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,				
2005	1.35	1.17	1.24	1.18
2006	1.33	1.19	1.26	1.32
2007	1.49	1.29	1.37	1.46
2008	1.60	1.24	1.47	1.39
2009	1.51	1.25	1.39	1.43

(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)		
November 2009	1.51	1.47	1.50
December 2009	1.51	1.42	1.43
January 2010	1.45	1.39	1.39
February 2010	1.40	1.35	1.37
March 2010	1.38	1.33	1.35
April 2010 (through April 9, 2010)	1.36	1.34	1.35

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 April 9, 2010 was $1.35 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 competition from other oil and natural gas companies in all areas of its operations.

- In the Exploration & Production business, Eni faces competition from both international oil companies and state-owned oil companies in a number of geographic markets 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 or to apply and develop new technologies, 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 weak prospects for demand growth over the short and medium-term, and increasing gas availability on the marketplace. Significant investments to expand import capacity to Europe via pipeline and LNG have been made by a number of operators including Eni, in recent years. At the same time, forecasts for demand growth in Europe have been overestimated and the economic

downturn has caused a much larger-than-anticipated demand contraction. As natural gas is a commodity, gas oversupply may lead suppliers to compete more aggressively on pricing thus leading to lower gas margins for the whole sector. The condition of oversupply is signaled by current trends in differentials between spot price and long-term prices for natural gas, whereby the former no longer appear to be correlated to oil-linked formulas that determine gas prices in long-term supply contracts. Management believes that a better balance between demand and supply on the European market will not be achieved until 2013 at the earliest. The circumstances described above might negatively affect the Company's future results of operations and cash flow in its natural gas business, also taking into account the Company's contractual obligations to off-take minimum annual volumes of natural gas in accordance to its long-term gas supply contracts that include take-or-pay clauses. See the sector-specific risk section below. In Italy, competitive pressures are fostered by the liberalization of the Italian natural gas market that was mandated by Legislative Decree No. 164/2000 which provides for, among other things, the opening of the Italian market to competition, limitations to the size of gas companies relatively to the market and third party access to infrastructures, and the power of the Italian Authority for Electricity and Gas to regulate natural gas pricing in the residential sector and access to infrastructures. Increasingly high levels of competition in the Italian natural gas market may lead to lower natural gas selling margins (see below). Outside of Italy, particularly in Europe, Eni 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. Furthermore, a number of large clients, particularly electricity producers, in both the domestic market and other European markets are planning to enter the supply market of natural gas. 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 national and other European markets for natural gas and reduce Eni's operating profit.

- 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 increasing competition due to the weak GDP growth expected in Italy and Europe over the next one to two years causing outside players to place excess production on the Italian market.
- In retail marketing of refined products both in and outside Italy, Eni competes with third parties (including international oil companies and local operators such as supermarket chains) to obtain concessions to establish and operate service stations. Once established, Eni's service stations compete primarily on the basis of pricing, services and availability of non-petroleum products. In Italy, there is pressure from political and administrative entities, including the Italian Antitrust Authority, to increase levels of competition in the retail marketing of fuels. Eni expects developments on this issue to further increase pressure on selling margins in the retail marketing of fuels.
- In the Petrochemical segment we face intense competition from well-established international players and state-owned petrochemical companies, particularly in the most commoditized market segments. Many of those competitors may benefit from cost advantages due to larger scale, looser environmental regulations, availability of oil-based feedstock, and more favorable location and proximity to end-markets. Excess capacity and sluggish economic growth may exacerbate competitive pressures. The Company expects continuing margin pressures in the foreseeable future as a result of those trends.
- Competition in the oilfield services, construction and engineering industries is primarily based on technical expertise, quality and number of services and availability of technologically advanced facilities (for example, vessels for offshore construction). Lower oil prices could result in lower margins and lower demand for oil services.

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

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

The exploration and production of oil and natural gas requires high levels of capital expenditures and entails particular economic risks. It is subject to natural hazards and other uncertainties including those relating to the physical characteristics of oil and natural gas fields. 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, environmental protection measures, control over the development and abandonment of fields and installations, and restrictions on production. The oil and gas industry is subject to the payment of royalties and income taxes which tend to be higher than those payable in many other commercial activities.

Exploratory drilling efforts may not be successful

Drilling for oil and gas involves numerous risks including the risk of dry holes or failure to find commercial quantities of hydrocarbons. The costs of drilling, completing and operating wells are often uncertain, and drilling operations may be unsuccessful as a result of a variety of factors, including 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. In addition, we may fail to secure a market for the quantities of oil and gas that are discovered, for example because there is no economic or practicable means to transport such quantities to the final market. 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. High risk exploration projects include projects executed in deep and ultra-deep offshore and in new areas where the Company lacks installed production facilities. Particularly, Eni plans to explore for oil and gas offshore, frequently in deep waters or at deep drilling depths, where operations are more difficult and costly than on land or at shallower depths and in shallower waters. Deep water operations generally require a significant amount of time between a discovery and the time that Eni can produce and market the oil or gas, increasing both the operational and financial risks associated with these activities. The Company plans to conduct risky exploration projects offshore in the Gulf of Mexico, Libya, Angola, Nigeria, Norway and Indonesia. In 2009, the Company invested euro 1.23 billion in executing exploration projects and it plans to spend approximately euro 1.17 billion per annum on average over the next four years.

