-term supply contracts.

Since the beginning of the downturn in the European gas market late in 2009, Eni has incurred the take-or-pay clause as the Company collected lower volumes than its minimum take obligations in each of those years accumulating deferred costs for an amount of euro 2.22 billion (net of limited amounts of volume make-up) and has paid the associated cash advances amounting to euro 1.76 billion, being the difference between said amounts the payable towards gas suppliers outstanding as of the balance sheet date in 2011.

Considering ongoing market trends and the Company’s outlook for its sales volumes which are anticipated to grow at a moderate pace to 2015, as well as the benefit associated with contract renegotiations which may temporarily reduce the annual minimum take, management believes that it is likely that in the next two to three years Eni will fail to fulfill its minimum take obligations associated with its supply contracts thus triggering the take-or-pay clause and the obligation to pay cash advances in relation to substantial amounts of gas.

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. 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

The main aspects of the Italian gas sector regulations are rules to access to infrastructures (transport backbones, storage fields, distribution networks and LNG terminals), criteria to establish tariffs for transport, distribution, re-gasification and storage services and the functional unbundling of undertakings owning and managing gas infrastructures which prevent a controlling entity from interfering in the decision-making process of such undertakings. Also the Italian Authority for Electricity and Gas ("AEEG") is entrusted with certain powers in the matters of approving specific codes for each regulated activity, and monitoring natural gas prices and setting pricing mechanisms for supplies to users which are entitled to be safeguarded in accordance with applicable regulations. Those clients which mainly include households and residential customers (services, hospitals, large retailers, small commercial activities, etc.) have right to obtain gas from their suppliers at a regulated tariff set by the Authority (see below).

Law Decree No. 1 enacted by the Italian Government on January 24, 2012, the so called Liberalization Decree, is expected to have major impacts on the Italian gas sector, including an obligation on part of Eni to divest its interest in Snam (see below).

In 2011, new legislation went into effect which implemented a mechanism of market shares as per Legislative Decree No. 130 of August 13, 2010. This legislation replaced the previous system of antitrust thresholds defined by Legislative Decree No. 164 of May 23, 2000. The new decree has introduced a 40% ceiling to the wholesale market share of every Italian gas operator that inputs gas into the Italian backbone network. This ceiling is raised to 55% for Eni, having it committed itself to build new storage capacity in Italy for a total of 4 BCM within five years from the enactment of the decree. In case of violation of the mandatory thresholds, the law provides for a mandatory gas release at regulated prices up to 4 BCM over a two-year period following the ascertainment of the ceiling breach.

Eni believes that this new gas regulation will increase the competitiveness of the wholesale natural gas market in Italy.

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

The Authority for Electricity and Gas 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 50,000 CM/y (qualified as non eligible customers as of December 31, 2002 as defined by Legislative Decree No. 164/2000 recently modified by Resolution ARG/gas No. 71/2011) 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 formulas 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 in the thermal year October 1, 2010-September 30, 2011. This resolution negatively affected Eni’s results of operations in its gas marketing business for fiscal year 2011.

Again in 2011 with Resolution ARG/gas 77/11, the AEEG provided a reduction of 6.5% of the raw material cost component for the thermal year October 1, 2011-September 30, 2012. The resolution will negatively affect Eni’s results of operations and cash flows in 2012. The Company believes that it is possible that in the near future the AEEG could enact new measures that will impact the indexation mechanism of the cost of gas in supplies to residential customers.

In particular the Italian decree on liberalizations puts the AEEG in charge of gradually introducing reference to the price of certain benchmarks quoted at continental hubs in the indexation mechanism of the cost of gas in the pricing of sales to the above mentioned customers. Management believes that this new pending rule will negatively affect the profitability of the Company sales in those market segments because currently and for years to come the prices at continental hubs are lower than the oil-linked prices that to date have been used to set prices for residential customers.

