Annual Report on Form 20-F 2001

Eni's way

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form 20-F

(Mark One)

☐ REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) or (g)
OF THE SECURITIES EXCHANGE ACT OF 1934

OR

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2001**

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission file number: 1-14090

Eni S.p.A.

(Exact name of Registrant as specified in its charter)

Republic of Italy
(Jurisdiction of Incorporation of Organization)

Piazzale Enrico Mattei 1, 00144 Rome, Italy
(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Shares, nominal value euro 1 each, listed on the New York Stock Exchange not for trading, but only in connection with the registration of American Depositary Shares, pursuant to the requirements of the New York Stock Exchange.

American Depositary Shares, each representing the right to receive five Shares, listed on the New York Stock Exchange.

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None.

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None.

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

Ordinary shares of euro 1 each **4,001,259,476**

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes __X__ No _______

Indicate by check mark which financial statement Item the Registrant has elected to follow:

Item 17 _______ Item 18 __X__

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* Omitted pursuant to General Instructions for Form 20-F.

** The Registrant has responded to Item 18 in lieu of responding to Item 17.

Certain disclosures contained herein including, without limitation, information appearing in ''Item 4. Information on the Company'', and in particular ''Item 4—Exploration and Production'', ''Item 5. Operating and Financial Review and Prospects'' and ''Item 11. Quantitative and Qualitative Disclosures of Market Risk'' are forward-looking statements. By their nature, forward-looking statements involve risk and uncertainty. The factors described in the context of such forward-looking statements, and the factors referred to in ''Item 3. Key Information—Risk Factors'' and ''Item 5. Operating and Financial Reviews and Prospects—Management Expectations of Operations'' could cause actual results of operations and developments to differ materially from those expressed in or implied by such forward-looking statements.

CERTAIN DEFINED TERMS

In this Form 20-F, the term ''Eni'' refers to Eni S.p.A. and its consolidated subsidiaries and, unless the context otherwise requires, their respective predecessor companies. All references to ''Italy'' or the ''State'' are references to the Republic of Italy, all references to the ''Government'' are references to the government of the Republic of Italy and all references to the ''Treasury'' are references to the Ministry of the Treasury, Budget and Economic Planning (now the Ministry of Economy and Finance) of the Republic of Italy. For definitions of certain oil and gas terms used herein and certain conversions, see ''Certain Oil and Gas Terms'' and ''Conversion Table''.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Unless otherwise indicated, the financial information contained herein has been prepared in accordance with accounting principles prescribed by Italian law and supplemented by the accounting principles issued by the *Consiglio Nazionale dei Dottori Commercialisti e dei Ragionieri* (''CNDC'') or, in the absence thereof, the International Accounting Standards Committee (collectively, ''Italian GAAP''), which, as described in Note 29 to the Consolidated Financial Statements, differ in certain significant respects from accounting principles generally accepted in the United States (''U.S. GAAP''). Unless otherwise indicated, any reference herein to ''Consolidated Financial Statements'' is to the Consolidated Financial Statements of Eni (including the Notes thereto) included herein.

Starting from 1999, Eni published its Consolidated Financial Statements in euro; prior to 1999 Eni published its Consolidated Financial Statements in Italian lire. As of January 1, 1999, the lira became a sub-unit of the euro which is now the official currency of Italy. The euro/lira exchange rate was irrevocably fixed on December 31, 1998, at lire 1936.27 per euro. Eni Consolidated Financial Statement for years prior to 1999 have been translated into euro for a better comparison of data. See ''Item 3—Selected Consolidated Financial Data''. Unless otherwise specified or the context otherwise requires, references herein to ''dollars'', ''$'', ''U.S. dollars'' and ''U.S.$'' are to the currency of the United States and references to ''euro'' and ''€'' are to the currency of the European Monetary Union. For convenience only (except where noted otherwise), certain euro figures have been translated into dollars at the rate of U.S. dollars 0.8901 = euro 1.00, the noon buying rate in The City of New York for cable transfers in foreign currencies announced by the Federal Reserve Bank of New York for customs purposes (the ''Noon Buying Rate'') on the last working day of December, 2001. These translations should not be construed as a representation that the euro amounts actually represent such dollar amounts or could be converted into dollars at the rate indicated. On June 14, 2002, the Noon Buying Rate was U.S. dollars 0.9448 = euro 1.00. See ''Exchange Rates''.

Market share estimates contained in this document are based on management estimates unless otherwise indicated.

STATEMENTS REGARDING COMPETITIVE POSITION

Statements made in ''Item 4—Information on the Company'', referring to Eni's competitive position are based on the company's belief, and in some cases rely on a range of sources, including investment analysts' reports, independent market studies and Eni's internal assessment of market share based on publicly available information about the financial results and performance of market participants.

GLOSSARY

A glossary of financial and oil and gas terms is available on Eni's web page at the address www.eni.it/english/notizie/mediateca/glossario_eni.html. Below is a selection of the most frequently used terms.

Financial Terms

Leverage	It is a measure of a company's debt, calculated as the ratio between net financial borrowings and shareholders' equity, including minority interests.
Net borrowings	Eni evaluates its financial condition by reference to "net borrowings", which it calculates as total debt less: cash, marketable securities, non-operating financing receivables, non-operating non-current securities and other items, net. Non-operating financing receivables consists of amounts due to Eni's financing subsidiaries from banks and other financing institutions and amounts due to other subsidiaries from banks for investing purposes and deposits in escrow. Non-operating non-current securities consist primarily of government and corporate securities.
Roace	Return On Average Capital Employed, is the return on average capital invested, calculated as the ratio between net income before minority interests, plus net financial charges on net financial debt, less the related tax effect and net average capital employed. Average capital employed consists of the sum of (i) average non current assets and net working capital less (ii) average non-current liabilities, other than financial liabilities. Expressed as a percentage.

Oil and Natural Gas Activities

Average reserve life index	Ratio between the amount of reserves at the end of the year and total production for the year.
Barrel	Volume unit corresponding to 159 liters. A barrel of oil corresponds to about 0.137 metric tons.
Boe	Barrel of Oil Equivalent. It is used as a standard unit measure for oil and natural gas. The latter is converted from standard cubic meters into barrels of oil equivalent using a coefficient equal to 0.0061 in the case of gas produced outside Italy and 0.0063 in the case of gas produced in Italy due to their different calorific values.
Concession contracts	Contracts currently applied mainly in Western countries regulating relationships between States and oil companies with regards to hydrocarbon exploration and production. The company holding the mining concession has an exclusive on mining activities and for this reason it acquires a right on hydrocarbons extracted, against the payment of royalties on production and taxes on oil revenues to the State.
Condensates	These are light hydrocarbons produced along with gas, that condense to a liquid state at surface temperature and pressure.
Deep waters	Waters deeper than 200 meters.
Development	Drilling and other post-exploration activities aimed at the production of oil and gas.
Exploration	Oil and natural gas exploration that includes land surveys, geological and geophysical studies, seismic data gathering and analysis, and well drilling.
Infilling wells	Infilling wells are wells drilled in a producing area in order to improve the recovery of hydrocarbons from the field and to maintain and/or increase production levels.
LNG	Liquefied Natural Gas obtained through the cooling of natural gas to minus 160° C at normal pressure. The gas is liquefied to allow transportation from the place of extraction to the sites at which it is transformed and consumed. One ton of LNG corresponds to 1,400 cubic meters of gas.

LPG	Liquefied Petroleum Gas, a mix of light petroleum fractions, gaseous at normal pressure and easily liquefied at room temperature through limited compression.
Mineral Storage	According to Legislative Decree No. 164/2000, these are volumes required for allowing optimal operation of natural gas fields in Italy for technical and economic reasons. The purpose is to ensure production flexibility as required by long-term purchase contracts as well as to cover technical risks associated with production.
Modulation Storage	According to Legislative Decree No. 164/2000, these are volumes required for meeting hourly, daily and seasonal swings of demand.
Network Code	A Code containing norms and regulations for access to, management and operation of natural gas pipelines.
Over/Under lifting	Agreements stipulated between partners which regulate the right of each to its share in the production for a set period of time. Amounts different from the agreed ones determine temporary Over/Under lifting situations.
Production Sharing Agreement ("PSA")	Contract in use in African, Middle Eastern, Far Eastern and Latin American countries, regulating relationships between States and oil companies with regards to the exploration and production of hydrocarbons. The mining concession is assigned to the national oil company jointly with the foreign oil company who has exclusive right to perform exploration, development and production activities and can enter into agreements with other local or international entities. In this type of contract the national oil company assigns to the international contractor the task of performing exploration and production with the contractor's equipment and financial resources. Exploration risks are borne by the contractor and production is divided into two portions: "cost oil" is used to recover costs borne by the contractor, "profit oil" is divided between contractor and national company according to variable schemes and represents the profit deriving from exploration and production. Further terms and conditions may vary from one country to the other.
Proved reserves	Proved oil and gas reserves are the estimated quantities of crude oil, natural gas, and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, *i.e.*, prices and costs as of the date the estimate is made. Prices include consideration of changes in existing prices provided only by contractual arrangements, but not on escalations based upon future conditions. Proved reserves include: (i) proved developed reserves: amounts of hydrocarbons that are expected to be retrieved through existing wells, facilities and operating methods; (ii) non developed proved reserves: amounts of hydrocarbons that are expected to be retrieved following new drilling, facilities and operating methods. On these amounts the company has already defined a clear development expenditure program which is an expression of the company's determination.
Reciprocity	This term refers to the new obligations introduced by the European Directive on natural gas. At the international level, the concept of reciprocity entails the adoption of measures on the part of any country regarding foreign operators to be reciprocated by analogous measures in the home country of the foreign operator to which such measures apply. According to Legislative Decree 164/00, Italian companies are allowed to sell natural gas to eligible customers from other EU member countries only if such customers are defined eligible in Italy too. This constraint is applied reciprocally to companies from other European countries or companies located in Italy but controlled by companies from other European countries.

Ship-or-pay	Clause included in natural gas transportation contracts according to which the customer is requested to pay for the transportation of gas whether or not the gas is actually transported.
Strategic Storage	According to Legislative Decree No. 164/2000, these are volumes required for covering lack or reduction of supplies from extra-European sources or crises in the natural gas system.
Take-or-pay	Clause included in natural gas supply contracts according to which the purchaser is bound to pay the contractual price or a fraction of such price for a minimum quantity of the gas set in the contract also in case it is not collected by the customer. The customer has the option of collecting the gas paid and not delivered at a price equal to the residual fraction of the price set in the contract in subsequent contract years.
Third party access to natural gas networks	Legislative Decree 164/2000, introducing the European Union Directive on natural gas into Italian legislation, decreed that companies active in natural gas transmission and dispatching are to allow access to their network to third parties requesting such access, provided that they have sufficient capacity for it and that linking works are technically feasible, based on criteria published by the Authority on Electricity and Gas. The Authority is also responsible for defining tariffs for transmission and dispatching services, obligations of operators and criteria ensuring access to all network users at equal conditions, impartiality and neutrality.
Upstream/Downstream	The term upstream refers to all hydrocarbon exploration and production activities. The term downstream includes all activities inherent to the oil sector that are downstream of exploration and production activities.

CONVERSION TABLE

1 acre	= 0.405 hectares	
1 barrel	= 42 U.S. gallons	
1 barrel of oil equivalent	= 1 barrel of crude oil	= 5,600 cubic feet of natural gas in Italy(1) = 5,800 cubic feet of natural gas outside Italy(1)
1 barrel of crude oil per day	= approximately 50 tonnes of crude oil per year	
1 cubic meter of natural gas	= 35.3147 cubic feet of natural gas	
1 cubic meter of natural gas	= approximately 0.0063 barrels of oil equivalent in Italy(1) = approximately 0.0061 barrels of oil equivalent outside Italy(1)	
1 kilometer	= approximately 0.62 miles	
1 short ton	= 0.907 tonnes	= 2,000 pounds
1 long ton	= 1.016 tonnes	= 2,240 pounds
1 tonne	= 1 metric ton	= 1,000 kilograms = approximately 2,205 pounds
1 tonne of crude oil	= 1 metric ton of crude oil	= approximately 7.3 barrels of crude oil (assuming an API gravity of 34 degrees)

(1) The conversion factors for Eni's natural gas in Italy and outside Italy differ due to the different product characteristics of such varieties of natural gas.

PART I

Item 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS
NOT APPLICABLE

Item 2. OFFER STATISTICS AND EXPECTED TIMETABLE
NOT APPLICABLE

Item 3. KEY INFORMATION

Selected Financial Information

The information shown below for 2001, 2000, 1999, 1998 and 1997 has been extracted or derived from the audited consolidated financial statements of Eni. Starting from 1999, Eni publishes its consolidated financial statements in euro and has translated all lire amounts relating to consolidated financial statements for years prior to 1999 at the fixed official exchange rate of lire 1,936.27 = 1 euro. Although these statements depict the same trends as would have been shown had they been presented in lire, they may not be directly comparable to the financial statements of other companies that have also been restated in euro. Prior to the adoption of the euro, the currencies of other countries fluctuated against the lira, but as the euro did not exist prior to January 1, 1999, actual historical exchange rates for the euro are not available. A comparison of Eni's financial statements and those of other companies that historically used a reporting currency other than the lira that takes into account actual fluctuations in exchange rates could give a different impression than a comparison of Eni's financial statements and those of that company translated into euro. See—Note 2 to the Consolidated financial statements—Introduction of the euro.

	1997	1998	1999	2000	2001
	(million € except number of shares)				
CONSOLIDATED INCOME STATEMENT DATA					
Amounts in accordance with Italian GAAP:					
Net sales from operations(1)	€ 31,359	€ 28,341	€ 31,008	€ 47,938	€ 48,925
Operating income:					
Exploration and Production	2,590	594	2,834	6,603	5,984
Natural Gas(2)	2,012	2,513	2,580	3,150	3,606
Electricity Generation	—	—	—	28	66
Refining and Marketing	578	730	478	986	985
Petrochemicals	187	—	(362)	4	(332)
Oilfield Services and Engineering	169	198	149	144	255
Other activities	(138)	(168)	(199)	(143)	(168)
Activities to be divested	(53)	(57)	—	—	—
Operating income(2)	5,345	3,810	5,480	10,772	10,396
Income before extraordinary items and income taxes(3)	5,175	4,165	5,579	10,869	9,921
Net income(2)(4)	2,643	2,328	2,857	5,771	7,751
Data per ordinary share(€)(5):					
Operating income	1.34	0.96	1.36	2.70	2.66
Income before extraordinary items and income taxes	1.30	1.04	1.40	2.72	2.54
Net income	0.66	0.58	0.72	1.44	1.98
Data per ADS ($)(5):					
Operating income	7.28	5.57	6.92	12.66	11.83
Income before extraordinary items and income taxes(4)	7.05	6.09	7.04	12.77	11.29
Net income	3.62	3.40	3.59	6.78	8.82
Amounts in accordance with U.S. GAAP (€)(6):					
Net sales from operations	31,358	25,587	28,369	45,488	45,848
Operating income(7)	5,493	3,265	4,724	9,662	8,642
Income before extraordinary items and income taxes(3)	5,444	3,617	4,912	10,067	10,330
Net income	4,385	2,064	2,873	5,758	6,317
Data per ordinary share(€)(5):					
Operating income	1.38	0.82	1.18	2.42	2.21
Income before extraordinary items and income taxes(4)	1.36	0.90	1.22	2.52	2.64
Net income Basic	1.10	0.52	0.72	1.44	1.62
Diluted	1.10	0.52	0.72	1.44	1.62
Data per ADS ($)(5):					
Operating income	7.49	4.77	5.96	11.36	9.83
Income before extraordinary items and income taxes(3)	7.42	5.29	6.20	11.83	11.76
Net income Basic	5.98	3.02	3.63	6.77	7.19
Diluted	5.98	3.02	3.63	6.77	7.19

	1997	1998	1999	2000	2001
	(million € except number of shares)				
CONSOLIDATED BALANCE SHEET DATA					
Amounts in accordance with Italian GAAP (€):					
Total assets, net	44,658	41,336	46,197	56,363	62,736
Net Borrowings(8)	8,050	7,070	6,267	7,742	9,888
Capital stock	4,131	4,132	4,133	4,133	4,001
Amounts in accordance with U.S. GAAP (€):					
Total assets, net	50,125	42,562	47,612	57,257	64,976
Net Borrowings(8)(9)	8,050	6,591	5,590	7,080	9,122
Capital stock	4,131	4,132	4,133	4,133	4,001
Other Financial Information					
Capital expenditure	4,169	5,152	5,483	5,431	6,577
Financial investments (including net borrowings of acquired companies)	152	413	114	4,384	4,664
Return On Average Capital Employed (ROACE)(8)	12.2	10.7	12.5	21.5	24.0
Leverage(8)	0.50	0.41	0.32	0.32	0.34
Weighted average number outstanding of ordinary shares (shares million)	4,000	4,001	4,001	3,994	3,910
Dividend per share(€)	0.289	0.310	0.362	0.424	0.750
Dividend per ADS($)	1.58	1.61	1.70	1.81	3.34

(1) Eni is party to certain production sharing agreements whereby taxes are settled by state-owned entities in the name and on behalf of Eni out of reserves produced in connection with such agreements. In prior years such taxes were netted against revenues with respect to such agreements. During 1999, in order to be consistent with international practices, Eni began classifying the value of production equivalent to such taxes as revenues and the associated taxes in the appropriate income tax account. This had the effect of increasing revenues and income taxes by euro 203 million in 1999, as well as oil and gas reserves. Prior year amounts have not been reclassified since the effect of this change on net income is not significant. See "Item 4—Information on the Company—Exploration and Production—Oil and Natural Gas Reserves—Note 1 on page 14".

(2) Legislative Decree No. 164 dated May 23, 2000, requires Eni to unbundle its transmission and distribution activities from other businesses in the Natural Gas segment. In connection with such decree, Eni arranged for an independent appraisal of its transmission and distribution assets which resulted in estimates of the useful lives of such assets (40 years for pipelines and 50 for distribution networks). Such useful lives have also been confirmed by various reports issued by the Italian Authority for Electricity and Gas. Effective January 1, 2000, assets related to transmission and distribution activities are now depreciated based on the useful lives established by the aforementioned appraisal and no longer on the basis of useful lives established by the Ministry of Economy and Finance based on technical studies conducted for homogeneous industries (10 and 8% for pipelines and distribution networks, respectively). This lower rate of depreciation resulted in an increase in operating income amounting to euro 663 million, an increase in income before minority interest amounting to euro 396 million and an increase in net income amounting to euro 312 million.

(3) Extraordinary income (expense) is as defined under Italian GAAP. These items would not qualify as extraordinary under U.S. GAAP. See Notes 29 and 30 to the Consolidated Financial Statements.

(4) Net income for 1998 includes a deferred tax asset attributable to the effect of initial application of a new accounting standard related to income taxes amounting to euro 60 million.

(5) Euro per Share or dollars per American Depositary Share (ADS), as the case may be. Eni Shareholders' Meeting held on June 1, 2001 resolved to convert the nominal value of Eni Shares into euro by applying the fixed exchange rate of 1936.27 lire per euro; reduce the resulting nominal value of each share from euro 0.516 to euro 0.5; group two shares of nominal value euro 0.5 into one share with nominal value of 1 euro. The conversion, due to EU requirements, was effective from June 18, 2001. Starting from the same date, each ADS represents five Eni Shares. Consequently, all earnings per Share and earnings per ADS amounts in this selected financial data corresponding to prior periods have been restated to reflect the 2 for 1 reverse stock split. Earnings per share is calculated by dividing net income by the weighted-average number of shares issued and outstanding during the year, excluding treasury shares. In order to compare earnings per share to previous years, the number of shares issued through stock grants made in 2000 and 2001 has been added to the number of shares outstanding in previous years. The dilutive effect of potential ordinary shares when converted into ordinary shares on earnings per share is not material. At present, only shares assigned for no consideration are considered, as the conditions have not yet been met for the stock options to be exercised. See "Item 6 — Compensation Stock Plan". Data per ADS were converted at the Noon Buying Rate of December 31 ($0.8901 = €1.00 at December 31, 2001).