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

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

Eni is involved in a number of development projects for the production of hydrocarbon reserves. Certain projects are planned to develop reserves in high risk areas, particularly offshore and in remote and hostile environments. Eni’s future results of operations and liquidity rely upon its ability to develop and operate major projects as planned. Key factors that may affect the economics of these projects include:

- the outcome of negotiations with co-venturers, governments, suppliers, customers or others including, for example, Eni’s ability to negotiate favorable long-term contracts with customers; the development of reliable spot markets that may be necessary to support the development of particular production projects, or commercial arrangements for pipelines and related equipment to transport and market hydrocarbons. Furthermore, projects executed with partners and co-venturers reduce the ability of the Company to manage risks and costs, and Eni could have limited influence over and control of the operations, behaviors and performance of its partners;
- timely issuance of permits and licenses by government agencies;
- the Company’s relative size compared to its main competitors which may prevent it from affording opportunities to participate in large-scale projects or affect its ability to reap benefits associated with economies of scale, for example by obtaining more favorable contractual terms by suppliers of goods and services;
- the ability to design development projects so as to prevent the occurrence of technical inconvenience;
- delays in manufacturing and delivery of critical equipment, or shortages in the availability of such equipment, causing cost overruns and delays;
- risks associated with the use of new technologies and the inability to develop advanced technologies to maximize the recoverability rate of hydrocarbons or gain access to previously inaccessible reservoirs;
- changes in operating conditions and costs. In recent years prior to 2009, we experienced a sharp rise in procurement costs and costs for leasing third party equipment or purchase services such as drilling rigs as a result of industry-wide cost inflation, resulting in cost overruns. Notwithstanding the global economic downturn, costs for industry-specific services and materials and equipment decreased less-than-anticipated or actually increased compared to the previous year as oil prices recovered fairly quickly from the lows seen at the end of 2008 and beginning of 2009. The Company expects that costs in its upstream operations will remain at the same level or post a slightly rising trend in future years compared to the level seen in 2009;
- the actual performance of the reservoir and natural field decline; and
- the ability and time necessary to build suitable transport infrastructures to export production to final markets.

Furthermore, deep waters and other hostile environments, where the majority of Eni’s planned and existing development projects are located, can exacerbate these problems. Delays and differences between scheduled and actual timing of critical events, as well as cost overruns may adversely affect completion, the total amount of expenditures to be incurred and start-up of production from such projects and, consequently, actual returns. Finally, developing and marketing hydrocarbons reserves typically requires several years after a discovery is made. This is because a development project involves an array of complex and lengthy activities, including appraising a discovery in order to evaluate its commercial potential, sanctioning a development project and building and commissioning related facilities. As a consequence, rates of return for such long-lead-time projects are exposed to the volatility of oil and gas prices which may be substantially lower with respect to prices assumed when the investment decision was actually made, leading to lower rates of return. For example, we have experienced increased budgeted expenditures and a substantial delay in the scheduling of production start-up at the Kashagan field, where development is ongoing. Specifically, based on the new plan that was sanctioned by relevant Kazakh Authorities in 2008, the Company increased estimated expenditures to develop the phase 1 of the project from an original amount of U.S. $10.3 billion (Eni’s interest being at the time 18.52%) – subject to adjustment to take into account cost inflation up to 2007 – to a revised expenditure budget amounting to U.S. $32.2 billion (excluding general and administrative expenses), of which U.S. $25.4 billion related to the original scope of work of phase 1 (including tranches 1 and 2). Eni will fund those investments in proportion to its participating interest of 16.81%. First oil is expected late in 2012 based on the new plan, while the original development plan that was filed with Kazakh Authorities in 2004 forecast first oil in 2008. The change in production start-up and the relevant cost increase over the original budget were driven by a number of factors including depreciation of the U.S. dollar versus the euro and other currencies; cost price 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. See "Item 4 – Exploration & Production – Caspian Sea" for a full description of the material terms of the Kashagan project.

In 2009, we experienced significant cost overruns to develop our operated Blacktip project, offshore Australia, leading us to record an impairment charge of euro 153 million to take into account the reduced project profitability.

See "Item 4 – Business Overview – Exploration & Production". In the event the Company is unable to develop and operate major projects as planned, particularly if the Company fails to exercise tight control over costs and time schedules, it could incur significant impairment charges associated with costs overruns and project delays in future years with an adverse effect on our results of operations and liquidity.

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 and new discoveries, the Company’s reserve replacement is also affected by the entitlement mechanism in its Production Sharing Agreements 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 2009, the Company’s reserve replacement was negatively affected by reduced entitlements in its PSAs for an estimated amount of 100 mmBOE, which was the principal factor leading to a reserve replacement ratio of 95% for Eni’s subsidiaries (meaning that the Company replaced less reserves than those produced). See "Item 4 – Business Overview – Exploration & Production". Future oil and gas production is dependent on the Company’s ability to access new reserves through new discoveries, application of improved techniques, success in development activity, negotiation with countries and other owners of known reserves and acquisitions. An inability to replace reserves could adversely impact future production levels and growth prospects, thus negatively affecting Eni’s future results of operations and financial condition.

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

The exploration and production of oil and gas is a commodity business with a history of price volatility. The single largest variable that affects the Company’s results of operations and financial condition is crude oil prices. Eni generally does not hedge its 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 OPEC member countries which control a significant portion of the world's supply of oil and can exercise substantial influence on price levels;
(ii) global geopolitical and economic developments, including sanctions imposed on certain oil-producing countries on the basis of resolutions of the United Nations or bilateral sanctions;
(iii) global and regional dynamics of demand and supply of oil and gas; in the current economic downturn we have experienced a significant reduction in worldwide demand for crude oil and in the European gas demand which have negatively impacted crude oil and natural gas prices;
(iv) prices and availability of alternative sources of energy;
(v) governmental and intergovernmental regulations, including the implementation of national or international laws or regulations intended to limit greenhouse gas emissions, which could impact the prices of hydrocarbons; and
(vi) success in developing and applying new technology.

All these factors can affect the global balance between demand and supply for oil and prices of oil. Such factors can also affect the prices of natural gas because natural gas prices for the major part of our supplies are typically indexed to the prices of crude oil and certain refined petroleum products. Lower crude oil prices have an adverse impact on Eni’s results of operations and cash flow. In 2009, the average price of the Brent barrel decreased by 36.6% compared to 2008 in dollar terms; gas prices experienced an even sharper decline driven by weak spot prices due to large gas availability on the marketplace. Spot prices of gas at the Henry Hub market, which is a highly liquid spot market in the U.S. declined by 55.4% in dollar terms. As a consequence of those trends in the market benchmarks, realized prices of the Company’s equity oil and gas decreased by 31.2% on average in dollar terms. Reduced prices negatively impacted the operating profit reported by the Exploration & Production segment which was down by 43.8%, or euro 7,119 million from a year ago.