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 the regulation of 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. 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, such as Eni, are entitled to a priority right in allocating available transport capacity within the limit of average daily contractual volumes. Gas volumes exceeding average daily contractual volumes get no priority right. In case of congestion at any entry points, such volumes are entitled to 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. Eni believes that Decision No. 137/2002 is in contrast with the rationale of the European regulatory framework on the gas market as provided by 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 appeal court has 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 a priority right in accessing the network in case congestion occurs. At the moment, however, no case of congestion occurred at entry points to the Italian transport infrastructure so as to impair 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".

The Italian Government has taken steps to increase competition in the Italian natural gas market, including a mandatory disposal of Eni’s interest in Snam. Such regulatory developments may adversely affect Eni’s results of operations and cash flows

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

Particularly, 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 the 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 have concluded 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.

On January 24, 2012, the Italian Government enacted Law Decree No. 1, the so called Liberalization Decree, establishing new measures to enhance competition in the Italian natural gas market. The Decree was promulgated by the Italian Parliament at the end of March 2012. In addition to the above mentioned provision about the adoption of a more competitive pricing mechanism in supplies to residential customers, the Decree opened up the process of mandatory divestiture of Eni’s interest in Snam. The Decree calls for the Italian Prime Minister to promulgate an act to set criteria, terms and conditions of the divestment, including the residual stake that Eni is allowed to retain in the divested entity. These criteria, terms and conditions are expected by the end of May 2012.

Management believes the institutional debate on the degree of competition in the Italian natural gas market and the regulatory activity to be critical 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 to ongoing antitrust proceedings or new proceedings that may possibly arise. The Group is particularly exposed to this risk in its natural gas, refining and marketing and petrochemicals activities due to the fact that Eni is the incumbent operator in those markets in Italy and a large European player. In 2011 we accrued a risk provision amounting to euro 69 million to take into account a sentence of an European judicial authority regarding a charge against the Company involving alleged anti-competitive practices in the field of elastomers in the petrochemicals sector. See "Item 18 – 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, require to remove and dismantle drilling platforms and other equipment and well plug-in once oil and gas operations have terminated, provide for measures to be taken to protect the safety of the workplace and health of communities involved by the Company's activities, and impose criminal or civil liabilities for polluting the environment or harming employees' or communities' health and safety resulting from oil, natural gas, refining, petrochemical and other Group's operations.

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

Breach of environmental, health and safety laws 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 as well as damage to its reputation. Additionally, in the case of violation of certain rules regarding the safeguard of the environment and safety in the workplace, the Company can be liable due to negligent or willful conduct on part of its employees as per Law Decree No. 231/2001.

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

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

In addition, growing public concerns in the EU and globally that rising greenhouse gas emissions and climate change may significantly affect the environment and society could adversely affect our businesses, including the possible enactment of stricter regulations that increase our operating costs, affect product sales and reduce profitability. For more discussion about this topic see "Item 4 – Environmental Regulations".

Furthermore, in the countries where we operate or expect to operate in the near future, new laws and regulations, the imposition of tougher license requirements, increasingly strict enforcement or new interpretations of existing laws and regulations or the discovery of previously unknown contamination may also cause us to incur material costs resulting from actions taken to comply with such laws and regulations, including:
- modifying operations;
- installing pollution control equipment;
- implementing additional safety measures; and
- performing site clean-ups.

As a further result of any new laws and regulations or other factors, we may also have to curtail, modify or cease certain operations or implement temporary shutdowns of facilities, which could diminish our productivity and materially and adversely impact our results of operations, including profits.

Security threats require continuous assessment and response measures. Acts of terrorism against our plants and offices, pipelines, transportation or computer systems could severely disrupt businesses and operations and could cause harm to people.

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 due to its past and present activities and because several Group industrial installations are or were localized in Italy. In fact, many environmental liabilities have arisen as the Group engaged in a number of industrial activities that were subsequently divested, closed, liquidated or shut down. At those industrial sites Eni has commenced 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, plaintiffs and several public administrations have been acting against Eni to claim both the environmental damage and measures to perform clean-up and remediation projects in a number of civil and administrative proceedings. 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. Discussions with the Italian Ministry for the Environment are ongoing in order to define all aspects of the proposed transaction.

