Financial review

Profit and loss account[1]

2011	(€ million)	2012	2013	Change	% Ch.
107,690	Net sales from operations	127,220	114,722	(12,498)	(9.8)
926	Other income and revenues	1,546	1,385	(161)	(10.4)
(83,199)	Operating expenses	(99,976)	(95,477)	4,499	4.5
(69)	*of which non-recurring items*				
171	Other operating income (expense)	(158)	(71)	87	55.1
(8,785)	Depreciation, depletion, amortization and impairments	(13,561)	(11,703)	1,858	13.7
16,803	**Operating profit**	**15,071**	**8,856**	**(6,215)**	**(41.2)**
(1,146)	Finance income (expense)	(1,347)	(991)	356	26.4
2,123	Net income from investments	2,881	6,115	3,234	..
17,780	**Profit before income taxes**	**16,605**	**13,980**	**(2,625)**	**(15.8)**
(9,903)	Income taxes	(11,661)	(9,008)	2,653	22.8
55.7	*Tax rate (%)*	*70.2*	*64.4*	*(5.8)*	
7,877	**Net profit - continuing operations**	**4,944**	**4,972**	**28**	**0.6**
(74)	**Net profit - discontinued operations**	**3,732**		**(3,732)**	**..**
7,803	**Net profit**	**8,676**	**4,972**	**(3,704)**	**(42.7)**
	Attributable to:				
6,860	**Eni's shareholders:**	**7,790**	**5,160**	**(2,630)**	**(33.8)**
6,902	**- continuing operations**	**4,200**	**5,160**	**960**	**22.9**
(42)	- discontinued operations	3,590		(3,590)	..
943	**Non-controlling interest:**	**886**	**(188)**	**(1,074)**	**..**
975	- continuing operations	744	(188)	(932)	..
(32)	- discontinued operations	142		(142)	..

Net profit

In 2013, **net profit attributable to Eni's shareholders** was €5,160 million. The result was achieved against the backdrop of tough market conditions which impacted all of Eni's business segments. The E&P recorded extraordinary disruptions to its producing activities related to geopolitical factors.
The mid-downstream businesses were hit by a continued deterioration in selling prices and margins due to the economic downturn and structural headwinds in the trading environment reflecting plunging demand for energy commodities, excess supplies/overcapacity and competitive pressure. Finally Saipem reported extraordinary contract losses.

Despite these extraordinary negatives, 2013 net profit increased by 22.9% (up €960 million) from 2012, driven by the portfolio rationalization permitted by the recent discoveries that has allowed an anticipated monetization of results and cash. Eni has thus monetized a 20% interest in the Mozambique discovery by divesting it to CNPC for a cash consideration of €3.4 billion and a net gain recorded in profit of approximately €3 billion. It has also divested its 60% stake in Artic Russia for a total consideration of €2.2 billion which was cashed-in in January 2014, with the profit for 2013 benefitting of a fair-value revaluation of €1.7 billion taken at the investee due to the loss of joint control at the balance sheet date.

(1) Changes in the Group results are calculated with respect to results earned by the Group's continuing operations in 2012 considering that at the time Snam was consolidated in the Group accounts and reported as discontinued operations based on IFRS 5. In the circumstances of discontinued operations, the International Financial Reporting Standards require that the profits earned by continuing and discontinued operations are those deriving from transactions external to the Group.

Adjusted net profit

2011	(€ million)	2012	2013	Change	% Ch.
6,902	**Net profit attributable to Eni's shareholders - continuing operations**	**4,200**	**5,160**	**960**	**22.9**
(724)	Exclusion of inventory holding (gains) losses	(23)	438		
760	Exclusion of special items	2,953	(1,165)		
	of which:				
69	*- non-recurring items*				
691	*- other special items*	*2,953*	*(1,165)*		
6,938	**Adjusted net profit attributable to Eni's shareholders - continuing operations** [a]	**7,130**	**4,433**	**(2,697)**	**(37.8)**

(a) For a detailed explanation of adjusted operating profit and net profit see paragraph "Reconciliation of reported operating and net profit to results on an adjusted basis".

Adjusted net profit attributable to Eni's shareholders amounted to €4,433 million, a decrease of €2,697 million, down by 37.8% from 2012. Excluding Snam's contribution to continuing operations in 2012, the decline of 2013 adjusted net profit was 35%. The decline reflected the lower performance incurred by all the Divisions reflecting the above mentioned drivers. Adjusted net profit was calculated by excluding an inventory holding loss which amounted to €438 million and special gains of €1,165 million, net of exchange rate differences and exchange rate derivative instruments reclassified in operating profit, as they mainly related to derivative transactions entered into to manage exposure to the exchange rate risk implicit in commodity pricing formulas, resulting in a net negative adjustment of €727 million.

Special charges in operating profit of €3,046 million mainly related to:

i) impairment losses of €2,400 million recorded to write down the book values of property, plant and equipment, goodwill and other intangible assets to their lower values-in-use in the gas marketing (€1,685 million), electricity generation and refining businesses (€633 million). In performing the impairment review, management assumed a reduced profitability outlook in those businesses driven by structural headwinds in demand, excess capacity and oversupplies, rising competitive pressures and other cost disadvantages. Minor impairment losses were incurred at a number of oil & gas properties in the Exploration & Production Division (a net loss of €19 million) reflecting downward reserve revisions, almost completely offset by the reversal of assets impaired in previous years following positive revisions of reserves, as well as marginal lines of business in the Chemical segment (€44 million) due to lack of profitability perspectives;
ii) risk provisions (€334 million) related to onerous contracts, net of reversal;
iii) exchange rate differences and exchange rate derivative instruments reclassified as operating items, mainly related to derivative transactions entered into to manage exposure to the exchange rate risk implicit in commodity pricing formulas (gain of €195 million);
iv) provisions for redundancy incentives (€270 million in the year) and environmental provisions (€205 million);
v) the effects of fair-value evaluation of certain commodity derivatives contracts lacking the formal requisites to be accounted as hedges under IFRS (a loss of €315 million);
vi) net gains on the divestment of marginal properties in the Exploration & Production Division (€283 million).

Non-operating special items included:

i) the gain on the divestment of an interest to CNPC in the Mozambique project (€2,994 million net of the related tax effect), the divestment of an interest of 8.19% in the share capital of Galp amounting to €98 million, of which €67 million related to the reversal of the evaluation reserve and on the divestment of an interest of 11.69% of the share capital of Snam amounting to €75 million, of which €8 million related to the reversal of the evaluation reserve;
ii) the fair-value revaluation of 60% Eni's stake in the joint venture Artic Russia, based on the Sale and Purchase Agreement signed with Gazprom (€1,682 million);
iii) a write-off of deferred tax assets which were assessed to be no more recoverable due to the projections of lower earnings before income taxes at Italian activities (€954 million);
iv) a write-off of deferred tax assets relating to the renegotiation of certain petroleum contracts (€490 million).

The breakdown of **adjusted net profit** by Division is shown in the table below:

2011	(€ million)	2012	2013	Change	% Ch.
6,865	Exploration & Production	7,426	5,952	(1,474)	(19.8)
252	Gas & Power	473	(246)	(719)	..
(264)	Refining & Marketing	(179)	(232)	(53)	(29.6)
(206)	Versalis	(395)	(338)	57	14.4
1,098	Engineering & Construction	1,111	(253)	(1,364)	..
(225)	Other activities	(247)	(205)	42	17.0
(753)	Corporate and financial companies	(976)	(472)	504	51.6
1,146	Impact of unrealized intragroup profit elimination [a]	661	39	(622)	
7,913	**Adjusted net profit - continuing operations**	**7,874**	**4,245**	**(3,629)**	**(46.1)**
	of which attributable to:				
975	- Non-controlling interest	744	(188)	(932)	..
6,938	**- Eni's shareholders**	**7,130**	**4,433**	**(2,697)**	**(37.8)**

(a) This item concerned mainly intragroup sales of commodities, services and capital goods recorded in the assets of the purchasing business segment as of end period.

Group results were achieved in a trading environment characterized by lowering oil and gas realizations in dollar terms due to a slightly declining Brent price, down by 2.6% from 2012. Refining margins in the Mediterranean area fell to an unprecedented level, down to less than one dollar per barrel (down by 45.3% from 2012) due to structural headwinds in the industry driven by overcapacity, lower demand and increasing competition from imported refined product streams.
Furthermore, Eni's results in the Refining & Marketing Division were affected by narrowing differentials between the heavy crudes processed by Eni's refineries and the marker Brent which reflected the lower availability of the former in the Mediterranean area.
Gas market was characterized by a weak demand, strong competitive pressures and oversupplies.
Price competition among operators has been stiff taking into account minimum off-take obligations provided by gas purchase take-or-pay contracts and reduced sales opportunities.
Spot prices in Europe increased by 12.2% from 2012, even if this was not reflected in gas margins because of higher oil-linked supply costs.
Eni's results were also impacted by sharply lower margins in the production and sale of electricity due to oversupply and increasing competition from more competitive sources.
Results of 2013 were affected by the appreciation of the euro against the dollar (up by 3.3% over the year).

2011		2012	2013	% Ch.
111.27	Average price of Brent dated crude oil [a]	111.58	108.66	(2.6)
1.392	Average EUR/USD exchange rate [b]	1.285	1.328	3.3
79.94	Average price in euro of Brent dated crude oil	86.83	81.82	(5.8)
2.06	Average European refining margin [c]	4.83	2.64	(45.3)
2.90	Average European refining margin Brent/Ural [c]	4.94	2.60	(47.4)
1.48	Average European refining margin in euro	3.76	1.99	(47.1)
9.03	Price of NBP gas [d]	9.48	10.64	12.2
1.4	Euribor - three-month euro rate (%)	0.6	0.2	(66.7)
0.3	Libor - three-month dollar rate (%)	0.4	0.3	(25.0)

(a) In USD dollars per barrel, Source: Platt's Oilgram.
(b) Source: ECB.
(c) In USD per barrel FOB Mediterranean Brent dated crude oil. Source: Eni calculations based on Platt's Oilgram data.
(d) In USD per million BTU (British Thermal Unit). Source: Platt's Oilgram.

Analysis of profit and loss account items

Net sales from operations

2011	(€ million)	2012	2013	Change	% Ch.
29,121	Exploration & Production	35,881	31,268	(4,613)	(12.9)
33,093	Gas & Power	36,200	32,124	(4,076)	(11.3)
51,219	Refining & Marketing	62,656	57,329	(5,327)	(8.5)
6,491	Versalis	6,418	5,859	(559)	(8.7)
11,834	Engineering & Construction	12,771	11,611	(1,160)	(9.1)
85	Other activities	119	80	(39)	(32.8)
1,365	Corporate and financial companies	1,369	1,453	84	6.1
(54)	Impact of unrealized intragroup profit elimination	(75)	18	93	
(25,464)	Consolidation adjustments	(28,119)	(25,020)	3,099	
107,690		**127,220**	**114,722**	**(12,498)**	**(9.8)**

In 2013, Eni's **net sales from operations** (€114,722 million) decreased by €12,498 million from 2012 (down by 9.8%) reflecting lower realizations on commodities in dollar terms, negative impact of the appreciation of the euro against the US dollar, lower production and sales, and a marked slowdown in the Engineering & Construction business activity.

Revenues generated by the Exploration & Production Division (€31,268 million) decreased by €4,613 million, or 12.9%, due to lower oil and gas realizations in dollar terms (down by 2.1%), the appreciation of the euro against the US dollar and the extraordinary disruptions in Libya and Nigeria.

Revenues generated by the Gas & Power Division (€32,124 million) decreased by €4,076 million, down by 11.3%, due to continued deterioration in selling prices to large customers in Italy reflecting a weak gas demand and increasing competitive pressure. In addition spot prices at Italian hubs which are the main benchmark for selling prices in short-term supplies to large Italian customers have aligned very rapidly to continental hubs, thus driving a large fall in average realizations. Finally, the segment recorded lower sales to European target markets (down by 7.2%).

Revenues generated by the Refining & Marketing Division (€57,329 million) decreased by €5,327 million, or 8.5%, mainly reflecting lower sales of refined products (down 4.84 mmtonnes; or 10%, from 2012) and the negative impact of the currency.

Revenues generated by Versalis (€5,859 million) decreased by €559 million, down by 8.7% from 2012 mainly due to a decline in volumes sold (down by 4.2%) against the backdrop of the continuing weak commodity demand, impacted by the economic downturn, declining average sales prices (down by 3.2%), mainly in olefin prices (down by 23%), as result of the fall in butadiene's unit margins.

Revenues generated by the Engineering & Construction business (€11,611 million) decreased by €1.160 million, or 9.1% due to marketing and operating difficulties, mainly in the first half of 2013 and the decline of business activity in onshore and offshore construction segments.

Operating expenses

2011	(€ million)	2012	2013	Change	% Ch.
78,795	Purchases. services and other	95,363	90,213	(5,150)	(5.4)
69	*of which: - non-recurring items*				
265	*- other special items*	*1,154*	*539*		
4,404	Payroll and related costs	4,613	5,264	651	14.1
203	*of which: - provision for redundancy incentives*	*64*	*270*		
83,199		**99,976**	**95,477**	**(4,499)**	**(4.5)**

In 2013 **operating expenses** (€95,477 million) decreased by €4,499 million, or 4.5%, from 2012.
Purchases, services and other costs (€90,213 million) decreased by €5,150 million, or 5.4%, reflecting lower supply costs in euro terms of raw materials and the benefit of renegotiations of long-term gas supply contracts, some of which were retroactive to previous reporting periods. Purchases, services and other costs included **special charges** of €539 million (€1,154 million in 2012) mainly related to environmental and onerous contracts risk provisions, net of reversal deriving from renegotiations. In 2012 special charges mainly referred to the extraordinary expenses and risk provisions of €945 million incurred in connection with price revisions at long-term gas purchase contracts.

Payroll and related costs (€5,264 million) increased by €651 million from 2012, or 14.1%, due to an higher average number of employees outside Italy, particularly in the Engineering & Construction business and higher provision for redundancy incentives (€270 million), which included Eni's cost for 2013-2014 redundancy, pursuant to the provisions of Italian Law No. 223/1991.

Depreciation, depletion, amortization and impairments

2011	(€ million)	2012	2013	Change	% Ch.
6,251	Exploration & Production	7,988	7,812	(176)	(2.2)
413	Gas & Power	405	329	(76)	(18.8)
351	Refining & Marketing	331	309	(22)	(6.6)
90	Versalis	90	95	5	5.6
596	Engineering & Construction	683	721	38	5.6
2	Other activities	1	1		
75	Corporate and financial companies	65	61	(4)	(6.2)
(23)	Impact of unrealized intragroup profit elimination	(25)	(25)		
7,755	**Total depreciation, depletion and amortization**	**9,538**	**9,303**	**(235)**	**(2.5)**
1,030	Impairments	4,023	2,400	(1,623)	(40.3)
8,785		**13,561**	**11,703**	**(1,858)**	**(13.7)**

Depreciation, depletion and amortization (€9,303 million) decreased by €235 million, down by 2.5% from 2012, mainly in the Exploration & Production Division due to lower productions in particular in Libya and Nigeria and the appreciation of the euro against the US dollar. The increase recorded in the Engineering & Construction business (up €38 million, or 5.6%) was due to new vessels and rigs which were brought into operations.

Impairment charges of €2,400 million mainly regarded the goodwill and other intangible assets allocated to the gas Marketing activity and impairment losses of refining and electricity plants driven by a reduced profitability outlook on the back of the ongoing European downturn. In performing the impairment review, management assumed a reduced profitability outlook in those businesses driven by a deteriorating European macroeconomic environment, volatility in commodity prices and margins, and rising competitive pressures. Other impairment losses were incurred at a number of oil&gas properties in the Exploration & Production Division reflecting downward reserve revisions almost completely offset by the reversal of impairment charges made in previous reporting periods due to positive revisions of reserves, as well as marginal lines of business in the Chemical segment due to lack of profitability perspectives.