(6) For information concerning certain differences between Italian GAAP and U.S. GAAP as applied to the Consolidated Financial Statements included elsewhere herein, see Notes 29 and 30 to the Consolidated Financial Statements. In particular, in order to compare data for years following 1998 to prior year's data, it is required to take into consideration that during 1998 several subsidiaries that have been consolidated for Italian GAAP purposes have been accounted for applying the equity method for U.S. GAAP purposes.

(7) See Note 30 to the Consolidated Financial Statements for details of operating income under U.S. GAAP by business segment for the last three years.

(8) See "Glossary" for a definition of net borrowings, ROACE and Leverage.

(9) Starting in 1998, two Eni subsidiaries—Saipem SpA and Società Italiana per il Gas pA—have been accounted for under the equity method for U.S. GAAP purposes, while they have been consolidated for Italian GAAP purposes. See—Note 29 to the Consolidated Financial Statements—Summary of significant differences between Italian accounting principles and U.S. GAAP—Consolidation Policy.

Selected Operating Information

The table below sets forth selected operating information with respect to Eni's proved reserves, developed and undeveloped, of crude oil (including condensates and natural gas liquids) and natural gas, as well as other data, for the years ended and at December 31, 1997, 1998, 1999, 2000 and 2001. Such estimates of proved reserves have been prepared in accordance with Statement of Financial Accounting Standards No. 69 (''SFAS 69''). See the unaudited supplemental oil and gas information on pages F-62 to F-69.

	Year ended and at December 31,				
	1997	1998	1999	2000	2001
Proved reserves of: oil(1)	2,844	2,881	3,137	3,422	3,948
natural gas(2)	2,229	2,374	2,397	2,586	2,981
Total hydrocarbons(2)	5,073	5,255	5,534	6,008	6,929
Finding and development costs per barrel of oil equivalent (three-year average)(3)	4.72	5.16	5.43	5.35	6.28
Reserve replacement ratio(4) (three-year average)	178	183	174	173	226
Reserve life index(5)	13.6	13.4	14.0	14.0	13.7
Average daily production of: oil(6)	646	653	674	748	857
natural gas(6)	375	385	390	439	512
Total hydrocarbons(6)	1,021	1,038	1,064	1,187	1,369
Oil and gas production costs per barrel of oil equivalent(7)	3.98	3.56	3.64	3.75	4.02
Profit per barrel of oil equivalent(8)	3.86	0.13	4.11	7.86	5.48
Natural gas sales of primary distribution in Italy(9)	53.14	55.69	60.24	59.92	58.89
Natural gas sales of primary distribution in Europe for resale in Italy	—	—	—	1.28	3.01
Third-party transport of natural gas(9)	8.07	9.97	11.29	14.70	16.76
Length of natural gas distribution network in Italy(10)	28.1	28.7	29.0	29.1	29.6
Electricity production sold(11)				4,766	4,987
Refined products production(12)	36.40	40.10	38.31	38.89	37.78
Capacity utilization of wholly-owned refineries(13)	94	103	96	99	97
Service stations	12,756	12,984	12,489	12,085	11,707
Average throughput per service station(14)	1,463	1,512	1,543	1,555	1,621
Petrochemicals production(15)	9.06	8.32	8.30	8.53	7.83
Oilfield services and engineering order backlog(16)	5,163	4,931	4,438	6,638	6,937
Employees at year end	80,178	78,906	72,023	69,969	70,948

(1) Millions of barrels. For 1999 data see ''Item 4. Information on the Company—Exploration and Production—Oil and Natural Gas Reserves—Note 1 on page 14''.

(2) Millions of barrels of oil equivalent. Includes approximately 144 million, 140 million, 135 million, 140 million and 130 million barrels of oil equivalent of natural gas held in storage in Italy at December 31, 1997, 1998, 1999, 2000 and 2001 respectively. See ''Item 4. Information on the Company—Exploration and Production—Storage''. For 1999 data see ''Item 4. Information on the Company—Exploration and Production—Oil and Natural Gas reserves—Note 1 on page 14''.

(3) Consists of (i) the sum of costs incurred in respect of (a) acquisitions of unproved property and (b) exploration and development activities, divided by (ii) the increase in proved reserves attributable to (a) revisions of previous estimates, (b) improved recovery and (c) extensions and discoveries, in each case prepared in accordance with SFAS 69. In 2001, excluding the purchase cost of unproved property of Lasmo, the indicator is 5.33 USD/boe. See the unaudited supplemental oil and gas information on pages F-62 to F-69. Expressed in dollars.

(4) Consists of (i) the increase in proved reserves attributable to (a) purchases of minerals in place, (b) revisions of previous estimates, (c) improved recovery and (d) extensions and discoveries, divided by (ii) production during the year as set forth in the reserve tables, in each case prepared in accordance with SFAS 69. In 2001, excluding the acquisition of Lasmo, the indicator is 175%. See the unaudited supplemental oil and gas information on pages F-62 to F-69. Expressed as a percentage.

(5) Consists of proved reserves at year-end divided by production during the year as set forth in the reserve tables, in each case presented in accordance with SFAS 69. See the unaudited supplemental oil and gas information on pages F-62 to F-69. Expressed on a yearly basis.

(6) For oil, thousands of barrels of oil per day. For natural gas, thousands of barrels of oil equivalent per day. For 1999 and 2001 data see ''Item 4. Information on the Company—Exploration and Production—Oil and Natural Gas Reserves—Note 1 and 3 on page 14''.

(7) Consists of production costs divided by actual production, in each case prepared in accordance with SFAS 69. In 2001, excluding production costs of Lasmo, the indicator is 3.90 USD/boe. See the unaudited supplemental oil and gas information on pages F-62 to F-69. Expressed in dollars.

(8) Results of operations from oil and gas producing activities, divided by actual sold production, in each case prepared in accordance with SFAS 69. See the unaudited supplemental oil and gas information on pages F-62 to F-69 for a calculation of results of operations from oil and gas producing activities. Expressed in dollars.

(9) Billions of cubic meters.

(10) Thousands of kilometers.

(11) Gigawatthour.

(12) Millions of tons.

(13) Production as a percentage of capacity taking into account scheduled plant shutdowns.

(14) Thousands of liters per day.

(15) Millions of tons.

(16) The sum of the order backlog of Saipem and Snamprogetti, expressed in millions of euro.

Exchange Rates

Italy is one of the eleven member states of the European Monetary Union that entered the single European currency which became effective on January 1, 1999; the other countries are Austria, Belgium, Finland, France, Germany, Ireland, Luxembourg, the Netherlands, Portugal and Spain. Greece entered the single European currency on January 1, 2001. The official fixing rate of the lira versus the euro is 1,936.27 lire per euro.

The following table sets forth, for the periods indicated, certain information regarding the Noon Buying Rate in U.S. dollars per euro, rounded to the second decimal (Source: The Federal Reserve Board). Exchange rates for years prior to 1999 are derived dividing the official fixing rate of the lira versus the euro by the Noon Buying Rates of the lira versus the U.S. dollar.

	High	Low	Average(1)	At Period End
	US dollars per euro			
Year ended December 31				
1997	1.05	1.28	1.13	1.09
1998	1.06	1.22	1.11	1.17
1999	1.18	1.00	1.06	1.01
2000	1.03	0.83	0.92	0.94
2001	0.95	0.84	0.90	0.89

(1) Average of the Noon Buying Rates for the last business day of each month in the period.

Month	High	Low	At Period End
	US dollars per euro		
December 2001	0.9044	0.8773	0.8901
January 2002	0.9031	0.8594	0.8594
February 2002	0.8778	0.8613	0.8658
March 2002	0.8836	0.8652	0.8717
April 2002	0.9028	0.8750	0.9002
May 2002	0.9373	0.9022	0.9339
June 2002 (through June 14, 2002)	0.9473	0.9390	0.9448

Fluctuations in the exchange rate between the euro and the dollar affect the dollar equivalent of the euro price of the Shares on Telematico and the dollar price of the ADSs on the NYSE. Cash dividends related to fiscal year 2001 will be paid by Eni S.p.A. in euro in 2002 and exchange rate fluctuations will also affect the dollar amounts received by owners of ADSs upon conversion by the Depository of cash dividends paid in euro on the underlying Shares. The Noon Buying Rate on June 14, 2002 was U.S. dollars 0.9448 = euro 1.00.

Risk Factors

Competition

There is strong competition worldwide, both within the oil industry and with other industries, in supplying energy to the industrial, commercial and residential energy markets. A number of Eni's competitors have merged or have the intention to merge leading to possible stronger competition from competitors with greater financial resources. In its upstream business, particularly outside Italy, Eni encounters competition from other major international oil companies for exploration and development rights. In the natural gas business, Eni encounters increasingly strong competition from both national and international natural gas suppliers, also following the impact of the liberalization of the Italian natural gas market introduced by Legislative Decree No. 164/2000 which provides for, among other things, the opening of the entire market to competition by 2003 and limits to the size of gas companies relative to the market. In the electricity business, Eni competes with other producers from Italy or outside Italy which sell electricity on the Italian market. Eni faces competition from several major international oil companies in its refinery business. In export markets, Eni competes with numerous oil companies and trading companies. In the retail market, Eni competes with third parties (including major international oil companies, companies owned by oil producing nations and local operators) to obtain concessions to establish and operate service stations. Once established, Eni's service stations compete primarily on the basis of services and availability of non-petroleum products. Eni also faces significant competition from a small number of other world leaders in the oilfield services contracting and engineering industries. Such competition is primarily on the basis of technical expertise and price.

Cyclicality of Petrochemical Industry

The petrochemical industry is subject to cyclical fluctuations in supply and demand, with consequent effects on prices and profitability exacerbated by the highly competitive environment of the industry. Eni's petrochemicals operations have been in the past and may in the future be adversely affected by excess installed European petrochemicals production capacity, as well as by economic slowdowns in many industrialized countries. Eni competes both with chemical companies and the chemical divisions of several major international oil and gas companies on the basis of price, quality and customer service.

Political and Economic Considerations

The production of oil and natural gas requires high levels of investment and entails particular economic risks and opportunities. It is subject to natural hazards and other uncertainties including those relating to the physical characteristics of oil or natural gas fields.

The production of oil and natural gas is highly regulated and is subject to intervention by governments throughout the world in matters such as the award of exploration and production interests, the imposition of specific drilling and other work obligations, environmental protection measures, control over the development and abandonment of fields and installations, and restrictions on production. In addition, the oil and gas industry is subject to the payment of royalties and excise duties, which tend to be higher than those payable in respect of many other commercial activities.

Crude oil prices are subject to international supply and demand and other factors that are beyond Eni's control. International cartels which control production of a significant portion of the worldwide supply of oil can exercise substantial influence over price levels of crude oil. Political developments, including sanctions imposed on certain oil-producing countries, can also affect world supply and prices of oil. Such factors can also affect the prices of natural gas because such prices are typically tied to the prices of certain refined petroleum products. Crude oil prices generally are set in U.S. dollars, while costs may be incurred in a variety of currencies. Fluctuations in exchange rates therefore can give rise to foreign exchange exposures.

Substantial portions of Eni's hydrocarbons reserves are located in countries outside the EU and North America, certain of which may be politically or economically less stable than EU or North American countries. At December 31, 2001, approximately 47% of Eni's proved hydrocarbons reserves were located in North (Algeria, Egypt, Libya and Tunisia) and West (Angola, Congo, Gabon and Nigeria) Africa and approximately 9% in other politically and socially unstable countries (mainly Venezuela and Indonesia). See "Item 4 —Exploration and Production—Oil and Natural Gas Reserves". Accordingly, such reserves and related production operations may be subject to certain risks, including increases in taxes and royalties, the establishment of limits on production and export volumes, the compulsory renegotiation of contracts, the nationalization or renationalization of assets, changes in local government regimes and policies, changes in business customs and practices, payment delays, currency exchange restrictions and losses and impairment of operations by actions of insurgent groups. Similarly, a substantial portion of Eni's natural gas supply comes from countries outside the EU and North America, certain of which may also be politically or economically less stable than EU or North American countries. During 2001, approximately 74% of Eni's domestic supply of natural gas came from outside Italy, of which approximately 42% came from Algeria and approximately 41% came from Russia. See "Item 4 —Natural Gas—Natural Gas Supplies". In August 1996, the United States adopted the Iran and Libya Sanctions Act (the "Sanctions Act"). The Sanctions Act requires the President of the United States to impose two or more of certain enumerated sanctions under certain circumstances on companies which engage in trade with or investment activities in Libya. Under the Sanctions Act, sanctions against Libya are expected to be applied until the President of the United States decides that Libya has complied with UN resolutions No. 731 of 1992 and No. 883 of 1993. Recent signs of a new Libyan attitude to the solution of existing controversies have led the UN to suspend Resolutions No. 731 and 883. Eni cannot predict interpretations of, or the implementation policy of the U.S. Government with respect to the Sanctions Act. However, Eni does not believe that the Sanctions Act will have a material adverse effect on its financial condition or results of operations. For a description of Eni's operations in Libya see "Item 4 —Information on the Company—Exploration and Production—Libya."

Liberalization of the Italian Natural Gas Market

Legislative Decree n. 164 dated May 23, 2000 introduced rules for the liberalization of the Italian natural gas market which management believes will have a significant impact on Eni's activity, as the company is present in all the phases of the natural gas chain. The decree, among other things, establishes:

- opening of the entire market to competition by 2003;

- until December 31, 2010 antitrust thresholds to operators calculated as a percentage share of national consumption set as follows: (i) effective January 1, 2002 75% for imported or domestically produced natural gas volumes input in the national transport network and destined to sales; this percentage is to decrease by 2 percentage points per year until it reaches 61% in 2009; (ii) effective January 1, 2003 50% for sales to final customers. These ceilings are calculated net of losses (in the case of sales) and own consumption;
- the Authority for Electricity and Gas determines criteria for transport, dispatching, storage, use of LNG terminals and distribution tariffs;
- third parties will be allowed to access infrastructure according to set conditions. Pursuant to art. 24, line 5 of the Decree, the Authority for Electricity and Gas is expected to issue criteria and priorities relating to the allocation of entry capacity to the Italian gas network before the beginning of the 2002-2003 thermal year (October 2002).

With decision No. 120/2001, the Authority for Electricity and Gas set tariff criteria for transport and use of LNG terminals; Snam Rete Gas, Eni's subsidiary which owns and manages Eni's transport assets in Italy, presented its tariff proposal which was approved by the Authority. With decision No. 26 of February 2002 the Authority set tariff criteria for natural gas storage for the first regulatory period (from April 1, 2002 to March 31, 2006). On the basis of these storage tariff criteria, on March 18, 2002 Stoccaggi Gas Italia, Eni's wholly-owned subsidiary which owns and manages Eni's storage assets, presented its tariff proposal for cyclical modulation, production and strategic storage services for the first regulatory period. The Authority rejected Stoccaggi Gas Italia's proposal and set storage tariffs for thermal year 2002-2003 with decision No. 49 of March 26, 2002 and effective June 21, 2000. Tariffs set by the Authority are 50% lower than those currently applied by Eni. On April 29, 2002, Stoccaggi Gas Italia notified the Authority that it will appeal both Authority decisions against the competent Administrative Court in order to seek their repeal.

Eni has entered into certain long-term gas supply agreements which currently have an average unexpired duration of approximately 20 years. Such agreements, which contain take-or-pay provisions, will enable Eni to purchase an aggregate of approximately 1,120 billion cubic meters of natural gas. See ''Item 18—Note 24 to Consolidated Financial Statements—Commitments and Contingencies''. In order to comply with the above mentioned mandated thresholds relating to volumes input to the national transport network, Eni signed multi-annual contracts with third party importers to sell natural gas volumes exceeding said threshold limits outside the Italian territory; in prior years these volumes were imported into Italy and sold to Italian consumers by Eni. Those third parties are expected to import such gas into Italy and resell it to Italian consumers. This change in the sale mix is structural and will affect Eni's results of operations as sales made to third party importers are less profitable than direct sales by Eni to customers in Italy. Further, management expects Eni's margins on natural gas in Italy to come under pressure in future years due to the entry into the market of new competitors including the above mentioned third parties which purchase natural gas from Eni outside the Italian territory. Finally due to the antitrust threshold on direct sales in Italy, management expects Eni's natural gas sales in Italy to increase at no more than the same rate as overall natural gas demand in Italy. Management believes all these developments might have a material adverse impact on Eni's results of operations.

For more details regarding the regulatory framework of the Italian natural gas market see ''Item 4—Regulation of the Italian Hydrocarbons Industry—Natural Gas—Legislative Decree No. 164 for the Implementation of the European Directive on Natural Gas 98/30/CE''.

Divestment of the Petrochemicals Business

Management plans to divest a large part of Eni's petrochemicals business as part of Eni's strategy to focus on its core oil and natural gas core activities and to improve Eni's overall profitability by disposing of a loss-making segment. However the divestment process is by its nature complex and management cannot predict its final results.

Environmental Regulation

Together with other companies in the industries in which it operates, Eni is subject to numerous EU, national, regional and local environmental laws and regulations concerning its oil and gas operations, products and other activities, including legislation that implements international conventions or protocols. In particular, these laws and regulations require the acquisition of a permit before drilling for hydrocarbons may commence, restrict the types, quantities and concentration of various substances that can be released into the environment in connection with exploration, drilling and production activities, limit or prohibit drilling activities on certain protected areas, and impose criminal or civil liabilities for pollution resulting from oil, natural gas, refining and petrochemicals operations. These laws and regulations may also restrict air emissions and discharges to surface and subsurface water resulting from the operation of natural gas processing plants, petrochemicals plants, refineries, pipeline systems and other facilities that Eni owns. In addition, Eni's operations are subject to laws and regulations relating to the generation, handling, transportation, storage, disposal and treatment of waste materials. Environmental laws and regulations have a substantial impact on Eni's operations. Some risk of environmental costs and liabilities is inherent in particular operations and products of Eni, as it is with other companies engaged in similar businesses, and there can be no assurance that material costs and liabilities will not be incurred. Although management, considering the actions already taken, the insurance policies to cover environmental risks and the provisions for risks accrued, does not currently expect any material adverse effect upon Eni's results of operations and financial position as a result of its compliance with such laws and regulations, there can be no assurance that there will not be a material adverse impact on Eni's results of operations and financial position due to: (i) the possibility of as yet unknown contamination; (ii) the results of the on-going surveys and the other possible effects of Decree No. 471/99 of the Ministry of Environment; (iii) the possible effect of future environmental legislation and rules; (iv) the effect of possible technological changes relating to future remediation; and (v) the possibility of litigation and the difficulty of determining Eni's liability, if any, as against other potentially responsible parties with respect to such litigation and the possible insurance recoveries.

With Regional Law of March 26, 2002 No. 2, the Sicilia Region introduced a tax on the ownership of high-pressure pipelines in Sicily applicable to Snam Rete Gas. The tax has been set, for 2002, at euro 153 per cubic meter of pipeline on public territory and euro 137.70 per cubic meter of pipeline on private land. The annual amount of the tax due to be paid by Snam Rete Gas is about euro 130 million. The law was enacted on April 1, 2002; therefore the amount due in the current year is approximately euro 97 million, divided into nine monthly payments of approximately euro 10.8 million each. Snam Rete Gas made the first payment on April 30, 2002. Snam Rete Gas presented its tariff proposal for thermal year 2002/2003 to the Authority for Electricity and Gas at the end of March 2002 and, under the proposal, the impact of this tax would be effectively transferred to Snam Rete Gas' customers, such as Eni, through a component of the tariff. Management also expects that, as well as any other cost component, the impact of this tax will be effectively transferred to the end users of Eni's primary and secondary distribution and therefore that this tax will have no impact on Eni's results of operations.

In a note addressed to the Italian Government, the Authority for Electricity and Gas stated that this tax is inconsistent with the principles and objectives of Law No. 481/1995, which promotes competition in the public utilities sector, and modifies the definition of eligible customers as set forth in the European Directive 98/30/CE implemented in Italy with Legislative Decree No. 164/2000.