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 amounts represent the management's best estimates of the Company's liability.

Management believes that it is possible that in the future Eni may incur significant environmental expenses and liabilities in addition to the amounts already accrued due to: (i) the likelihood of as yet unknown contamination; (ii) the results of ongoing surveys or surveys to be carried out on the environmental status of certain 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 defendant in a number of civil actions and administrative proceedings arising in the ordinary course of business. In addition to existing provisions accrued as of 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 “Item 18 – 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 opposite trends in margins for Eni’s downstream businesses

The impact of changes in crude oil prices on Eni’s downstream businesses, including the Gas & Power, the Refining & Marketing and the 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 oil price represent a risk to the profitability of the Company sales as gas supplies are mainly indexed to the cost of oil and certain refined products, while selling prices, particularly outside Italy, are increasingly benchmarked to gas spot prices quoted at continental hubs. In the current trading environment, spot prices at those hubs are particularly depressed due to oversupply conditions. In 2011 the de-coupling between trends in the oil-linked costs of supplies and spot prices of gas sales was the main driver of the operating loss incurred by our gas marketing business. We expect that such unfavorable trend will continue in 2012 and beyond due to ongoing rising trends in crude oil prices and weak spot prices pressured by sluggish industry fundamentals and competition. 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 formulas to those customers. Finally, we expect a negative impact on the profitability of our gas sales to residential customers in Italy due to the possible enactment of the Italian law decree on liberalizations. 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 – Management’s Expectations of Operations” 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 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 2011, 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 particularly in the Mediterranean area. Management does not expect any significant recovery in industry fundamentals over the short to medium term. The sector as a whole will continue to suffer from weak demand and excess capacity, while the cost of oil feedstock may continue rising and price differentials may remain compressed. In this context, management expects that the Company’s refining margins will remain at unprofitable levels in 2012 and possibly beyond. In addition, due to a reduced outlook for refining margins and the persistence of weak industry fundamentals, management took substantial impairment charges amounting to euro 645 million before tax to align the book value of the Company’s refining plants to their lower values-in-use which impacted 2011 results of operations.

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

Eni’s margins on petrochemical products are affected by trends in demand for petrochemical products and movements in crude oil prices to which purchase costs of petroleum-based feedstock are indexed. Given the commoditized nature of Eni petrochemical products, it is difficult for the Company to transfer higher purchase costs for oil-based feedstock to selling prices to customers. In 2011, Eni’s petrochemicals business reported wider operating losses down to euro 424 million due to sharply lower margins on basic petrochemicals products, mainly the margin on cracker, reflecting rising oil costs and as demand for petrochemicals commodities plunged in the last quarter of the year dragged down by the economic downturn. Rising oil-based feedstock costs will continue to negatively affect Eni’s results of operations and liquidity in this business segment in 2012.

Risks from Acquisitions

Eni constantly monitors the oil and gas market in search of opportunities to acquire individual assets or companies in order to achieve its growth targets or complement its asset portfolio. Acquisitions entail an execution risk – a significant risk, among other matters, that the acquirer will not be able to effectively integrate the purchased assets so as to achieve expected synergies. In addition, acquisitions entail a financial risk – the risk of not being able to recover the purchase costs of acquired assets, in case a prolonged decline in the market prices of oil and natural gas occurs. 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.

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. In general, the effects of climate change could result in less stable weather patterns, resulting in more severe storms and other weather conditions that could interfere with our operations and damage our facilities. Furthermore, our operations, particularly offshore production of oil and natural gas, are exposed to extreme weather phenomena that can result in material disruption to our operations and consequent loss or damage of properties and facilities.

Our crisis management systems may be ineffective

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

Exposure to financial risk

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

For a description of Eni's exposure to Country risk see paragraph "Political considerations" above.