The breakdown of impairment charges by Division is shown in the table below:

2011	(€ million)	2012	2013	Change	% Ch.
189	Exploration & Production	547	19	(528)	(96.5)
154	Gas & Power	2,494	1,685	(809)	(32.4)
488	Refining & Marketing	843	633	(210)	(24.9)
160	Versalis	112	44	(68)	(60.7)
35	Engineering & Construction	25		(25)	..
4	Other activities	2	19	17	..
1,030		**4,023**	**2,400**	**(1,623)**	**(40.3)**

Operating profit

The breakdown of the reported operating profit by Division is provided below:

2011	(€ million)	2012	2013	Change	% Ch.
15,887	Exploration & Production	18,470	14,871	(3,599)	(19.5)
(326)	Gas & Power	(3,219)	(2,992)	227	7.1
(273)	Refining & Marketing	(1,296)	(1,517)	(221)	(17.1)
(424)	Versalis	(681)	(725)	(44)	(6.5)
1,422	Engineering & Construction	1,442	(83)	(1,525)	..
(427)	Other activities	(300)	(337)	(37)	(12.3)
(319)	Corporate and financial companies	(341)	(399)	(58)	(17.0)
1,263	Impact of unrealized intragroup profit elimination	996	38	(958)	
16,803	**Operating profit**	**15,071**	**8,856**	**(6,215)**	**(41.2)**

Adjusted operating profit

The breakdown of the adjusted operating profit by Division is provided below:

2011	(€ million)	2012	2013	Change	% Ch.
16,803	**Operating profit - continuing operations**	**15,071**	**8,856**	**(6,215)**	**(41.2)**
(1,113)	Exclusion of inventory holding (gains) losses	(17)	716		
1,540	Exclusion of special items	4,744	3,046		
	of which:				
69	*- non-recurring items*				
1,471	*- other special items*	*4,744*	*3,046*		
17,230	**Adjusted operating profit - continuing operations**	**19,798**	**12,618**	**(7,180)**	**(36.3)**
	Breakdown by Division:				
16,075	Exploration & Production	18,537	14,646	(3,891)	(21.0)
(247)	Gas & Power	356	(663)	(1,019)	..
(539)	Refining & Marketing	(321)	(482)	(161)	(50.2)
(273)	Versalis	(483)	(386)	97	20.1
1,443	Engineering & Construction	1,474	(84)	(1,558)	..
(226)	Other activities	(222)	(210)	12	5.4
(266)	Corporate and financial companies	(325)	(332)	(7)	(2.2)
1,263	Impact of unrealized intragroup profit elimination and other consolidation adjustments	782	129	(653)	
17,230		**19,798**	**12,618**	**(7,180)**	**(36.3)**

Eni's adjusted operating profit, calculated by excluding an inventory holding loss which amounted to €716 million and special gains of €3,046 million, amounted to €12,618 million, a decrease of €7,180 million from the previous year (down by 36.3%), reflecting a lower operating performance recorded by the following Divisions:

- **Exploration & Production** (down €3,891 million, or 21%) driven by lower production sold impacted by geopolitical issues mainly in Libya and Nigeria and the appreciation of the euro against the US dollar (approximately €560 million);
- **Gas & Power** reported an adjusted operating loss at €663 million, down €1,019 million from an adjusted operating profit of €356 million in 2012. The decline was driven by the continued deterioration in selling prices to large customers in Italy against the backdrop of weak gas demand and increasing competitive pressure, as well as plunging margins on the production and sale of electricity;
- **Refining & Marketing** reported sharply higher adjusted operating losses (from €321 million in 2012 to €482 million in 2013), reflecting unprecedented decline in refining margins (the average Brent refining margin decreased to 2.64 $/bbl, or by 45.3% from 2012) driven by weak demand for refined products and overcapacity, the effects of which were exacerbated by shrinking price differentials between light and heavy crudes;
- **Engineering & Construction** reported an adjusted operating loss of €84 million (down €1,558 million from 2012) due to marketing and operating difficulties incurred in the first half of 2013 resulting in sharply lower revision of margin estimates at certain large contracts for the construction of onshore industrial complexes.

Finance income (expense)

2011	(€ million)	2012	2013	Change
(881)	**Finance income (expense) related to net borrowings**	**(929)**	**(828)**	**101**
(922)	- Finance expense on short and long-term debt	(980)	(923)	57
22	- Net interest due to banks	27	43	16
	- Net income from financial activities held for trading		4	4
19	- Net income from receivables and securities for non-financing operating activities	24	48	24
(112)	**Income (expense) on derivative financial instruments**	**(251)**	**(92)**	**159**
29	- Derivatives on exchange rate	(137)	(91)	46
(141)	- Derivatives on interest rate	(88)	40	128
	- Derivates on securities	(26)	(41)	(15)
(111)	**Exchange differences, net**	**131**	**36**	**(95)**
(154)	**Other finance income (expense)**	**(448)**	**(277)**	**171**
75	- Net income from receivables and securities for financing operating activities	69	74	5
(235)	- Finance expense due to the passage of time (accretion discount)	(308)	(240)	68
6	- Other finance income (expense)	(209)	(111)	98
(1,258)		**(1,497)**	**(1,161)**	**336**
112	**Finance expense capitalized**	**150**	**170**	**20**
(1,146)		**(1,347)**	**(991)**	**356**

Net finance expense decreased by €356 million to €991 million from 2012, reflecting lower financial expense on debt (down €57 million) due to favourable trends in key market benchmarks and gains recognized in fair value evaluation of certain derivative instruments on interest rates (up €128 million) which did not meet the formal criteria to be designated as hedges under IFRS. Negative exchange differences net (down €95 million) were partly offset by lower losses on exchange rate derivatives (up €46 million) recognized through profit as lacking the formal criteria for hedge accounting in accordance with IAS 39. Other financial expense decreased by €98 million from 2012 mainly due to the fact that the 2012 results reflected finance charges accrued on amounts due to certain gas suppliers following the definition of contractual price revisions.

Net income from investments

The table below sets forth the breakdown of net income from investments by Division:

2013 (€ million)	Exploration & Production	Gas & Power	Refining & Marketing	Engineering & Construction	Other segments	Group
Share of gains (losses) from equity-accounted investments	129	101	19	(12)	15	252
Dividends	235		49		116	400
Gains on disposal	3,359	(1)	67		173	3,598
Other income (expense), net	1,685	(10)	23		167	1,865
	5,408	**90**	**158**	**(12)**	**471**	**6,115**

Net income from investments amounted to €6,115 million and mainly related to gains on disposal of assets (€3,598 million) referred to the gain recorded on the sale of a 28.57% interest in Eni East Africa, which is the operator of Area 4 in Mozambique, to China National Petroleum Corporation (€3,359 million) and the fair-value revaluation of Eni's interest in Artic Russia (€1,682 million) due to the loss of joint control at the balance sheet date, following the occurrence of all conditions precedent of the SPA (Sale and Purchase Agreement) with Gazprom. On January 2014, the consideration of the disposal was cashed in. Minor gains were recorded on the divestment of the available-for-sale interests in Snam (€75 million of which €8 million related to the reversal of the evaluation reserve) and Galp (€98 million).

Other income related to: (i) Eni's share of profit of entities accounted for under the equity-accounting method (€252 million), mainly in the Exploration & Production and Gas & Power Divisions; (ii) dividends received from entities accounted for at cost (€400 million), relating to Nigeria LNG Ltd (€224 million), Snam Spa (€72 million) and Galp Energia SGPS SA (€43 million).

These increases were partly absorbed by the fact that 2012 benefitted from gains relating to the divestment of a 9% stake in Galp (€311 million) and the revaluation of the residual interest (€865 million), as well as a gain recorded on an equity transaction made by Galp's subsidiary (€835 million).

The table below sets forth a breakdown of net income/loss from investments for 2013:

2011	(€ million)	2012	2013	Change
500	Share of gains (losses) from equity-accounted investments	278	252	(26)
659	Dividends	431	400	(31)
1,121	Gains on disposal	349	3,598	3,249
(157)	Other income (expense), net	1,823	1,865	42
2,123		**2,881**	**6,115**	**3,234**

Income taxes

2011	(€ million)	2012	2013	Change
	Profit before income taxes			
694	Italy	(723)	(3,848)	(3,125)
17,086	Outside Italy	17,328	17,828	500
17,780		**16,605**	**13,980**	**(2,625)**
	Income taxes			
227	Italy	945	313	(632)
9,676	Outside Italy	10,716	8,695	(2,021)
9,903		**11,661**	**9,008**	**(2,653)**
	Tax rate (%)			
32.7	Italy	..	(8.1)	..
56.6	Outside Italy	61.8	48.8	(13.0)
55.7		**70.2**	**64.4**	**(5.8)**

Income taxes were €9,008 million, down €2,653 million compared to the previous year, mainly reflecting lower income taxes currently payable which were incurred by subsidiaries in the Exploration & Production Division operating outside Italy due to a declining taxable profit.
The reported tax rate was 64.4%, compared to the statutory tax rate of 41.9%, calculated by applying the Italian statutory tax rate on corporate profit of 38% and 3.9% corporate tax rate applicable to net value of production as provided for by Italian laws.
The difference between the statutory and effective tax rate was due to: (i) the higher share of taxable profit reported outside Italy by the Exploration & Production Division; (ii) the write-off of deferred tax assets which were assessed to be no more recoverable due to the projections of lower earnings before income taxes at Italian activities for 8.9 percentage points; (iii) the partially non-taxable gains which were recorded on the sale of Eni's 28.57% interest in Eni East Africa SpA, the non-taxable gains registered on the sale of on the Galp SGPS and Snam SpA interests, as well as, with an opposite effect, the non-deductable charges relating to the goodwill impairment of the European Market cash generating unit and to intergroup dividend distribution.
Adjusted tax rate, calculated as ratio of income taxes to net profit before taxes on an adjusted basis, was 66.4% and it was higher than in 2012 (59.8%) reflecting the higher share of taxable profit reported by the Exploration & Production Division and the fact that the Company could not recognize any tax-loss carry-forward for Saipem losses.

Non-controlling interest

Non-controlling interest's share of loss was €188 million and related mainly to Saipem SpA.

Divisional performance[2]

Exploration & Production

2011	(€ million)	2012	2013	Change	% Ch.
15,887	**Operating profit**	**18,470**	**14,871**	**(3,599)**	**(19.5)**
188	Exclusion of special items:	67	(225)		
190	*- asset impairments*	*550*	*19*		
(63)	*- net gains on disposal of assets*	*(542)*	*(283)*		
	- risk provisions	*7*	*7*		
44	*- provision for redundancy incentives*	*6*	*52*		
1	*- commodity derivatives*	*1*	*(2)*		
(2)	*- exchange rate differences and derivatives*	*(9)*	*(2)*		
18	*- other*	*54*	*(16)*		
16,075	**Adjusted operating profit**	**18,537**	**14,646**	**(3,891)**	**(21.0)**
(231)	Net financial income (expense) [a]	(264)	(264)		
624	Net income (expense) from investments [a]	436	367	(69)	
(9,603)	Income taxes [a]	(11,283)	(8,797)	2,486	
58.3	*Tax rate (%)*	*60.3*	*59.6*	*(0.7)*	
6,865	**Adjusted net profit**	**7,426**	**5,952**	**(1,474)**	**(19.8)**
	Results also include:				
6,440	- amortization and depreciation	8,535	7,831	(704)	(8.2)
	of which:				
1,165	exploration expenditures	1,835	1,736	(99)	(5.4)
820	*- amortization of exploratory drilling expenditures and other*	*1,457*	*1,362*	*(95)*	*(6.5)*
345	*- amortization of geological and geophysical exploration expenses*	*378*	*374*	*(4)*	*(1.1)*
	Average hydrocarbons realizations				
102.11	Liquids [b] ($/bbl)	102.58	99.44	(3.14)	(3.1)
6.48	Natural gas ($/mcf)	7.12	7.26	0.14	1.9
72.26	Hydrocarbons ($/boe)	73.39	71.87	(1.52)	(2.1)

(a) Excluding special items.
(b) Includes condensates.

In 2013, the Exploration & Production Division recorded an **adjusted operating profit** of €14,646 million, decreasing by €3,891 million from 2012, down by 21%, due to lower production sold, impacted by extraordinary disruptions mainly in Libya and Nigeria, the appreciation of the euro against the US dollar (approximately €560 million), as well as lower oil and gas realizations in dollar terms (down by 2.1%, on average).

Special charges excluded from adjusted operating profit amounted to €225 million and mainly related to net gains on disposal of marginal assets (€283 million), partly offset by provision for redundancy incentives (€52 million) and by minor impairment losses incurred at a number of oil&gas properties reflecting downward reserve revisions, almost completely offset by the reversal of impairment charges made in previous reporting periods due positive revisions of reserves (net charge of €19 million).

Adjusted net profit decreased by €1,474 million to €5,952 million (down by 19.8%) from 2012, due to lower operating performance and lower income from investments.

(2) For a detailed explanation of adjusted operating profit and net profit see the paragraph "Reconciliation of reported operating profit and reported net profit to results on an adjusted basis".

Gas & Power

2011	(€ million)	2012	2013	Change	% Ch.
(326)	**Operating profit**	**(3,219)**	**(2,992)**	**227**	**7.1**
(166)	Exclusion of inventory holding (gains) losses	163	191		
245	Exclusion of special items:	3,412	2,138		
154	*- asset impairments*	*2,494*	*1,685*		
	- net gains on disposal of assets	*(3)*	*1*		
77	*- risk provisions*	*831*	*292*		
	- environmental provisions	*(2)*	*(1)*		
34	*- provisions for redundancy incentives*	*5*	*10*		
45	*- commodity derivatives*		*314*		
(82)	*- exchange rate differences and derivatives*	*(51)*	*(186)*		
17	*- other*	*138*	*23*		
(247)	**Adjusted operating profit**	**356**	**(663)**	**(1,019)**	**..**
(657)	*Marketing*	*47*	*(837)*	*(884)*	*..*
410	*International transport*	*309*	*174*	*(135)*	*(43.7)*
43	Net finance income (expense) [a]	29	24	(5)	
363	Net income (expense) from investments [a]	261	100	(161)	
93	Income taxes [a]	(173)	293	466	
..	*Tax rate (%)*	*26.8*	*..*		
252	**Adjusted net profit**	**473**	**(246)**	**(719)**	**..**

(a) Excluding special items.

In 2013, the Gas & Power Division reported sharply lower **adjusted operating loss** of €663 million, compared to operating profit of €356 million registered in 2012.
The Marketing business reported a loss of €837 million, compared to break-even results achieved in the previous year (adjusted operating profit of €47 million). This negative trend reflected increasing competition, an ongoing demand downturn and oversupplies, the effects of which were exacerbated by minimum off-take obligations provided by long-term supply contracts. Based on these trends, Eni's gas business in Italy was impacted by plummeting prices realized on short-term selling contracts to large Italian clients because those prices are benchmarked to Italian spot prices which have been aligning to continental hubs determining negative margins in comparison with oil-linked supply costs. The decline in spot prices has been transferred to long-term selling contracts. Furthermore, Eni's results were impacted by sharply lower margins in the production and sale of gas-fired electricity due to oversupply and increasing competition from more competitive sources such as coal-fired electricity and renewables. The International transport activity also registered a decline in operating performance (down by 43.7%).

The **special charges** excluded from adjusted operating loss amounted to €2,138 million related to: (i) impairment losses of €1,685 million recorded mainly in the activity of electricity generation (€919 million) due to the projections of reduced cash flows, impacted by lower electricity demand and the pressures on margins determined by renewable energy and coal competition, as well as impairment losses recorded to write down the book values of goodwill and other intangible assets to their lower value-in-use mainly in the gas marketing business reflecting structural headwinds; (ii) expenses for fair-valued commodity derivatives of €314 million lacking formal prerequisites to be accounted as hedges; (iii) risk provisions of €292 million in 2013.

The Gas & Power Division reported an **adjusted net loss** of €246 million, representing a decrease of €719 million compared to 2012, also due to reduced results from equity-accounted entities.

Other performance indicators

Follows a breakdown of the pro-forma adjusted EBITDA by business:

2011	(€ million)	2012	2013	Change	% Ch.
949	**Pro-forma EBITDA adjusted**	**1,316**	**6**	**(1,310)**	**..**
257	Marketing	858	(311)	(1,169)	..
44	*of which: +/(-) adjustment on commodity derivatives*				
692	International transport	458	317	(141)	(30.8)

EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization charges) on an adjusted basis is calculated by adding amortization and depreciation charges to adjusted operating profit, which is also modified to take into account the impact associated with certain derivatives instruments as detailed below. This performance indicator includes the adjusted EBITDA of Eni's wholly owned subsidiaries and Eni's share of adjusted EBITDA generated by certain associates which are accounted for under the equity method for IFRS purposes. Management believes that the EBITDA pro-forma adjusted is an important alternative measure to assess the performance of Eni's Gas & Power Division, taking into account evidence that this Division is comparable to European utilities in the gas and power generation sector. This measure is provided in order to assist investors and financial analysts in assessing the divisional performance of Eni Gas & Power, as compared to its European peers, as EBITDA is widely used as the main performance indicator for utilities. The EBITDA pro-forma adjusted is a non-GAAP measure under IFRS.