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

Uncertainties in Estimates of Oil and Natural Gas Reserves

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

- the quality of available geological, technical and economic data and their interpretation and judgment;
- projections regarding future rates of production and timing of development expenditures;
- whether the prevailing tax rules, other government regulations and contractual conditions will remain the same as on the date estimates are made;
- results of drilling, testing and the actual production performance of Eni’s reservoirs after the date of the estimates which may require substantial upward or downward revisions; and
- changes in oil and natural gas prices which could affect the quantities of Eni’s proved reserves because the estimates of reserves are based on prices and costs existing as of the date when those estimates are made. In particular the reserves estimates are subject to revisions as prices fluctuate due to the cost recovery mechanism under the Company’s PSAs and similar contractual schemes.

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

Oil and gas activity may be subject to increasingly high levels of income taxes

In recent years, Eni has experienced adverse changes in tax regimes applicable to oil and gas operations in Italy and in a number of countries where the Company conducts its upstream operations. In 2009 management estimates that the tax rate of the Company’s Exploration & Production segment was approximately 60%, representing an increase of an estimated 4% compared to 2008 as a result of new mechanisms that were implemented to calculate income taxes currently payable in a number of non OECD countries, namely Libya. See "Item 5 – Operating and Financial Review and Prospects – Taxation for the year". Management believes that adverse changes are possible in the tax regimes of any country in which Eni conducts its oil and gas operations, regardless of the level of stability of the political and legislative framework in each country. See "Political considerations" below. In recent years, developments in the regulatory framework, mainly regarding tax issues, have been implemented or announced also in EU countries and in North America. In 2008, Italy enacted new tax rules that increased the statutory tax rate applicable to energy companies with annual turnover in excess of euro 25 million by 5.5%, thus reversing a reduction in the statutory tax rate of the same amount that was enacted the previous year. In 2009, the above mentioned 5.5% supplemental tax rate was increased by another percentage point to 6.5% thus bringing the Italian statutory tax-rate to 34%. Also in 2009, the Italian Parliament enacted a supplemental tax rate of 4% that has to be applied to profit before income taxes reported by the parent company Eni SpA associated with a treaty between Italy and Libya. This tax rate increased tax payables by approximately euro 239 million for the full year 2009.

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

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, 2009, 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 2009, 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 titles in the host countries where Eni conducts its upstream operations. These state-owned oil companies can change contractual terms and other conditions of oil and gas projects in order to obtain a larger profit share from a given project, thereby reducing Eni's profit share. For example, Sonatrach, the Algerian national oil company, is seeking to modify the contractual terms of certain PSAs in which Eni is party to achieve a redistribution of the tax burden of such PSAs. Sonatrach alleges that it is currently bearing part of the tax burden attributable to Eni following the enactment of certain modifications to the country's tax regime. In case those negotiations result in a negative outcome for Eni, the future profitability of certain of Eni's PSAs in Algeria will be reduced. For more information on this matter see "Item 4 – Exploration & Production – Algeria".
Furthermore, in 2009 we recorded a loss amounting to euro 205 million on certain receivables versus local co-venturers as certain contractual clauses relating to cost recovery were unfavorably interpreted and applied. As of the balance sheet date receivables for euro 461 million relating to cost recovery under a petroleum contract in a non-OECD country were the subject of arbitration proceedings. Similar issues are also being experienced in Kazakhstan where there is a dispute in relation to certain unresolved items of expenditure incurred by the operating company Karachaganak Petroleum Operating BV which has led to the Kazakh Authorities making certain claims against the company on the base of audits performed relating to prior years 2003-2006. Parties are negotiating in order to settle the dispute;
(iii) restrictions on exploration, production, imports and exports;
(iv) tax or royalty increases (including retroactive claims); and
(v) civil and social unrest leading to sabotages, acts of violence and incidents. For example, we have been experiencing continuing social unrest in Nigeria leading to a number of disruptions at certain Eni oil producing facilities in the country. As a consequence, our oil and gas production in the country has yet to return to normal production levels. In 2009, security problems have continued to impact our operations. See "Item 4 – Exploration & Production".

In 2008 we incurred asset impairments for euro 989 million in our Exploration & Production business mainly driven by changes in contractual arrangements and regulatory provisions and environmental obligations leading the

Company to reassess the recoverable amounts of a number of its oil and gas properties, particularly in Turkmenistan.

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.

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 of America impose sanctions on this country and may lead to the imposition of sanctions on any persons doing business in this country or with Iranian counterparties.

Under the Iran Sanctions Act of 1996 (as amended, "ISA"), which implements sanctions against Iran with the objective of denying it the ability to support acts of international terrorism and fund the development or acquisition of weapons of mass destruction, upon receipt by the U.S. authorities of information indicating potential violation of this act, the President of the United States is authorized to start an investigation aiming at possibly imposing sanctions from a six-sanction menu against any person found in particular to have knowingly made investments of U.S. $20 million or more in any twelve-month period, contributing directly and significantly to the enhancement of Iran's ability to develop its hydrocarbons resources. Furthermore, the ISA contemplates sanctions to be imposed by the President of the United States against any persons that knowingly contribute to certain military programs of Iran, effective on June 6, 2006. Eni cannot predict interpretations of, or the implementation policy of the U.S. Government under ISA with respect to Eni's current or future activities in Iran or other areas. Eni has incurred capital expenditures in excess of U.S. $20 million in Iran in each of the last 10 years. Management may decide to invest amounts in excess of $20 million per year in the country in the future. No sanctions have been imposed to date on Eni's activities in the country. Eni's current activities in Iran are primarily limited to carrying out residual activities relating to certain buy-back contracts it entered into in 2000 and 2001. Specifically, activities are progressing to hand over operatorship of the Darquain oilfield to the local partners as development activities were concluded at this field in 2009. Darquain remained the sole activity operated by Eni in the Country. Regarding another project that was handed over in past years, Eni's involvement consists essentially in being reimbursed for its past investments. In 2009, Eni's production in Iran was 35 KBOE/d, approximately 2% of the Group's total production. Eni does not believe that its activities in Iran have a material impact on the Group's results.