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

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

Commodity risk

Commodity risk is the risk associated with fluctuations in the price of commodities which may impact the Group's results of operations and cash flow. Exposure to commodity risk is both of a strategic and commercial nature. Generally, the Group does not hedge its strategic exposure to commodity risk associated with its plans to find and develop oil and gas reserves, volume of gas purchased under its long-term gas purchase contracts which is not covered by contracted sales, its refining margins and other activities. For further discussion on this issues see paragraph "Changes in crude oil and natural gas prices may adversely affect Eni's results of operations" above and "Item 11 – Quantitative and Qualitative Disclosures about Market Risk".

On the other hand, the Group actively manages its exposure to commercial risk which arises when a contractual sale of a commodity has occurred or it is highly probable that it will occur and the Group aims at locking in the associated commercial margin. The Group's risk management objectives are to optimize the risk profile of its commercial activities by effectively managing economic margins and safeguarding the value of Eni assets. Also, as part of its risk management activities from 2011 the Group has commenced trading activities in order to seek to profit from short-term market opportunities. The Group's risk management has evolved particularly in response to the deep changes occurred in the competitive landscape of the gas marketing business, gas volatile margins and development of liquid gas spot markets.

To achieve those targets, Eni enters into commodity derivatives transactions in both commodity and financial markets:

(i) to hedge the risk of variability in future cash flows on already contracted or highly probable future sales exposed to commodity risk depending on the circumstance that costs of supplies may be indexed to different market and oil benchmarks compared to the indexing of selling prices. As tight correlation exists between such commodity derivatives transactions and underlying physical contracts, those derivatives are treated in accordance with hedging accounting in compliance with IAS 39, where possible; and

(ii) to pursue speculative purposes such as altering the risk profile associated with a portfolio of contracts (purchase contracts, transport entitlements, storage capacity) or leveraging any pricing differences in the marketplace, seeking to increase margins on existing assets in case of favorable trends in the commodity pricing environment or seeking a potential profit based on expectations of trends in future prices. The Company also intends to implement strategies of dynamic forward trading in order to maximize the economic value of the flexibilities associated with its assets. Price risks related to asset backed trading activities are mitigated by the natural hedge granted by the assets' availability.

These contracts may lead to gains as well as losses, which, in each case, may be significant. Those derivatives are accounted for through profit and loss, resulting in higher volatility in Eni's operating profit, particularly in the gas marketing business.

Exchange rate risk

Movements in the exchange rate of the euro against the U.S. dollar can have a material impact on Eni’s results of operations. Prices of oil, natural gas and refined products generally are denominated in, or linked to, U.S. dollars, while a significant portion of Eni’s expenses are denominated in euros. Similarly, prices of Eni’s petrochemical products are generally denominated in, or linked to, the euro, whereas expenses in the 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’s results of operations and liquidity because it reduces booked revenues by an amount greater than the decrease in U.S. dollar-denominated expenses and may also result in significant translation adjustments that impact Eni’s shareholders’ equity. The Exploration & Production segment is particularly affected by movements in the U.S. dollar versus the euro exchange rates as the U.S. dollar is the functional currency of a large part of its foreign subsidiaries and therefore movements in the U.S. dollar versus the euro exchange rate affect year-on-year comparability of results of operations.

Susceptibility to Variations in Sovereign Rating Risk

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

Interest rate risk

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

Liquidity risk

Liquidity risk is the risk that suitable sources of funding for the Group may not be available, or the Group is unable to sell its assets on the marketplace in order to meet short-term financial requirements and to settle obligations. Such a situation would negatively impact the Group results of operations and cash flows as it would result in Eni incurring higher borrowing expenses to meet its obligations or, under the worst conditions, the inability of Eni to continue as a going concern. European and global financial markets are currently subject to volatility amid concerns over the European sovereign debt crisis and the slow-down of the global economy. If there are extended periods of constraints in these markets, or if we are unable to access the markets, including due to our financial position or market sentiment as to our prospects, at a time when cash flows from our business operations may be under pressure, our ability to maintain our long-term investment program may be impacted with a consequent effect on our growth rate, and may impact shareholder returns, including dividends or share price.