Refining & Marketing

2011	(€ million)	2012	2013	Change	% Ch.
(273)	**Operating profit**	**(1,296)**	**(1,517)**	**(221)**	**(17.1)**
(907)	Exclusion of inventory holding (gains) losses	(29)	221		
641	Exclusion of special items:	1,004	814		
488	*- asset impairments*	*846*	*633*		
10	*- net gains on disposal of assets*	*5*	*(9)*		
8	*- risk provisions*	*49*			
34	*- environmental provisions*	*40*	*93*		
81	*- provisions for redundancy incentives*	*19*	*91*		
(3)	*- commodity derivatives*		*5*		
(4)	*- exchange rate differences and derivatives*	*(8)*	*(2)*		
27	*- other*	*53*	*3*		
(539)	**Adjusted operating profit**	**(321)**	**(482)**	**(161)**	**(50.2)**
	Net finance income (expense) [(a)]	(11)	(4)	7	
99	Net income (expense) from investments [(a)]	63	70	7	
176	Income taxes [(a)]	90	184	94	
(264)	**Adjusted net profit**	**(179)**	**(232)**	**(53)**	**(29.6)**

(a) Excluding special items.

In 2013, the Refining & Marketing Division reported an **adjusted operating loss** amounting to €482 million, a decline of €161 million compared to the previous year (down by 50.2%) due to plummeting refining margin in the Mediterranean area (the average Brent refining margin decreased to 2.64 $/bbl, down by 45.3% from 2012) reflecting weak demand for oil products, excess of capacity and growing competition from streams of products imported from Russia and Asia. Furthermore, Eni's realized margins were impacted by narrowing differentials between the light and heavy crudes that negatively impacted the profitability of complex cycles. The negative scenario was partly counteracted by efficiency initiatives, in particular those aimed at reducing energy and operating costs and optimizing refinery utilization rates by reducing the throughput of less competitive plants. Marketing results registered a decline compared to the previous year, due to lower consumption in retail sales.

Special charges excluded from adjusted operating loss amounted to €814 million, mainly related to impairment losses of refining plants due to the projection of unprofitable refining margins (€633 million), environmental charges (€93 million), and provisions for redundancy incentives (€91 million).

Adjusted net loss was €232 million, down €53 million from 2012 adjusted net loss of €179 million, mainly due to higher operating losses.

Versalis

2011	(€ million)	2012	2013	Change	% Ch.
(424)	**Operating profit**	**(681)**	**(725)**	**(44)**	**(6.5)**
(40)	Exclusion of inventory holding (gains) losses	63	213		
191	Exclusion of special items	135	126		
	of which:				
10	Non-recurring items				
181	Other special items:	135	126		
160	*- asset impairments*	*112*	*44*		
	- net gains on disposal of assets	*1*			
	- risk provisions	*18*	*4*		
1	*- environmental provisions*		*61*		
17	*- provisions for redundancy incentives*	*14*	*23*		
	- commodity derivatives	*1*	*(1)*		
	- exchange rate differences and derivatives	*(11)*	*(5)*		
3	*- other*				
(273)	**Adjusted operating profit**	**(483)**	**(386)**	**97**	**20.1**
	Net finance income (expense) [(a)]	(3)	(2)	1	
	Net income (expense) from investments [(a)]	2		(2)	
67	Income taxes [(a)]	89	50	(39)	
(206)	**Adjusted net profit**	**(395)**	**(338)**	**57**	**14.4**

(a) Excluding special items.

In 2013 the **adjusted operating loss** of €386 million improved by €97 million, or 20.1%, as the benchmark margin on cracking recovered from the particularly depressed level reported in the first half of 2012. This trend was offset by lower volumes due to weakness in commodity demand pressured by the economic downturn and increasing competition from Asian producers which left product margins and sales volumes at depressed levels.

Special charges excluded from adjusted operating loss of €126 million, related mainly to environmental provisions (€61 million), impairment of marginal business lines due to lack of profitability perspectives (€44 million), as well as to provisions for redundancy incentives (€23 million).

Adjusted net loss of €338 million improved by €57 million from the previous year.

Engineering & Construction

2011	(€ million)	2012	2013	Change	% Ch.
1,422	**Operating profit**	**1,442**	**(83)**	**(1,525)**	**..**
21	Exclusion of special items:	32	(1)		
35	*- asset impairments*	*25*			
4	*- net gains on disposal of assets*	*3*	*107*		
10	*- provision for redundancy incentives*	*7*	*2*		
(28)	*- commodity derivatives*	*(3)*	*(1)*		
	- Other		*(109)*		
1,443	**Adjusted operating profit**	**1,474**	**(84)**	**(1,558)**	**..**
	Net finance income (expense) [a]	(7)	(5)	2	
95	Net income (expense) from investments [a]	55	(12)	(67)	
(440)	Income taxes [a]	(411)	(152)	259	
28.6	*Tax rate (%)*	*27.0*	..		
1,098	**Adjusted net profit**	**1,111**	**(253)**	**(1,364)**	**..**

(a) Excluding special items.

In 2013, the Engineering & Construction segment registered a steep contraction in profitability with an **adjusted operating loss** of €84 million, compared to the operating profit of €1,474 million recorded in 2012. This negative trend was due to marketing and operating difficulties incurred in the first half of 2013 which led management to make sharply lower revision of margin estimates at certain large contracts for the construction of onshore industrial complexes and a slowdown in order acquisitions in Engineering & Construction Onshore and Offshore businesses.

The commercial arbitration with a Group's subsidiary is ongoing relating to a change order as part of a project to build a gas plant in Algeria. It is worth mentioning that this issue, whichever the outcome, will not produce any impact on Eni's consolidated results.

Special charges excluded from adjusted operating profit related mainly to the write-off of Saipem's Perro Negro 6 drilling rig, following the accident which occurred in July 2013 (€107 million), more than offset by relating insurance gain.

The **adjusted net loss** of 2013 amounting to €253 million (down €1,364 million from the €1,111 million profit reported in 2012) is driven by the above mentioned estimate revisions.

Other activities[3]

2011	(€ million)	2012	2013	Change	% Ch.
(427)	**Operating profit**	**(300)**	**(337)**	**(37)**	**(12.3)**
201	Exclusion of special items:	78	127		
	of which:				
59	Non-recurring items				
142	Other special items:	78	127		
4	*- asset impairments*	*2*	*19*		
(7)	*- net gains on disposal of assets*	*(12)*	*(3)*		
9	*- risk provisions*	*35*	*31*		
141	*- environmental provisions*	*25*	*52*		
8	*- provisions for redundancy incentives*	*2*	*20*		
(13)	*- other*	*26*	*8*		
(226)	**Adjusted operating profit**	**(222)**	**(210)**	**12**	**5.4**
5	Net finance income (expense) [(a)]	(24)	4	28	
(3)	Net income (expense) from investments [(a)]	(1)	1	2	
(1)	Income taxes [(a) (b)]				
(225)	**Adjusted net profit**	**(247)**	**(205)**	**42**	**17.0**

(a) Excluding special items.
(b) Deferred tax assets relating to Syndial losses are recognized by the parent company Eni SpA based on intercompany agreements which regulate the Italian consolidated accounts for tax purposes.

Corporate and financial companies

2011	(€ million)	2012	2013	Change	% Ch.
(319)	**Operating profit**	**(341)**	**(399)**	**(58)**	**(17.0)**
53	Exclusion of special items:	16	67		
(1)	*- net gains on disposal of assets*				
(6)	*- risk provisions*	*5*			
9	*- provisions for redundancy incentives*	*11*	*72*		
51	*- other*		*(5)*		
(266)	**Adjusted operating profit**	**(325)**	**(332)**	**(7)**	**(2.2)**
(876)	Net finance income (expense) [(a)]	(865)	(554)	311	
1	Net income (expense) from investments [(a)]	99	290	191	
388	Income taxes [(a)]	115	124	9	
(753)	**Adjusted net profit**	**(976)**	**(472)**	**504**	**51.6**

(a) Excluding special items.

(3) 2012 results do not include Snam contribution.

Non-GAAP measures

Reconciliation of reported operating profit and reported net profit to results on an adjusted basis

Management evaluates Group and business performance on the basis of adjusted operating profit and adjusted net profit, which are arrived at by excluding inventory holding gains or losses, special items and, in determining the business segments' adjusted results, finance charges on finance debt and interest income. The adjusted operating profit of each business segment reports gains and losses on derivative financial instruments entered into in order to manage exposure to movements in foreign currency exchange rates which impact industrial margins and the translation of commercial payables and receivables. Accordingly currency translation effects recorded through profit and loss are also reported within business segments' adjusted operating profit. The taxation effect of the items excluded from adjusted operating or net profit is determined based on the specific rate of taxes applicable to each of them. The Italian statutory tax rate is applied to finance charges and income (38% is applied to charges recorded by companies in the energy sector, whilst a tax rate of 27.5% is applied to all other companies). Adjusted operating profit and adjusted net profit are non-GAAP financial measures under either IFRS or US GAAP. Management includes them in order to facilitate a comparison of base business performance across periods, and to allow financial analysts to evaluate Eni's trading performance on the basis of their forecasting models.

The following is a description of items that are excluded from the calculation of adjusted results.

Inventory holding gain or loss is the difference between the cost of sales of the volumes sold in the period based on the cost of supplies of the same period and the cost of sales of the volumes sold calculated using the weighted average cost method of inventory accounting.

Special items include certain significant income or charges pertaining to either: (i) infrequent or unusual events and transactions, being identified as non-recurring items under such circumstances; (ii) certain events or transactions which are not considered to be representative of the ordinary course of business, as in the case of environmental provisions, restructuring charges, asset impairments or write ups and gains or losses on divestments even though they occurred in past periods or are likely to occur in future ones; or (iii) exchange rate differences and derivatives relating to industrial activities and commercial payables and receivables, particularly exchange rate derivatives to manage commodity pricing formulas which are quoted in a currency other than the functional currency. Those items are reclassified in operating profit with a corresponding adjustment to net finance charges, notwithstanding the handling of foreign currency exchange risks is made centrally by netting off naturally-occurring opposite positions and then dealing with any residual risk exposure in the exchange rate market. As provided for in Decision No. 15519 of July 27, 2006 of the Italian market regulator (Consob), non recurring material income or charges are to be clearly reported in the management's discussion and financial tables. Also, special items include gains and losses on re-measurement at fair value of certain non hedging commodity derivatives, including the ineffective portion of cash flow hedges and certain derivatives financial instruments embedded in the pricing formula of long-term gas supply agreements of the Exploration & Production Division. Furthermore, special items include gains and losses on re-measurement at fair value of certain non hedging commodity derivatives, including the ineffective portion of cash flow hedges and certain derivative financial instruments embedded in the pricing formula of long-term gas supply agreements of the Exploration & Production Division.

Finance charges or income related to net borrowings excluded from the adjusted net profit of business segments are comprised of interest charges on finance debt and interest income earned on cash and cash equivalents not related to operations. Therefore, the adjusted net profit of business segments includes finance charges or income deriving from certain segment-operated assets, i.e., interest income on certain receivable financing and securities related to operations and finance charge pertaining to the accretion of certain provisions recorded on a discounted basis (as in the case of the asset retirement obligations in the Exploration & Production Division). Finance charges or interest income and related taxation effects excluded from the adjusted net profit of the business segments are allocated on the aggregate Corporate and financial companies.

For a reconciliation of adjusted operating profit and adjusted net profit to reported operating profit and reported net profit see tables below.

2013

(€ million)	Exploration & Production	Gas & Power	Refining & Marketing	Versalis	Engineering & Construction	Corporate and financial companies	Other activities	Impact of unrealized intragroup profit elimination	GROUP
Operating profit	**14,871**	**(2,992)**	**(1,517)**	**(725)**	**(83)**	**(399)**	**(337)**	**38**	**8,856**
Exclusion of inventory holding (gains) losses		191	221	213				91	716
Exclusion of special items:									
- asset impairments	19	1,685	633	44			19		2,400
- net gains on disposal of assets	(283)	1	(9)		107		(3)		(187)
- risk provisions	7	292		4			31		334
- environmental charges		(1)	93	61			52		205
- provision for redundancy incentives	52	10	91	23	2	72	20		270
- commodity derivatives	(2)	314	5	(1)	(1)				315
- exchange rate differences and derivatives	(2)	(186)	(2)	(5)					(195)
- other	(16)	23	3		(109)	(5)	8		(96)
Special items of operating profit	**(225)**	**2,138**	**814**	**126**	**(1)**	**67**	**127**		**3,046**
Adjusted operating profit	**14,646**	**(663)**	**(482)**	**(386)**	**(84)**	**(332)**	**(210)**	**129**	**12,618**
Net finance (expense) income [a]	(264)	24	(4)	(2)	(5)	(554)	4		(801)
Net income (expense) from investments [a]	367	100	70		(12)	290	1		816
Income taxes [a]	(8,797)	293	184	50	(152)	124		(90)	(8,388)
Tax rate (%)	*59.6*	..	..		..				*66.4*
Adjusted net profit	**5,952**	**(246)**	**(232)**	**(338)**	**(253)**	**(472)**	**(205)**	**39**	**4,245**
of which attributable to:									
- non-controlling interest									(188)
- Eni's shareholders									**4,433**
Net profit attributable to Eni's shareholders									**5,160**
Exclusion of inventory holding (gains) losses									438
Exclusion of special items									(1,165)
Adjusted net profit attributable to Eni's shareholders									**4,433**

(a) Excluding special items.

2012

(€ million)							Other activities [a]				Discontinued operations			
	Exploration & Production	Gas & Power [a]	Refining & Marketing	Versalis	Engineering & Construction	Corporate and financial companies	Snam	Other activities	Impact of unrealized intragroup profit elimination	GROUP	Snam	Consolidation adjustments	Total	CONTINUING OPERATIONS
Operating profit	**18,470**	**(3,219)**	**(1,296)**	**(681)**	**1,442**	**(341)**	**1,679**	**(300)**	**208**	**15,962**	**(1,679)**	**788**	**(891)**	**15,071**
Exclusion of inventory holding (gains) losses		163	(29)	63					(214)	(17)				(17)
Exclusion of special items:														
- asset impairments	550	2,494	846	112	25			2		4,029				4,029
- net gains on disposal of assets	(542)	(3)	5	1	3		(22)	(12)		(570)	22		22	(548)
- risk provisions	7	831	49	18		5		35		945				945
- environmental charges		(2)	40				71	25		134	(71)		(71)	63
- provision for redundancy incentives	6	5	19	14	7	11	2	2		66	(2)		(2)	64
- commodity derivatives	1			1	(3)					(1)				(1)
- exchange rate differences and derivatives	(9)	(51)	(8)	(11)						(79)				(79)
- other	54	138	53					26		271				271
Special items of operating profit	**67**	**3,412**	**1,004**	**135**	**32**	**16**	**51**	**78**		**4,795**	**(51)**		**(51)**	**4,744**
Adjusted operating profit	**18,537**	**356**	**(321)**	**(483)**	**1,474**	**(325)**	**1,730**	**(222)**	**(6)**	**20,740**	**(1,730)**	**788**	**(942)**	**19,798**
Net finance (expense) income [b]	(264)	29	(11)	(3)	(7)	(865)	(54)	(24)		(1,199)	54		54	(1,145)
Net income (expense) from investments [b]	436	261	63	2	55	99	38	(1)		953	(38)		(38)	915
Income taxes [b]	(11,283)	(173)	90	89	(411)	115	(712)		2	(12,283)	712	(123)	589	(11,694)
Tax rate (%)	*60.3*	*26.8*	*..*		*27.0*		*41.5*			*59.9*				*59.8*
Adjusted net profit	**7,426**	**473**	**(179)**	**(395)**	**1,111**	**(976)**	**1,002**	**(247)**	**(4)**	**8,211**	**(1,002)**	**665**	**(337)**	**7,874**
of which attributable to:														
- non-controlling interest										886			(142)	744
- Eni's shareholders										**7,325**			**(195)**	**7,130**
Net profit attributable to Eni's shareholders										**7,790**			**(3,590)**	**4,200**
Exclusion of inventory holding (gains) losses										(23)				(23)
Exclusion of special items										(442)			3,395	2,953
Adjusted net profit attributable to Eni's shareholders										**7,325**			**(195)**	**7,130**

(a) Following the divestment plan, Snam results are reclassified from "Gas & Power" sector to "Other activities" and accounted as discontinued operations.
(b) Excluding special items.