Adding to Eni's risks arising from this matter, a bill to amend and extend the extra-territorial reach of the economic sanctions imposed by the United States with respect to Iran has been passed by the U.S. House of Representatives and may lead to the passage of new laws in this area. Iran continues to be designated by the U.S. State Department as a State sponsoring terrorism. For a description of Eni's operations in Iran see "Item 4 – Information on the Company – Exploration & Production – Rest of Asia". It is possible that in future years Eni's activities in Iran may be sanctioned under relevant U.S. legislation.

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. These policies could adversely impact or limit investment by certain investors in our securities and so possibly impact adversely our share price.

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 face increasing competition from Asian companies and national oil companies' petrochemical divisions which can leverage on long-term competitive advantages in terms of lower operating costs and feedstock purchase costs. Particularly, Eni's petrochemical operations are located mainly in Italy and Western Europe where the regulatory framework and public environmental sensitivity are generally more stringent than in other countries, especially Far East countries, resulting in higher operating costs of our petrochemical operation compared to the Company's Asiatic competitors due to the need to comply with applicable laws and regulations in environmental and other related matters. Additionally, our petrochemical operations lack sufficient scale and competitiveness in a number of sites. Due to weak industry fundamentals, intense competitive pressures and high feedstock costs, our petrochemicals operations incurred operating losses in both 2009 and 2008 of euro 675 million and euro 845 million, respectively. Results were also affected by the recognition of impairment losses amounting to euro 121 million and euro 278 million respectively as recoverable amounts of certain petrochemicals plants were lower than their carrying amounts due to deteriorating profitability prospects on the back of lowered expectations for industry fundamentals and unfavorable trends in the trading environment. Management does not expect any significant recovery in industry fundamentals and the trading environment for 2010, making it likely that further operating losses will be incurred.

Risks in the Company Gas & Power business segment

i) Market risks

In 2009 the Company's results of operations and cash flow were negatively affected by the severe contraction in gas demand due to the economic downturn and increasing competitive pressures resulting from large gas availability on the market place

In 2009 European gas demand was severely impacted by the economic downturn, as a fall in both producing activities and demand for electricity reduced gas consumption. European gas demand decreased by 7.4% from 2008, excluding seasonal effects. The Italian market was particularly hit by the downturn as demand fell by approximately 9 BCM from 2008, down 10%, and almost 10 BCM from the pre-crisis levels seen in 2007, down 12%, excluding seasonal effects. At the same time, new gas supplies entered the market as several operators, including Eni, completed plans to upgrade gas import pipelines from gas producing countries or projects to build new facilities to import gas to Europe via LNG carriers. In particular, Eni finalized plans to upgrade the import capacity of its two main pipelines from Russia and Algeria increasing capacity by an overall amount of 13 BCM/y (the gas pipelines TAG and TTPC), with new capacity entirely sold to third parties. A new LNG terminal with a capacity of 8 BCM/y commenced operations late in 2009, operated by a consortium of competitors. As a result, gas availability on the Italian market increased at a time when demand actually shrunk, resulting in oversupply. Accordingly, Eni's results of the gas marketing business, sales volumes and average gas selling margins[1] were driven down by rising competition and weak demand both in Italy and Europe. Large gas availability on other European markets also prevented the Company from disposing of part of its gas availability by selling it on European markets. This situation was exacerbated by lower gas consumption in the U.S. driven by the economic downturn and recent developments in extracting gas by unconventional sources. As a result of these trends, large amounts of LNG were re-directed towards Europe. The condition of oversupply on the European market is signaled by the circumstance that gas spot prices no longer appear correlated to trends in oil prices. This trend has resulted in Eni being less competitive as its supply costs are based on the price formulas of long-term supply agreements which link the price of gas to the price of oil.

The outlook for the European gas sector is challenging as current imbalances between demand and supply in Europe and Italy might negatively affect the Company's results of operation and cash flows in future years

The outlook for gas supply and demand both in Europe and Italy is challenging as GDP growth in the EU 27 Countries is expected to remain weak over the next few years and gas demand is expected to recover only gradually to pre-crisis levels. Currently, management does not expect that demand will recover to 2008 levels before 2013 and expects gas prices on spot markets to remain depressed for another one or two years. Gas availability will remain abundant on the marketplace as the Company expects that new infrastructures will be finalized over the next five to ten years, as publicly announced by certain consortia of competitors. In particular, it has been announced that a new pipeline will be built from Algeria to Italy via Sardinia with a 5 BCM capacity and a new LNG terminal will be started up in a yet to be identified location in Italy with 8 BCM capacity.

In addition, ongoing trends towards energy preservation and rising competition from renewable or alternative sources of energy will further dampen the recovery perspectives of gas demand. Specifically, at the March 2007 European Council, the European Heads of Government decided to adopt the Climate Action and Renewable Energy Package. This legislation was voted into law by the European Parliament in December 2008. The package, also known as "20-20-20 European Policy", includes a commitment to reduce greenhouse gas (GHG) emissions by 20% by 2020 compared to emission levels recorded in 1990 (the target being 30% if an international agreement is reached), as well as an improved energy efficiency within the EU Member States of 20% by 2020 and a 20% renewable energy target by 2020. To factor in those trends, management has revised downwards its long-term projections of both European and Italian gas demand growth. For further information see "Item 4 – Gas & Power". The expected sluggish growth of demand, coupled with ample gas availability on the marketplace may adversely affect the Company's results of operations and cash flow in its gas marketing business in future years.

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(1) For a definition of margin see "Glossary".