On May 31, 2002, the Board of Directors of Snam Rete Gas resolved to take all necessary measures in order to have the Sicilian tax revoked on the basis of European Union rules and sent to the Sicilia Region notice of its petition for reimbursement of all sums paid to date, as a preliminary measure to the legal dispute, and warned the Region not to dispose of these sums in consideration of due reimbursement thereof. Further on, the company is going to file a petition with the European Union.

According to the Board, the tax is illegitimate for the following main reasons:

- it violates European Union rules which prohibit customs duties—and all other taxes having the same effect—on the importing, exporting and transmission of natural gas, as well as the provisions of the Italian Constitution, which prohibits constraints to the free circulation of people and goods among regions;

- the declared purposes of environmental restoration are inconsistent with the total lack of pollution of gas pipelines, especially considering that laying gas pipelines has always entailed environmental restoration carried out at the expense of the pipeline owners;

- the Sicilia Region has failed to comply with the principles of coordination with State and regional legislation, as well as with the legislation of other regions, by enacting laws without waiting for the specific provisions of the State, bearing the fundamental principles "of coordination of public finance and of the tax system".

Factors Affecting Results of Operations

Oil, Natural gas, Refined and Petrochemical Products Prices.

Operating results in certain of Eni's core businesses, particularly Exploration and Production, Refining and Marketing, Natural Gas and Petrochemical segments are affected by the prices of oil and refined products, with higher prices of oil having a positive effect on results of operations of oil and gas activities and a negative effect on Petrochemical segment results. Overall, higher oil prices have a net positive impact on Eni's results of operations. The effect of higher oil prices on Eni's average realized price of oil is generally immediate, whereas a time lag exists between movements in oil prices and movements in the prices of natural gas and refined products. In particular, the prices under natural gas purchase and sale contracts, which generally are for multi-year terms, are typically updated automatically by reference to the market prices of certain refined products and oil during a prior period (the length of which may extend up to twelve months), and therefore tend to mitigate the impact of changes in oil prices on Eni's operating results. However, since Eni's natural gas purchase and sale contracts are indexed to different refined products and types of oil, in different proportions and as measured over different reference periods, and are denominated in different currencies, Eni's unit margins for natural gas may be significantly affected in the short term by variations in refined product and oil prices and exchange rates.

In the Exploration and Production segment, Eni's average realized price for oil differs from the price of Brent crude oil due primarily to the lower API gravity of Eni's oil compared with Brent crude; this typically causes Eni's realized price at times to differ substantially from Brent crude oil price, due also to changes in relative prices of Brent crude oil and heavy crudes. The results of operations of Eni's Refining and Marketing segment are substantially affected by changes in European refining margins which reflect changes in relative prices of crude oil and refined products and trends in demand for refined products. In recent years the latter factor has more markedly influenced the trends in refining margins. Eni's petrochemical operations are substantially affected by worldwide and European industry cycles and movements in petrochemical margins which are related to fluctuations in oil prices.

Weather in Italy and Seasonality.

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

Exchange Rates.

Movements in the exchange rate of the euro against the U.S. dollar can have a material impact on Eni's results of operations. Prices of oil, natural gas and refined products generally are denominated in, or linked to, U.S. dollars, while a significant portion of Eni's expenses is denominated in euro. Similarly, prices of Eni's petrochemical products generally are denominated in, or linked to, euro, whereas expenses in the Petrochemicals segment are denominated both in euro and U.S. dollars. Accordingly an appreciation of the U.S. dollar versus the euro generally has a positive effect on Eni results of operations, and vice-versa.

Interest Rates.

Interest on Eni's debt is primarily indexed at a spread to benchmark rates such as the Europe Interbank Offered Rate, "EURIBOR" and the London Interbank Offered Rate, "LIBOR". As a consequence, movements in interest rates can have a material impact on Eni's financial expense in respect of its net borrowings, which amounted to euro 9,888 million at December 31, 2001.

New tax regime in the United Kingdom.

In the United Kingdom a new tax regime regarding exploration and production companies was proposed. This new regime provides for a ten percentage point increase in the corporate tax rate (from 30% to 40%) and total deductibility of development investments from income before taxes. In addition, the proposal contemplated the abolition of royalties (12.5%) on fields developed before 1982. If enacted this new tax regime would result in a euro 226 million non recurring charge due to the alignment of the reserve for deferred taxes, partly offset by an estimated euro 8 million reduction in income taxes due for the year resulting from the deductibility of new development investments. The negative impact on Eni's 2002 net income would therefore amount to euro 218 million.

Uncertainties in Estimates of Oil and Natural Gas Reserves

Numerous uncertainties are inherent in estimating quantities of proved reserves and in projecting future rates of production and impact of development expenditures. The accuracy of any reserve estimate is a function of the quality of available data and engineering and geological interpretation and judgment. Results of drilling, testing and production after the date of the estimate may require substantial upward or downward revisions. Because estimates of proved reserves are based on prices and costs at the date such estimates are made, changes in oil and natural gas prices could have an effect on Eni's proved reserves. In addition, price fluctuations may have an effect on reserve estimates as a result of the cost recovery features in the production sharing agreements to which Eni is a party. Accordingly, the reserve estimates included herein and in the Consolidated Financial Statements could be materially different from future reserve estimates, as well as from the quantities of oil and natural gas that ultimately will be recovered.

Legal Proceedings

Eni is a party to a number of civil actions and administrative proceedings and is subject to various claims arising in the ordinary course of business, as well as to the possible consequences of civil claims related to criminal proceedings against certain managers for matters concerning work safety, environmental and other matters. Under Italian law, there is no criminal responsibility for corporations but only for individuals. Thus, various members of senior management of Italian companies are subject to criminal charges in circumstances in which corporations would be charged in the United States. Certain members of senior management of Eni may also be subject to such charges. It is the general policy of Eni to dismiss management who, having been found guilty of criminal violations, are deemed to have harmed the employer. Although it is not possible to predict the ultimate outcome of the various legal proceedings to which Eni is a party, Eni, based on information available to date, and taking account of the existing reserves in the Consolidated Financial Statements, does not expect the outcome of its various legal proceedings in the aggregate to have a material adverse effects upon its Consolidated Financial Statements. For a disclosure of the most significant of such proceedings see Note 24 to the consolidated financial statements.

Item 4. INFORMATION ON THE COMPANY

History and Development of the Company

Eni S.p.A. with its consolidated subsidiaries is one of the world's major integrated energy companies. Eni operates in the oil and gas, electricity generation, petrochemicals, oilfield services and engineering industries. In these businesses it has a strong competitive edge and leading international market positions. Eni has operations in about 70 countries and 70,948 employees as of December 31, 2001.

Eni, the former Ente Nazionale Idrocarburi, a public law agency, established by Law 136 of February 10, 1953, was transformed into a joint stock company by Law Decree 333 of July 11, 1992 published in the Official Gazette of the Republic of Italy no. 162 of July 11, 1992 (converted into law on August 8, 1992, by Law 359, published in the Official Gazette of the Republic of Italy no. 190 of August 13, 1992). The shareholders' meeting of August 7, 1992 resolved that the company be called Eni S.p.A. Eni is registered at the Companies Register of Rome, register tax identification number 00484960588, VAT number 00905811006, R.E.A. Rome no. 756453. Eni is expected to remain in existence until December 31, 2100; its duration can however be extended by resolution of the shareholders.

Eni's registered head office is located at Piazzale Enrico Mattei 1, Rome, Italy. Eni branches are located in:

- San Donato Milanese (Milan), Via Emilia, 1;
- San Donato Milanese (Milan), Piazza Ezio Vanoni, 1;
- Gela (Sicily), Strada Provinciale, 82.

Tel: +39-0659821
Internet address: www.eni.it

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

Agip SpA was merged into Eni S.p.A. effective as of January 1, 1997; Eni now conducts its exploration and production activities through its Agip division and certain operating subsidiaries. Eni's exploration, development and production activities commenced in 1926, when Agip was formed by the Government with a mandate to explore for and develop oil and natural gas. These operations are principally conducted in Italy, North Africa, West Africa, the North Sea and the Gulf of Mexico; Eni also operates in areas with great development potential such as Latin America, Australia, the Middle and Far East and the Caspian Sea. In 2001, Eni produced 1,369,000 boe of hydrocarbons per day and, at December 31, 2001, it had estimated proved reserves of 6,929 million boe with a life index of 13.7 years. In 2001, Eni's Exploration and Production segment had net sales from operations (including intersegment sales) of euro 13,960 million and operating income of euro 5,984 million.

Through Snam SpA and its subsidiaries, Eni is engaged in natural gas supply, transmission and distribution activities which commenced in the 1940s with the commercial sale of natural gas to industrial users in Northern Italy. In 2001, Eni's primary distribution natural gas sales in Italy totaled 58.89 billion cubic meters; further 3 billion cubic meters were sold in Europe destined to Italy. Primary distribution sales include sales to wholesalers, mainly local distribution companies, and large industrial and thermoelectric users which are supplied by a high and medium pressure gas pipeline network. Eni's high and medium pressure gas pipeline network for primary distribution is about 30,000-kilometres long in Italy, while outside Italy Eni holds transmission rights on about 3,600 kilometers of high pressure pipelines. Through its gas pipeline network, Eni also transports natural gas on behalf of third parties; in 2001, 11.41 billion cubic meters of natural gas were transported on the Italian network on behalf of third parties; outside Italy transported volumes totaled 5.35 billion cubic meters destined to markets outside Italy. Effective on July 1, 2001 Eni's natural gas transport network in Italy was conferred to Snam Rete Gas SpA. In December 2001 shares representing 40.24% of the company's capital were sold through a public offering with proceeds of euro 2.2 billion. Eni operates directly in retail distribution (''secondary distribution'') of natural gas which includes almost exclusively sales made by local distribution companies to commercial and residential users through a low pressure gas pipeline network. Eni operates in secondary distribution in Italy through Italgas—a publicly traded company that is the largest local distribution company in Italy—in Hungary through Tigaz, in Argentina through Distribuidora de Gas Cuyana and in Slovenia through Adriaplin. In 2001, Eni's secondary distribution sales were 8.13 billion cubic meters in Italy and 3.91 billion cubic meters outside Italy. Eni's secondary distribution network in Italy is about 95,000-kilometres long and about 27,000-kilometres long outside Italy. In 2001, Eni's Natural Gas segment had net sales from operations (including intersegment sales) of euro 15,495 million and operating income of euro 3,606 million. Following the resolution of the General Shareholders' Meeting of June 2, 2001, on January 30, 2002, Snam SpA was merged into Eni SpA, thus becoming a division of Eni SpA. On February 1, 2002 (effective date of the merger) the new

Gas and Power Division of Eni, which is entrusted with managing natural gas and electricity generation activities in Italy and outside Italy, became operational. Therefore starting in 2002, results of operations of natural gas and electricity generation activities will be jointly reported under the Gas & Power division.

The Electricity Generation business is reported separately from January 1, 2000. Eni conducts its operation in this business through Enipower which owns and manages Eni's power stations and is more market oriented and with greater development potential (Livorno, Taranto, Mantova, Ravenna and Brindisi) with a total installed capacity of 1,000 megawatts and annual production of about 5,000 gigawatthour. In 2001, this business had net sales from operations (including intersegment sales) of euro 603 million and operating income of euro 66 million. Eni owns other minor power stations located in Eni's petrochemical plants and refineries whose production is mainly for its own consumption. The accounts of these power stations are reported within Eni's Refining and Marketing and Petrochemicals sectors.

Eni's refining and marketing activities commenced in the 1930s, when it initiated the development of the industrial and retail markets for refined products in Italy. Through AgipPetroli SpA and its subsidiaries (''AgipPetroli''), Eni engages in refining and marketing activities primarily in Italy, Europe and Latin America. Through its Agip and IP brands, Eni is leader in the retail market in Italy, with a 39.7% market share. In 2001, sales of refined products totaled 53.24 million tons, of which 34.99 in Italy. Eni's total processing capacity amounted to 814,000 barrels per day at December 31, 2001. In 2001, Eni's Refining and Marketing segment had net sales from operations (including intersegment sales) of euro 22,083 million and operating income of euro 985 million. Eni's General Shareholders' Meeting held on May 30, 2002 resolved to merge AgipPetroli SpA into Eni SpA, thus AgipPetroli is going to become the third division of Eni SpA. Through this operation Eni continues the process of divisionalization of its activities aimed at attaining a higher level of integration, further streamlining of organizational structures and exploiting synergies.

Eni's petrochemical activities commenced in the 1950s, when it began production of basic petrochemicals at its Ravenna industrial complex. Through EniChem SpA and its subsidiaries (''EniChem''), Eni operates in olefins and aromatics, basic intermediate products, chlorine derivatives, polystyrenes and elastomers and, through Polimeri Europa (wholly-owned by Eni), Eni is one of the major European polyethylene producers. Eni's petrochemical operations are concentrated in Italy and in Western Europe, where Eni holds relevant market positions. In 2001, Eni sold 5.2 million tons of petrochemical products. In 2001, Eni's Petrochemicals segment had net sales from operations (including intersegment sales) of euro 4,761 million and an operating loss of euro 332 million.

Eni's oilfield services and engineering activities commenced in the late 1950s. Through Saipem SpA (a 43% owned subsidiary) and its subsidiaries (''Saipem''), Eni is a world leader in offshore construction, in particular subsea pipe laying and floating production systems. Eni owns and operates a fleet of world class marine service vessels, able to drill wells 10,000 meters deep in water depths of up to 3,000 meters and to lay pipelines up to 60 inches in diameter in water depths up to 2,150 meters. Through Snamprogetti SpA and its subsidiaries (''Snamprogetti) Eni is a leading provider of engineering and project management services to the oil and petrochemical industries. In 2001, Eni's Oilfield Services and Engineering segment had net sales from operations (including intersegment sales) of euro 3,114 million and operating income of euro 255 million.

Strategy

Eni is developing its upstream, downstream gas and electricity generation activities. Consistently with the aggressive growth strategy pursued successfully in the 1999-2001 period, management has launched a new development phase aimed at reaching ambitious growth objectives.

Management's industrial plans for the next four-year period set the following targets to be achieved by 2005: (i) daily hydrocarbon production of over 1.7 million boe; (ii) the sale of 14 billion cubic meters of gas in European markets; (iii) the reaching of an installed power generation capacity of at least 5,000 megawatts. Eni intends to achieve these targets by leveraging on the valorization and rationalization of its assets, mainly on its upstream portfolio and, in the natural gas activity, on its internationally-recognized competitive advantages, represented by a deep knowledge of the business, availability of important infrastructure and long term commercial relationship.

Management plans to reduce capital employed in Eni's non core businesses and to pursue integration among Eni's core activities in order to generate increasingly significant operating synergies.

Management's industrial plans foresee the continuation of the efficiency improvement program by means of interventions on cost structure and of process re-engineering aimed at increasing investment productivity. In terms of cost cutting, management has long-term plans of a reduction target of euro 3 billion by 2005 (of which

1.2 billion already obtained in the 1999-2001 period). The 3 billion amount includes an euro 0.6 billion reduction related to the planned divestment of the petrochemical segment.

Management plans to pay special attention to R&D which management believes is the key factor for future developments in the oil industry. Management plans to increase significantly financial resources dedicated to this activity and to focus resources on those strategic projects through which management believes Eni can achieve new competitive advantages.

Eni intends to pursue its growth strategy by implementing a four year investment plan of euro 24 billion, 86% of which is directed to the Exploration and Production, Natural Gas and Electricity Generation segments. Management expects that cash flow from operations should be able to satisfy the financial requirements related to new investments, the payment of dividends and its share buy-back program, while at the same time generating additional financial resources in order to finance additional organic growth options in core activities.

Recent developments

The most significant events in the development of Eni occurred during 2001 and to date in 2002 were the following:

- Eni completed the acquisition of UK company Lasmo Plc; in December 2000 Eni had launched a public offering in cash on the whole share capital of Lasmo. Total expenditure for the acquisition, including payments made in 2000 for the purchase of 28% of Lasmo's share capital (euro 1,225 million), amounted to euro 5,353 million (including net borrowings assumed of about euro 970 million). Lasmo holds assets located mainly in the British section of the North Sea, North Africa, Indonesia, Venezuela and Pakistan. In 2001, Lasmo's daily hydrocarbon production amounted to 201,000 boe. Lasmo had proved reserves amounting to 739 million boe. Eni's integration with Lasmo's production structure has been completed and management believes this integration will generate cost savings estimated at about euro 100 million on an annual basis.

- In Kazakhstan in February 2001, Eni was named sole operator of the North Caspian Sea offshore project (Eni's interest 14.28%). This project represents an extremely important industrial feat in the oil industry. Following the discovery made in July 2000, in 2001 two other wells were drilled which confirmed the area's high mineral potential. By the end of 2001, a third well—the second appraisal well—was under way.

- In Italy the startup in November 2001 of the Monte Alpi pipeline carrying oil from the Val d'Agri oil fields to Eni's Taranto refinery allowed an increase in daily production in Val d'Agri to 45,000 barrels.

- In Congo, production started at the offshore Mwafi and Foukanda oil fields (Eni operator with a 65% interest). Management expects production to peak at 17,000 barrels/day in 2003.

- In Angola, in offshore Block 15 (Eni's interest 20%) the Kizomba A project started which concerns the development of the Hungo and Chocalho fields with significant oil reserves. This is the most important project in the West African offshore. Expected expenditure amounts to US dollar 3.2 billion. Management expects production to start at the end of 2004 and to peak at 250,000 boe/day in 2005.

- In Nigeria in the OML 119 permit, where Eni is operator with a 100% interest, the Okono and Okpoho oil fields development project started; at Okono field production came on stream in December 2001, while production at Okpoho field is projected to start in 2003. Management expects production to peak at 16,000 barrels/day in 2005.

- In Iran, Eni signed with the national Iranian company NIOC agreements for the development of the Darquain onshore oil field (Eni is operator with a 60% interest) on the coast of the Persian Gulf and of the Balal offshore oil field (Eni's interest 38.25%) located in the Persian Gulf. Management expects production to start in 2003 at the first field and in late 2002 at the second one.

- The public offering of shares of Snam Rete Gas, which owns and manages Eni's natural gas transmission network in Italy, was carried out successfully. Shares representing 40.24% of the company's capital were sold with proceeds of euro 2,203 million and a consolidated net gain of euro 2,453 million. The amount of Snam Rete Gas equity as per Eni's consolidated financial statements was negative of euro 0.6 billion, due to the elimination of the assets revaluation made at the end of 2000 as provided for by Law 342/2000 in the consolidated financial statements.

- In 2001 Eni signed three contracts for natural gas supply, thus bringing to seven the total of multi-annual natural gas supply contracts with domestic importers which have been signed since 1999. When these contracts are fully operational, management expects to supply up to 15 billion cubic meters of natural gas per year to domestic importers, thus significantly contributing to the opening up of the Italian natural gas market.

- Eni, in a joint-venture with Russian natural gas operator Gazprom, is engaged in the construction of the Blue Stream gasline transport system. This project envisages the laying of a double gasline from Russia to Turkey through the Black Sea and related facilities construction in order to transport natural gas volumes from Russia to be sold jointly on the Turkish market. The first line was completed in February 2002, the second one at the beginning of June 2002; management expects transmission and sale of natural gas volumes to start before year end.

- Eni continued to reorganize and streamline its distribution network in Italy by selling 516 service stations, corresponding to a 2.5% market share, closing down 596 service stations and developing its main network by opening 28 new wholly-owned service stations and signing 129 new lease contracts. Average throughput increased by 5%.

- Eni purchased 91 service stations in southeastern France and 376 service stations in southern Brazil and logistic assets in both countries for a total amount of euro 93 million. Management believes this purchase will reinforce Eni's presence in areas with interesting growth prospects and where operational synergies can be attained. Eni substantially completed its exit from marginal areas.