2011

(€ million)	Exploration & Production	Gas & Power [(a)]	Refining & Marketing	Versalis	Engineering & Construction	Corporate and financial companies	OTHER ACTIVITIES [(a)] Snam	OTHER ACTIVITIES [(a)] Other activities	Impact of unrealized intragroup profit elimination	GROUP	DISCONTINUED OPERATIONS Snam	DISCONTINUED OPERATIONS Consolidation adjustments	DISCONTINUED OPERATIONS Total	CONTINUING OPERATIONS
Operating profit	**15,887**	**(326)**	**(273)**	**(424)**	**1,422**	**(319)**	**2,084**	**(427)**	**(189)**	**17,435**	**(2,084)**	**1,452**	**(632)**	**16,803**
Exclusion of inventory holding (gains) losses		(166)	(907)	(40)						(1,113)				(1,113)
Exclusion of special items														
of which:														
Non-recurring (income) charges				**10**				**59**		**69**				**69**
Other special (income) charges:	**188**	**245**	**641**	**181**	**21**	**53**	**27**	**142**		**1,498**	**(27)**		**(27)**	**1,471**
- environmental charges			34	1			10	141		186	(10)		(10)	176
- asset impairments	190	154	488	160	35		(9)	4		1,022	9		9	1,031
- net gains on disposal of assets	(63)		10		4	(1)	(4)	(7)		(61)	4		4	(57)
- risk provisions		77	8			(6)		9		88				88
- provision for redundancy incentives	44	34	81	17	10	9	6	8		209	(6)		(6)	203
- commodity derivatives	1	45	(3)		(28)					15				15
- exchange rate differences and derivatives	(2)	(82)	(4)	3						(85)				(85)
- other	18	17	27			51	24	(13)		124	(24)		(24)	100
Special items of operating profit	**188**	**245**	**641**	**191**	**21**	**53**	**27**	**201**		**1,567**	**(27)**		**(27)**	**1,540**
Adjusted operating profit	**16,075**	**(247)**	**(539)**	**(273)**	**1,443**	**(266)**	**2,111**	**(226)**	**(189)**	**17,889**	**(2,111)**	**1,452**	**(659)**	**17,230**
Net finance (expense) income [(b)]	(231)	43				(876)	19	5		(1,040)	(19)		(19)	(1,059)
Net income (expense) from investments [(b)]	624	363	99		95	1	44	(3)		1,223	(44)		(44)	1,179
Income taxes [(b)]	(9,603)	93	176	67	(440)	388	(918)	(1)	78	(10,160)	918	(195)	723	(9,437)
Tax rate (%)	*58.3*	*..*	*..*		*28.6*		*42.2*			*56.2*				*54.4*
Adjusted net profit	**6,865**	**252**	**(264)**	**(206)**	**1,098**	**(753)**	**1,256**	**(225)**	**(111)**	**7,912**	**(1,256)**	**1,257**	**1**	**7,913**
of which attributable to:														
- non-controlling interest										943			32	975
- Eni's shareholders										**6,969**			**(31)**	**6,938**
Net profit attributable to Eni's shareholders										**6,860**			**42**	**6,902**
Exclusion of inventory holding (gains) losses										(724)				(724)
Exclusion of special items:										833			(73)	760
- non-recurring charges										*69*				*69*
- other special (income) charges										*764*			*(73)*	*691*
Adjusted net profit attributable to Eni's shareholders										**6,969**			**(31)**	**6,938**

(a) Following the divestment plan, Snam results are reclassified from "Gas & Power" sector to "Other activities" and accounted as discontinued operations.
(b) Excluding special items.

Breakdown of Group special items

2011	(€ million)	2012	2013
69	**Non-recurring charges (income)**		
69	*of which: settlement/payments on antitrust and other Authorities proceedings*		
1,498	**Other special items**	**4,795**	**3,046**
1,022	*- assets impairments*	*4,029*	*2,400*
(61)	*- net gains on disposal of assets*	*(570)*	*(187)*
88	*- risk provisions*	*945*	*334*
186	*- environmental charges*	*134*	*205*
209	*- provision for redundancy incentives*	*66*	*270*
15	*- commodity derivatives*	*(1)*	*315*
(85)	*- exchange rate differences and derivatives*	*(79)*	*(195)*
124	*- other*	*271*	*(96)*
1,567	**Special items of operating profit**	**4,795**	**3,046**
89	**Net finance (income) expense**	**202**	**190**
	of which:		
85	*- exchange rate differences and derivatives*	*79*	*195*
(883)	**Net income (expense) from investments**	**(5,408)**	**(5,299)**
	of which:		
(1,118)	gains on disposal of assets	(2,354)	(3,599)
(1,044)	*of which: international transport*		
	divestment of the 28.57% of Eni's interest in Eni East Africa		*(3,359)*
	Galp	*(311)*	*(98)*
	Snam	*(2,019)*	*(75)*
	gains on investment revaluation	(3,151)	(1,682)
	of which: Galp	*(1,700)*	
	Snam	*(1,451)*	
	Artic Russia		*(1,682)*
191	impairments of equity investments	156	11
60	**Income taxes**	**(31)**	**898**
	of which:		
	- impairment of deferred tax assets of Italian subsidiaries	*803*	*954*
552	*- deferred tax adjustment on PSAs*		*490*
29	*- re-allocation of tax impact on intercompany dividends and other special items*	*147*	*64*
(521)	*- taxes on special items*	*(981)*	*(610)*
833	**Total special items of net profit**	**(442)**	**(1,165)**

Breakdown of impairments

2011	(€ million)	2012	2013	Change
893	Asset impairment	2,679	2,290	(389)
152	Goodwill impairment	1,347	333	(1,014)
(15)	Revaluations	(3)	(223)	(220)
1,030	**Sub total**	**4,023**	**2,400**	**(1,623)**
1	Impairment of losses on receivables related to non recurring activities	6		(6)
1,031	**Impairments**	**4,029**	**2,400**	**(1,629)**

Summarized Group Balance Sheet

The summarized group balance sheet aggregates the amount of assets and liabilities derived from the statutory balance sheet in accordance with functional criteria which consider the enterprise conventionally divided into the three fundamental areas focusing on resource investments, operations and financing. Management believes that this summarized group balance sheet is useful information in assisting investors to assess Eni's capital structure and to analyze its sources of funds and investments in fixed assets and working capital. Management uses the summarized group balance sheet to calculate key ratios such as return on capital employed (ROACE) and the proportion of net borrowings to shareholders' equity (leverage) intended to evaluate whether Eni's financing structure is sound and well-balanced.

Summarized Group Balance Sheet [a]

(€ million)	December 31, 2012	December 31, 2013	Change
Fixed assets			
Property, plant and equipment	63,466	62,506	(960)
Inventories - Compulsory stock	2,538	2,571	33
Intangible assets	4,487	3,877	(610)
Equity-accounted investments and other investments	9,347	6,961	(2,386)
Receivables and securities held for operating purposes	1,457	1,607	150
Net payables related to capital expenditure	(1,142)	(1,256)	(114)
	80,153	**76,266**	**(3,887)**
Net working capital			
Inventories	8,496	7,883	(613)
Trade receivables	19,966	21,213	1,247
Trade payables	(14,993)	(15,529)	(536)
Tax payables and provisions for net deferred tax liabilities	(3,204)	(3,005)	199
Provisions	(13,603)	(13,167)	436
Other current assets and liabilities	2,473	2,030	(443)
	(865)	**(575)**	**290**
Provisions for employee post-retirement benefits	**(1,374)**	**(1,245)**	**129**
Assets held for sale including related liabilities	**155**	**2,156**	**2,001**
CAPITAL EMPLOYED, NET	**78,069**	**76,602**	**(1,467)**
Eni shareholders' equity	59,060	58,210	(850)
Non-controlling interest	3,498	2,964	(534)
Shareholders' equity	**62,558**	**61,174**	**(1,384)**
Net borrowings	**15,511**	**15,428**	**(83)**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**78,069**	**76,602**	**(1,467)**

(a) For a reconciliation to the statutory statement of cash flow see the paragraph "Reconciliation of Summarized Group Balance Sheet and Statement of Cash Flows to Statutory Schemes".

The appreciation of the euro vs. the US dollar as of December 31, 2013 from December 31, 2012 (the EUR/USD exchange rate was 1.379 as of December 31, 2013, as compared to 1.319 as of December 31, 2012, up by 4.5%) reduced net capital employed, net equity and net borrowings by €2,515 million, €1,871 million, and €644 million respectively, due to exchange rate translation differences.

Fixed assets amounted to €76,266 million, representing a decrease of €3,887 million from December 31, 2012. This reflected a reduction of the line-item "Equity accounted investments and other investments" following the disposal of the available-for sale interests in Snam and Galp (€2,289 million), while depreciation, depletion, amortization and impairment charges amounted to €11,703 million. These declines were partly offset by capital expenditure incurred in the year (€12,750 million). As of December 31, 2013 Eni holds 8.54% of the share capital of Snam underlying the €1,250 million convertible bond, due on January, 2016. Eni also holds 16.15% of Galp's outstanding share capital, of which 8% underlying the approximately €1,028 million exchangeable bond due on November 2015 and 8.15% subject to certain pre-emptive rights and options exercisable by Amorim Energia.

Assets held for sale including related liabilities related to Eni's interest in Artic Russia, which was stated at the fair value based on the Sale and Purchase Agreement with a Gazprom Group's subsidiary, for €2,131 million. The transaction closed in the first half of January 2014.

Net working capital amounted to a negative €575 million, representing an increase of €290 million from December 31, 2012 mainly due to (i) the net use of risk provisions (up €436 million); (ii) the increase in the balance between trade receivables and payables (up €711 million); (iii) reduced tax payables and provisions for net deferred tax liabilities (down €199 million) due to the recognition of lower net taxes accrued in the year than payments and the write-off of deferred tax assets. These effects were partly offset by lowering gas and petroleum products inventories (down €613 million).

Leverage and net borrowings

Leverage is a measure used by management to assess the Company's level of indebtedness. It is calculated as a ratio of net borrowings – which is calculated by excluding cash and cash equivalents and certain very liquid assets from financial debt to shareholders' equity, including minority interest.

Management periodically reviews leverage in order to assess the soundness and efficiency of the Group balance sheet in terms of optimal mix between net borrowings and net equity, and to carry out a benchmarking analysis with industry standards.

(€ million)	December 31, 2012	December 31, 2013	Change
Total debt:	24,463	25,879	1,416
- Short-term debt	*5,184*	*4,891*	*(293)*
- Long-term debt	*19,279*	*20,988*	*1,709*
Cash and cash equivalents	(7,765)	(5,288)	2,477
Securities held for trading and other securities held for non-operating purposes	(34)	(5,037)	(5,003)
Financing receivables for non-operating purposes	(1,153)	(126)	1,027
Net borrowings	**15,511**	**15,428**	**(83)**
Shareholders' equity including non-controlling interest	**62,558**	**61,174**	**(1,384)**
Leverage	**0.25**	**0.25**	

Net borrowings as of December 31, 2013, amounted to €15,428 million, substantially in line with 2012 (down €83 million).

Total debt amounted to €25,879 million, of which €4,891 million were short-term (including the portion of long-term debt due within 12 months equal to €2,149 million) and €20,988 million were long-term.
The ratio of net borrowings to shareholders' equity including non-controlling interest – **leverage** – was 0.25 at December 31, 2013, in line with December 31, 2012.

Comprehensive income

(€ million)	2012	2013
Net profit	**8,676**	**4,972**
Other items of comprehensive income:		
Items not reclassificable to profit and loss account		
Remeasurements of defined benefit plans	*(150)*	*65*
Share of "Other comprehensive income" on equity-accounted entities related to remeasurements of defined benefit plans	*1*	*(3)*
Taxation	*53*	*(40)*
	(96)	**22**
Items subsequently reclassificable to profit and loss account		
Foreign currency translation differences	*(718)*	*(1,871)*
Fair value evaluation of Eni's interest in Galp and Snam	*141*	*(64)*
Change in the fair value of cash flow hedging derivatives	*(102)*	*(199)*
Change in the fair value of available-for-sale securities	*16*	*(1)*
Share of "Other comprehensive income" on equity-accounted entities	*7*	*1*
Taxation	*32*	*63*
	(624)	**(2,071)**
Total comprehensive income	**7,956**	**2,923**
Attributable to:		
- Eni's shareholders	**7,096**	**3,164**
- Non-controlling interest	860	(241)

Changes in shareholders' equity

(€ million)		
Shareholders' equity at December 31, 2012		**62,558**
Total comprehensive income	2,923	
Dividends distributed to Eni's shareholders	(3,949)	
Dividends distributed by consolidated subsidiaries	(251)	
Stock options expired	(13)	
Effect of changes in consolidation on non-controlling interests	(23)	
Acquisition of non-controlling interest relating to Tigáz Zrt	(28)	
Other changes	(43)	
Total changes		**(1,384)**
Shareholders' equity at December 31, 2013		**61,174**
Attributable to:		
- Eni's shareholders		**58,210**
- Non-controlling interest		2,964

Shareholders' equity including non-controlling interest was €61,174 million, representing a decrease of €1,384 million from December 31, 2012. This was due to comprehensive income for the year (€2,923 million) as a result of net profit (€4,972 million), which was partly offset by foreign currency translation differences (€1,871 million). This addition to equity was almost completely offset by dividend payments to Eni's shareholders and other changes for €4,307 million (dividend payments to Eni's shareholders of €3,949 million, including the 2013 interim dividend, and dividends paid to non-controlling interest of Saipem and other subsidiaries).

Reconciliation of net profit and shareholders' equity of the parent company Eni SpA to consolidated net profit and shareholders' equity

	Net profit		Shareholders' equity	
(€ million)	2012	2013	Dec. 31. 2012	Dec. 31. 2013
As recorded in Eni SpA's financial statements	**9,078**	**4,410**	**40,537**	**40,733**
Excess the net equity stated in the separate accounts of consolidated subsidiaries over the corresponding carring amounts in the statutory accounts of the parent company	261	1,457	21,576	21,546
Consolidation adjustment:				
- differences between purchase cost and underlying carrying amounts of net equity	(2,683)	(499)	1,503	324
- adjustments to comply with group account policies	1,222	(174)	711	605
- elimination of unrealized intercompany profits	638	219	(2,652)	(2,369)
- deferred taxation	160	(444)	873	323
- other adjustments		3	10	12
	8,676	**4,972**	**62,558**	**61,174**
Non-controlling interest	(886)	188	(3,498)	(2,964)
As recorded in the Consolidated Financial Statements	**7,790**	**5,160**	**59,060**	**58,210**

Summarized Group Cash Flow Statement

Eni's Summarized Group Cash Flow Statement derives from the statutory statement of cash flows. It enables investors to understand the connection existing between changes in cash and cash equivalents (deriving from the statutory cash flows statement) and in net borrowings (deriving from the summarized cash flow statement) that occurred in the reporting period. The measure which links the two statements is represented by the free cash flow which is calculated as difference between the cash flow generated from operations and the net cash used in investing activities. Starting from free cash flow it is possible to determine either: (i) changes in cash and cash equivalents for the period by adding/deducting cash flows relating to financing debts/receivables (issuance/repayment of debt and receivables related to financing activities), shareholders' equity (dividends paid, net repurchase of own shares, capital issuance) and the effect of changes in consolidation and of exchange rate differences; and (ii) change in net borrowings for the period by adding/deducting cash flows relating to shareholders' equity and the effect of changes in consolidation and of exchange rate differences. The free cash flow is a non-GAAP measure of financial performance.