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 to supplying the Italian gas market, the Company signed in the past a number of long-term gas supply contracts with key producing countries that supply the European gas markets. These contracts will ensure approximately 62.4 BCM of gas availability in 2010 (excluding the contribution of other subsidiaries and associates), have a residual life of approximately 20 years, and provide take-or-pay clauses whereby the Company is required to off-take minimum predetermined volumes of gas each year of the contractual term or, in case of failure, to pay the whole price, or a portion of it, up to the minimum contractual quantity. The take-or-pay clause entitles the Company to off-take pre-paid volumes of gas in later years during the term of the contract execution. The amount of price that is required being paid in advance and the schedules for off-taking pre-paid gas vary from contract to contract. Generally speaking, cash pre-payments are calculated on the basis of the energy prices prevailing in the year of non-fulfillment with the balance due in the year when the gas is actually off-taken. Amounts of pre-payments range from 10 to 100 percent of the full price. Right to off-take 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 off-take pre-paid gas in future years can only be exercised if the Company has fulfilled its minimum take obligation in a given year. In this case, Eni will pay the residual price for the gas that was not off-taken initially based on a purchase price calculated as average of market prices prevailing in the year when the gas is actually off-taken. Similar considerations apply to ship-or-pay contractual obligations.

Management believes that the current outlook for gas demand and large gas availability on the marketplace, as well as the possible evolution of sector-specific regulation, present significant risks to the Company's ability to fulfill its minimum take obligations associated with its long-term supply contracts.

In accordance with the terms of its long-term supply contracts, in 2009 Eni off-took lower volumes than the contractual minimum and recognized a trade payable amounting to euro 255 million corresponding to the amount of gas that the Company was required contractually to off-take.

Management believes that over the next two years the Company will experience failure to fulfill its take-or-pay obligations with respect to significant volumes of gas, unless demand fundamentals improve substantially and a better balance between demand and supply is achieved on the marketplace.

If 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.

Eni is committed to increasing natural gas sales in Europe. If Eni fails to achieve this target, future growth prospects may be adversely affected. Furthermore, Eni may be unable to fulfill its minimum take obligations under its take-or-pay purchase contracts and this could adversely impact 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 it has entered into with major natural gas producing countries (namely Russia, Algeria, Libya, Norway and the Netherlands) and synergies from the acquisition of the Belgian gas operator Distrigas that was completed in 2009. Should Eni fail to increase natural gas sales in Europe as planned due to poor strategy execution or competition, Eni's future growth prospects, results of operations and cash flows might be adversely affected also taking account that Eni might be unable to fulfill its contractual obligations to purchase certain minimum amounts of natural gas based on its take-or-pay purchase contracts currently in force.

ii) Risks associated with sector-specific regulations in Italy

The opening of the Italian natural gas market as per Legislative Decree No. 164/2000 has gradually increased competition on the market thus reducing margins

Legislative Decree No. 164/2000 opened the Italian natural gas market to competition, impacting on Eni's activities, as the company is engaged in all the phases of the natural gas chain. The opening to competition was achieved through the enactment of certain antitrust thresholds on volumes input into the national transport network and on volumes sold to final customers. Specifically, these antitrust thresholds are effective until December 31, 2010 and prescribe that: (i) operators transmit a volume of imported or domestically produced gas into the national transport network which shall not be higher than a predetermined share of Italian final consumption. This share was 75% of total final consumption in the first year of regulation, decreasing by 2 percentage points per year to achieve a 61% threshold in terms of final consumption by 2009; and (ii) operators are forbidden from marketing gas volumes to final customers in excess of 50% of overall volumes marketed to final customers. Compliance with these ceilings is verified annually by comparing actual average shares reached by any operator in a given three-year period for both volumes input and volumes marketed to customers to average shares permitted by the law for the same period. Actual shares are computed net of losses (in the case of sales) and volumes of natural gas consumed in own operations. Based on a bill passed by the Italian upper house, Eni expects that these antitrust thresholds will be renewed when they expire in 2010.

These antitrust thresholds enabled new competitors to enter the Italian gas market, resulting in declining selling margins on gas. In addition, certain competitors of Eni are supplied by the Company itself, generally on the basis of long-term contracts. This is a result of the fact that, in order to comply with the above mentioned regulatory thresholds relating to volumes supplied through the national transport network and sales volumes in Italy, Eni sold part of its gas availability under its take-or-pay supply contracts to third parties importing said volumes to Italy and marketing them to Italian customers.

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

The Authority for Electricity and Gas is entrusted with certain powers in the matters of natural gas pricing. Specifically, the Authority for Electricity and Gas holds a general surveillance power on pricing in the natural gas market in Italy and the power to establish selling tariffs for the supply of natural gas to residential and commercial users consuming less than 200,000 CM/y (qualified as non eligible customers as of December 31, 2002 as defined by Legislative Decree No. 164/2000) taking into account the public goal of containing the inflationary pressure due to rising energy costs. Accordingly, decisions of the Authority on these matters may limit the ability of Eni to pass an increase in the cost of fuels onto final consumers of natural gas. Following a complex and lengthy administrative procedure started in 2004 and finalized in March 2007 with Resolution No. 79/2007, the Authority finally established a new indexation mechanism for updating the raw material cost component in supplies to residential and commercial users consuming less than 200,000 CM/y, establishing, among other things that Italian natural gas importers – including Eni – must renegotiate wholesale supply contracts in order to take account of the new indexation mechanism of the raw material cost component. This indexation mechanism has been recently updated based on Resolution No. 64/2009 of the Authority, which provides that changes in a preset basket of hydrocarbons are transferred to the cost of the supply to those customers. Also a floor has been established in the form of a fixed amount that applies only at certain low level of international prices of hydrocarbons. The Company does not expect any material impact following enactment of Resolution No. 64/2009.

However, management cannot exclude the possibility that in the future the Authority could implement measures in this matter which may negatively affect Eni results of operations and liquidity. On March 26, 2010 the Authority for Electricity and Gas published a consultation document regarding certain proposed amendments to the current mechanism that is used to update the raw material cost component in supplies to residential users. The document addresses Italian gas importers, including Eni. The Authority reaffirmed its belief that such cost component should continue being linked to supply prices as provided by the long-term contracts held by Eni as the incumbent operator in the Italian gas market, as evidence suggests that there have not been sufficiently liquid spot markets in Italy. However, the Authority considers that Eni still holds as large market power as to influence wholesale gas prices. Based on that belief, the Authority suggests that the incumbent operator disposes of predetermined amounts of gas at preset economic conditions that take into account the supply costs of an efficient portfolio of long-term supply contracts which could be lower than current wholesale prices realized by Eni. Alternatively, those gas disposals might be in favor of an independent buyer for amounts that might possibly cover the entire capacity of the wholesale market in Italy. Those proposals require establishment of adequate rules by relevant administrative authorities. In case the rules are not implemented, the Authority plans to continue updating the raw material component in supplies to residential customers on the base of the current updating mechanism as it schedules to do in the fourth quarter of 2010. The eventual update will take into account of any effects associated with ongoing renegotiations of long-term supply contracts and may lead to lower wholesale gas prices.