- Within its strategy of balancing its refining system, aimed at bringing production closer to end markets and increasing supply flexibility, Eni signed an agreement with Erg concerning the organizational and industrial restructuring of the Priolo-Melilli refineries in Sicily and sold a share of refining capacity corresponding to 1.6 million tons/year.

Eni's Ordinary Shareholders' Meeting held on May 30, 2002 authorised the continuation of its share buy-back program for a period of 18 months from such date and up to 400 million ordinary shares, nominal value euro 1, for a total amount not exceeding 5.4 billion euro. Eni's Ordinary Shareholders' Meeting also withdrew the former authorisation. The 400 million shares and the 5.4 billion thresholds take into account the number and amount of own shares purchased from the beginning of the buy-back program until May 29, 2002. At that date, Eni owned 161.4 million shares, equal to approximately 4.03% of Eni's share capital, for a total amount of euro 2,175 million (corresponding to an average purchase price of euro 13.47 per share). The shares are to be purchased on the Mercato Azionario Telematico della Borsa Italiana SpA at a price no lower than their nominal value and no higher than 5% over the reference price recorded on the working day preceding each purchase. See "Item 10. Additional Information—Purchase by Eni S.p.A. of its Own Shares"

In 2001 Eni invested about euro 11.3 billion in new capital expenditure and financial investments. Capital expenditures (euro 6.6 billion) referred principally to the development of hydrocarbons reserves and exploration expenditure, the development and upgrade of Eni's natural gas transport system, the maintenance of refineries and petrochemicals plants as well as the upgrading of Eni's network of service stations. Financial investments (euro 4.7 billion, including net borrowings) referred in particular to the completion of the acquisition of Lasmo for a total of euro 4,128 million (including net borrowings for about euro 970 million) and the purchase of 50% of Polimeri Europa — the remaining 50% already owned by Eni — (euro 204 million).

In 2000, Eni invested about euro 9.8 billion in new capital expenditures and financial investments. Capital expenditure in 2000 (euro 5.4 billion) referred principally to the development of hydrocarbon reserves, exploration expenditure, the acquisition of proved and unproved reserves of hydrocarbons, the development and upgrade of Eni's natural gas transport system, the maintenance of refineries and petrochemicals plants as well as the upgrading of Eni's network of service stations. Financial investments (euro 4.4 billion, including net borrowings) referred in particular to the purchase of 28% of the share capital of Lasmo Plc as a result of a Public Offering launched by Eni on December 21, 2000 (euro 1,225 million), the acquisition of British-Borneo for euro 1,263 million (847 are net borrowings) and of 33.34% of Galp (euro 964 million).

BUSINESS OVERVIEW

Exploration and Production

Eni operates in the exploration and production of hydrocarbons in Italy, North Africa, West Africa, the North Sea and the Gulf of Mexico. It also operates in areas with great development potential such as Latin America, Australia, the Middle and Far East and the Caspian Sea.

In 2001, Eni's Exploration and Production segment had net sales from operations (including intersegment sales) of euro 13,960 million and operating income of euro 5,984 million.

Eni is pursuing an aggressive growth strategy. On the basis of defined industrial plans, management expects to achieve a daily production target in excess of 1.7 million boe by 2005, which corresponds to an annual increase of approximately 6% over the next four years. Management plans to increase production in areas where Eni has a consolidated presence and through the planned start up of important projects in Libya, Kazakhstan, the deep offshore of West Africa, Iran and Venezuela. Management plans: (i) to rationalize Eni's assets portfolio in order to increase its value by focusing on strategic areas with the highest growth potential and (ii) to focus exploration expenditure on areas with high mineral potential and high economic returns; such areas include the Caspian Sea, Russia, the deep offshore of the Gulf of Mexico, Brazil, West Africa and the border areas of the North Sea. Eni intends to continue improving its performance by reducing operating costs and overhead and searching for synergies.

Oil and Natural Gas Reserves

Eni's proved reserves of hydrocarbons at December 31, 2001 totaled 6,929 million boe (comprising 3,948 million barrels of oil and condensates, 17,072 billion cubic feet of natural gas), a 921 million boe increase over 2000, up 15.3%, due to: (i) new acquisitions (764 million boe), in particular Lasmo Plc ("Lasmo"), with proved reserves amounting to 739 million boe, and a 30% interest in the T-Block fields in the North Sea with proved reserves of 18 million boe; (ii) revisions of previous estimates and improved recovery (548 million boe) in particular in Kazakhstan, Libya, Egypt, Nigeria and Norway; (iii) new discoveries and extensions (120 million boe), in particular in Italy, Azerbaijan, Nigeria, the United States and the United Kingdom. These increases were offset in part by production for the year and disposals (5 million boe). The increase in proved reserves allowed the replacement of 282% of production (226% was the average for the 1999-2001 period); this average was 142% (175% in the 1999-2001 period) without taking into account the effect of the acquisition of Lasmo. The average reserve life index was 13.7 years (14 in 2000).

Estimated proved developed reserves at December 31, 2001, amounted to 2,314 million barrels of oil and condensates and 8,294 billion cubic feet of natural gas, representing respectively 59 and 49% of total estimated proved reserves of crude oil and condensates and natural gas (52 and 48% at December 31, 2000 respectively).

The table below sets forth a geographical breakdown of Eni's estimated proved reserves of hydrocarbons, on a barrel of oil equivalent basis, for the periods indicated.

	Year ended December 31,				
	1997	1998	1999(1)	2000	2001
	(millions of barrels of oil equivalent)				
Italy	1,646	1,574	1,477	1,389	1,315
North Africa	1,530	1,686	1,849	1,929	2,122
West Africa	852	910	1,067	1,093	1,136
North Sea	655	666	646	700	879
Rest of World	390	419	495	897	1,477
Total	5,073	5,255	5,534	6,008	6,929

(1) Eni is party to certain production sharing agreements whereby taxes are settled by state-owned entities in the name and on behalf of Eni out of reserves produced in connection with such agreements. In prior years such taxes were settled against revenues with respect to such agreements. During 1999, in order to be consistent with international practices, Eni began classifying the value of production equivalent to such taxes as revenues and the associated taxes in the appropriate income tax account. This had the effect of increasing revenues and income taxes by euro 203 million in 1999, as well as oil and gas reserves. Prior year amounts have not been reclassified since the effect of this change on net income is not significant. The application of this new presentation resulted in an increase of 46,000 boe/day (41,000 barrels/day of oil; 5,000 boe/day of natural gas) in hydrocarbon production and of 398 million boe in proved reserves (222 million barrels of oil; 176 million boe of natural gas) in 1999.

For additional information regarding Eni's estimated proved reserves and proved developed reserves of crude oil and natural gas, see the unaudited supplemental oil and gas information on pages F-62 to F-69.

Exploration and Development

As of December 31, 2001, Eni's portfolio of mineral rights consisted of 1,250 exclusive or shared rights for exploration and development in 41 countries on five continents, for a total net acreage of 317,283 square kilometers (310,839 at December 31, 2000). Of these, 41,841 square kilometers concerned production and development (38,884 at December 31, 2000). In Italy, net acreage decreased by 3,628 square kilometers, while it increased outside Italy by 10,072 square kilometers, due primarily to the acquisition of mineral rights in Indonesia, Pakistan, Morocco, Tunisia, Algeria, Taiwan, Turkmenistan and the United Kingdom, following the acquisition of Lasmo, as well as in Senegal/Guinea Bissau, Australia, Iran and Nigeria. Mineral rights were released in Italy, Brazil, China, the United States, Falklands, Ireland, Libya and Mauritania.

In 2001, three-dimensional seismic surveys were carried out over 16,437 square kilometers (7,486 of which represented Eni's share), while standard seismic surveys covered an area of 15,042 kilometers (9,120 of which represented Eni's share), the former decreasing by 26% net to Eni and the latter increasing by 203% net to Eni over 2000. The increase in standard seismic surveys may be attributed to the beginning of survey campaigns mainly in new countries such as Australia, and Senegal/Guinea Bissau and in well known ones such as Gabon and Italy.

A total of 110 new exploratory wells was drilled (47 of which represented Eni's share), as compared to 95 exploratory wells completed in 2000 (47 of which represented Eni's share). Overall success rate was 36.5% (31.3% of which represent Eni's share) as compared to 33.3% (30.6% of which represent Eni's share) in 2000.

Exploration expenditure amounted to euro 757 million (euro 811 million in 2000), of which 89% was directed outside Italy, representing a 6.7% decrease over 2000. Expenditure in Italy (euro 80 million as compared to euro 156 million in 2000) concerned primarily areas in Northern Italy and the Southern Apennines. Outside Italy, exploration expenditure amounted to euro 677 million (euro 655 million in 2000) and concerned mainly core areas in North Africa (in particular Algeria and Egypt), West Africa (Nigeria, Congo and Angola), the North Sea (Norway), Latin America and the Caspian Sea and recently acquired areas (those of Lasmo and British-Borneo and the United States).

Expenditure for development and capital goods totaled euro 3,452 million (euro 2.312 million in 2000) of which 83% was outside Italy, increasing by 49.3% over 2000. Development expenditure in Italy amounted to euro 600 million and referred in particular to the continuation of construction of plants and infrastructure in the Val d'Agri. Development expenditure outside Italy, amounting to euro 2,852 million, concerned mainly fields in Kazakhstan, Nigeria, Congo, the United States, Egypt, Angola and the United Kingdom. Development expenditure on Lasmo's fields amounted to euro 649 million.

Expenditure for the acquisition of proved and unproved property amounted to euro 67 million (euro 416 million in 2000), of which euro 34 million related to the purchase of a 30% interest in the T-Block fields in the North Sea, in which Eni already held a 47.48% interest, allowing an increase in daily production for the year by 3,000 boe. Other expenditure concerned mainly the acquisition of proved and unproved property in Italy (euro 13 million) and the acquisition of a 35% interest in the Woollybutt field in Australia (euro 13 million).

Total capital expenditure in 2001, including acquisition of mineral rights, but excluding corporate acquisitions, amounted to euro 4,276 million, increasing by euro 737 million over 2000, up 20.8%.

In 2001 financial investments, which include corporate acquisitions, amounted to euro 4,227 million and related principally to the completion of the acquisition of Lasmo for which Eni had launched a public offering on December 21, 2000. For this acquisition Eni paid out euro 4,128 million (including net borrowings of approximately euro 970 million) in year 2001, bringing the aggregate amount paid in this transaction to euro 5,353 million.

Production

The matters regarding future production, additions to reserves and related production costs and estimated reserves discussed below and elsewhere herein are forward-looking statements that involve risks and uncertainties that could cause the actual results to differ materially from those in such forward-looking statements. Such risks and uncertainties relating to future production and additions to reserves include political developments affecting the award of exploration or production interests or world supply and prices for oil and natural gas, or changes in the underlying economics of certain of Eni's important hydrocarbons projects. Such risks and uncertainties relating to future production costs include delays or unexpected costs incurred in Eni's production operations.

In 2001 daily hydrocarbon production amounted to 1,369,000 boe with an increase of 182,000 boe over 2000, up 15.3%. The increase amounted to 14% without taking into account production used for own consumption.[1] The contribution of acquisitions (204,000 boe) concerned the acquisition of Lasmo (201,000 boe) and of a 30% interest in the T-Block in the North Sea (3,000 boe). Internal growth was due in particular to: (i) startups of fields mainly in the United Kingdom, Egypt (gas), Norway, Congo and Angola; (ii) production increases mainly in Nigeria and Norway, whose effects offset in part declines in Italy, the United States, Egypt (oil) and Congo. The share of production outside Italy was 78% (71% in 2000).

Daily production of oil and condensates (857,000 barrels) increased by 109,000 barrels, up 14.6%, due to the contribution of the acquisition of Lasmo (126,000 barrels) and to increases registered outside Italy (29,000 barrels), in particular in: (i) Nigeria for increased activity; (ii) the United Kingdom due to the purchase of a 30% interest in the T-Block fields and the startup of the Elgin/Franklin fields; (iii) Norway in the Aasgard, Norne and Ekofisk fields. Such increases were offset in part by declines in: (i) Italy (7,000 barrels) in particular in the Villafortuna and Aquila fields, offset in part by increases in the Val d'Agri, related to the entry into service of the Monte Alpi pipeline linking the Viggiano oil center to Eni's refinery in Taranto in late 2001; (ii) outside Italy (39,000 barrels), in particular in Egypt (Belayim and Ashrafi fields), the United States (Europa and Morpeth fields), and Kazakhstan due to the temporary standstill of production resulting from a fiscal dispute between Russia and Kazakhstan.

Daily production of natural gas (2,921 million cubic feet, "mcf") increased by 428 mcf, up 17.2%, due to the contribution of the acquisition of Lasmo (435 mcf) and to increases outside Italy (128 mcf) in particular in: (i) Egypt for the startup of fields in the El Temsah concession in the Nile Delta offshore; (ii) Nigeria due to the increase in LNG volumes processed at Bonny (Eni's interest 10.4%); (iii) Norway for increased production in the Aasgard and Norne natural gas fields. Such increases were offset in part by declines: (i) in Italy (98 mcf) due to the decline of the Porto Garibaldi-Agostino, Cervia-Arianna, Angela-Angelina and Barbara fields in the Adriatic offshore, whose effects were offset in part by the startup of the Naomi/Pandora, Camilla and Emilio fields in the Adriatic offshore; (ii) outside Italy (41 mcf) mainly in the United States and Kazakhstan (for the reasons indicated in the paragraph above).

Hydrocarbon production sold amounted to 499.7 million boe (428 in 2000) roughly corresponding to production. Natural gas withdrawn from storage for 9.1 million boe (50.85 billion cubic feet) was offset by production used for own consumption (6 million boe), decreased withdrawals as compared to allotted shares (underlifting) and royalties in kind outside Italy (2.4 million boe) as well as higher oil inventories in Italy (0.7 million barrels). About 68% of oil and condensates production sold (311 million barrels) was destined to Eni's Refining and Marketing segment (70% in 2000). About 47% of natural gas production sold (1,077 billion cubic feet) was destined to Eni's Natural Gas segment (54% in 2000).

(1) Starting in 2001 natural gas production used for own consumption in countries where an alternative market exists is included in production. The effect in 2001 amounted to 16,000 boe/day (15,000 in 2000).

The tables below set forth Eni's production(1) of oil and condensates and natural gas for the periods indicated.

	Year ended December 31,				
	1997	1998	1999	2000	2001
	(thousands of barrels per day)				
Crude Oil(2)					
Italy	105	100	88	76	69
North Africa	212	213	221	227	228
West Africa	177	194	202	213	219
North Sea	114	112	116	124	204
Rest of the World	38	34	47	108	137
Total	646	653	674	748	857

	Year ended December 31,				
	1997	1998	1999	2000	2001
	(millions of cubic feet per day)				
Natural Gas(2)(3)					
Italy	1,674	1,648	1,511	1,438	1,340
North Africa	99	132	278	454	518
West Africa	15	14	21	67	82
North Sea	235	254	222	258	485
Rest of the World	91	128	177	276	496
Total	2,114	2,176	2,209	2,493	2,921

(1) Production information set forth above differs from production as reported in the reserve tables in Note 31 to the Consolidated Financial Statements — Supplemental oil and gas information (unaudited) because yearly production presented in such reserve tables is based on estimates taken in November of each year and the information above sets forth actual production during the year. In addition, Eni's production of natural gas in Italy reported in such reserve tables includes only sold production, as natural gas produced and reinjected into storage fields remains part of Eni's reserves for each period.

(2) For 1999 data see note 1 on page 15.

(3) Starting in 2001 natural gas production used for own consumption in countries where an alternative market exists is included in production. The effect in 2001 amounted to 89.6 mcf/day (84.0 in 2000).

Storage

Eni's storage system in Italy is made up of a number of depleted fields used for the modulation of supply in accordance with seasonal swings in demand (natural gas is stored in the summer and used in the winter), as strategic reserve to ensure supply and to support domestic production through mineral storage.

The present storage system is made up of 9 fields, 8 of which are located in northern Italy (one of them is not yet operational) and one in central Italy. As provided for by article 21, line 1 of Legislative Decree No. 164/2000, which imposed the separation of storage activities from natural gas production and sale activities, on October 31, 2001 Eni SpA and Snam SpA conferred their storage business units to Stoccaggi Gas Italia SpA, a company established for this purpose in November 2000 and wholly owned by Eni SpA. This conferral concerned, among other assets, 749 billion cubic feet of natural gas, of which 378 billion of so called working gas that can be withdrawn without prejudice to general field performance and 371 billion which represent the so called cushion gas necessary for allowing working gas volumes to be withdrawn.

On February 27, 2002 the Authority for Electricity and Gas issued decision no. 26 containing the criteria for the determination of tariffs of natural gas storage for the first regulated period (from April 1, 2002 to March 31, 2006). With reference to these criteria on March 18, 2002, Stoccaggi Gas Italia presented its suggested tariffs for cyclical modulation, mineral and strategic storage services for the first regulatory period. The Authority rejected Stoccaggi Gas Italia's proposal and, in order to enact decision no. 26, set storage tariffs for thermal year 2002-2003 with decision no. 49 of March 26, 2002 effective June 21, 2000. Tariffs set by the Authority are 50% lower than those currently applied by Eni. On April 29, 2002, Stoccaggi Gas Italia notified the Authority that it will appeal both Authority decisions against the Regional Administrative Court of Lombardia in order to seek their repeal.

The table below sets forth certain information and operating data regarding Eni's principal oil and natural gas interests at and for the year ended December 31, 2001.

	Commencement of operations	Number of interests	Net acreage(1)	Type of fields	Number of producing fields	Number of other fields(2)	Production of Crude Oil(3)	Production of Natural Gas(4)	% of Eni's Total Oil and Natural Gas Production
Italy	1926	296	49,294	Onshore/Offshore	98	82	69	239	22.5
North Africa									
Algeria	1981	21	10,283	Onshore	8	18	35	—	2.6
Egypt	1954	38	32,585	Onshore/Offshore	31	27	97	83	13.1
Libya	1959	7	21,268	Onshore/Offshore	8	10	84	3	6.4
Tunisia	1961	12	5,373	Onshore/Offshore	7	2	12	3	1.1
		78	69,510		54	57	228	89	23.2
West Africa									
Angola	1980	34	4,157	Offshore	34	32	64	—	4.7
Congo	1968	17	7,614	Offshore	16	7	69	—	5.0
Gabon	1981	4	11,297	Offshore	1	—	2	—	0.1
Nigeria	1962	55	8,385	Onshore/Offshore	117	127	84	14	7.2
		110	31,453		168	166	219	14	17.0
North Sea									
Norway	1965	19	2,183	Offshore	8	8	70	14	6.1
The Netherlands	2001	1	22	Offshore	2	—	—	2	0.1
United Kingdom	1964	117	5,347	Offshore	51	34	134	68	14.8
		137	7,552		61	42	204	84	21.0
Rest of World									
China	1983	6	8,352	Onshore/Offshore	6	6	12	—	0.9
Croatia	1986	2	3,018	Offshore	1	6	—	4	0.3
Ecuador	1988	1	2,000	Onshore	1	1	25	—	1.8
Indonesia	2001	8	14,827	Onshore/Offshore	8	8	6	41	3.4
Kazakhstan	1995	2	897	Onshore/Offshore	1	1	23	19	3.1
Pakistan	2001	12	15,824	Onshore	3	4	—	2	0.1
Qatar	1992	1	164	Offshore	1	—	6	—	0.4
United States	1968	535	3,517	Offshore	14	6	26	20	3.4
Venezuela	2001	2	630	Onshore/Offshore	5	2	39	—	2.8
		569	49,229		40	34	137	86	16.3
Other countries with only exploration activity		60	110,245		—	14	—	—	—
Outside Italy		954	267,989		323	313	788	273	77.5
Total		1,250	317,283		421	395	857	512	100.0

(1) Square kilometers.

(2) Includes non producing fields with proved, probable or possible reserves.

(3) Thousands of barrels per day. Includes condensates and natural gas liquids.

(4) Thousands of boe per day.

Eni's principal regions of operations are described below.