Summarized Group Cash Flow Statement [a]

2011	(€ million)	2012	2013	Change
7,877	**Net profit - continuing operations**	**4,944**	**4,972**	**28**
	Adjustments to reconcile net profit to net cash provided by operating activities:			
8,606	- depreciation, depletion and amortization and other non monetary items	11,349	9,578	(1,771)
(1,176)	- net gains on disposal of assets	(875)	(3,770)	(2,895)
9,918	- dividends, interests, taxes and other changes	11,925	9,162	(2,763)
(1,696)	Changes in working capital related to operations	(3,373)	486	3,859
(9,766)	Dividends received, taxes paid, interest (paid) received during the period	(11,614)	(9,459)	2,155
13,763	**Net cash provided by operating activities - continuing operations**	**12,356**	**10,969**	**(1,387)**
619	Net cash provided by operating activities - discontinued operations	15		(15)
14,382	**Net cash provided by operating activities**	**12,371**	**10,969**	**(1,402)**
(11,909)	**Capital expenditure - continuing operations**	**(12,761)**	**(12,750)**	**11**
(1,529)	Capital expenditure - discontinued operations	(756)		756
(13,438)	**Capital expenditure**	**(13,517)**	**(12,750)**	**767**
(360)	Investments and purchase of consolidated subsidiaries and businesses	(569)	(317)	252
1,912	Disposals	6,014	6,360	346
627	Other cash flow related to capital expenditure, investments and disposals	(136)	(253)	(117)
3,123	**Free cash flow**	**4,163**	**4,009**	**(154)**
41	Borrowings (repayment) of debt related to financing activities [b]	(83)	(3,983)	(3,900)
1,104	Changes in short and long-term financial debt	5,947	1,778	(4,169)
(4,327)	Dividends paid and changes in non-controlling interests and reserves	(3,746)	(4,231)	(485)
10	Effect of changes in consolidation and exchange differences	(16)	(50)	(34)
(49)	**NET CASH FLOW**	**6,265**	**(2,477)**	**(8,742)**

Changes in net borrowings

2011	(€ million)	2012	2013	Change
3,123	**Free cash flow**	**4,163**	**4,009**	**(154)**
	Net borrowings of acquired companies	(2)	(21)	(19)
(192)	Net borrowings of divested companies	12,446	(16)	(12,462)
(517)	Exchange differences on net borrowings and other changes	(340)	342	682
(4,327)	Dividends paid and changes in non-controlling interest and reserves	(3,746)	(4,231)	(485)
(1,913)	**CHANGE IN NET BORROWINGS**	**12,521**	**83**	**(12,438)**

(a) For a reconciliation to the statutory statement of cash flow see the paragraph "Reconciliation of Summarized Group Balance Sheet and Statement of Cash Flow to Statutory Schemes".
(b) This item includes investments in certain financial instruments not related to operations (securities, escrow accounts) to absorb temporary surpluses of cash or as a part of our ordinary management of financing activities. Due to their nature and the circumstance that they are very liquid, these financial instruments are netted against finance debt in determining net borrowings. Cash flows of such investments/disposals were as follows:

2011	(€ million)	2012	2013	Change
	Financing investments:			
(21)	- securities		(5,029)	(5,029)
(26)	- financing receivables	(1,131)	(104)	1,027
(47)		**(1,131)**	**(5,133)**	**(4,002)**
	Disposal of financing investments:			
71	- securities	4	25	21
17	- financing receivables	1,044	1,125	81
88		**1,048**	**1,150**	**102**
41	**Cash flows of financial investments not related to operation**	**(83)**	**(3,983)**	**(3,900)**

Net cash provided by operating activities (€10,969 million) and proceeds from disposals of €6,360 million funded cash outflows relating to capital expenditure totalling €12,750 million and investments (€317 million) and dividend payments and other changes amounting to €4,231 million (of which €1,993 million relating to 2013 interim dividend) also repaying down the Group net debt by €83 million from December 31, 2012. Net cash provided by operating activities was positively influenced by higher receivables due beyond the end of the reporting period, being transferred to financing institutions compared to the amount transferred at the end of the previous reporting period (up €552 million; from €2,203 million as of December 31, 2012 to €2,755 million as of December 31, 2013). Cash from disposals largely related to the sale of the 28.57% stake in Eni East Africa, currently retaining an interest of 70% in the Area 4 mineral property in Mozambique to China National Petroleum Corporation (€3,386 million), the divestment of the 11.69% interest in the share capital of Snam (€1,459 million), the 8.19% interest in the share capital of Galp (€830 million) and marginal assets in the Exploration & Production Division.

Capital expenditure

2011	(€ million)	2012	2013	Change	% Ch.
9,435	Exploration & Production	10,307	10,475	168	1.6
754	*- acquisition of proved and unproved properties*	*43*	*109*		
1,210	*- exploration*	*1,850*	*1,669*		
7,357	*- development*	*8,304*	*8,580*		
114	*- other expenditure*	*110*	*117*		
192	Gas & Power	225	232	7	3.1
184	*- marketing*	*212*	*209*		
8	*- international transport*	*13*	*23*		
866	Refining & Marketing	842	619	(223)	(26.5)
638	*- refining, supply and logistics*	*622*	*444*		
228	*- marketing*	*220*	*175*		
216	Versalis	172	314	142	82.6
1,090	Engineering & Construction	1,011	902	(109)	(10.8)
10	Other activities	14	21	7	50.0
128	Corporate and financial companies	152	190	38	25.0
(28)	Impact of unrealized intragroup profit elimination	38	(3)	(41)	
11,909	**Capital expenditure - continuing operations**	**12,761**	**12,750**	**(11)**	**(0.1)**
1,529	Capital expenditure - discontinued operations	756		(756)	..
13,438	**Capital expenditure**	**13,517**	**12,750**	**(767)**	**(5.7)**

In 2013, **capital expenditure** amounted to €12,750 million (€12,761 million 2012) relating mainly to:

- development activities deployed mainly in Norway, the United States, Angola, Congo, Italy, Nigeria, Kazakhstan, Egypt and the UK and exploratory activities of which 98% was spent outside Italy, primarily in Mozambique, Norway, Congo, Togo, Nigeria, the United States and Angola as well as acquisition of new licenses in the Republic of Cyprus and in Vietnam;
- upgrading of the fleet used in the Engineering & Construction Division (€902 million);
- refining, supply and logistics in Italy and outside Italy (€444 million) with projects designed to improve the conversion rate and flexibility of refineries, in particular at the Sannazzaro Refinery, as well as the upgrade of the refined product retail network in Italy and in the rest of Europe (€175 million);
- initiatives to improve flexibility of the combined cycle power plants (€121 million).

Reconciliation of Summarized Group Balance Sheet and Statement of Cash Flows to Statutory Schemes

Summarized Group Balance Sheet

(€ million)		December 31, 2012		December 31, 2013	
Items of Summarized Group Balance Sheet (where not expressly indicated, the item derives directly from the statutory scheme)	Notes to the Consolidated Financial Statements	Partial amounts from statutory scheme	Amounts of the summarized Group scheme	Partial amounts from statutory scheme	Amounts of the summarized Group scheme
Fixed assets					
Property, plant and equipment			63,466		62,506
Inventories - compulsory stock			2,538		2,571
Intangible assets			4,487		3,877
Equity-accounted investments and other investments			9,347		6,961
Receivables and securities held for operating activities	(see note 9 and note 19)		1,457		1,607
Net payables related to capital expenditure, made up of:			(1,142)		(1,256)
- Receivables related to disposals	(see note 10)	209		88	
- Receivables related to disposals	(see note 21)	752		702	
- Payables related to capital expenditure	(see note 23)	(2,103)		(2,046)	
Total fixed assets			**80,153**		**76,266**
Net working capital					
Inventories			8,496		7,883
Trade receivables	(see note 10)		19,966		21,213
Trade payables	(see note 23)		(14,993)		(15,529)
Tax payables and provisions for net deferred tax liabilities, made up of:			(3,204)		(3,005)
- Income tax payables		(1,622)		(742)	
- Other tax payables		(2,162)		(2,268)	
- Deferred tax liabilities		(6,740)		(6,723)	
- Other tax liabilities	(see note 31)	(1)		(26)	
- Current tax assets		771		802	
- Other current tax assets		1,230		825	
- Deferred tax assets		5,027		4,662	
- Other tax assets	(see note 21)	293		465	
Provisions			(13,603)		(13,167)
Other current assets and liabilities:			2,473		2,030
- Securities held for operating purposes	(see note 9)	201		202	
- Receivables for operating purposes	(see note 10)	440		488	
- Other receivables	(see note 10)	6,751		6,648	
- Other (current) assets		1,624		1,325	
- Other receivables and other assets	(see note 21)	3,355		2,516	
- Advances, other payables	(see note 23)	(6,485)		(6,023)	
- Other (current) liabilities		(1,437)		(1,448)	
- Other payables and other liabilities	(see note 31)	(1,976)		(1,678)	
Total net working capital			**(865)**		**(575)**
Provisions for employee post-retirement benefits			**(1,374)**		**(1,245)**
Assets held for sale including related liabilities			**155**		**2,156**
made up of:					
- Assets held for sale		516		2,296	
- Liabilities related to assets held for sale		(361)		(140)	
CAPITAL EMPLOYED, NET			**78,069**		**76,602**
Shareholders' equity including non-controlling interest			**62,558**		**61,174**
Net borrowings					
Total debt, made up of:			24,463		25,879
- Long-term debt		19,279		20,988	
- Current portion of long-term debt		2,961		2,149	
- Short-term financial liabilities		2,223		2,742	
less:					
Cash and cash equivalents			(7,765)		(5,288)
Securities held for trading and other securities held for non-operating purposes	(see note 9)		(34)		(5,037)
Financing receivables for non-operating purposes	(see note 10)		(1,153)		(126)
Total net borrowings [a]			**15,511**		**15,428**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY			**78,069**		**76,602**

(a) For details on net borrowings see also note No. 26 to the Consolidated Financial Statements.

Summarized Group Cash Flow Statement

(€ million)	2012		2013	
Items of Summarized Cash Flow Statement and confluence/reclassification of items in the statutory scheme	Partial amounts from statutory scheme	Amounts of the summarized Group scheme	Partial amounts from statutory scheme	Amounts of the summarized Group scheme
Net profit - continuing operations		**4,944**		**4,972**
Adjustments to reconcile net profit to net cash provided by operating activities:				
Depreciation, depletion and amortization and other non monetary items		11,349		9,578
- depreciation, depletion and amortization	9,538		9,303	
- impairment of tangible and intangible assets, net	4,023		2,400	
- share of profit (loss) of equity-accounted investments	(278)		(252)	
- other net changes	(1,945)		(1,878)	
- net changes in the provisions for employee benefits	11		5	
Net gains on disposal of assets		(875)		(3,770)
Dividends, interest, income taxes and other changes		11,925		9,162
- dividend income	(431)		(400)	
- interest income	(108)		(155)	
- interest expense	803		709	
- income taxes	11,661		9,008	
Changes in working capital related to operations		(3,373)		486
- inventory	(1,395)		320	
- trade receivables	(3,184)		(1,363)	
- trade payables	2,029		706	
- provisions for contingencies	338		58	
- other assets and liabilities	(1,161)		765	
Dividends received, taxes paid, interest (paid) received during the period		(11,614)		(9,459)
- dividend received	988		684	
- interest received	91		108	
- interest paid	(825)		(944)	
- income taxes paid, net of tax receivables received	(11,868)		(9,307)	
Net cash provided by operating activities - continuing operations		**12,356**		**10,969**
Net cash provided by operating activities - discontinued operations		**15**		
Net cash provided by operating activities		**12,371**		**10,969**
Capital expenditure		(13,517)		(12,750)
- tangible assets	(11,222)		(10,864)	
- intangible assets	(2,295)		(1,886)	
Investments and purchase of consolidated subsidiaries and businesses		(569)		(317)
- investments	(391)		(292)	
- consolidated subsidiaries and businesses	(178)		(25)	
Disposals		6,014		6,360
- tangible assets	1,229		514	
- intangible assets	61		16	
- changes in consolidated subsidiaries and businesses	3,521		3,401	
- investments	1,203		2,429	
Other cash flow related to capital expenditure, investments and disposals		(136)		(253)
- securities	(17)		(5,048)	
- financing receivables	(1,634)		(989)	
- change in payables and receivables relating to investments and capitalized depreciation	54		48	
reclassification: *purchase of securities and financing receivables for non-operating purposes*	1,131		5,133	
- disposal of securities	52		33	
- disposal of financing receivables	1,578		1,565	
- change in payables and receivables	(252)		155	
reclassification: *disposal of securities and financing receivables held for non-operating purposes*	(1,048)		(1,150)	
Free cash flow		**4,163**		**4,009**

continued Summarized Group Cash Flow Statement

(€ million)	2012		2013	
Items of Summarized Cash Flow Statement and confluence/reclassification of items in the statutory scheme	Partial amounts from statutory scheme	Amounts of the summarized Group scheme	Partial amounts from statutory scheme	Amounts of the summarized Group scheme
Free cash flow		**4,16**		**4,009**
Borrowings (repayment) of debt related to financing activities		(83)		(3,983)
reclassification: *purchase of securities and financing receivables held for non-operating purposes*	*(1,131)*		*(5,133)*	
reclassification: *disposal of securities and financing receivables held for non-operating purposes*	*1,048*		*1,150*	
Changes in short and long-term finance debt		5,947		1,778
- proceeds from long-term finance debt	*10,484*		*5,418*	
- payments of long-term finance debt	(3,784)		(4,669)	
- increase (decreases) in short-term finance debt	(753)		1,029	
Dividends paid and changes in non-controlling interest and reserves		(3,746)		(4,231)
- net capital contributions/payments by/to non-controlling interest			(4)	
- dividends paid by Eni to shareholders	(3,840)		(3,949)	
- dividends paid to non-controlling interest	(539)		(251)	
- disposal (acquisition) of interests in consolidated subsidiaries	604		(28)	
- treasury shares sold by consolidated subsidiaries	29		1	
Effect of exchange differences on cash and cash equivalents		(12)		(37)
Effect of changes in consolidation area (inclusion/exclusion of significant/insignificant subsidiaries		(4)		(13)
Net cash flow for the period		**6,265**		**(2,477)**

Risk factors and uncertainties

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, Eni expects that prices of energy commodities, in particular oil and gas, will be very volatile, with average prices and margins influenced by changes in the global supply and demand for energy as well as in the market dynamics. This is likely to increase competition in all of Eni's businesses, which may impact costs and margins.

- In the Exploration & Production segment 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 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, its growth prospects and future results of operations and cash flows may be adversely affected.
- In the Gas & Power segment, Eni faces strong competition from gas and energy players to sell gas and electricity to the industrial segment and the retail market both in the Italian market and markets across Europe. Competition has been fuelled by ongoing weak trends in demand due to the downturn and macroeconomic uncertainties, oversupplied markets and inter-fuel competition due to the rising use of coal in firing power plants and a dramatic grow in renewable sources of energy (photovoltaic and solar) which have materially impacted the use of gas in the production of electricity and hence sales of gas to the thermoelectric industry. These market imbalances owes to the fact that a few years ago, based on certain long-term projections about gas demand growth, European operators committed to purchase large amounts of gas under long-term supply contracts with take-or-pay clauses from the main producing Countries bordering Europe (namely Russia and Algeria) and built large upgrades at existing pipelines and new infrastructures along several European routes to expand gas import capacity to the Continent. Due to the economic and financial crisis and inter-fuel competition, those projected increases in gas demand failed to materialize resulting in a situation of oversupply and pricing pressure. The "shale-gas revolution" in the USA was another fundamental trend that added to the oversupply condition in the European marketplace. The discovery and development of large deposits of shale gas in the USA has progressively reduced till to zero the Country's dependence on LNG imports. As a result of this, upstream producers were forced to redirect large LNG supplies to markets elsewhere in the world, including Europe. Large gas availability on the marketplace in Europe fuelled by take-or-pay contracts and worldwide LNG streams has driven the development of very liquid continental hubs to trade spot gas. Shortly spot prices at continental hubs have become the main benchmarks to which selling prices are indexed in supplies to large industrial customers and thermoelectric utilities. The profitability of gas operators was negatively impacted by falling sales prices at those hubs, where prices have been pressured by intense competition among gas operators in the face of weak demand, oversupplies and the constraint to dispose of minimum annual volumes of gas to be purchased under long-tem supply contracts. These negative trends were exacerbated by the fact that spot prices have ceased to track the oil prices to which Eni's long-term supply contracts are linked, resulting in a decoupling between trends in prices and in costs. Due to those fundamental shifts in market dynamics and a current demand downturn, the Company's Gas & Power segment incurred operating losses in each of the latest three years. The outlook in our gas marketing business will remain weak for the foreseeable future as management believes that the ongoing negative trends of poor demand, continuing competition and oversupplies have become structural headwinds. These developments may adversely affect the Company's future results of operations and cash flows in its gas business, also taking into account the Company's contractual obligations to off-take minimum annual volumes of gas in accordance to its long-term gas supply contracts with take or-pay clauses and until the Company manages to re-negotiate new pricing terms of such contracts which better tracks market prices than the original oil-linked indexation. See the sector-specific risk section below.
- Eni is also facing 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 have entered the wholesale market of 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 belonging to Countries with large gas reserves have started to sell natural gas directly to final clients, entering in direct competition with players like Eni which resell gas purchased from producing Countries to final customers. These developments may increase the level of competition and reduce Eni's expected operating profit and cash flows in the gas business. Finally, gas prices in the residential market have historically been established by independent, governmental authorities in Italy and elsewhere in Europe. The indexation mechanisms used by those authorities have generally tracked a basket of petroleum products, mirroring the oil-indexed purchase prices of gas resellers like Eni, thus enabling resellers to pass a large part of cost increases of the raw material on to final customers in the retail market. In recent years, the Italian authority has introduced a number of adjustments to the oil-linked formula to take into account the public gaol of containing the impact of energy inflation on households and other public services (hospitals, schools, etc.). Finally, following enactment in Italy of a new regulatory regime which went effective October 1, 2013, management expects that the Company's selling margins in the residential segment are likely to come under pressure due to the implementation of a less favourable indexation mechanism of the raw material cost in supplies to such customers than in the past. Such new mechanism establishes that the cost of the raw material be indexed to market benchmarks recorded at spot markets, as such replacing the previous oil-linked mechanism which mirrored a basket of long-term supply contracts. The Company expects that similar measures will be introduced by other market regulators in European Countries where Eni engages in selling gas to residential clients (see sector-specific risk factors below). Management believes these developments will negatively impact future results of operations and cash flow.