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 the access to the Italian gas transport network that is currently set by Decision No. 137/2002 of the Authority for Electricity and Gas. The decision is fully incorporated into the network code presently in force as prepared by the system’s operator. The decision sets priority criteria for transport capacity entitlements at points where the Italian transport network connects with international import pipelines (the so-called entry points to the Italian transport system). Specifically, operators that are holders of take-or-pay contracts, as in the case of Eni, are entitled to a priority in allocating available transport capacity within the limit of average daily contractual volumes. Gas volumes exceeding average daily contractual volumes are not entitled to any priority and, in case of congestion at any entry points, they are entitled available capacity on a proportionate basis together with all pending requests for capacity assignments. Under its take-or-pay purchase contracts, Eni has the right to off-take daily volumes larger than average daily contractual volumes. This flexibility is important to Eni’s commercial programs as it is used when demand peaks, usually during the wintertime. In the event congestion occurs at entry points to the Italian transport network, based on current regulations, available transport capacity would be entitled firstly to operators having a priority right, i.e. holders of take-or-pay contracts within the limits of average daily contractual volumes. Then any residual available transport capacity would be allocated in proportion to all pending capacity requests. However, in planning its commercial flows, the Company normally assumes to make full use of its contractual flexibility and to obtain all necessary capacity entitlements at the entry points to the national transport network. Those assumptions may be inconsistent with rules sets by Decision No. 137/2002 specifically with regard to priority criteria governing capacity entitlements. Eni considers Decision No. 137/2002 to be illegitimate as it is, in Eni’s view, in contrast with the rationale of the European regulatory framework on the gas market as provided in European Directive 03/55/CE. The Company based on that belief has commenced an administrative procedure to repeal Decision No. 137/2002 before an administrative court which recently confirmed in part Eni’s position. An administrative appeals court also confirmed the Company’s position. Specifically, the Court stated that the purchase of the contractual flexibility is an obligation on part of the importer, which responds to a collective interest. According to the Court, there is no reasonable motivation whereby volumes corresponding to such contractual flexibility should not be granted priority in access to the network, also in case congestion occurs. At the moment, however, no case of congestion occurred at entry points to the Italian transport infrastructure such to impairing Eni’s marketing plans. Management cannot predict a final outcome of this proceeding. See "Item 4 – Regulation of the Italian Hydrocarbons Industry – Gas & Power".

Management also 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 selling its whole availability of natural gas purchased to fulfill its minimum take contract obligations. See "Item 5 – Management Expectations of Operations".

A number of mandatory gas release measures have been recently implemented in Italy resulting in a negative impact on Eni’s results of operations and liquidity. Management cannot exclude that similar measures will be implemented in future years

Gas release measures are administrative acts whereby Eni is obliged to dispose of certain amounts of gas at set prices and conditions as provided in the relevant gas release measure. Those measures are intended to increase flexibility and liquidity in the gas market. This measure strongly affected Eni’s marketing activity in Italy. In 2004, based on certain agreements with the Antitrust Authority, Eni released in a four-year period a total amount of 9.2 BCM (2.3 BCM/y between October 1, 2004 and September 30, 2008) and the related transport capacity. In addition, in 2007 Eni agreed to adhere to a new gas release program involving 4 BCM which were disposed of in a two-year period (from October 1, 2007 and September 30, 2009). For thermal year 2009/2010 Italian Law No. 99/2009 introduced a new obligation for Eni to make additional sales for a total of 5 BCM of gas in yearly and half-yearly amounts. Although the allotment procedure (bid) was based on a minimum price set by the Ministry for Economic Development as proposed by the Authority for Electricity and Gas only a 1.1 BCM portion of the gas release was awarded out of the 5 BCM which had been planned. The price set by the Ministry is lower than the average price of Eni’s sales in Italy.

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

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

Italian administrative and governmental institutions and political forces are urging a higher degree of competition in the Italian natural gas market and this may produce significant developments in this area. A brief description follows of certain recently enacted laws and certain proceedings before the Authority for Electricity and Gas and the Italian Antitrust Authority in order to allow investors to gain some insight into the complexity of this matter. For a full discussion of laws and procedures described herein see "Item 4 – Regulation of the Italian Hydrocarbons Industry – Gas & Power".

Italian Parliament is required to enact the third European Directive on the gas market No. 73 by March 2011. The Directive prescribes that member states choose one of two options for ensuring carriers' independence in case transport systems belong to a vertically integrated company. One of these options provides that a parent company involved in both gas production and marketing and transport divests its interests in the carrier subsidiary. Eni currently owns a majority stake in the Italian carrier company Snam Rete Gas which owns and manages approximately 97% of the Italian natural gas transport infrastructure (Eni's share being 52.54%). Following an internal reorganization, Snam Rete Gas also manages all of Eni's activities in the distribution sector and in storage. See "Item 4 – Gas & Power – Reorganization of the regulated businesses in Italy". Eni is not able to predict developments on this matter.

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

In recent years, both the Italian Authority for Electricity and Gas and the Italian Antitrust Authority (the "Antitrust Authority") have conducted several reviews and inquiries on the Italian natural gas market, targeting the overall level of competition of the Italian natural gas market, 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. Virtually the entire storage capacity belong to Eni through its indirect interest in Stoccaggi Gas Italia SpA, which is wolly owned by Snam Rete Gas SpA. In 2009, the Italian Antitrust commenced an inquiry targeting the possible existence of entry barriers in the residential sector and alleged anti-competitive practices on the part of sellers which are integrated in the activity of gas distribution, including Eni and the subsidiary Italgas (which is wolly owned by Snam Rete Gas SpA). See Note 28 to the Consolidated Financial Statements for a full description of such proceeding. Both the Authority for Electricity and Gas and the Antitrust Authority both believe that the vertical integration of Eni in the supply, transport, distribution, storage and marketing of gas may hamper the development of competition in Italy.