Italy

Since commencing exploration and production activities in Italy in 1926, when Agip was established by the Government to conduct oil exploration and production, Eni has been the leading producer of oil and natural gas in Italy.

In 2001, Eni's hydrocarbon production in Italy totaled 308,000 boe/day and represented 22.5% of Eni's total production. Eni's exploration and development interests in Italy are concentrated in the Po Valley, the Adriatic Sea, the Val d'Agri in the Southern Apennines and Sicily.

In 2001, natural gas production totaled 1,340 mcf/day and represented approximately 78% of Eni's hydrocarbon production in Italy. Eni's principal natural gas fields are located in the Adriatic Sea (Barbara, Angela/Angelina, Porto Garibaldi, Agostino and Cervia/Arianna, Clara Complex and Bonaccia which collectively accounted for 49% of Eni's natural gas production in Italy) and in the Ionian Sea (Luna, which accounted for

9%). In 2001 the Naomi/Pandora, Emilio, Camilla and Porto Corsini Mare Sud gas fields in the Adriatic offshore started production with an output of approximately 45 mcf/day.

In 2001, Eni's production of oil in Italy totaled 69,000 barrels per day. Eni's two major fields, Villafortuna in the Po Valley and Aquila offshore Puglia, represented 50% of Eni's total production in Italy (60% in 2000). With reference to Val d'Agri fields development projects, in February 2001, the Ministry of Industry ratified the unification of the Grumento Nova, Caldarosa and the south east area of the Volturino concessions, with provisional interest for Eni and Enterprise of 71% and 29% respectively. Work continued for the startup of three new fields located in the above mentioned unitized concession and in the remaining part of the Volturino concession (Eni's interest 45%); while the first phase of the expansion of the Val d'Agri oil center of Viggiano was completed and two lines, with a treatment capacity of around 47,000 barrels per day of oil and 43 mcf/day of natural gas, became operational. The installation of a third treatment line with a capacity of 100 mcf/day of natural gas (around 19,000 boe per day) was also completed. In November 2001 the Monte Alpi pipeline entered into service. The pipeline is 136-kilometer long, has a diameter of 20 inches and links the Val d'Agri oil center of Viggiano to Eni's Taranto refinery. The pipeline has a transport capacity of 150,000 barrels/day and was built under the strictest safety and environmental protection requirements and with anti-seismic techniques. Production from the Val d'Agri field amounted to about 45,000 barrels/day in December 2001 and is expected to reach 99,000 barrels/day by 2003 (64,000 net to Eni). Most of this oil will be treated at the Taranto refinery, the rest at other Italian refineries. Thanks to these developments the Val d'Agri fields increased their share of Italian production from 11% in 2000 to 17.5% in 2001.

In 2001, a total of 11 exploratory wells was drilled (9.5 of which represent Eni's share, 16.8 in 2000), as compared to 20 exploratory wells completed in 2000, with positive results in the onshore Miglianico oil well (100% Eni) in the Pescara basin. Positive results were obtained also at the Fauzia gas well (Eni's interest 60%) in the Northern Adriatic and Quarto 1 gas well (Eni's interest 66.7%) in the Po Valley.

Eni acquired from an international company exploration and production assets mainly in central-southern Italy, including four onshore exploration permits and ten natural gas production concessions, one of them offshore, from which daily production net to Eni in 2001 amounted to 3.1 mcf.

Within its strategy of portfolio rationalization, on March 6, 2002, Eni entered an agreement with TotalFinaElf for the sale of its 25% interest in the Gorgoglione concession in Basilicata, where the Tempa Rossa field is located. The agreement's finalization is subject to approval of the relevant authorities.

According to management's industrial plans, daily hydrocarbon production in Italy is expected to increase from the present 308,000 boe level to a peak of 330,000 boe in 2003 due to the achievement of full production of the Val d'Agri fields that will offset declines of mature fields.

With regards to the Alto Adriatico Project, which contemplated the joint development of 15 offshore natural gas fields with proved reserves of 953 billion cubic feet, on December 3, 1999, the Ministry of the Environment, in agreement with the Veneto Region, issued a decree prohibiting the production of liquid or gaseous hydrocarbons in an area within 12 nautical miles from the coastline. The decree defined also the conditions for granting authorizations to exploit fields located beyond 12 nautical miles, from the test phase until the final exploitation phase. After the issue of this decree, natural gas reserves were reduced by the amount of proved reserves relating to the fields within the set limit (191 billion cubic feet), and the relevant assets were written off (21 million euro). Eni filed an extraordinary claim with the President of the Italian Republic against this decree. The claim was rejected. Eni is presently evaluating the hypothesis of carrying out a test phase on the farthest fields from the coast with proved reserves of 230 billion cubic feet.

North Africa

Eni's operations in North Africa are conducted in Algeria, Egypt, Libya and Tunisia. In 2001, North Africa accounted for 23.2% of Eni's total worldwide production of hydrocarbons.

Algeria. Eni has been present in Algeria since 1981. Its principal oil producing fields are located in the Bir Rebaa area. Oilfields operated by Eni accounted for approximately 6% of Algeria's annual production in 2001. In 2001, oil production started at the HBN field where Eni increased its share from 25.5% to 34.63% after the acquisition of Lasmo, producing 16,000 barrels/day net to Eni.

Two hydrocarbon discoveries were made with EOR-1 wells in the El Ouar II permit (former Lasmo, Eni's interest 66.67%) which yielded 870,000 cubic meters/day and 3,000 barrels/day in test production and with Rome 1 well in Block 403d (Eni's interest 100%) which yielded over 5,000 boe/day in test production.

According to management's industrial plans, daily oil production in Algeria is expected to increase from the present level of 35,000 barrels/day to over 80,000 by 2004 due to the achievement of full production at the HBN field, the planned startup in 2003 of production from the ROD field and the planned development of Lasmo fields acquired in 2001 (in particular the second development phase of HBNS and its satellite fields).

Egypt. Eni has been present in Egypt since 1954 and is the leading international operator. In 2001, Egypt's total annual hydrocarbon production peaked at 418,000 boe/day (180,000 boe net to Eni), fields operated by Eni accounted for 33% of this amount.

Oil and condensate production accounts for over 50% of Eni's producing activities in Egypt and comes mainly from the Belayim and Ashrafi fields in the Gulf of Suez and from the Melehia field located in the Western Desert. Eni's principal natural gas producing interests are concentrated in the Nile Delta, onshore the El Qar'a and Abu Madi fields and offshore, the El Temsah, Port Fouad (former North Port Said), Ras El Barr and Baltim fields. In 2001, natural gas daily production amounted to 481 mcf (net to Eni). The development of the several gas fields discovered in the Port Fouad, Baltim, El Temsah and Ras El Barr concessions located in the Nile Delta offshore, at a water depth of 20 to 80 meters continued and production started at the Temsah NW field (Eni's interest 25%). According to management's projections, daily production from this field is expected to reach over 360 mcf of natural gas (116 net to Eni) and about 20,000 barrels of condensates (7,000 net to Eni) in 2002.

Eni signed an agreement for the construction of an LNG production plant with an expenditure of about dollar 320 million (Eni's interest 33.33%). According to management's plans, construction is expected to start in the first half of 2002 and the plant is expected to start production in 2004. Yearly production is expected to reach 330,000 tons of LPG (butangas), 280,000 tons of propane and one million tons of condensates. According to management's plans, propane will be exported, while LPG and condensates will be sold on local markets.

According to management's industrial plans, daily hydrocarbon production is expected to increase from the present 180,000 boe level to over 190,000 in 2004 due to the projected increase in natural gas production partly offset by the natural decline of mature oil producing fields.

Libya. Eni started operations in Libya in 1959 and is the leading international operator, with oil fields operated by Eni accounting for approximately 14% of Libya's annual oil production. Eni's principal producing interests are located in two areas: onshore in the Bu-Attifel field, where Eni is operator with a 50% interest, and offshore in the Bouri field, where Eni is operator with a 30% interest.

Eni became operator of the Elephant oil field in the NC-174 permit after the purchase of Lasmo increasing its interest in the development phase from 16.67 to 33.34%. In 2001, within the development project of this field, Eni awarded a contract for the construction of early civil facilities, while evaluation is ongoing of the offers received for the four main EPC contracts for the development of the field. According to the management's industrial plan, production startup is expected in the second half of 2003, with a production peak of 150,000 barrels/day (35,000 net to Eni) in 2006.

Within the joint development of the natural gas, oil and condensates fields of Wafa and of structure C in the NC-41 permit, in January 2002 Eni awarded the "Wafa Desert and Coastal Plants" EPC contract amounting to euro 1.2 billion for the design and construction of plants for hydrocarbon treatment near Mellitah. In the next few months other five EPC contracts are to be awarded for the completion of the project. In July 2001 drilling of wells started at the Wafa field. According to the management's industrial plan, first production from the Wafa field is expected in 2004 at an initial level of 39,000 boe/day, while the first production from Structure C of permit NC-41 is expected in 2005.

The first exploration phase of the Epsa 93 Unit A (Eni's interest 100%) and Unit B (Eni's interest 50%) were completed successfully.

According to management's industrial plans, daily hydrocarbon production is projected to increase from the present level of 87,000 boe to approximately 200,000 boe in 2005 due to ongoing development initiatives.

Tunisia. Eni has been present in Tunisia since 1961; its main producing interests are in the El Borma oil field and in the oil and gas Hammouda and Oued Zar fields. In 2001 the development of the natural gas project at Oued Zar (Eni's interest 50%) was completed and allowed to double natural gas daily production to 17.4 mcf (8.7 mcf net to Eni). A new oil discovery was made with well HDA N-1 (Eni's interest 50%), which yielded over 2,000 barrels/day in test production. This well, a satellite of the Hammouda field, was immediately linked to the existing production facilities.

According to management's industrial plans, hydrocarbon production in Tunisia is expected to decline slightly from the present level of 15,000 boe/day in the next four years.

West Africa

Eni's operations in West Africa are conducted in Angola, Congo, Gabon and Nigeria. In 2001, West Africa accounted for 17.0% of Eni's total worldwide production of hydrocarbons.

Angola. Eni has been present in Angola since 1980. Eni's main oil producing interests are located offshore in Blocks 14, 1, 3 and 0 with a 20, 50, 15 and 9.8% interest respectively.

In Block 14 in late 2001 the third development phase of the Kuito field started and according to the management's plan, production is projected to increase from the present 60,000 barrels/day level to a peak of 95,000 barrels/day by the second half of 2002 (12,000 and 16,000 respectively net to Eni). In Block 14 exploration confirmed the size of the Landana field and appraisal is ongoing for the full definition of the potential of the recently discovered Benguela, Belize, Tomboco, Lobito and Tombua fields. In area B of Block 0 in the fourth quarter of 2001 production started at the Nemba Nord platform, which increased daily production from 42,000 to 45,000 barrels net to Eni.

Eni participates with a 20% interest in Block 15. Management believes that this Block holds significant reserves of oil; in this area in 2001 development of the Kizomba A project started. This is a very important project and aims at starting production at the Hungo and Chocalho fields. According to the management's plan, production is expected to start in late 2004 and to peak in 2005 at 250,000 barrels/day (43,000 net to Eni). The development plan envisages the construction of a platform and the installation of a FPSO (Floating Production Storage and Offloading) vessel. The FPSO will be the largest in the world with a storage capacity of up to 2.2 million barrels. Expected expenditure amounts to approximately dollar 3.2 billion (Eni's share is dollar 640 million).

In Block 15 two new oil discoveries were made with the Mavacola 1 well which yielded over 2,000 barrels/day in test production at a water depth of 1,160 meters and the Marimba 2 well—the appraisal well of the Marimba 1 discovery well—which was drilled at a water depth of 1,270 meters and confirmed the field's size finding oil in a new deeper section. Test production yielded over 3,000 barrels/day.

According to management's industrial plans, the present oil production level of 64,000 barrels/day is projected to double by 2005 due to production increase at the Kuito field and planned development of the Benguela-Belize field in Block 14 and of the Kizomba A project in Block 15.

Congo. Eni has been present in Congo since 1968 and is the second largest international oil producer, with oil fields operated by Eni accounting for approximately 26% of Congo's total oil production in 2001. Eni's principal oil producing interests in Congo are the Kitina, Foukanda and Mwafi fields, where it acts as operator, and Loango, Zatchi and the Pointe Noire Grand Fond fields. In July 2001, production started at the Foukanda and Mwafi fields (Eni's interest 65%) only three years after their discovery (March 1998) and reached a level of 6,000 barrels/day; according to management's plans, the production peak of 17,000 barrels/day is expected in 2003.

In Block Marine X (Eni's interest 72%) an oil discovery was made with the Awa Marine-1 well, drilled in only 30 days at a depth of 2,730 meters by means of Saipem's Scarabeo 3 vessel. A mineral layer 170 meters thick yielded in test production about 4,000 barrels/day of high quality oil (32°API).

According to management's industrial plans, Eni's daily oil production is projected to increase from the present level of 69,000 barrels to a peak of 80,000 barrels in 2003 due mainly to production growth in the Mwafi and Foukanda fields.

Gabon. Eni has operated in Gabon since 1981; its only producing interest is the Limande oil field (80% interest) located off the southern coast of the country; its production is expected to remain at about 2,000 barrels/day in the next four years.

Nigeria. Eni has been present in Nigeria since 1962. The fields operated by Eni accounted for approximately 8% of Nigeria's oil production in 2001. Eni's principal producing interests in Nigeria are in four onshore blocks (OML 60, 61, 62 and 63) in the Niger Delta, where it acts as operator with a 20% interest, and in the offshore OML 116 block (former OPL 472 Agbara) and OML 119 (former OPL 91, Eni operator with a 100%), where it participates through service contracts. In December 2001, only eleven months after the signing of the contract with NNPC for the development of the Okono and Okpoho oil fields in OML 119 permit, production started at Okono field. Production from this field, at a water depth of 65 meters, is obtained by means of a FPSO vessel installed and managed by Saipem and by Single Buoy Moorings. According to management's plans, the Okpoho field is expected to start production in 2003 and production from both fields is projected to peak at 16,000 barrels/day net to Eni by 2005.

Eni signed a PSA for the exploration of offshore Block 244, where Eni is operator with a 90% interest. Plans provide for a seismic campaign and the drilling of two exploration wells.

Eni holds a 5% interest in NASE, the largest oil joint venture in the country relating to hydrocarbon production from 43 onshore blocks; through NASE Eni also holds a 12.86% interest in five offshore blocks. Eni holds a 10.4% interest in the Nigeria LNG Company a consortium managing the Bonny liquefaction plant for the treatment and export of liquefied natural gas. The plant is currently being upgraded with the construction of a third treatment train which is planned to increase total production capacity from 268 to 403 billion cubic feet of LNG per year by 2003. In March 2002, contracts for the construction of the fourth and fifth treatment trains were awarded, thus bringing the plant overall production capacity to 770 billion cubic feet of LNG per year. According to management's plans, work is expected to be completed by the end of 2005 and with this initiative Eni's share of the total gas reserves committed to the liquefaction plant amounts to 1,554 billion cubic feet. To meet projected increases in LNG volumes produced, Nigeria LNG is expanding its fleet of LNG tanker ships, which is currently made up of seven tankers. According to the fleet expansion program, three units are currently under construction and are expected to be supplied between June 2002 and early 2003; the construction of four more units, with a capacity of 141,000 cubic meters of LNG each, has been commissioned. According to management's plan, total capital expenditure for these four units is expected to be dollar 650 million; work is expected to be completed between the end of 2004 and the beginning of 2006.

Within the Zero Gas Flaring program, which expects to cut gas flared to zero by 2004, Eni, the relevant authorities and the Nigerian national company NNPC signed an agreement for the construction of a 450-megawatt power plant fired with the associated natural gas from the Irri-Issoko field (13,000 boe/day). According to management's plans, the new power plant (Eni's interest 20%), to be located in the area of Kwale in the Niger Delta, is expected to satisfy power demand of southern Nigeria, feeding the Onitcha electric hub through the construction of a 330,000 volt aerial line, as part of this project. The power plant is expected to be built in about 30 months with a total expected expenditure of dollar 312 million.

In February 2002, in offshore permit OPL 219 (Eni's interest 12.5%) an oil discovery was made in the Bolia IX well, drilled at a water depth of 1,100 meters to a total depth of 3,730 meters which found significant amounts of oil and yielded 6,000 barrels/day in test production.

In permit OML 118 (Eni's interest 12.5%) the Bonga SW 1 discovery well showed a reservoir of similar size to the nearby Bonga field, under development.

According to management's industrial plans, Eni's daily hydrocarbon production is expected to increase from the present level of 98,000 boe/day to over 160,000 boe/day by 2005 due to the projected startup of the deep offshore Bonga and Abo fields and of the EA, Yokri and Cawthorne Channel projects as well as to the projected increase in liquefied natural gas volumes treated at Bonny's plant.

Mauritania. Eni holds a 35% interest in the area covered by A and B PSAs (Blocks 3, 4 and 5) in the deep offshore of Mauritania at a water depth from 200 to 2,600 meters, where hydrocarbons were found with the Chinguetti-1 well.

Senegal. In January 2001, Eni reached an agreement in Senegal with Fusion Oil & Gas, an agency for the management and cooperation between Senegal and Guinea Bissau, concerning the Permis Cheval Marine (where management believes to become operator with a 76.5% share). On the basis of this agreement, exploration activity is expected to be performed in the deep offshore of these two countries.

North Sea

Eni's operations in the North Sea area are conducted in Norway and the United Kingdom. In 2001, the North Sea accounted for 21.0% of Eni's total worldwide production of hydrocarbons.

Norway. Eni has operated in Norway since 1964. Eni's principal producing interests in the North Sea are located in the Ekofisk field (12.39% interest) and in the Norwegian Sea in the Aasgard (7.9% interest) and Norne (6.9% interest) fields. In 2001, production of the Ekofisk, Aasgard and Norne fields accounted for 62 and 38% respectively of Eni's production in Norway (57 and 34% in 2000).

The Norwegian Ministry for Oil and Energy assigned a new exploration license in the North Sea to a consortium made up of three international oil companies, among which Eni with a 30% interest, for Block 35/1, located in the North Viking Graben, 60 kilometers north-east of the Snorre field, offshore Bergen. A discovery was made with the Morvin well in prospect M in license PL134 (Eni's interest 30%) in waters 351 meters deep to a depth of 4,972 meters. Test production yielded about 9,000 barrels/day of oil and over 5.8 mcf/day of natural gas.

The first appraisal well was drilled in the Goliath field (Eni is operator with a 25% interest) in the Barents Sea about 85 kilometers north of Hammerfest. The well showed a mineralized column over 70 meters high containing high quality oil (33°API) and yielded over 4,000 barrels/day in test production. Evaluation tests are underway.

According to management's industrial plans, Eni's daily hydrocarbon production is expected to increase from the present level of 84,000 boe/day to the peak of 100,000 boe/day in 2002, which is expected to be maintained also in 2003.

United Kingdom. Eni has been present in the United Kingdom since 1964. Eni's principal producing interests in the United Kingdom are located in the operated B-Block (average interest of 60%) and in the operated T-Block (which contains the Thelma, Tiffany and Tony fields), where Eni increased its interest from 47.48% to 77.48% after a purchase for euro 34 million. Daily production in this Block increased by about 3,000 boe/day due to the purchase. In 2001, production from the T-Block and the J-Block accounted for 9 and 8% of Eni's total hydrocarbon production in the United Kingdom, respectively.

Other important fields in which Eni has an interest are the J-Block (33%), Hewett (27.35%), Ninian (12.94%), Magnus (5%) and Thames (23.3%), along with Lasmo fields such as McCulloch (40%), Andrew (16.21%), Hamilton (45%), Lennox (45%), Douglas (45%) and Cook (20%).

In 2001, Eni completed its acquisition of Lasmo; in December 2000 Eni had launched a public offering in cash for the whole share capital of Lasmo. Total expenditure for the acquisition, including payments made in 2000 for the purchase of 28% of Lasmo's share capital (euro 1,225 million), amounted to euro 5,353 million (including net borrowings of about euro 970 million).