- In its Gas & Power segment, Eni is vertically integrated in the production of electricity via its gas-fired power plants which currently use the combined-cycle technology. In the electricity business, Eni competes with other producers and traders from Italy or outside of Italy who sell electricity in the Italian market. Going forward, the Company expects continuing competition due to the projections of weak economic growth in Italy and Europe over the foreseeable future, also causing outside players to place excess production on the Italian market. The economics of the gas-fired electricity business have dramatically changed over the latest few years due to ongoing competitive trends. As a matter of fact, spot prices of electricity in the wholesale market across Europe have decreased due to excess supplies driven by the growing production of electricity from renewable sources, which also benefit of governmental subsides, and a recovery in the production of coal-fired electricity generation which has been helped by a substantial reduction in the price of this fuel on the back of a massive oversupply of coal which occurred on a global scale. As a result of falling electricity prices, margins on the production of gas-fired electricity went into negative territory. We believe that the profitability outlook in this business will remain weak in the foreseeable future. Due to the projections of negative future cash flows, we decided to recognize an impairment charge of our power plants in the amount of approximately €1 billion in the 2013 consolidated accounts.
- In the retail marketing of refined products both in Italy and abroad, Eni competes with oil companies and non-oil operators (such as supermarket chains and other commercial operators) 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, the latest administrative measure in this field have targeted to enhance the level of competition in the retail market of fuels, for example by easing the commercial ties between independent and other non-oil operators of service stations and oil companies, enlarging options to build and operate fully-automated service stations, and opening up the merchandising of various kinds of goods and services at service stations. These developments have boosted the level of competition in the marketplace adding further pressure on selling prices and reducing opportunities of increasing the market share in Italy. We expect that competitive pressures will continue in the foreseeable future due to anticipated weak trends in the domestic demand for fuels, oversupplies of refined products due to existing excess refining capacity in Europe and growing competition of products streams coming from Russia, the Middle East, East Asia and the United States. Finally, Eni's margins on refined products have been affected by production cost disadvantages due to unfavourable geographic location and lack of scale of Eni's Refineries, and narrowing price differentials between the Brent benchmark and heavy crude qualities. This latter trend has reflected ongoing reduced supplies of heavy crudes in the Mediterranean area, reversing the pattern observed historically whereby heavy crude qualities trade at a discount vs. the Brent benchmark due to their relatively smaller yield of valuable products. This negative trend has particularly hit Eni's profitability of complex cycles which depends upon the availability of cheaper crude qualities than the Brent crude in order to remunerate the higher operating costs of complex plants. This segment reported losses at the operating level in each of the latest three years driven by the structural headwinds in the industry described above. Based on those trends we believe that the profitability outlook in our Refining & Marketing segment will remain negative over the foreseeable future.
- In the Chemical segment, Eni faces strong competition from well-established international players and state-owned petrochemical companies, particularly in the most commoditized market segments such as the production of basic petrochemicals products and plastics. Many of those competitors based in the Far East and Middle East are able to benefit from cost advantages due to larger scale, looser environmental regulations, availability of cheaper feedstock, and more favourable location and proximity to end-markets. Excess capacity and sluggish economic growth may exacerbate competitive pressures. Furthermore, Eni expects that petrochemicals producers based in the US will regain market share in the future, leveraging on a competitive cost structure due to the increasing availability of cheap

feedstock deriving from the production of domestic shale gas. The Company expects continuing margin pressures in the foreseeable future as a result of those trends. This segment reported operating losses in each of the latest three years including significant amounts of asset impairment losses, driven by the structural headwinds in the industry described above.

- 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. In 2013 a soft demand environment, intense competition among oilfield service providers coupled with Company-specific issues at certain projects drove a substantial reversal in the profitability at Eni's Engineering & Construction business segment which reported an operating loss for the full year 2013. 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.

Safety, security, environmental and other operational risk

The Group engages in the exploration and production of oil and natural gas, processing, transportation, and refining of crude oil, transport of natural gas, storage and distribution of petroleum products, production of base chemicals, plastics and elastomers. By their nature the Group's operations expose Eni to a wide range of significant health, safety, security and environmental risks. The magnitude of these risks is influenced by the geographic range, operational diversity and technical complexity of our activities. Eni's future results from operations and liquidity depend on its ability to identify and mitigate the risks and hazards inherent to operating in those industries.
In exploration and production, Eni faces natural hazards and other operational risks including those relating to the physical characteristics of oil and natural 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 the security of our personnel and risks of blow-out, 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, liquidity, reputation and prospects of the Group.
Eni's activities in the Refining & Marketing and Chemical segments also entail health, safety and environmental risks related to the overall life cycle of the products manufactured, and to raw materials used in the manufacturing process, such as oil-based feedstock, 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 and risks of various forms of pollution and contamination of the soil and the groundwater), 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.
As to transportation activities related to all Eni's segments of operations, 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 invests significant amounts of resources in order to upgrade methods and systems for safeguarding safety and health of employers, contractors and communities, and the environment; to prevent risks; to comply with applicable laws and policies; and to respond to and learn from unexpected incidents. Eni seeks to minimize these operational risks by carefully designing and building facilities, including wells, industrial complexes, plants and equipment, pipelines, storage sites and distribution networks, and managing its operations in a safe, compliant and reliable manner. Failure to manage these risks effectively could result in unexpected incidents, including releases or oil spills, blowouts, fire, mechanical failures and other incidents resulting in personal injury, loss of life, environmental damage, legal liabilities and/or damage claims, destruction of crude oil or natural gas wells as well as damage to equipment and other property, all of which could lead to a disruption in operations. Eni's operations are often conducted in difficult and/or environmentally sensitive locations such as the Gulf of Mexico, the Caspian Sea and the Arctic, in which the consequences of any incident could be greater than in other locations. Eni also faces risks once production is discontinued, because our activities require environmental site remediation.
Furthermore, in certain situations where Eni is not the operator, the Company may have limited influence and control over third parties, which may limit our ability to manage and control such risks. Eni maintains insurance coverage that includes coverage for physical damage to its assets, third party liability, workers' compensation, pollution and other damage to the environment and other coverage. Eni's insurance is subject to caps, exclusion and limitation, and there is no assurance that such coverage will adequately protect it against liabilities from all potential consequences and damages. In particular, in the case of oil spills and other environmental damage, current insurance policies cover costs of cleaning up and remediating polluted sites, damage to third parties and containment of physical damage up to $1.1 billion for offshore events and $1.5 billion for onshore plants (refineries). These are complemented by insurance policies that cover owners, operators and renters of vessels with the following maximum amounts: $1 billion for the fleet owned by the subsidiary LNG Shipping in the Gas & Power segment and FPSOs used by the Exploration & Production segment for developing offshore fields; $500 million for time charters.

The occurrence of the above mentioned events could have a material adverse impact on the Group business, competitive position, cash flow, results of operations, liquidity, future growth prospects, shareholders' return and damage to the Group reputation.

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 are subject to natural hazards and other uncertainties, including those relating to the physical characteristics of oil and gas fields. A description of the main risks facing the Company's business in the exploration and production of oil and gas is provided below.

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

Eni has material operations relating to the exploration and production of hydrocarbons located offshore. In 2013, approximately 55% of our total oil and gas production for the year derived from offshore fields, mainly in Egypt, Libya, Norway, Italy, Angola, the Gulf of Mexico, Congo, UK and Nigeria. Offshore operations in the oil and gas industry are inherently riskier than onshore activities. As the Macondo accident occurred in the Gulf of Mexico has 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.

Exploratory drilling efforts may be unsuccessful

Exploration 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 have margins of uncertainty, and drilling operations may be unsuccessful as a result of a variety of factors, including unexpected drilling conditions, pressure or heterogeneities in formations, equipment failures, blowouts and other forms of accidents, and shortages or delays in the delivery of equipment. The Company engages in large exploration drilling activities offshore, particularly in deep and ultra-deep waters, and in remote areas, in environmentally-sensitive locations and other challenging contexts (e.g. the Barents Sea). In these locations we generally experience more challenging and riskier conditions and incur higher exploration costs than onshore. 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 make significant investments in executing high-risk exploration projects, it is likely that Eni will incur significant exploration and dry hole expenses in future years. These high-risk projects generally involve offshore plays located in deep and ultra-deep waters or at deep drilling depths, where operations are more challenging and costly than in other areas. Furthermore, deep and ultra deep water operations may require significant time before commercial production of reserves can commence, increasing both the operational and financial risks associated with these activities. The Company plans to conduct exploration projects offshore West Africa (Angola, Nigeria, Congo, Ghana, Liberia and Gabon), East Africa (Mozambique and Kenya), the South-East Asia (Indonesia, Vietnam and other locations), Australia, the Barents Sea and the Black Sea. In 2012, the Company spent approximately €1.8 billion to conduct exploration projects and it plans to spend approximately €1.4 billion on average in the next four-year plan on exploration activities. Unsuccessful exploration activities 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

Eni is executing several development projects to produce and market hydrocarbon reserves. Certain projects target the development of reserves in high-risk areas, particularly offshore and in remote and hostile environments or environmentally sensitive locations. 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 and state-owned companies, suppliers, customers or others, including, for example, Eni's ability to negotiate favourable 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;
- 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 favourable contractual terms by suppliers of equipment and services;
- the ability to carefully carry out front-end design engineering at any development projects so as to prevent the occurrence of technical inconvenience during the execution phase;
- 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;
- poor performance in project execution on the part of international contractors who are awarded project construction activities generally based on the EPC (engineering, procurement, construction) turn key contractual scheme. We believe this kind of risk may be due to lack of contractual flexibility, poor quality of front end design engineering and commissioning delays;
- changes in operating conditions and cost overruns. In recent years, the industry has been impacted by escalating costs of certain critical productive factors including specialized workforce, procurement costs and costs for leasing third party equipment or purchase services such as drilling rigs as a result of industry-wide cost inflation, bottlenecks and other constraints in the worldwide production capacity available to build critical equipment and facilities 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 Eni has been discovering increasingly important volumes of reserves in remote and harsh locations or environmentally sensitive locations (i.e. the Barents Sea, Alaska, the Gulf of Mexico, the Caspian Sea) where Eni is experiencing significantly higher operating costs and environmental, safety and other costs than in other locations. 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.

Poor project execution, inadequate front end engineering, delays in the achievement of critical events and production start up, and differences between scheduled and actual timing, as well as cost overruns may adversely affect the economic returns of our development projects. Failure to successfully deliver major projects could negatively impact results of operations, cash flow and the achievement of short-term targets of production growth. 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 from the prices and costs assumed when the investment decision was actually made, leading to lower rates of return. In addition, 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, behaviours and performance of its partners. Furthermore, Eni may not have full operation control of the joint ventures in which it participates and may have exposure to counterparty credit risk and disruption of operation and strategic objectives due to the nature of its relationships.
We have experienced a few delays at a number of development projects located mainly in Algeria, the UK, Angola and Norway. Those delays were attributable to execution issues and delivery of critical equipment reflecting capacity constraints. These events have impacted the timing profile of our planned production growth in the short term.
In case 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. 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 the Company fails to establish partnership with national oil companies, Eni's 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 Eni is unsuccessful, it may not meet its long-term targets of production growth and reserve replacement, and Eni's 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 of the future expected cash flows of the Group reserves to movements in crude oil price. 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 or disruptions due to local instability. We believe that crude oil prices were supported in 2013 by a number of interruptions in the output flows that occurred in Countries like Libya, Nigeria and Syria due to local issues driven by political and social instability;
(iii) global and regional dynamics of demand and supply of oil and gas. We believes that global oil demand will grow at a moderate pace in the foreseeable future due to sluggish economic activity in Europe and other macroeconomic uncertainties, and more efficient use of fules and energy in OECD Countries;
(iv) prices and availability of alternative sources of energy. Eni believes that gas demand in Europe has been significantly impacted by a shift to the use of coal in firing power plants due to cost advantages compared to gas, as well as the rising contribution of renewable energies in satisfying energy requirements. Eni expects 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.
We estimate that movements in oil prices impact approximately 50% of our current production as the remaining portion which derives from Production Sharing Contracts is practically unaffected by crude oil price movements which instead impact the Company's volume entitlements (see our disclosure under the paragraph "Inability to replace oil and natural gas reserves could adversely impact results of operations and financial condition" above). In addition, we expect that the Company results of operations from 2014 onwards will reflect our decision late in 2013 to fully exploit the benefits of the natural hedging occurring between our Exploration & Production and Gas & Power segments. As a matter of fact, we estimate that the exposure to changes in crude oil prices of approximately 8-10% of our production is offset by equivalent and contrarian movements of the procurement costs of gas in our long-term supply contracts which index the cost of gas to crude oil prices. In previous reporting periods we entered into commodity derivatives to protect margins on gas sales in our Gas & Power business from exposure to crude oil changes and late in 2013 we discontinued this policy with a view to exploit the natural hedge provided by our equity production of crude oil. See the risk factors "exposure to financial risks" below.
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.
The Company, like other players in the industry, assesses its oil&gas projects based on long-term scenarios for oil prices, which reflect management's best assumptions about the underlying fundamentals of global demand and supply. This approach supports the achievement of the expected returns on capital projects through the swings of the oil&gas cycle. For the 2014-2017 period Eni assumed a long-term price of $90 a barrel (real terms 2017). In this context the Company approved a capital expenditure plan amounting to €54 billion, 82% relating to exploration and development of oil and gas reserves, with a decrease of 5% in comparison with previous plan due to a higher degree of capital selection through a different schedule of project phases.
Volatile oil prices represent an uncertainty factor in view of achieving the Company's operating targets of production growth and reserve replacement due to the relevant amount of Production Sharing Agreements in Eni's portfolio. Under such contracts, the Company is entitled to receive a portion of the production, the sale of which should cover expenditures incurred and earn the Company a share of profit. Accordingly, the higher the reference prices for crude oil used to determine production and reserve entitlements, the lower the number of barrels to cover the same dollar amounts hence the amounts of booked production and reserves; and vice versa. The Company currently estimates that production entitlements in its PSAs decreases on average by approximately 1,000 bbl/d for a $1 increase in oil prices. The impact of price effects on the Company's production was immaterial in 2013. This sensitivity analysis relates to the existing Eni portfolio and might vary in the future.

Eni expects 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 accident in the Gulf of Mexico, Eni expects 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.