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

For more information on these issues (particularly the Authority's Decisions No. 248/2004, 134/2006 and 79/2007) 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 relative to ongoing antitrust proceedings or possible new proceedings. The Group is particularly exposed to this risk in its natural gas and refining and marketing activities due to the fact that Eni is the incumbent operator in those markets in Italy and a large European gas player. See Note 28 to the Consolidated Financial Statements for a full description of Eni's main pending antitrust proceedings. Our main antitrust matter relates to an ongoing proceeding before the European Commission with respect to alleged anti-competitive practices designed to harm competition in the European gas market in violation of Article No. 82 of the EU Treaty and Article No. 54 of the SEE. The proceeding involved Eni and other European players. Eni received a statement of objections from the European Commission which alleged that during the 2000-2005 period Eni was responsible for limiting the access of third parties to the gas pipelines TAG, TENP and Transitgas, thus restricting gas availability in Italy. On February 4, 2010, Eni formally submitted the European Commission a set of structural remedies relating certain international gas pipelines. With prior agreement from its partners, Eni committed to dispose of its interests in the German TENP, in the Swiss Transitgas and in the Austrian TAG gas pipelines. The European Commission intends to submit these remedies to a market test. In case the Commission approves those remedies upon conclusion of the market test, Eni will be in the position to settle the matter without imposition of any fine or other remedial measures.

Based on available information and its knowledge of the proceeding, the Company is currently unable to determine the outcome of the matter.

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

Environmental, Health and Safety Regulation

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

Eni is subject to numerous EU, international, national, regional and local environmental, health and safety laws and regulations concerning its oil and gas operations, products and other activities. Generally, these laws and regulations require the acquisition of a permit before drilling for hydrocarbons may commence, restrict the types, quantities and concentration of various substances that can be released into the environment in connection with exploration, drilling and production activities, as well as refining, petrochemicals and other Group operations, limit or prohibit drilling activities in certain protected areas, provide for measures to be taken to protect the safety of the workplace and health of communities involved by the company's activities, and impose criminal or civil liabilities for polluting the environment or harming employees or communities health and safety resulting from oil, natural gas, refining, petrochemical and other Group's operations.

These laws and regulations also regulate emissions of substances and pollutants, handling of hazardous materials and discharges to surface and subsurface water resulting from the operation of oil and natural gas extraction and processing plants, petrochemical plants, refineries, service stations, vessels, oil carriers, pipeline systems and other facilities owned by Eni. In addition, Eni's operations are subject to laws and regulations relating to the production, handling, transportation, storage, disposal and treatment of waste materials. Breach of environmental, health and safety laws exposes the Company's employees to criminal and civil liability and the Company to the incurrence of liabilities associated with compensation for environment health or safety damage. Additionally, in the case of violation of certain rules regarding safety in the workplace, the Company can be liable as provided for by a general EU rule on businesses liability due to negligent or willful conduct on part of their employees as adopted in Italy with Law Decree No. 231/2001.

Environmental, health and safety laws and regulations have a substantial impact on Eni's operations. Management expects that the Group will continue to incur significant amounts of operating expenses and expenditures to comply with environmental, health and safety laws and regulations, also taking into account possible future developments in environmental regulations in Italy and in other countries where Eni operates, particularly current and proposed fuel and product specifications, emission controls and implementation of increasingly strict measures decided at both international and country level to reduce greenhouse gas emissions. For more discussion about this topic see "Item 4 – Environmental regulations".

Eni's results of operations and financial condition are exposed to risks deriving from environmental, health and safety accidents and liabilities

Risks of environmental, health and safety incidences and liabilities are inherent in many of Eni's operations and products. Notwithstanding management's belief that Eni adopts high operational standards to ensure safety of its operations and to protect the environment and health of people and employees, it is possible that incidents like blow-outs, spill-overs, 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. Particularly, Eni is performing a number of remedial plans to restore and clean-up certain industrial sites that were contaminated by the Group's industrial activities in previous years, mainly in Italy. Remedial actions are expected to continue in the foreseeable future, impacting our liquidity as the Group has accrued risk provisions to cope with all existing environmental liabilities whereby both a legal or constructive obligation to perform a clean-up or other remedial actions is in place and the associated costs can be reasonably estimated. The accrued amount represents the management's best estimates of future environmental expenses to be incurred. In 2009, the Company's environmental provision increased by euro 280 million.

Notwithstanding this, management believes that it is possible that in the future Eni may incur significant environmental expenses and liabilities in addition to the amounts already accrued due to: (i) the chance of as yet unknown contamination; (ii) the results of on-going 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 site; (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 environment act as plaintiffs; (iv) the possibility that new litigation might arise; (v) the probability that new and stricter environmental laws might be implemented; and (vi) the circumstance that the extent and cost of future environmental restoration and remediation programs are often inherently difficult to estimate.

Legal Proceedings

Eni is party to a number of civil actions and administrative proceedings arising in the ordinary course of business. In 2009, we increased our legal proceeding provision by euro 372 million due to the estimated probable losses associated with ongoing litigations. Of that amount, euro 250 million related to the possible resolution of the investigation related to the TSKJ consortium based on the current status of the ongoing discussions with U.S. Authorities. The matter is fully disclosed in the section "Legal Proceedings" in Note 28 to the Consolidated Financial Statements. This estimate in particular should be read in light of the qualifications set forth in the last sentence of this paragraph. 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.

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 movements in crude oil prices on margins of refined and petrochemical products.