Credit risk

Credit risk is the potential exposure of the Group to losses in case counterparties fail to perform or pay due amounts. Credit risks arise from both commercial partners and financial ones. In 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 Eni’s 2011 Consolidated Financial Statements, Eni accrued an allowance against doubtful accounts amounting to euro 171 million, mainly relating the Gas & Power business and to a lesser extent, the Refining & Marketing business. Management believes that both businesses are particularly exposed to credit risks due to their large and diversified customer base which include a large number of middle and small businesses and retail customers who are particularly impacted by the current global financial and economic situation.

Critical Accounting Estimates

The preparation of the Consolidated Financial Statements requires the use of estimates and assumptions that affect the assets, liabilities, revenues and expenses reported in the financial statements, as well as amounts included in the notes thereto, including discussion and disclosure of contingent liabilities. Estimates made are based on complex or subjective judgments and past experience and other assumptions deemed reasonable in consideration of the information available at the time. The accounting policies and areas that require the most significant judgments and estimates to be used in the preparation of the Consolidated Financial Statements are in relation to the accounting for oil and natural gas activities, specifically the determination of proved and proved developed reserves, impairment of fixed assets, intangible assets and goodwill, asset retirement obligations, business combinations, pensions and other post-retirement benefits, recognition of environmental liabilities and recognition of revenues in the oilfield services construction and engineering businesses. Although management believes these estimates to represent the best outcome of the estimation process, actual results could differ from such estimates, due to, among other things, the following factors: uncertainty, lack or limited availability of information, availability of new informative elements, variations in economic conditions such as prices, costs, other significant factors including evolution in technologies, industrial practices and standards (e.g. removal technologies) and the final outcome of legal, environmental or regulatory proceedings. See “Item 5 – Critical Accounting Estimates”.

Digital infrastructure is an important part of maintaining our operations, and a breach of our digital security could result in serious damage to business operations, personal injury, damage to assets, harm to the environment, breaches of regulations, litigation, legal liabilities and reparation costs

The reliability and security of our digital infrastructure are critical to maintaining the availability of our business applications, including the reliable operation of technology in our various business operations and the collection and processing of financial and operational data, as well as the confidentiality of certain third-party information. A breach of our digital security, either due to intentional actions or due to negligence, could cause serious damage to business operations and, in some circumstances, could result in injury to people, damage to assets, harm to the environment, breaches of regulations, litigation, legal liabilities and reparation costs.

Item 4. INFORMATION ON THE COMPANY

History and Development of the Company

Eni SpA with its consolidated subsidiaries engages in the oil and gas exploration and production, gas marketing operations, management of gas infrastructures, power generation, petrochemicals, oilfield services and engineering industries. Eni has operations in 85 countries and 78,686 employees as of December 31, 2011.

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

Eni’s registered head office is located at Piazzale Enrico Mattei 1, Rome, Italy (telephone number: +39-0659821). Eni branches are located in:
- San Donato Milanese (Milan), Via Emilia, 1; and
- San Donato Milanese (Milan), Piazza Ezio Vanoni, 1.

Internet address: eni.com

The name of the agent of Eni in the United States is 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 41 countries, including Italy, Libya, Egypt, Norway, the UK, Angola, Congo, the United States, Kazakhstan, Russia, Algeria, Australia, Venezuela, Iraq and Mozambique. In 2011, Eni average daily production amounted to 1,523 KBOE/d on an available for-sale basis. As of December 31, 2011, Eni’s total proved reserves amounted to 7,086 mmBOE; proved reserves of subsidiaries totaled 5,940 mmBOE; Eni’s share of reserves of equity-accounted entities were 1,146 mmBOE. In 2011, Eni’s Exploration & Production segment reported net sales from operations (including inter-segment sales) of euro 29,121 million and operating profit of euro 15,887 million.