Uncertainties in estimates of oil and natural gas reserves

Several 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 costs and timing of development expenditures;
- changes in the prevailing tax rules, other government regulations and contractual conditions;
- results of drilling, testing and the actual production performance of Eni's reservoirs after the date of the estimates which may drive 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. Lower oil prices or the projections of higher operating and development costs may impair the ability of the Company to economically produce reserves leading to downward reserve revisions.

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 subject to change over time therefore impacting the estimates of oil and natural gas reserves. Accordingly, the estimated reserves reported as of the end of the period covered by this filing could be significantly different from the quantities of oil and natural gas that will ultimately be recovered. Any downward revision in Eni's estimated quantities of proved reserves would indicate lower future production volumes, which could adversely impact Eni's results of operations and financial condition.

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

The oil and gas industry is subject to the payment of royalties and income taxes which tend to be higher than those payable in many other commercial activities. In addition, in recent years, Eni has experienced adverse changes in the tax regimes applicable to oil and gas operations in a number of Countries where the Company conducts its upstream operations. As a result of 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 38%. The tax rate of the Company's Exploration & Production segment for the fiscal year 2013 was approximately 60%.
Management believes that the marginal tax rate in the oil and gas industry tends to increase in correlation with higher oil prices which could make it 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 and gas industry, including the risk of increased taxation, nationalization and expropriations.
Eni's results depend on its ability to identify and mitigate the above mentioned risks and hazards which are inherent to Eni's operation.

Political considerations

A substantial portion of Eni's oil and gas reserves and gas supplies are located in Countries which are politically, socially and economically less stable than OECD Countries. Therefore Eni is exposed to risks of material disruptions to its operations in those less stable Countries. As of December 31, 2013, approximately 78% of Eni's proved hydrocarbon reserves were located in such Countries and 62% of Eni's supplies of natural gas came from Countries outside OECD Countries.

Adverse political, social and economic developments in any of those less stable Countries may negatively 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. In particular, 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) unfavourable developments in laws, regulations and contractual arrangements leading, for example, to expropriations or forced divestitures of assets and unilateral cancellation or modification of contractual terms.
Eni is facing increasing competition from state-owned oil companies who are partnering Eni in a number of oil and gas projects and properties in the host Countries where Eni conducts its upstream operations. These state-owned oil companies can change contractual terms and other conditions of oil and gas projects in order to obtain a larger profit share from a given project, thereby reducing Eni's profit share. Furthermore, as of the balance sheet date receivables for €575 million relating to cost recovery under certain petroleum contracts in a non-OECD Country were the subject of an arbitration proceeding;
(iii) restrictions on exploration, production, imports and exports;
(iv) tax or royalty increases (including retroactive claims); and
(v) civil and social unrest, internal conflicts and other forms of political instability sabotages, strikes, acts of violence and incidents. These risks could result in disruptions in the economic activity, loss of output, plant closure, project delays, the loss of our personnel or assets, cause us to evacuate our personnel from certain Countries, cause us to increase spending on security worldwide, disrupt financial and commercial markets, including the supply of and pricing for oil and natural gas, and generate greater political and economic instability in some of the geographic areas in which we operate. Areas where we operate that have significant risk include, but

are not limited to: the Middle East, Libya, Egypt, Algeria, Nigeria, Angola, Indonesia, Kazakhstan, Nigeria, Russia, and Venezuela. In addition, any possible reprisals as a consequence of military or other action, such as acts of terrorism in the United States or elsewhere, could have a material adverse effect on our business, consolidated results of operations, and consolidated financial condition. In 2013 our expected production levels in Nigeria and Libya were negatively impacted by continuing social unrest, protests, strikes, acts of sabotage and theft which forced us to disrupt or reduce our producing activities with an estimated cumulative loss of output of 110 BOE/d for the year, negatively affecting our results of operations and cash flow. Looking forward, we expect that those risks will continue to affect our operations in those Countries and we do not plan for any meaningful recovery in our production plateau in both Countries over the next couple of years. In 2013 our production in Libya was 228 KBOE/d, down by 12% from 2012; in Nigeria its was 125 KBOE/d down by 19% from 2012. For more information about the status of our operations in Libya see the paragraph below.

While the occurrence of those events is unpredictable, it is likely that the occurrence of such events could cause Eni to incur material production losses or facility disruptions, by this way adversely impacting Eni's results of operations and cash flow.

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

As of end of 2013, approximately 30% of the Company's proved oil and gas reserves were located in North Africa and the Middle East. In 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. The instability of the socio-political framework in those Countries still represents an area of concern involving risks and uncertainties for the foreseeable future; particularly the internal situation in Libya continues to represent an issue for Eni's management. Throughout the course of 2013, Eni's production performance in Libya was negatively impacted due to force majeure events reflecting ongoing instability in the socio-political context of the Country. It is worth mentioning that Eni is currently engaged in the recovery of the full production plateau at its producing assets in the Country, following the internal conflict of 2011 that forced the Company to shutdown almost all its producing facilities including gas exports for a period of about 8 months with a material impact on production volumes and operating results of that year. Due to the complexity of the transition period which the Country is currently undergoing, Eni is still in the process of restoring the full production plateau at its Libyan fields. For the full year 2013 Eni's facilities in Libya produced a level of 228 kboe/d, which was significantly lower than the pre-crisis production plateau of 273 KBOE/d attained in 2010.

The internal situation in Egypt too seems to be complex as political unrest and civil clashes have been escalating throughout the course of 2013 jeopardizing any economic activity in the Country. However, the Company has not experienced any disruption at its producing activities in the Country to date.

The Company believes that the political outlook in North Africa and the Middle East remains an area of risk for the Company's operations, results and strategic development.

Risks in the Company's Gas & Power business

Risks associated with the trading environment and competition in the industry

2013 marked the third consecutive year of operating losses at our Gas & Power segment which was driven by a prolonged demand downturn, strong competitive pressures and gas oversupplies. The Company expects those structural headwinds to continue to adversely impact results of operations and liquidity for the foreseeable future.

Gas demand has been severely hit by the economic slowdown in Europe and, more importantly, a steep fall of gas consumption in the thermoelectric sector. The latter trend was affected by an ongoing expansion of renewable sources of electricity which have benefitted of governmental subsides across Europe, whilst coal has displaced gas on a large scale in firing power plants due to cost advantages and lowering rates for obtaining emission allowances in Europe due to the downturn. Coal prices have seen a dramatic fall in recent years due to a massive glut of coal on a global scale. In the face of weak demand, supplies on the European marketplace have continued to increase due to a number of factors. First of all, before the beginning of the downturn gas wholesaler operators in Europe grossly overestimated the projected growth rates in demand and committed to purchase large amounts of gas under long-tem supply contracts with producing Countries also bearing the volume risk as a result of the take-or-pay clause of those contracts. They also build large pipeline upgrade to import gas to Europe. Secondly, several LNG projects came on stream, which improved the liquidity of spot markets. Finally, the fact that the US has reduced their dependence on LNG imports due to large increases in the domestic production of shale gas. This latter development has further added to global LNG supplies. Those trends have driven the expansion of very liquid continental hubs where spot prices have become the prevailing benchmark of sale contracts, particularly in the industrial and thermoelectric segments. Spot prices have been on a downtrend over the last few years reflecting oversupplies and weak demand. This trend has hit the profitability at European gas marketing operators, including Eni. Particularly, our results of operations for 2013 were adversely impacted by a faster than anticipated alignment between continental benchmarks and spot prices at Italian hubs leading to sharply lower price realizations in the Italian wholesale market. In addition trends in sales prices have not been reflected in the procurement costs of gas supplies as European gas operators procure their gas supplies under long-term contracts with producing Countries whereby the cost of gas is generally indexed to the price of crude oil and other derivatives which

have diverged from trends in gas spot prices. Therefore wholesale margins on gas were squeezed due to this decoupling which has occurred between spot prices and the oil-linked costs of purchased gas. Adding to the pressure, reduced sales opportunities due to weak demand forced operators to compete even more aggressively on pricing to limit the financial risks associated with the take-or-pay clause provided by the long term supply contracts. On their part, large clients adopted opportunistic supply patterns, in order to take advantage of the large availability of spot gas. Finally governmental administrations in several European Countries have started to review the indexation mechanism of supply tariffs in the retail sector in order to make residential customers benefit from the ongoing trend in gas spot markets. In Italy, administrative bodies have already enacted effective October 1, 2013 a new indexation mechanism of the cost of the raw material in pricing formulas of the safeguarded retail market whereby the cost of gas in currently indexed to spot prices thus replacing the previous oil-linked indexation. This development will reduce our margins in the residential sector. See "Regulation of the natural gas market in Italy" below.
We forecast that market conditions will remain unfavourable in the gas sector in Italy and Europe for the foreseeable future due to the structural headwinds described above, volatile commodity prices and lack of visibility. We anticipate a number of risk factors to the profitability outlook of the Company's gas marketing business over the next two to three years. Those include weak demand growth due to a projected slow recovery in the Euro zone and macroeconomic uncertainties, declining thermoelectric consumption due to inter-fuel competition, continuing oversupplies and strong competition. Eni believes that those trends will negatively impact the gas marketing business future results of operations and cash flows by reducing gas selling prices and margins, also considering Eni's obligations under its take-or-pay supply contracts (see below).

The Company is seeking to improve its cost competitiveness by renegotiating more favourable contractual terms with our long-term suppliers. If we fail to achieve this our profitability could be adversely affected

The Company's long-term supply contracts provide clauses whereby the parties are entitled to renegotiate pricing terms and other contractual conditions from time to time to reflect in a changed market environment. The Company is currently seeking to renegotiate better terms and pricing of our long-term supply contracts to align its cost structure to prices prevailing in the marketplace in order to preserve the profitability of its gas operations and to reduce the annual minim take of its contracts dictated by the take-or-pay clause in order to be more flexible in the current weak demand environment. If Eni fails to obtain the planned benefits, future results and cash flow could be adversely affected. Furthermore, management believes that the results of the Gas & Power segment will become more volatile and unpredictable in future years as contractual renegotiations take time to define, possibly leading to large one-off price adjustments recorded in the reporting period when the new terms are agreed upon. In addition, in case the parties fail to arrange renewed contractual terms, both of them may seek an arbitration ruling, which would increase the uncertainty regarding the final outcome of the renegotiation process. A number of clients, to whom Eni supply on long-term basis, have already requested, and may request in the future, price revisions and other contractual changes.

The Company expects that current imbalances between demand and supply in the European gas market will persist for sometime

In 2013 gas demand fell remarkably, down by 7%. and 1%. in Italy and Europe respectively, driven by the economic downturn and sharply lower gas consumption in the thermoelectric sector. While there are signs that demand may have finally bottomed by end of 2013, there is still little visibility on the evolution of gas demand due to the risks and uncertainties associated with a number of ongoing trends:
- uncertainties and volatility in the macroeconomic cycle; particularly the anticipated slow recovery of the economic activity in Europe will weigh on the prospects of any sustainable rebound in gas demand;
- EU policies intended on one hand to reduce green house gas emissions which should negatively impact the consumption of coal in producing electricity to advantage of gas; on the other hand continuing subsides to promote the development of renewable energy sources might jeopardize a recovery in gas-fired thermoelectric production which management still consider to be potentially the main engine of growth in gas demand;
- concrete developments following announcement made by certain national governments in Europe to shut down nuclear plants;
- growing adoption of consumption patterns and life-styles characterized by wider sensitivity to energy efficiency.

Against these ongoing trends, management has revised downward its estimates for gas demand: it is now assumed an almost flat demand environment in Italy and Europe up to 2017 compared to previous years' assumptions made in the industrial plan 2013-2016 of a growth rate of 1.7-1.8%. It is worth mentioning that the projected levels of European gas demand in 2017 are significantly lower than the pre-crisis levels registered in 2008 as a result of weak fundamentals.
The projected moderate dynamics in demand might not be enough to balance the current situation of oversupply in the marketplace over the next two to three years according to management's estimates. Gas supplies have been built up in recent years as new, large investments to upgrade import pipelines to Europe have come online from Russia and Algeria and gas wholesalers have contracted important volume of supplies under long-tem arrangement in past years, forecasting certain trends in demand which actually failed to materialize. Furthermore, in the near future management expects the start-up of new infrastructures in various European entry points which will add large amounts of new import capacity

over the next few years. Those include a new line of the North Stream pipeline connecting Russia to Germany through the Baltic Sea as well as new LNG facilities. In Italy, the gas offered will increase moderately in the 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 which is expected to increase by 4 BCM by 2015. Those negatives will be partially tempered by a declining availability of LNG on a worldwide scale which has been absorbed by growing energy requirements from East Asian economies. In addition Europe's internal production is maturing. However, in the long-term management expects the start-up of an array of global LNG projects which are expected to materially add to global LNG supplies as well as it is likely that the United States will support the development of gas export from the domestic production. Overall we see a well supplied global gas market.
Those trends represent risks to the Company's future results of operations and cash flows in its gas business.

Current, negative trends in gas demands and supplies may impair the Company's ability to fulfil 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 and anticipating certain trends in gas demand which actually failed to materialize, Eni has signed a number of long-term gas supply contracts with national operators of 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 14 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 include take-or-pay clauses whereby the Company is required to off-take minimum, preset 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, 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 period of contract execution. Amounts of cash prepayments and time schedules for off-taking pre-paid gas vary from contract to contract. Generally, cash prepayments are calculated on the basis of the energy prices current in the year when the Company is scheduled to purchase the gas, with the balance due in the year when the gas is actually purchased. Amounts of pre-payments range from 10 to 100%. of the full price.
The 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, the right to off-take the pre-paid gas can be exercised in future years provided that the Company has fulfilled its minimum take obligation in a given year and within the limit of the maximum annual quantity. 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 market outlook pointing to weak gas demand growth and large gas availability, the possible evolution of sector-specific regulation, as well as strong competitive pressures in the marketplace represent risk factors to the Company's ability to fulfil 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 to the balance sheet date, 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 amounting to €1.9 billion and has paid the relevant cash advances.
Considering ongoing market trends and the Company's outlook for its sales volumes which are anticipated to remain flat or to decrease slightly in 2014 and in the subsequent years, management believes that the Company's ability to fulfil its minimum take obligations under current take-or-pay contracts might be at risk. In order to reduce the financial risk the Company may decide to dispose of its gas availability deriving from its minimum take obligations by selling that gas at lower prices thus negatively impacting the results of operations.
In addition to the financial risk, failure to off-take the contractual minimum amounts exposes the Company to a price risk, because the purchase price Eni will ultimately be required to pay is based on future energy prices which may be higher than the energy prices prevailing when the off-take obligation arose. In addition, Eni is subject to the risk of not being able to dispose of pre-paid volumes should the total addressable market be smaller than the Company's gas availability in the relevant period. Finally, the Company expects to incur financing costs considering the cash advances already paid to its suppliers.
As a result of those risks, the Company's selling margins, results of operations and cash flow may be negatively affected.
As to the deferred costs stated in the balance sheet, based on management's outlook for gas demand and offer in Europe, and projections for sales volumes and unit margins in future years, the Company believes that the pre-paid volumes of gas due to the incurrence of the take-or-pay clause will be off-taken in the long-term in accordance to current contractual terms thus recovering the cash advances paid to suppliers.
Management plans to use all available options to mitigate the take-or-pay risk and the associated financial risks, particularly with a view to obtain a better balance in the Italian market where the total addressable market is projected to be lower than the total amount of take-or-pay obligations retained by Italian wholesalers. The planned initiatives include the renegotiations of better pricing term in order to align the cost of supplies to the selling benchmarks prevailing in the marketplace in order to regain competitiveness. Also the Company plans to renegotiate the contractual flexibility in order to reduce its minimum take obligations or to gain higher commercial flexibility, and finally it plans to use commercial and other initiatives involving its suppliers in order to restructure its contract portfolio.

Risks associated with sector-specific regulations 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 (as provided for by Resolution ARG/gas No. 64/2009) 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. Historically, the indexation mechanism set by the Authority for Electricity and Gas basically provided that the cost of the raw material in the pricing formula to the residential sector was indexed to crude oil prices. This allowed Eni to maintain profitable operations in the retail market since selling prices mirrored supply costs.
However, following a wave of governmental measures intended to spur competition in the domestic markets, the AEEG with resolution No. 196 effective October 1, 2013, reformulated the pricing mechanism of gas supplies to retail customers by introducing a full indexation of the raw material cost component of the tariff to spot prices. The new tariff regime intends to partially offset the negative impact to be born by wholesalers by introducing certain tariff components, applicable for the next two thermal years, in order to provide a gradual transition from oil-linked prices to spot market determined prices, to cover the costs of the transition to the new supply formula and to favour an effective renegotiation of long-term contracts for importing gas. Management believes that this development is likely to negatively affect the profitability of the Company sales in the residential market in Italy because it is expected that trends in spot prices will be less favourable than the oil-linked cost of gas supplies to the Group, thus limiting the ability to pass cost increases to clients. This is likely to adversely affect the Company's future results and cash flow.