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

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

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

The impact of changes in crude oil prices on Eni's downstream businesses, including the Gas & Power, the Refining & Marketing and the Petrochemical businesses, depends upon the speed at which the prices of gas and products adjust to reflect these changes. Wholesale margins in the Gas & Power business are substantially independent from fluctuations in crude oil prices as purchase and selling prices of natural gas are contractually indexed to prices of crude oil and certain refined products according to similar pricing schemes. However, quarterly performance and year-to-year comparability of results of Eni's natural gas business may be somewhat affected by the indexation mechanism of the raw material component in gas supplies to residential customers and certain resellers to residential customers in Italy in accordance with applicable regulations from the Italian Authority for Electricity and Gas. Specifically, this indexation mechanism provides a certain time lag between movements in the price of crude oil and the related adjustment to the selling price of natural gas. For a detailed discussion of this indexation mechanism in Italy see "Item 4 – Regulation – Gas & Power – Natural gas prices".

In the Refining & Marketing and Petrochemical businesses a time lag exists between movements in oil prices and in prices of finished products.

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

Results of operations of the Eni’s Refining & Marketing segment are substantially affected by changes in European refining margins which reflect changes in relative prices of crude oil and refined products as outlined above. The prices of refined products in turn 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 vs. light crude qualities, taking into account the ability of Eni’s refineries to process complex crudes that represents a cost advantage when market prices of heavy crudes are relatively cheaper than the marker Brent price. In 2009, Eni refining margins decreased substantially due to the rapid recovery in oil prices which the Company was unable to transfer on to final prices of refined products due to weak demand, high worldwide and regional inventory levels and excess refining capacity. Also, Eni’s results of operation in its refining segment were affected by narrowing differential between heavy and light crude qualities resulting in poor margins on complex throughputs. Management does not expect any significant recovery in industry fundamentals in 2010. The sector as a whole will continue to suffer from weak demand and excess capacity, while the cost of oil feedstock is seen rising and price differentials to remain compressed. In this context, management expects that the Company refining margins will remain at below break-even levels.

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 changes in oil prices which influence changes in purchase costs of petroleum-based feedstock. 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 2009, the profitability of Eni’s petrochemical segment was significantly affected by lower selling margins for commodity petrochemical products due to high purchase costs for oil-based feedstock that were not fully transferred to selling prices of products, as well as weak demand and competitive pressures. These negative factors also triggered asset impairments. Management’s outlook for 2010 remains challenging, as industry fundamentals are not expected to improve substantially. Weak demand, competition, and high oil-based feedstock costs will continue to negatively affect Eni’s results of operations and liquidity in this business segment.

Risks from Acquisitions

Eni constantly monitors the oil and gas market in search of opportunities to acquire individual assets or corporations in order to achieve its growth targets or complement its asset portfolio. Acquisitions entail an execution risk – an important risk, among other matters, that the acquirer will not be able to effectively integrate the purchased assets so as to achieve expected synergies. In addition, acquisitions entail a financial risk – the risk of not being able to recover the purchase costs of acquired assets, in case a prolonged decline in the market prices of oil and natural gas occurs. We also incur unanticipated costs or assume unexpected liabilities and losses in connection with companies or assets we acquire. If the integration and financial risks connected to acquisitions materialize our financial performance may be adversely affected.

Credit risk

Credit risk is the potential exposure of the Group to losses in case counterparties fail to perform or pay amounts due. Credit risks arise from both commercial partners and financial ones. Although the Group has not experienced in the past material non-performance from its counterparties, due to the severity of the current economic and financial crisis it is possible that we may experience a higher than normal level of counterparty failure. In our consolidated financial statements for the year 2008, we accrued an allowance against doubtful accounts amounting to euro 251 million more than doubling the allowance made a year earlier. In 2009 Consolidated Financial Statements we made a further allowance for doubtful accounts amounting to euro 260 million, mainly relating to the Gas & Power business. Management believes that the Gas & Power business is particularly exposed to the ongoing impacts of the economic and financial crisis due to its large and diversified customer base which include a large number of middle and small businesses and retail customers.

Exchange Rates

Movements in the exchange rate of the euro against the U.S. dollar can have a material impact on Eni’s results of operations. Prices of oil, natural gas and refined products generally are denominated in, or linked to, U.S. dollars, while a significant portion of Eni’s expenses are denominated in euros. Similarly, prices of Eni’s petrochemical products are generally denominated in, or linked to, the euro, whereas expenses in the Petrochemical segment are denominated both in euros and U.S. dollars. Accordingly, a depreciation of the U.S. dollar against the euro generally has an adverse impact on Eni results of operations and liquidity because it reduces booked revenues by an amount greater than the decrease in dollar-denominated expenses. The Exploration & Production segment is particularly affected by movements in the U.S. dollar vs. the euro exchange rates. In 2008, Eni's operating profit in this business segment has been impacted by an estimated amount of euro 1.2 billion due to a 7.3% depreciation of the U.S. dollar versus the euro. This trend reversed in 2009 resulting in an addition to reported operating profit which was estimated in euro 500 million.

Risks deriving from Eni's Exposure to Weather Conditions

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

Furthermore, our operations, particularly offshore production of oil and natural gas, are exposed to extreme weather phenomena that can result in material disruption to our operations and consequent loss or damage of properties and facilities.

Interest Rates

Interest on Eni's finance 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 finance debt.

Critical Accounting Estimates

The preparation of financial statements requires management to make certain accounting estimates that are characterized by a high degree of uncertainty, complexity and judgment. These estimates affect the reported amount of the Company's assets and liabilities, as well as the reported amount of the Company's income and expenses for a given period. Although management believes these estimates to represent the best outcome of the estimation process, actual results could differ from such estimates, due to, among other things, the following factors: uncertainty, lack or limited availability of information; the availability of new informative elements, variations in economic conditions such as prices, significant factors (e.g. removal technologies and costs) and the final outcome of legal, environmental or regulatory proceedings. See "Item 5 – Critical Accounting Estimates".

Item 4. INFORMATION ON THE COMPANY

History and Development of the Company

Eni SpA with its consolidated subsidiaries is engaged in the oil and gas, power generation, petrochemicals, oilfield services and engineering industries. Eni has operations in 77 countries and 78,417 employees as of December 31, 2009.

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.