Lasmo holds assets located mainly in the British section of the North Sea, North Africa, Indonesia, Venezuela and Pakistan. With this acquisition management believes that Eni will reinforce its position in key areas in the North Sea and North Africa, establish a significant presence in the Asian market and expand its activities as operator in Venezuela. In 2001, Lasmo's daily hydrocarbon production amounted to 201,000 boe and according to management's plans, it is expected to reach 260,000 boe by 2003. Lasmo's purchased proved reserves amounted to 739 million boe. Eni's integration with Lasmo's production structure has been completed and management believes this integration will generate cost savings estimated at about euro 100 million on an annual basis.

In 2001 production of oil and gas started at the Elgin/Franklin fields at a yearly level of 14,000 boe/day net to Eni. Eni's asset portfolio is undergoing a rationalization process which provides for the sale of marginal assets. In March 2002, within this strategy Eni sold a 12.4% interest in the Banff oil field, a 19.5% interest in the Hudson oil field and a 19% interest in the Otter oil field, a 9.3% interest in the Pickerill gas field as well as associated interests in the Brent Pipeline System and Sullom Voe Terminal and exploration licenses. The divestment amounted approximately to pound sterling 50 million.

According to management's industrial plans, Eni's daily hydrocarbon production is expected to increase from the present level of 202,000 to a peak of over 210,000 boe/day in 2003 due to production growth at the Elgin/Franklin and Lasmo fields.

Netherlands. Eni, present in the Netherlands due to the acquisition of Lasmo, is operator with a 37.53% interest of the Markham natural gas field which in 2001 produced 2,000 boe/day.

Denmark (Farøe Islands). Eni is operator in two licenses for the exploration of an offshore area covering 700 square kilometers at a depth of 1,000 meters.

Ireland. Eni holds and operates an exploration permit (with a 100% interest) including six offshore blocks at water depths of 1,000-2,000 meters.

Rest of the World

In 2001, Eni's operations in the rest of the world accounted for 16.3% of its total worldwide production of hydrocarbons.

In *Australia,* Eni made a natural gas discovery in Block WA-279-P (Eni's interest 30%) in the offshore Bonaparte basin, about 300 kilometers south-west of Darwin. The Blacktip-1 exploration well showed a 200-meter hydrocarbon column and yielded 87 mcf/day in test production.

In January 2002, the authorities of Timor East and the oil companies making up the consortium operating the natural gas Bayu-Undan field (Eni's interest 6.7%) reached an agreement for the construction of a

550-kilometer long pipeline to link the field to the Australian coast at Darwin for an estimated expenditure of dollar 1.5 billion. The agreement contains favorable tax conditions and the commitment of oil companies to build social facilities at Timor East.

In *Azerbaijan,* in January 2002 Eni signed with the national company Socar a sale and purchase agreement for the purchase of a 5% interest in the project for the construction of the Baku-Tblisi-Ceyhan pipeline. At present Eni's interest concerns only the detailed engineering phase. The project envisages the construction of a 1,740-kilometer long pipeline for the transportation of oil from the Caspian Sea area to the Mediterranean by linking Baku to the Turkish port of Ceyhan through Georgia. The pipeline transport capacity is projected to be of one million barrels/day. The countries crossed by the pipeline (Azerbaijan, Georgia and Turkey) signed an intergovernmental agreement to define the tax regime and the transit rights of each participant to the project.

Eni is operator (with a 25% share) in the offshore Kur Dashi Block, an area of approximately 600 square kilometers. In the Shakh Deniz Block (Eni's interest 5%), an area of approximately 860 square kilometers in the Caspian offshore, exploration contributed to the definition of the extension of the natural gas and condensates field. The development project for this field is in the starting phase after the conclusion of agreements with the national company Socar and the Turkish company Botas for the sale of natural gas extracted.

Brazil. Eni holds interests in 8 exploration and production licenses in the deep offshore and is operator (with shares from 45 to 100%) in three blocks for a total acreage of 13,888 square kilometers in waters up to 2,800 meters deep.

China. Eni has been present in China since 1983; it holds a 16.3% interest in the CACT Consortium, the largest oil producer in the Chinese offshore, which produced 89,000 barrels/day in 2001 (12,000 net to Eni). Two new oil discoveries were made in Block CACT 16/19 (Eni's interest 16.3%) in the Pearl River Mouth Basin in the South China Sea. The discovery wells, HZ/19-2-1 and HZ/19-1-1, were drilled in waters 102 meters deep to a depth of nearly 4,000 meters, where they found mineralized layers. Test production yielded about 5,000 and 3,000 barrels/day of 46° API oil. Production and transmission infrastructure existing in the area will allow to start production in relatively short time. In 2000, Eni obtained an exploration permit in the Qaidam basin, in central western China and signed a Production Sharing Agreement with the national company CNPC, relating to a 7,000 square kilometer area. According to management's industrial plans, the development of fields recently discovered in the consortium area is expected to offset the decline of mature fields keeping daily production at the present level in the next four years.

Croatia. After the first platform, called Ivana A, in the Adriatic offshore started natural gas production in 1999, Eni and Ina, the State-owned Croatian company, in 2000 and 2001 started its satellite platforms, Ivana B, D and E, doubling production. The field is located at a water depth of approximately 43 meters, 40 kilometers west of Pola. Production net to Eni is expected to increase from the present level of 4,000 boe/day to 12,000 boe/day by 2005, through the contribution of the Ika, Ida, Annamaria and Marica fields presently undergoing development.

Ecuador. The Villano oil field, operated by Eni with a 100% interest, is Eni's first oil producing field in Latin America. In 2001, this field produced 35,000 barrels/day (25,000 net to Eni). This production level is expected to remain stable in the next four years. Construction of the OCP pipeline (Eni interest 7.51%) is underway. This new pipeline and the existent SOTE pipeline will ensure transport capacity necessary to meet field production requirements.

Indonesia. Eni is present in Indonesia following the acquisition of Lasmo. Its producing interests are located in the onshore area in east Kalimantan, regulated by the Sanga Sanga PSA (Eni's interest 38%) operated by Virginia Indonesia Company (VICO) in which Eni holds a 50% interest. This area produces mainly natural gas (about 80%). This gas is treated at the Bontang liquefaction plant, the largest in the world, and is exported to the Japanese, South Korean and Taiwanese markets. Hydrocarbons were discovered in the area covered by the Rapak PSA area (Eni's interest 20%) located offshore east of Kalimantan. The three wells drilled in the Ranggas structure showed hydrocarbon mineralization. The extension of this discovery will be determined with the drilling of delimitation wells. According to management's industrial plans, Eni's daily hydrocarbon production in the next four years is expected to remain at the present average level of 38,000 boe.

In *Iran,* Eni and Naftiran Intertrade Company (NICO), a subsidiary of National Iranian Oil Company (NIOC), signed an agreement with NIOC for the development of the Darquain onshore oil field, in the oil rich region of Awhaz. This agreement represents the conclusion of negotiations started with the bid offered by NIOC in 1998 for the development of this field and strengthens Eni's presence in a country with high mineral potential. The project is to be carried out in two phases. The first one envisages the drilling of 8 producing fields, the construction of plants for treatment and transmission of oil and for the reinjection of associated gas, with an estimated daily production of 50,000 barrels. In the second phase, production is expected to increase to 160,000 barrels/day. The project is expected to be completed in 65 months with an estimated expenditure of dollar 550 million, of which 180 million in the first phase. Eni is the operator in the development phase with a 60% interest and is committed to provide know-how, technologies and resources, as well as support to the development of the Iranian industry's ability to participate in the project. The contract is of a buy-back type and provides for costs borne and the return on capital employed (for a total of about dollar 1 billion) to be paid back through production from the field in about 6 years; production is expected to start in 2003. Eni signed another buy-back contract with NIOC for the development of the Balal offshore oil field located in the Persian Gulf, in waters 70 meters deep. Eni holds a 38.25% interest in the project. Development has already started and according to management's plan, production is scheduled to start in late 2002 with an estimated level of 40,000 barrels/day (9,000 net to Eni).

Kazakhstan. Eni has been present in Kazakhstan since 1995. In 2001, Eni was named single operator of the PSA concerning the North Caspian Sea project in the Kazakh offshore. The area under contract is made up of 11 blocks covering a total of over 5,500 square kilometers at a water depth of 2 to 10 meters. This project, due to the mineral potential of existing structures and to the operating and technological challenges it poses, resulting from the shallow waters which are frozen for about six months a year, represents an extremely important industrial feat in the oil industry. Eni intends to apply the most advanced technologies and methods in order to provide maximum environmental protection to the North Caspian area. Three wells were drilled in this area, the first two KE-1 and KW-1 about 40 kilometers from one another, discovered a large reservoir in the Kashagan structure, approximately 75 kilometers south-east of Atyrau. The third well (KE-2), the first appraisal well, drilled at a depth of over 4,000 meters and currently under completion, yielded 7,000 barrels/day in test production and confirmed the importance of the discovery. A second appraisal well (KE-3) is currently being drilled and management expects a second plant to start drilling the third appraisal well (KE-5) in the second quarter of 2002. In September 2001 the project partners signed a purchase and sale agreement with BpAmocoArco and Statoil in order to purchase in proportional shares the interests of these two companies that are leaving the project. When the agreement is finalized, after the granting of authorizations by the relevant authorities as provided for by the PSA regulating the project, Eni's interest will increase from 14.28 to 16.67%.

Eni is co-operator with a 32.5% interest together with British Gas of the Karachaganak field. In 2001, production of condensates amounted to 23,000 barrels/day (net to Eni), production of natural gas amounted to 110 mcf/day (net to Eni). From the beginning of the project to the end of 2001, 75 wells were completed. In 2001 unit 3 was revamped, which allowed to reach a peak production of 115,000 barrels/day of condensates. At the end of 2002 unit 2, designed to reinject 233 billion cubic feet/year of acid gas is expected to be completed. In mid-2003 according to management's plans, with the completion of the first train of the Karachaganak Processing Center, liquid production is expected to be exported to the Russian harbor of Novorossijsk on the Black Sea through the Caspian Pipeline Consortium (CPC) in which Eni holds transmission rights up to 2.75 million tons/year of oil. With regard to natural gas production, at the end of 2001, Eni, Gazprom and Kaztransgaz signed an agreement for the sale of a maximum volume of 247 billion cubic feet of natural gas per year in Russia. Management believes this contract represents the premise for an increase in natural gas sales to Russia in future years. According to management's plans, the development phase of this field is expected to increase Eni's daily production of condensates to 62,000 barrels/day and Eni's natural gas production to 203 mcf/day by 2005.

Qatar. Eni has been present in Qatar since 1992 with interests in the offshore Alkaliji oil field located in Block 6 (Eni's interest 45%). The second development phase is ongoing and is expected to bring present production levels (6,000 barrels/day) to a peak of 13,000 barrels/day by 2002. In May 2002, within its strategy of portfolio rationalization, Eni signed an agreement to divest its 45% interest in this field.

United States. Eni has been present in the United States since 1966 and holds several mineral rights in the Gulf of Mexico. Eni's main producing fields are located in the Grand Isle (where Eni is operator with a 100% interest), Mississippi Canyon (Eni's share 16.46%), Macaroni (34%), Europa (32%) and Allegheny and Morpeth concessions (both operated by Eni with a 100% interest). In March 2002 in Block Green Canyon 516 (Eni's interest 50%) production of natural gas started in the Yosemite and King Kong fields with the objective of reaching a peak of 25,000 boe (12,000 net to Eni) by year-end.

In the Gulf of Mexico the first delineation well of the Champlain structure was drilled successfully. This structure is located in the Atwater Valley Block 63, about 260 kilometers south of New Orleans at a water depth of 1,350 meters. The Champlain 1-ST/3 well reached a total depth of 7,732 meters and encountered oily sands in a layer over 120 meters thick. This result increased the size of the discovered area and confirmed its high potential. The completion of the foreseen appraisal wells will allow to define the field's size and its development plan. Eni increased from 25 to 50% its interest in this project by assuming its total exploration cost which amounts to dollar 22 million.

In the Green Canyon Block 516 (Eni's interest 50%), 240 kilometers south-west of New Orleans, in March 2002 production started at the King Kong and Yosemite natural gas wells, only thirteen months from the decision to develop the King Kong field and after eight months from the discovery of Yosemite, at an initial level of 116 mcf/day (58 net to Eni). According to management's plans, a production peak of 145 mcf/day (70 net to Eni) is expected to be reached before year-end. The development of these two fields, operated by Eni, was obtained by drilling at a water depth of 1,170 meters three underwater wells linked to the Allegheny production platform (Eni's interest 100%) located at a 25-kilometer distance. Expenditure amounted to euro 83 million.

Hydrocarbons were found with the Trident exploration well located in the Alaminos Canyon Block 903 (Eni's interest 8.5%) in ultra deep waters. This well, drilled at the record water depth of 2,953 meters represents the new world record for deep water drilling and found an oil layer about 90 meters thick. The AC903-2 appraisal well drilled later confirmed the presence of hydrocarbons.

According to management's industrial plans, Eni's daily hydrocarbon production is expected to increase from the present level of 46,000 boe to a peak of over 70,000 in 2004 due to the development of recently discovered fields.

Venezuela. Eni, is present in Venezuela following the acquisition of Lasmo and is operator with 100% of the Dacion oil field regulated by a service contract with a 20 year term, in 2001 daily production from this field amounted to 39,000 barrels net to Eni. According to the management's plan, the development of this field is expected to reach a production peak of 90,000 barrels/day in 2004. In addition Eni holds a 40% interest in the development project of the Corocoro oil field, located in the Paria Gulf between Venezuela and Trinidad.

Pakistan. Eni has been present in Pakistan since 2000 following the acquisition of British-Borneo and reinforced its position in the country with the acquisition of Lasmo. Eni's main natural gas producing field is Kadanwari (18.42%). Other natural gas fields are under development: Bhit (Eni is operator with a 40% interest), Zamzama (Eni's interest 17.75%), Sawan (Eni's interest 23.7%) and Miano (Eni's interest 15.16%). According to management's industrial plans, Eni's daily production of natural gas is expected to increase in the next four years from the present level of 12 mcf to over 174 mcf in 2005.

In *Russia,* Eni signed an agreement with Astrakhannafteprom (a company jointly controlled by the Region of Astrakhan and Stroytransgaz) for the purchase of a 50% interest in the Severo Astrakhansky license as operator. This license concerns a 1,800 square-kilometer area, located at the mouth of the river Volga at the boundary of a Precaspian basin, where relevant oil discoveries were made in the past. Exploration activities recently performed proved the presence of hydrocarbons. Management believes this area is promising and according to its plan exploration activity is expected to continue to assess the hydrocarbons reserves of this area. This area is located very near the CPC pipeline.

Turkmenistan. Following the acquisition of Lasmo, Eni has a 27.6% interest in the PSA-regulated onshore exploration block of Garashsyzlyk. At the end of 2001 an exploratory well was drilled to test the mineral potential of the area.

Natural Gas

Through Snam SpA and its subsidiaries, Eni is engaged in natural gas supply, transmission and distribution activities which commenced in the 1940s with the commercial sale of natural gas to industrial users in Northern Italy. In 2001, Eni's primary distribution natural gas sales in Italy totaled 58.89 billion cubic meters; further 3 billion cubic meters were sold in Europe for resale in Italy. Primary distribution sales include sales to wholesalers, mainly local distribution companies, and large industrial and thermoelectric users which are supplied by a high and medium pressure gas pipeline network. Eni's high and medium pressure gas pipeline network for primary distribution is about 30,000-kilometres long in Italy, while outside Italy Eni holds transmission rights on about 3,600 kilometers of high pressure pipelines. Through its gas pipeline network, Eni also transports natural gas on behalf of third parties; in 2001, 11.41 billion cubic meters of natural gas were transported on the Italian network on behalf of third parties; outside Italy transported volumes totaled 5.35 billion cubic meters for sale to markets outside Italy. Effective on July 1, 2001 Eni's natural gas transport network in Italy was transferred to Snam Rete Gas SpA, a wholly owned subsidiary of Eni. In December 2001 shares representing 40.24% of the company's capital were sold through a public offering with proceeds of euro 2.2 billion. Eni operates directly in retail distribution (''secondary distribution'') of natural gas which includes almost exclusively sales made by local distribution companies to commercial and residential users through a low pressure gas pipeline network. Eni operates in secondary distribution in Italy through Italgas—a publicly traded company that is the largest local distribution company in Italy—in Hungary through Tigaz, in Argentina through Distribuidora de Gas Cuyana and in Slovenia through Adriaplin. In 2001, Eni's secondary distribution sales were 8.13 billion cubic meters in Italy and 3.91 billion cubic meters outside Italy. Eni's secondary distribution network in Italy is about 95,000-kilometres long and about 27,000-kilometres long outside Italy. In 2001, Eni's Natural Gas segment had net sales from operations (including intersegment sales) of euro 15,495 million and operating income of euro 3,606 million. Following the resolution of the General Shareholders' Meeting of June 2, 2001, on January 30, 2002, Snam SpA was merged into Eni SpA, thus becoming a division of Eni SpA. On February 1, 2002 (effective date of the merger) the new Gas and Power Division of Eni, which is entrusted with managing natural gas and electricity generation activities in Italy and outside Italy, became operational. Therefore starting in 2002, results of operations of natural gas and electricity generation activities will be jointly reported under the Gas & Power division.

Strategy

Eni is pursuing development in international sales in order to compensate for the lower growth opportunities on the domestic market, due to the limits imposed by the natural gas regulation recently approved in Italy. In Italy, Eni will seek to maximise sales volumes within the regulatory thresholds through the optimal allocation of supplies between sales in Italy and to importers into Italy and by maximizing the use of natural gas at its own electricity generation plants, which do not count towards the thresholds and, at the same time, taking advantage of expected consumption growth, in particular for electricity generation. Management plans to implement a commercial policy aimed at an efficient management of its customer portfolio, flexibility in supplies and enhancement and integration of services provided. Outside Italy management intends to focus its development on the European gas market, in particular in regions with interesting growth and profitability prospects where Eni can make optimal use of its diversified portfolio of supply contracts and its extensive gas pipeline network which allows the supply of natural gas from several sources. Eni also intends to exploit growth opportunities arising from upstream integration, by developing important projects for the valorization of natural gas produced. Eni will also intensify its cost reduction actions in transmission activities in Italy and in secondary distribution.

The matters regarding future natural gas demand and sales target discussed in this section and elsewhere herein are forward-looking statements that involve risks and uncertainties that could cause the actual results to differ materially from those in such forward-looking statements. Such risks and uncertainties relating to future natural gas demand include changes in underlying economic factors, changes in regulation, population growth or shrinkage, changes in the relative mix of demand for natural gas and its principal competing fuels, and unexpected developments in the markets for natural gas and its principal competing fuels.

Demand for Natural Gas in Italy

With consumption amounting to about 71.2 billion cubic meters in 2001 (increasing by 0.6% over 2000), Italy is the third largest European market for natural gas after Great Britain and Germany.

In 2001, about 23% of natural gas requirements were met through domestic production, while imports covered 77%.

In the next decade world demand for natural gas is expected to increase by 3% per year on average. Consumption of natural gas is expected to increase by approximately 160 billion cubic meters/year on average in the European areas in which Eni is interested. The expected development will be determined by the steady increase in natural gas reserves, by the continuing improvement in the technologies applicable to natural gas production, by the environmental compatibility of natural gas and by expected demographic, economic and social developments.

On the basis of data published by an independent body ("Unione Petrolifera"), Eni expects natural gas demand in Italy to increase at higher rates than the European average and than the demand for energy in Italy. Management expects consumption to reach 82 billion cubic meters in 2005 and 92 billion in 2010. The share of natural gas on total domestic energy requirements is expected to increase from the present 32 to nearly 39% in 2010.