Environmental, health and safety regulation

Eni has incurred in the past and expects to incur significant operating expenses and expenditures in relation to compliance with applicable environmental, health and safety regulations in future years

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 discipline 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 environmental, 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 wilful 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 the safeguard of the environment, safety on the workplace, health of employees, contractors 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.

Furthermore, in the Countries where Eni operates or expects 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, Eni 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.

Existing or future laws, regulations, treaties or international agreements related to greenhouse gases and climate change could have a negative impact on our business and may result in additional compliance obligations with respect to the release, capture, and use of carbon dioxide that could have a material adverse effect on our liquidity, consolidated results of operations, and consolidated financial condition

Changes in environmental requirements related to greenhouse gases and climate change may negatively impact demand for oil and natural gas exploration and production may decline as a result of environmental requirements (including land use policies responsive to environmental concerns). State, national, and international governments and agencies have been evaluating climate-related legislation and other regulatory initiatives that would restrict emissions of greenhouse gases in areas in which we conduct business. Because our business depends on the global demand for oil and natural gas, existing or future laws, regulations, treaties, or international agreements related to greenhouse gases and climate change, including incentives to conserve energy or use alternative energy sources, could have a negative impact on our business if such laws, regulations, treaties, or international agreements reduce the worldwide demand for oil and natural gas. Likewise, such restrictions may result in additional compliance obligations with respect to the release, capture, sequestration, and use of carbon dioxide that could have a material adverse effect on our liquidity, consolidated results of operations, and consolidated financial condition.

Eni has incurred in the past and may incur in the future material environmental liabilities in connection with 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 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, oil spills, contaminations and similar events could occur that would result in damage to the environment, employees and communities. The occurrence of any such events could have a material adverse impact on the Group business, competitive position, cash flow, results of operations, liquidity, future growth prospects, shareholders' return and damage to the Group reputation.

We are exposed to claims under environmental requirements and, from time-to-time, such claims have been made against us. In Italy, environmental requirements and regulations typically impose strict liability. Strict liability means that in some situations we could be exposed to liability for cleanup and remediation costs, natural resource damages, and other damages as a result of our conduct that was lawful at the time it occurred or the conduct of prior operators or other third parties. We are periodically notified of potential liabilities at Italian sites. These potential liabilities may arise from both historical Eni operations and the historical operations of companies that we have acquired, including a number of industrial sites that the Company disposed of, liquidated, closed or shut down in prior years where Group products have been produced, processed, stored, distributed or sold, such as chemical plants, mineral-metallurgic plants, refineries and other facilities. At those industrial locations Eni has commenced a number of initiatives to restore and cleanup proprietary or concession areas that were allegedly contaminated and polluted by the Group's industrial activities. 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 i.e. as a result of our conduct that was lawful at the time it occurred, several public administrations have been acting against Eni to claim both the environmental damage and measures to perform additional cleanup and remediation projects in a number of civil and administrative proceedings. We also could be subject to third-party claims, including punitive damages, with respect to environmental matters for which we have been named as a potentially responsible party. Our exposure at these sites may be materially impacted by unforeseen adverse developments both in the final remediation costs and with respect to the final allocation among the various parties involved at the sites.

We expect remedial and cleanup activities at our sites to continue the foreseeable future impacting Eni's liquidity, as with reference to the balance sheet date 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) unfavourable 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 environmental restoration and remediation programs are often inherently difficult to estimate leading to underestimation of the future costs of remediation and restoration.
As a result of those risks, liability for damages arising as a result of environmental laws could be substantial and could have a material adverse effect on our liquidity, consolidated results of operations, and consolidated financial condition.

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 Chemical 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 list, which also includes heavy crude qualities, has a lower American Petroleum Institute ("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 favourable 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 Chemicals 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 are mainly benchmarked to gas spot prices quoted at continental hubs. In the current trading environment, spot prices at those hubs have ceased to track the oil prices to which Eni's long-term supply contracts are indexed.
In addition, the Italian Authority for Electricity and Gas and other European regulatory Authorities 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 spot prices are progressively replacing oil prices in the indexation mechanism of the raw material cost in selling formulas to those customers. See the paragraph "Risks in the Company's gas business" above for more information.
In the Refining & Marketing and Chemicals 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 or sour crude qualities versus light or sweet 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 each of the latest three fiscal years, Eni's refining margins were largely unprofitable as the high cost of oil was only partially transferred to final prices of fuels pressured by weak demand, high worldwide and regional inventory levels and excess refining capacity particularly in the Mediterranean area. Furthermore, the profitability of complex cycles was impaired due to shrinking price differentials between heavy crudes versus light ones. 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 2014 and possibly beyond.

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

Eni's margins on petrochemical products are affected by trends in demand for petrochemical products and movements in crude oil prices to which purchase costs of petroleum-based feedstock are indexed. Given the commoditized nature of Eni petrochemical products, it is difficult for the Company to transfer higher purchase costs for oil-based feedstock to selling prices to customers. In each of the latest three fiscal years, Eni's petrochemicals business reported operating losses due to unprofitable margins on basic petrochemicals products, mainly the margin on cracker, reflecting high oil-based feedstock costs and as demand for petrochemicals commodities plunged due to the economic downturn. A weak demand outlook and rising oil-based feedstock costs are expected to continue to adversely affect Eni's results of operations and liquidity in this business segment in 2014 and possibly beyond.

Outlook

The 2014 outlook features a moderate strengthening in the global economic recovery. Still a number of uncertainties are surrounding this outlook due to weak growth prospects in the Euro-zone and risks concerning the emerging economies. Crude oilprices are forecast on a solid trend driven by geopolitical factors and the resulting technical issues in a few important producing Countries against the backdrop of well supplied global markets. Management expects that the trading environment will remainchallenging in the Company's businesses. We expect continuing weak conditions in the European industries of gas distribution, refining and marketing of fuels and chemical products, where we do not anticipate any meaningful improvement in demand, while competition, excess supplies and overcapacity will continue to weigh on selling margins of energy commodities. In this scenario, management reaffirms its commitment in restoring profitability and preserving cash generation at the Company's mid and downstream businesses leveraging on cost cuts and continuing renegotiation of long-term gas supply contracts, capacity restructuring and reconversion and product and marketing innovation.

Management expects the key production and sales trends of Eni businesses to be as follows:

- **Production of liquids and natural gas:** production is expected to remain substantially in line to 2013, excluding the impact of the divestment of Eni's interest in the Russian gas assets of Artic Russia;
- **Gas sales:** natural gas sales are expected to be slightly lower than 2013. Management plans to strengthen marketing efforts and innovation to fend off competitive pressures both in the large customers segment and in the retail segment considering an ongoing demand downturn and oversupplies, particularly in Italy;
- **Refining throughputs on Eni's account:** volumes are expected to be slightly lower than those processed in 2013, due to capacity reductions only partially offset by higher output at the new Est technology conversion plant at the Sannazzaro Refinery;
- **Retail sales of refined products in Italy and the Rest of Europe:** retail sales are expected to be slightly lower than in 2013 due to an ongoing demand downturn in Italy and the expected impact of network reorganisation in Italy and in Europe;
- **Engineering & Construction:** 2014 will be a transitional year with a recovery in profitability, the dimension of which relies upon the effective execution of operational and commercial activities at low-margin contracts still present in the current portfolio, in addition to the speed at which bids underway will be awarded.

In 2014, management expects a capital budget in line with 2013 (€12.75 billion in capital expenditure and €0.32 billion in financial investments in 2013). Assuming a Brent price of $104 a barrel on average for the full year 2014, the ratio of net borrowings to total equity – leverage – is projected to be almost in line with the level achieved at the end of 2013, due to cash flows from operations and portfolio transactions.

Other information

Consob proceedings

On January 29, 2013 Saipem SpA issued a press release announcing a new estimate of earnings for the full year 2012 and issued an earnings guidance for 2013. In connection with that press release, on January 31, 2013 Saipem received a communication from Consob, the Italian market authority, asking the company to describe the process of evaluation and the considerations that led to the decision to issue such a press release and to report to Consob the information and data used to revise the previous earning guidance.

On June 14, 2013, Saipem SpA issued a press release further revising its guidance for 2013 operating profit and net profit, Consob sent a new request for information on June 19, 2013, regarding: (i) Saipem's contractual relationships with the customer Sonatrach starting from January 2013; (ii) the contracts for which the expected margins have been revised downwards and the relevant reasons. On July 1, 2013 Saipem responded to the above requests.
On July 19, 2013 Consob communicated to Saipem the commencement of a proceeding to review potential issues of non-compliance of Saipem's 2012 separate and consolidated financial statements with the accounting standard IAS 11 (Construction contracts). According to Consob's communication, Saipem should have recognized in the 2012 financial statements the estimate revisions relating to certain contracts which were in progress at December 31, 2012. These estimate revisions were included in the profit warning issued on June 14, 2013 and recognized in the accounts of the first half of 2013. Furthermore, Consob alleged that an increase of costs/losses related to 2012 should have been recorded in the 2012 financial statements, which Saipem did not recognize in either its 2012 Financial Statements or in its 2013 Interim financial statements. In the report on the third quarter of 2013, Saipem announced that it would recognize errors in the separate and consolidated financial statements as of December 31, 2013, in accordance with IAS 8, paragraph 42. Therefore, in the 2013 Annual Report, the comparative financial statements for 2012 were restated to recognize €245 million of lower contract revenues relating to the projects whose accounting was questioned by Consob. On December 5, 2013, Consob, after obtaining additional clarifications and information from Saipem, informed Saipem that it would dismiss the proceeding without requesting Saipem to disclose further accounting information or further challenging the 2012 accounts.
On March 14, 2014, the Saipem Board of Directors approved the separate and consolidated financial statements for 2013, which were prepared in accordance with the announcement made in the report on the third quarter of 2013. Specifically, the adjustment made to the 2012 accounts, which were presented as comparative information in the 2013 financial statements, determined a reduction of €245 million in the 2012 net profit and in the net equity as of December 31, 2012, without any tax effect, therefore determining a corresponding increase in the 2013 full year result. On August 2, 2013 Consob requested Eni to state its point of view about: (i) the non-compliance issue of Saipem's 2012 separate and consolidated financial statements with IFRSs; (ii) the impact that such issues may have on the Eni's financial statements. Eni replied to Consob, with reference to the first item that it was specifically addressed by Saipem; with reference to the possible effect of a restatement of the Saipem's financial statements on the Eni's consolidated financial statements, Eni submitted to Consob that, in accordance with IAS 8, any adjustment should be made only if the misstatement can be deemed to be material. Eni believes that the restatement made by Saipem of its accounts cannot be considered material within Eni's consolidated financial statements, taking into account the size of the restated amount in the context of the Eni's consolidated results, assets and total equity. Accordingly, Eni's consolidated accounts for the year 2013 did not reflect the restatement made by Saipem, and Eni's 2012 comparative financial statements are consistent with those included in the annual report for the year 2012. Therefore, Eni's consolidated results for the full year 2013 reflect the €245 million lower contract revenues (before elimination of an immaterial amount of intercompany profit), which instead were recognized by Saipem in the 2012 restated comparative financial data.
The effects of the restatement that was made by Saipem and not by Eni are disclosed below.

SUMMARIZED GROUP BALANCE SHEET

(€ million)	Dec. 31, 2012	Saipem's adjustment (*)	Dec. 31, 2012 restated
Net capital employed	**78,069**	**(245)**	**77,824**
Total Eni's shareholders' equity	**62,558**	**(245)**	**62,313**
Non-controlling interest	*59,060*	*(106)*	*58,954*
Eni's shareholders' equity	*3,498*	*(139)*	*3,359*
Net borrowings	**15,511**		**15,511**
Total liabilities and shareholders' equity	**78,069**	**(245)**	**77,824**

GROUP BALANCE SHEET

(€ million)	Dec. 31, 2012	Saipem's adjustment (*)	Dec. 31, 2012 restated
Total assets	**139,878**	**(245)**	**139,633**
Total liabilities	**77,320**		**77,320**
Total Eni's shareholders' equity	**62,558**	**(245)**	**62,313**
Non-controlling interest	*3,498*	*(139)*	*3,359*
Eni's shareholders' equity	*59,060*	*(106)*	*58,954*
Total liabilities and shareholders' equity	**139,878**	**(245)**	**139,633**

PROFIT AND LOSS

(€ million)	2012	Saipem's adjustment (*)	2012 restated
Net profit	**8,676**	**(245)**	**8,431**
Eni's shareholders	*7,790*	*(106)*	*7,684*
Non-controlling interest	*886*	*(139)*	*747*

PROFIT AND LOSS

(€ million)	2013	Saipem's adjustment (*)	2013 restated
Net profit	**4,972**	**245**	**5,217**
Eni's shareholders	*5,160*	*106*	*5,266*
Non-controlling interest	*(188)*	*139*	*(49)*

(*) Before elimination of immaterial intersegment profit.

Treasury shares

As of December 31, 2013, Eni's treasury shares in portfolio amounted to No. 11,388,287, corresponding to 0.31% of share capital of Eni, represented by No. 3,634,185,330 ordinary shares, for a total book value of €201 million. Compared to December 31, 2012, there was no variation regarding the number of Eni's treasury shares in portfolio.
On May 10, 2013, the Ordinary Shareholders' meeting revoked, for the part that had not been accomplished by the date of meeting, the authorization to purchase ordinary Eni shares, resolved on July 16, 2012 by the Board of Directors. Besides that, the Ordinary Shareholders' meeting resolved to authorize the Board of Directors to purchase Eni's shares on the Mercato Telematico Azionario – in one or more transactions and in any case within 18 months from the date of the resolution – up to a maximum number of 363,000,000 ordinary Eni's shares, for a total amount not less than €1.102 and not more than the official price, recorded for the security in the Stock Exchange session prior to each individual transaction, increased by 5% and in any case up to a total amount of €6,000 million, according to the operational procedures established by the rules that govern the organization and management of Borsa Italiana SpA.
As of February 28, 2014 Eni repurchased 6,620,916 treasury shares for a total amount of €113 million at an average price of €17.0865 per share.

Continuing listing standards provided by Article No. 36 of Italian exchanges regulation (adopted with Consob Decision No. 16191/2007 as amended) about issuers that control subsidiaries incorporated or regulated in accordance with laws of extra-EU Countries

Certain provisions have been enacted regulating continuing Italian listing standards of issuers controlling subsidiaries that are incorporated or regulated in accordance with laws of extra-EU Countries, also having a material impact on the Consolidated Financial Statements of the parent company.

Regarding the aforementioned provisions, the Company discloses that:
- as of December 31, 2013, ten of Eni's subsidiaries: Burren Energy (Bermuda) Ltd, Eni Congo SA, Eni Norge AS, Eni Petroleum Co Inc, NAOC-Nigerian Agip Oil Co Ltd, Nigerian Agip Exploration Ltd, Burren Energy (Congo) Ltd, Eni Finance USA Inc, Eni Trading & Shipping Inc and Eni Canada Holding Ltd, fall within the scope of the new continuing listing standards. Eni has already adopted adequate procedures to ensure full compliance with the new regulations;
- the Company has already adopted adequate procedures to ensure full compliance with the regulation.

Branches

In accordance with Article No. 2428 of the Italian Civil Code, it is hereby stated that Eni has the following branches:

San Donato Milanese (MI) - Via Emilia, 1;
San Donato Milanese (MI) - Piazza Vanoni, 1.

Subsequent events

On March 28, 2014, through an accelerated book-building procedure aimed at institutional investors, Eni sold approximately 7% of the share capital of Galp Energia SGPS SA at the price of €12.10 per share, for a total consideration of €702.4 million. Following this transaction, Eni retains a 9% interest in Galp, of which 8% underlying the approximately €1,028 million exchangeable bond due on November 30, 2015.

Other subsequent business developments are described in the operating review of each of Eni's business segments.