Management believes that most of this increase will concern natural gas used in electricity generation, which is expected to double by 2010 because of the use of natural gas in combined cycle plants, thanks to its lower investment cost, higher yields and reduced emissions as compared to other fuels. Demand is expected to increase also from residential and commercial users, due to the expansion of the natural gas distribution network in Southern Italy and the development of gas fired residential space heating in households and services. Many of the factors that may influence future trends in natural gas demand in coming years are, however, outside of management's control; among these there are trends in the price of natural gas compared to other fuels, the development of the electricity sector, the economic growth, climate fluctuations, environmental laws and the continuing availability of natural gas imported from foreign countries. If the growth of the Italian natural gas market were to be lower than management's expectations, Eni's results of operations may not benefit from expected increase in volumes.

Eni and the Natural Gas Market in Italy

In 2001, Eni's natural gas sales in Italy amounted to 58.89 billion cubic meters and covered 84.5% of domestic consumption. About 74% of Eni's natural gas sold was imported, while 26% came from domestic production.

The Italian natural gas market is made up of three main segments: residential and commercial, industrial and thermoelectric. Customers can be divided into two groups: final users consuming natural gas and wholesalers purchasing natural gas to sell it to final users. According to the types of distribution, natural gas sales are divided into: (i) large distribution (primary distribution) which includes sales to wholesalers, mainly local distribution companies, and large industrial and thermoelectric customers; (ii) local distribution (secondary distribution) comprising almost exclusively sales made by local distribution companies to commercial and residential non eligible customers. Starting in 2003 with the complete opening of the natural gas market as provided for by decree 164/2000, all customers become eligible customers and are entitled to purchase natural gas from any supplies and to enter into contracts with transmission companies on the national network and with distribution companies on local networks for the transmission to the delivery points.

In 2001, natural gas consumption in the residential and commercial segment amounted to 26 billion cubic meters (36.5% of the total), with a 4.6% increase over 2000. This market segment includes residential and commercial users and small businesses located in urban areas, which are supplied by local distribution companies through low pressure urban networks. In Italy about 700 local distribution companies operate in 5,500 municipalities with over 15 million customers. These municipalities include approximately 86% of the total Italian population. The penetration rate of natural gas in this segment of users varies locally; distribution of natural gas is available to over 49 million persons living in the municipalities served by local distribution companies. In 2001, Eni's natural gas sales to local distribution companies and through these to residential and commercial users amounted to 24.3 billion cubic meters.

In 2001, natural gas consumption in the industrial segment, amounted to 21.9 billion cubic meters (30.8% of total consumption), with a 2.6% increase over 2000. In 2001, Eni's direct sales of natural gas to industrial users amounted to 15.3 billion cubic meters.

In 2001, natural gas consumption in the thermoelectric segment amounted to 21.3 billion cubic meters (30% of total consumption), with a nearly 1.3% decrease from 2000. This segment includes electricity producers and distributors (Enel and some municipal utilities) and industrial producers of electricity. In 2001, Eni's direct sales of natural gas to thermoelectric users amounted to 12.8 billion cubic meters.

Eni reorganized its activities by creating six new branches in Italy in order to react promptly and efficiently to market requirements, while paying increasing attention to customers' needs and applying the home working model to all its sales personnel. The new marketing strategy is aimed at customer satisfaction and loyalty, through the setting of a new commercial offer tailored on customers needs. In particular the range of elements includes customized commercial offers: from the standard to the modular profile which supplies an optimal mix of options, such as, for example, various price formulas and types of indexes aimed at controlling price volatility, availability of services and technical assistance. At present Eni provides its industrial customers with a wide range of high value added technical services such as co-generation and climatization. The main services provided in co-generation include: (i) studies on co-generation and technical testing of new or upgraded co-generation plants; (ii) combustion analysis and energy control of existing plants for evaluating their proper use and efficiency; (iii) tests of compliance with safety regulations, environmental impact and staff training. Eni also started projects aimed at providing new services and offering them in innovative ways in particular as concerns direct relations to customers.

Eni's new commercial efforts were coupled with intense personnel training activity aimed at developing the new skills required by the market, at reinforcing direct relations with customers and supporting commercial units.

Natural Gas Purchases

Over 75% of the natural gas requirements of Eni's Natural Gas segment are met by imports (mainly from Algeria, Russia, the Netherlands and Norway) under long-term contracts, and for the remaining part by purchases of gas produced in Italy from Eni's Exploration and Production segment. Despite a slight increase in natural gas sales, in 2001 Eni supplied 62.42 billion cubic meters of natural gas for primary distribution, with a 1.91 billion cubic meter decrease, down 3%, due to lower input into storage as fields were replenished in 2000 through the purchase of 2.43 billion cubic meters of natural gas. Lower purchases concerned mainly imports from Algeria (3.39 billion cubic meters) and Russia (1.51 billion cubic meters), while higher purchases concerned domestic production (0.98 billion cubic meters) and imports from the Netherlands (0.91 billion cubic meters). Supplies of natural gas from Norway began during the year. Imports of natural gas covered 76.6% (78.8% in 2000) of total natural gas supplies. Eni's imported natural gas supply contracts, which generally have a term of 20-25 years and include take-or-pay provisions, will cover about 66 billion cubic meters of natural gas per year from 2008 onwards (Russia 28.5 billion, Algeria 21.5 billion, the Netherlands 10 billion, Norway 6 billion).

The table below sets forth Eni's purchases of natural gas by source for the periods indicated.

	Year ended December 31,				
	1997	**1998**	**1999**	**2000**	**2001**
	(billions of cubic meters)				
Italy	16.81	17.72	16.16	13.64	14.62
Algeria	16.02	16.83	20.40	21.56	18.39
Russia	13.75	16.69	19.09	21.03	19.52
The Netherlands	5.00	3.02	2.87	6.09	7.00
Norway	—	—	—	—	1.10
LNG (from Algeria)	1.89	1.99	2.06	2.01	1.79
Total purchases	53.47	56.25	60.58	64.33	62.42
Withdrawals from (input to) storage					
Volumes available to primary distribution				(2.43)	0.13
Volumes available to secondary distribution outside Italy	2.90	2.85	60.58	61.90	62.55
	56.37	59.10	63.39	65.58	66.65

(1) Excludes volumes of natural gas transported by Eni on behalf of domestic third-party producers.

Based on the increasing role played by natural gas in meeting the Italian energy requirements, Eni feels it has the necessary flexibility to manage its gas supplies through direct and indirect sales to Italian importers while respecting the limitation on market shares provided for by Legislative Decree No. 164/2000.

Between 1999 and 2001 Eni entered into seven supply contracts with Italian importers. These contracts, when fully operational, will enable Eni to supply approximately 15 billion cubic meters of natural gas per year to national importers, including 8 billion cubic meters from the Libya. Until the production from Libyan fields comes on stream, these supplies will be covered with gas derived from Eni's wide and diversified portfolio of supply contracts.

Natural Gas Sales

Natural gas sales relating to primary distribution totaled 61.96 billion cubic meters, with an increase of 0.71 billion cubic meters, up 1.2%, over 2000, due mainly to higher sales in Europe for resale in Italy (1.73 billion cubic meters) following the progressive coming into full operation of supplies to Promgas SpA and the beginning of supplies to Plurigas SpA, Sondel SpA, Dalmine Energia SpA and Energia SpA (1.2 billion cubic meters), offset in part by lower sales in Italy (1.03 billion cubic meters).

Sales of natural gas in Italy (58.89 billion cubic meters) decreased by 1.03 billion cubic meters, down 1.7%, due mainly to lower sales to industrial users (1.54 billion cubic meters), also related to increased sales in Europe for resale in Italy, and lower withdrawals by Enel (0.85 billion cubic meters). These decreases were partially offset by higher sales to industrial electricity producers (0.74 billion cubic meters) and to residential and commercial users (0.57 billion cubic meters). Overall direct sales to end-users (including sales of Eni's Exploration and Production segment) amounted to approximately 36.8 billion cubic meters, which corresponds to 50.5% of final consumption by end-users (net of own consumption).

The table below sets forth Eni's sales of natural gas by principal market for the periods indicated.

	1995	1996	1997	1998	1999	2000	2001
	(billion cubic meters)						
Wholesalers	27.07	28.36	27.31	29.49	30.85	30.26	30.83
End customers	25.48	24.67	26.79	26.15	29.34	29.66	28.06
— industrial	15.89	15.40	15.65	15.66	16.33	16.79	15.25
— industrial electricity producers	2.04	2.20	3.88	4.99	4.91	4.65	5.39
— distributors of electricity	7.75	7.27	6.26	5.48	8.10	8.22	7.42
Italy	52.55	53.23	53.10	55.64	60.19	59.92	58.89
Europe for resale in Italy						1.28	3.01
European market			0.04	0.05	0.05	0.05	0.06
Outside Italy			*0.04*	*0.05*	*0.05*	*1.33*	*3.07*
Sales in primary distribution	52.55	53.23	53.14	55.69	60.24	61.25	61.96
Secondary distribution outside Italy		2.80	2.79	2.73	2.67	3.48	3.91
	52.55	56.03	55.93	58.42	62.91	64.73	65.87

Natural gas sales relating to secondary distribution in Italy (8.13 billion cubic meters) increased by 0.21 billion cubic meters, up 2.7%, due to cold weather in the fourth quarter of 2001 and a 107,000 increase in the number of customers (5.56 million as of December 31, 2001). The number of municipalities served at December 31, 2001 was 1,186 (1,163 as of December 31, 2000). In 2001, a total of 6.6 billion cubic meters of natural gas were sold to residential and commercial users (up 3% over 2000), representing over 25% of the total Italian end-user market of secondary distribution (27% in 2000) and 1.5 billion cubic meters to industrial customers not connected to Eni's primary distribution network, at the same level of 2000.

As part of Eni's strategy of cooperation with municipalities and utilities which manage services on behalf of local administrations, in 2001 the new company AES Torino was established, whose shareholders are Italgas (49%) and AEM Torino (51%) for the distribution of natural gas and remote heating in Turin's area. This company, operating since September 2001, will develop the approximately 5,500-kilometer long natural gas distribution network and a remote heating network about 220-kilometer long, which is expected to reach a length of 350 kilometers in the next five years.

With decision No. 237 dated December 28, 2000, the Authority for Electricity and Gas determined tariff criteria for natural gas distribution and supply to non eligible customers. Tariffs are determined so that annual revenues from natural gas distribution and supply activities to non eligible customers do not exceed the thresholds on distribution and sale revenues determined in order to cover operating costs and the remuneration of capital employed. Such constraints are adjusted according to the price cap method based on parameters and formulas determined by the Authority. On June 13, 2001, the Regional Administrative Court of Lombardia accepted the claim of the association of companies distributing natural gas to non-eligible customers who disputed the parameters used by the Authority for determining the cost of capital employed which in turn determines the revenues threshold of such companies. As the Authority filed a claim with the Council of State against the Regional Court's decision, Eni applied the criteria suggested by the Authority in determining revenues.

Natural gas sales relating to secondary distribution outside Italy (3.91 billion cubic meters) increased by 0.43 billion cubic meters, up 12.4%, mainly in Hungary.

Third Party Transport

Eni transported 69.58 billion cubic meters of natural gas on its primary transmission network in Italy (73.18 in 2000), of which 58.17 billion cubic meters were on behalf of Eni's primary distribution. This corresponds to a decrease of 5.56 billion cubic meters, due to lower sales and to the fact that in 2000 about 2.43 billion cubic meters of natural gas were input to storage following exceptional withdrawals in the previous year, while in 2001 natural gas was withdrawn from storage. Volumes withdrawn from storage are not part of transported volumes. In Italy volumes transported on behalf of third parties (11.41 billion cubic meters) increased by 1.96 billion cubic meters, up 20.7%, in line with the increase in sales in Europe for resale in Italy. Volumes transported on behalf of third parties outside Italy supplying local markets (5.35 billion cubic meters) increased by 0.10 billion cubic meters, up 1.9%, in particular for increased volumes transported in Austria. Overall, Eni's input into the Italian pipeline network totaled about 83.4% of the total, net of own consumption.

Transmission, Dispatching and Regasification Assets

The Italian natural gas transmission system is made up of a national network and a regional transmission network, as defined by the Decree of the Ministry of Industry (now the Ministry of Productive Activities) of December 22, 2000, which implements Legislative Decree 164/2000, for a total length of about 31,000 kilometers, of which 29,607 kilometers are owned by Eni. The national network is made up of high pressure trunklines, mainly with a large diameter, which carry natural gas from the entry points to the system—import lines, storage sites and main national natural gas fields—to the linking points with the regional transmission network. The national network includes also some interregional lines reaching important markets.

The regional transmission network is made up of the remaining lines and allows the transmission of natural gas to industries, power stations and local distribution companies of the various local areas served.

At December 31, 2001 the national pipeline network owned by Eni extended for 7,896 kilometers. Underground pipelines have a maximum diameter of 48 inches and carry natural gas at a pressure of 24 to 75 bars. Underwater pipelines have a diameter of 20 to 26 inches and carry natural gas at pressure equal to or higher than 115 bars.

The major pipelines interconnected with import trunklines that are part of Eni's national network are:

- for natural gas imported from Algeria:

  two lines with a 48/42-inch diameter, each approximately 1,500-kilometer long, including the smaller pipes that cross underwater the Messina strait, which link Mazara del Vallo (on the Southern coast of Sicily) to Minerbio (near Bologna). These lines are linked to the import pipelines that carry natural gas from Algeria through the Sicily Channel;

- for natural gas imported from Russia:

  three lines with 42/36/34-inch diameters extending for a total length of 900 kilometers that are linked to the Austrian network in Tarvisio and cross the Po Valley reaching Sergnano (near Cremona) and Minerbio. These lines are being upgraded by the laying of parallel pipes with a 48-inch diameter;

- for natural gas imported from the Netherlands and Norway:

  one line, with 48/34-inch diameter, 177-kilometer long extending from the Italian border at Passo Gries (Verbania), where it connects with the Swiss network, to the node of Mortara, in the Po Valley.

Eni's regional transmission network is made up of pipes with smaller diameter than the national lines and extends for a total length 21,711 kilometers. These pipes carry natural gas at pressures lower than 5 bars, between 5 and 24 bars and between 24 and 75 bars.

Eni's system is completed by: (i) 11 compressor stations with a total power of about 620 megawatts, of which 10 are operational and one is under construction in Masera (Verbania); (ii) 4 marine terminals linking underwater pipelines with the on-land network at Mazara del Vallo and Messina in Sicily and Favazzina and Palmi in Calabria.

Eni's dispatching system is located in San Donato Milanese and oversees and monitors the whole transmission network. This service is operated through a remote data processing system (SCADA—System Control and Data Acquisition) made up of an integrated computer network with decision making support systems.

In addition to the international pipeline transmission system, natural gas enters Eni's system also through the Panigaglia (Liguria) regasification plant, which receives liquefied natural gas (LNG) carried by tanker ships. This terminal is the only one in Italy, at its maximum it can input 3.5 billion cubic meters per year into the transmission network. LNG is initially stored then vaporized in a regasification unit made up of cryogenic pumps and submerged flame vaporizers. When it has recovered the gaseous state, natural gas is input in the transmission network. This terminal also regasifies LNG bought by Enel in Nigeria. In 2001, volumes of LNG regasified amounted to the equivalent of 3.4 billion cubic meters of natural gas.

In 2001 Eni's network transported approximately 69.6 billion cubic meters of natural gas, of which approximately 11.4 billion cubic meters owned by third parties. Eni's inflows, net of own consumption, amounted to approximately 83.4% of the total.

The Italian natural gas system is supplied for about 77% with imported gas, received by Eni outside Italy and transmitted to Italy through a network of international pipelines. Eni owns transportation rights on some international high-pressure transmission networks for a total of about 3,600 kilometers; in particular:

- the TENP pipeline 845-kilometer long (a 500-kilometer long simple line and a 345-kilometer long doubling line) with four compression stations, transports natural gas from the Netherlands through Germany, from the German-Dutch border of Bocholtz to Wallbach at the German-Swiss border;
- the Transitgas pipeline, 282-kilometer long, with one compression station, which transports natural gas from the Netherlands and from Norway crossing Switzerland with its 167-kilometer long main line and a 60-kilometer long doubling line, from Wallbach where it joins the Tenp pipeline to Gries at the Italian border. A new 55-kilometer long line from Rodersdorf at the French-Swiss border to Lostorf, an interconnection point with the line coming from Wallbach was built for the transmission of Norwegian gas;
- the TAG pipeline, made up of two lines, each 380-kilometer long and a third partial line 185-kilometer long, with three compression stations, which transports natural gas from Russia across Austria from Baumgarten, the delivery point at the border of Austria and Slovakia, to Tarvisio, point of entry into Italy;
- the TTPC pipeline, made up of two lines each 370-kilometer long with three compression stations, which transports natural gas from Algeria across Tunisia from Oued Saf Saf at the Algerian border to Cap Bon on the Mediterranean coast where it links with the TMPC pipeline;
- the TMPC pipeline for the import of Algerian gas, made up of two lines each 156-kilometer long and three lines each 155-kilometer long which crosses underwater the Sicily Channel from Cap Bon to Mazara del Vallo in Sicily, the point of entry into Italy.

Various development projects of the national and international network are under way:

- the upgrade of the TENP-Transitgas system for the transport of natural gas from Norway and additional volumes from the Netherlands. This project includes the laying of 556 kilometers of pipelines in Germany and Switzerland (415 were laid and 141 are under construction) and the upgrade of two stations in Germany and one in Switzerland. On Eni's national transmission network the laying of a 48-inch diameter pipeline was completed covering the distance from Masera to Mortara (134 kilometers) which doubles the existing 34-inch pipeline. A new compression station at Masera is under construction and is expected to be completed in 2002;
- the upgrade of the TAG import network from Russia through the laying of a new pipeline with 380 kilometers in Austria (of which 185 kilometers have already been laid) and the construction of a new compressor unit at the border of Austria and Slovakia. On Eni's national transmission network a new 48-inch 222-kilometer long pipeline is going to be laid from Tarvisio to Camisano Vicentino, which is going to start operating in 2007;
- the laying of a new underwater 540-kilometer long pipeline with a 32-inch diameter for the transport of natural gas from Mellitah in Libya to Sicily for the transmission of Libyan natural gas from Wafa and Structure C of NC-41 permit fields which are presently being developed by Eni's upstream segment. On Eni's national network the laying of a 36-inch, 67-kilometer long pipe between Gela and Enna linking to the Mazara del Vallo-Minerbio gasline and the installation of three new compression groups.

Eni purchased a 12% interest in the capital of the company performing a technical, commercial, economic and financial feasibility study for the Medgaz pipeline. This project envisages the construction of a pipeline linking Spain to Algeria through the Mediterranean Sea. CEPSA and Sonatrach each hold a 20% share in the company, while Eni, Gaz de France, Endesa, BP and TotalFinaElf each hold a 12% share.

Effective on July 1, 2001 Eni's transmission, dispatching and regasification activities were conferred to Snam Rete Gas SpA. Net capital employed of the new company, determined according to the criteria set by the Authority for Electricity and Gas with decision No. 120/2001, was set at euro 9.5 billion.

Public Offering of Snam Rete Gas Shares

Between November 26 and 30, 2001, the public offering and underwriting of Snam Rete Gas SpA shares took place, alongside with the private placement to foreign professional and institutional investors, including those of the United States of America as per Rule 144A under the United States Securities Act of 1933.

The Global Offering amounted to 684 million shares, corresponding to approximately 35% of Snam Rete Gas share capital, of which 171 million were allocated to the public offering. The offering price was set at euro 2.8 per each share with a 3% premium on the RAB set by the Authority for Electricity and Gas and a 12% premium on the company's net equity (share capital and premium-price reserve).

Shares of Snam Rete Gas began trading on the Mercato Telematico Azionario on December 6, 2001.

Total proceeds from the offering amounted to euro 2,203 million, of which euro 1,261 million related to the capital increase of Snam Rete Gas and euro 942 million related to the sale of 336.6 million shares by Snam SpA.

Development Projects

Portugal. Eni holds a 33.34% interest in Galp Energia ("Galp"), a Portuguese energy company operating in primary and secondary distribution of natural gas and in downstream oil. This investment (made in 2000) is part of Eni's strategy of international growth in markets with interesting growth prospects, such as the Iberian market. Galp's interest in two key import infrastructures, the Transmaghreb pipeline and the Sines LNG terminal, the latter expected to start operations in late 2003, provides Eni with a sound basis to access the Iberian market. In 2001 Galp, through its subsidiaries in the field of natural gas, sold about 2.5 billion cubic meters of natural gas to over 500,000 customers through a network of high, medium and low pressure pipelines approximately 7,500-kilometer long.

Spain. Eni established España Comercializadora de Gas SAU with the aim of seizing opportunities existing in the Spanish natural gas market. The new company will supply gas to large customers at the border and to eligible customers requesting regasification and transmission of natural gas volumes to their consumption site in Spain. In April 2002 Eni started its supplies of about 1.2 billion cubic meters per year of natural gas to Iberdrola a primary operator in electricity in Spain. The contract has a 15-year term.

Blue Stream. Eni and Gazprom hold equal shares in Blue Stream Pipeline Company BV, which will operate the Blue Stream transport system, linking the Russian to the Turkish coast of the Black Sea. The gasline will transport natural gas produced in Russia and sold jointly by Eni and Gazprom in Turkey to the Turkish company Botas under a 25-year contract. Construction works started in 2001 after the complex negotiations for the definition of the corporate, financing and contractual structure of the project (for further details see Oilfield Services and Engineering—Blue Stream Project). In February 2002 the laying of the first pipeline was completed, the second one was completed in June 2002. Transmission and sale of natural gas are expected to start by the end of 2002. Volumes transported and sold are expected to increase progressively from 2002 onwards and to reach 16 billion cubic meters (8 billion net to Eni).

Germany. Eni signed with the German company EnBW (Energie Baden-Wuerttemberg AG, the third largest operator in electricity in Germany) a joint venture agreement for participating in the bid for acquiring the control of GVS (Gasversorgung Sued Deutschland GmbH), one of the largest regional natural gas transmission and distribution companies in Germany operating in Baden-Wuerttemberg, with the aim of developing its market share. GVS, in which EnBW holds a 33.4% interest through its subsidiary NWS (the company distributing gas and electricity in Stuttgart), purchases and transmits over 7 billion cubic meters/year of natural gas to over 100 distribution companies and industrial customers in the south-western part of Germany through its 1,880-kilometer long network.

Croatia. Studies continue with Ina, the Croatian national company, for the definition of a natural gas supply system to the Croatian market through natural gas produced by an Eni-Ina joint venture in natural gas fields in the Adriatic offshore.

Greece. Eni holds a 49% interest in the natural gas secondary distribution company (EPA) of Thessaloniki (about one and a half million inhabitants) and Thessaly (about 500,000 inhabitants). The two companies hold a 30-year concession for natural gas distribution to residential and commercial users and businesses consuming up to 10 million cubic meters per year, as well as the right to use distribution networks. Eni will manage the companies' operations and will have an option on further offers of shares. In 2001 both companies started to extend the distribution network in their areas. Natural gas sales of the two companies are expected to exceed 800 million cubic meters of natural gas per year and 375,000 customers served by 2005.

Egypt. In March 2001, Eni, BP and Egyptian General Petroleum Company (EGPC) signed in Cairo an agreement for the construction of a gas liquefaction plant in Egypt. The plant will be built on the Egyptian Mediterranean coast in the area of Damietta's harbor and will have a capacity of about 4.5 billion cubic meters per year.

Brazil. Eni is engaged in natural gas distribution in Brazil through its 71% owned subsidiary Gas Brasiliano Distribuidora, which holds a concession for natural gas distribution in the north-western area of the Brazilian State of São Paulo. In 2001 works began for the construction of a distribution network, through which supplies are expected to start by 2002.

Positive contacts with potential customers in the industrial sector and preliminary supply agreements with independent electricity producers, with a total capacity of 2,700 megawatts, allowed Eni to increase its forecasts concerning sales to 4.8 billion cubic meters of natural gas per year.

Eni also agreed with Petrobras a ten-year natural gas supply contract.

Electricity Generation

Eni operates in electricity generation through EniPower SpA, a wholly owned subsidiary producing and selling electricity and steam, and in electricity trading through EniPower Trading SpA, which commenced operations at the end of 2000. EniPower owns and manages Eni's power stations mainly market oriented and with great development potential located at Eni's industrial sites in Brindisi, Mantova, Ravenna, Livorno and Taranto, with a total installed capacity of approximately 1,000 megawatts.

Eni is implementing a significant development plan in electricity generation with the aim of reaching in the medium-term an installed capacity of 5 to 7,000 megawatts, corresponding to about 7 billion cubic meters of consumed natural gas per year. Management plans to attain these objectives mainly through internal growth.

In 2001 Eni purchased a 40% interest in Società Termica Milazzo, owner of a combined cycle 150 megawatt plant. Internal growth initiatives involve five sites where natural gas fired combined cycle generators are planned to be installed for a total of 4,100-4,500 megawatts. In order to achieve its growth objectives Eni is studying projects for a further 1,200 megawatts.

High efficiency, low environmental impact, reduced expenditure and construction times are the main features of these plants, which show interesting profitability prospects due to the expected increase in demand for electricity and the ability to operate in co-generation (combined electricity and steam generation). Should the cogeneration mode be acknowledged by the Authority for Electricity and Gas, it will be possible to obtain priority on the national dispatching network and to be exempted from the requirement to produce a share of renewable energy, thus benefiting from lower operating costs. EniPower intends to become a cost leader in the Italian electricity industry thanks to the high technology content and optimal size of the plants it is building. Commercial policies will aim at developing customized and flexible contractual structures and high value added services.

In 2001, sales of electricity amounted to 4,978 gigawatthour, of which 38.9% to other Eni segments. Sales of steam amounted to 10 million tons.

Through EniPower Trading, Eni sold 1,560 gigawatthour of purchased electricity to eligible customers, of these 1,352 gigawatthour were imported.

Refining and Marketing

Through AgipPetroli, Eni engages in refining and marketing activities primarily in Italy, Europe and Latin America. In distribution, with its Agip and IP brands, Eni is the market leader in Italy. In 2001, Eni's sales of refined products amounted to 53.24 million tons, of which 34.99 in Italy. Eni's processing capacity was 814,000 barrels/day at December 31, 2001. Eni's General Shareholders' Meeting held on May 30, 2002 resolved to merge AgipPetroli SpA into Eni SpA; thus AgipPetroli is going to become the third division of Eni SpA. Through this operation Eni continues the process of divisionalization of its activities aimed at attaining a higher level of integration, further streamlining of organizational structures and exploiting synergies.

Eni intends to balance its fuel distribution activities in Italy and outside Italy. Eni intends to continue the requalification of its (owned and leased) network in Italy by selling and closing marginal service stations and developing the stronger part of its network (service stations with high throughput and high non oil potential) and its non oil retail activities. Eni's objective is to reach European efficiency standards in terms of average throughput and services to customers. Outside Italy Eni intends to strengthen its position through purchases and swap agreements with other oil companies in areas of interest in Europe (southern France, Spain, Germany) or along development lines in north-eastern Europe where it can profit from integration with its supply sources and well-known brand name. In Latin America Eni intends to strengthen its leading position in LPG and improve the efficiency of its network.

In refining Eni intends to rebalance its capacity, by favoring processing in refineries nearer its end markets, and increase the flexibility of its supply system. Management plans to reduce capacity, especially in refineries located on Italian islands, through agreements with other companies and contract sales of production capacity. Eni intends to intensify its efforts for efficiency improvements in all of its activities.

The matters regarding future rationalization plans discussed in this section and elsewhere herein are forward-looking statements that involve risks and uncertainties that could cause the actual results to differ materially from those in such forward-looking statements. Such risks and uncertainties include difficulties in obtaining approvals from relevant Antitrust Authorities and developments in the relevant market.

Supply and trading

In 2001, a total of 59 million tons of oil were purchased (64 in 2000), of which 29 million tons from Eni's Exploration and Production segment, 14 million tons under long-term contracts with producing countries, and 16 million tons on the spot market. Some 25% of oil purchased came from North Africa, 25% from West Africa, 15% from the Middle East, 14% from countries of the former Soviet Union, 12% from the North Sea, 7% from Italy, and 2% from other areas. Some 22.7 million tons were resold, representing a decrease of 3.6 million tons, down 14%, over 2000, mainly due to the fact that in the previous year Eni was single marketer of the Nanhai Chinese crude (5.13 million tons) on behalf of the CACT Consortium. In 2001 this crude was marketed by another partner.

In addition, 4.18 million tons of intermediate products were purchased (3.83 in 2000) to be used as feedstocks in conversion plants and 15.2 million tons of refined products (14.7 in 2000) sold as a complement to Eni's own production on the Italian market (4.9 million tons) and on markets outside Italy (10.3 million tons).

Italian law requires that entities involved in the production and marketing of petroleum products in Italy contribute to mandatory stocks of such products. See "—Regulation of the Italian Hydrocarbons Industry—Refining and Marketing of Petroleum Products—Mandatory Reserves".

Refining

Eni engages in refining activities in Italy and owns interests in refineries in Germany and the Czech Republic with a total refining capacity (balanced with conversion capacity) of 814,000 barrels/day, at December 31, 2001, with 744,000 barrels/day capacity in Italy, accounting for approximately 37.1% of Italy's domestic refining capacity.

Within the process of balancing processing capacity related to lower sales on domestic markets, refinery intake processing (41.44 million tons) decreased by 3.24 million tons over 2000, down 7.3%, because of lower processing in third parties refineries, due in particular to the revision of Eni's processing contract with Saras SpA-Raffinerie Sarde (Sarroch refinery), offset in part by higher processing on Eni's own behalf. The average capacity utilization rate of wholly-owned refineries was 97% in 2001, slightly lower than in 2000 (99%), due to lower processing on behalf of third parties (1.96 million tons) offset in part by higher processing on Eni's own behalf (1.27 million tons). About 29.1% of oil processed on Eni's own behalf (40 million tons) came from Eni's Exploration and Production segment (31.6% in 2000).

Within its strategy of obtaining a better balance of its refining capacity, focusing on refineries nearer to their end markets and increasing supply flexibility, Eni signed:

- two multi-year processing contracts for the sale to Tamoil SpA of a share of Eni's refining capacity corresponding to 1.6 million tons/year. The Italian Antitrust Authority authorized the two contracts;

- a letter of intent with Erg Petroli concerning the organizational and industrial restructuring of Eni's Priolo and Erg's Melilli refineries in Sicily aimed at creating a refining pole capable of competing on international markets, in particular in the Mediterranean area, also integrated downstream with Eni's petrochemical facilities and Erg's power station which produces electricity using the refineries' heavy residues. The project has to be approved by the Italian Antitrust Authority and provides for the establishment of a new company controlled by Erg which will own the two refineries and the power plants serving the two refineries. The new company shall: (i) integrate the refineries also through the construction of pipelines in order to attain the organizational and management synergies deriving from the high level of complementarity of the industrial plants; (ii) implement development projects concerning the power stations.

At December 31, 2001, Eni's refining system in Italy was made up of six wholly owned refineries and of 50% of the Milazzo refinery in Sicily.

The table below sets forth certain statistics regarding Eni's refineries at December 31, 2001.

	Location	Ownership Interest	Conversion Equivalent(1)	Balanced Primary Distillation Capacity(2)
Wholly-owned refineries:				
Priolo	Sicily	100.0%	27.0	160,000
Sannazzaro	Lombardy	100.0%	41.3	160,000
Gela	Sicily	100.0%	136.1	100,000
Taranto	Apulia	100.0%	66.7	90,000
Livorno	Tuscany	100.0%	10.5	84,000
Porto Marghera	Veneto	100.0%	22.3	70,000
Total wholly-owned refineries			49.7	664,000
Partly-owned refineries:				
Milazzo	Sicily	50.0%	66.1	80,000
Ingolstadt/Vohburg/Neustadt	Germany	20.0%	30.0	52,000
Schwedt	Germany	8.3%	33.0	18,000
Total partly-owned refineries			40.1	150,000
Total Eni			44.9	814,000

(1) Stated in fluid catalytic cracking equivalent/topping (% by weight), based on 100% of balanced primary distillation capacity.

(2) Barrels per calendar day. Based on percentage equity interest ownership in the refinery, not on actual utilization of balanced primary distillation capacity.

At December 31, 2001, Eni's wholly owned refineries had a conversion capacity of about 16.5 million tons, with a 49.2% conversion equivalent rate, one of the highest in Europe. Each of Eni's Italian refineries is specialized based on its logistical configuration, geographic location and integration with other Eni business segments.

Sannazzaro, with a balanced primary conversion capacity of 160,000 barrels/day, is one of the most modern and efficient refineries in Europe. Located in the south-west of the Po Valley, at the confluence of the rivers Po and Tessin, it produces mainly gasolines and other light products for the supply of markets in Northwestern Italy, Austria, Switzerland and Bavaria. Beside its primary distillation plants, this refinery contains two catalytic reforming plants used to increase the octane number of gasolines, an isomerization plant and three desulfurization plants, which allow a high degree of flexibility of production related to market and environmental conditions. The conversion plants are: a fluid catalytic cracker (FCC), a HDCK middle distillate conversion, and a visbreaking thermal conversion. This refinery processes mainly oil from Russia and Africa incoming at the nearby Genoa harbor and oil from Eni's nearby Villafortuna field. From a logistical standpoint this refinery is located along the route of the Central Europe Pipeline, which links the Genoa terminal with French speaking Switzerland and Bavaria.

Priolo, with a balanced primary refining capacity of 160,000 barrels/day, represents an integrated complex with the neighboring Eni petrochemical plants. Located in Sicily on the road linking Siracusa to Catania, thanks to its high operating flexibility it produces finished and semi-finished products for supplying Italian and foreign markets and paraffin feedstocks used in the production of olefins deriving from the processing of high-paraffin content crude oil from Eni's Bu-Attifel field in Libya. It also supplies steam and electricity for the plants located in the complex. Besides its primary distillation plants, this refinery contains a reforming plant and a cumene production plant for the manufacture of feedstocks for Eni's phenol and caprolactam plants. The conversion plants are: a FCC and a visbreaking thermal cracker. Oil and oil products are handled on land and by sea through two docks extending in the Augusta bay, which allow for the contemporary mooring of 11 vessels with a maximum dead weight of 375,000 tons.

Gela, with a balanced primary refining capacity of 100,000 barrels/day, represents an upstream integrated pole with the production of heavy crudes obtained from nearby Eni fields offshore Sicily, while downstream it is integrated with Eni's nearby petrochemical plants. Located on the southern coast of Sicily, it manufactures fuels for automotive use and residential heating purposes, as well as petrochemical feedstocks. Its high conversion level allows it to minimize the yield of fuel oil and semi-finished products. Beside its primary distillation plants, this refinery contains conversions plants such as a FCC and two coking plants. All these plants are integrated in order to process heavy residues and manufacture valuable products. This refinery also contains modern residue and exhaust fume treatment plants which allow the complex to comply with the most exacting environmental standards. Oil and oil products are handled on land and by sea. In 2001, a new FCC reactor with advanced technology was installed which will allow to increase significantly conversion also with low grade feedstocks.

Taranto, with a balanced primary conversion capacity of 90,000 barrels/day, can process a wide range of crudes and semi-finished products with great operational flexibility. It mainly produces fuel for automotive use and residential heating purposes for the southeastern Italian markets. Beside its primary distillation plants, this refinery contains desulfurization plants, and conversions plants such as: a two-stage thermal conversion plant (visbreaking/thermal cracking) and an RHU hydrogen conversion plant, one of the most advanced plants in the world with high yield of valuable products and low environmental impact. It processes most of the oil produced in Eni's Val d'Agri fields which is carried to Taranto through the Monte Alpi pipeline which started operations in late 2001. In February 2002 the column for amminic washing of the gas deriving from the RHU process started operating which will allow to extend the useful life of the RHU plant.

Livorno, with a balanced primary refining capacity of 84,000 barrels/day, manufactures gasolines, specialty products and lubricant bases. Besides its primary distillation plants, this refinery contains two gasoline treatment plants, an isomerization plant and an octanization plant for the manufacture of highly environmental friendly gasolines, as well as a technologically advanced solvex cycle for lubricant manufacture. Its pipeline links with the local harbor and with the Florence storage sites allow the Livorno facility to operate with great efficiency as concerns reception, handling and distribution of products.

Porto Marghera, with a balanced primary conversion capacity of 70,000 barrels/day, produces mainly gasolines and other light products for the supply of markets in northeastern Italy, Austria, Slovenia and Croatia. Beside its primary distillation plants, this refinery contains a gasoline treatment plant, octanization plants and one two-stage thermal conversion plant (visbreaking/thermal cracking) for increasing yields of valuable products and complying with the most stringent environmental requirements.

Milazzo (a joint venture in equal shares between Eni and Kuwait Petroleum Italia) has a balanced primary refining capacity of 160,000 barrels/day and contains two primary distillation plants, one naphtha treatment plant, one gasoil treatment plant and an octanization plant for the manufacture of environmentally friendly gasolines. The refinery contains also three conversion plants: one high capacity FCC for gasoline manufacture, a HDCK middle distillate conversion plant for gasoil manufacturing and one conversion plant for heavy residues with hydrogen (LC finer) which allows manufacturing of environmentally friendly products. This refinery also has two docks which allow the mooring of vessels with a maximum dead weight of 104,000 and 420,000 tons respectively. Its position at the center of the Mediterranean Sea makes it an ideal supplier of products to the Italian and international market.

Eni sold its 15% interest in Saras SpA-Raffinerie Sarde for euro 59 million. The processing agreement signed with this company in 2000 reduced Eni's processed amounts by 2.5 million tons (from 4.7 to 2.2 million tons) in this light the investment in Saras was no longer strategic and Eni sold its stake.

In Germany Eni holds an 8.3% interest in the Schwedt refinery and a 20% interest in Bayernoil, an integrated industrial pole including the Ingolstadt, Vohburg and Neustadt refineries. Eni's refining capacity in Germany amounts to approximately 70,000 barrels per day. Eni's share of the production of the three integrated refineries and of the Schwedt refinery is mainly used to supply Eni's distribution network in Bavaria and eastern Germany.

Eni owns also a 16.3% share in Ceska Rafinerska, an integrated industrial pole including the Kralupy and Litvinov refineries in the Czech Republic. This interest entitles Eni to withdraw a share of the finished products up to the maximum amount of 16.3% of production by these refineries (1.2 million tons/years).

Within its strategy of selective development outside Italy, which provides for Eni's disengagement from marginal areas, in January 2002 Eni sold its 50% share in the Indeni refinery located at Ndola in Zambia.

The table below sets forth Eni's petroleum products availability figures for the periods indicated.

	1997	1998	1999	2000	2001
			(millions of tons)		
Italy					
Products processed in wholly-owned refineries	31.10	34.05	32.00	32.93	32.24
Products processed for third parties	(3.50)	(3.24)	(2.78)	(3.41)	(1.45)
Products processed in non owned refineries	8.00	7.90	8.08	8.41	5.92
Products consumed and lost	(2.00)	(1.94)	(2.07)	(2.11)	(1.95)
Products available	33.60	36.77	35.23	35.82	34.76
Purchases of finished products and change in inventories	6.75	5.74	5.45	4.30	5.19
Finished products transferred to foreign cycle	(4.20)	(6.51)	(5.23)	(4.58)	(4.96)
Products sold	36.15	36.00	35.45	35.54	34.99
Outside Italy					
Products available	2.80	3.33	3.08	3.07	3.02
Purchases and change in inventories	8.45	8.35	8.06	10.27	10.27
Finished products transferred to Italian cycle	4.20	6.51	5.23	4.58	4.96
Products sold	15.45	18.19	16.37	17.92	18.25
Sales in Italy and outside Italy	51.60	54.19	51.82	53.46	53.24

On February 13, 2002, the Judge for preliminary inquiry of the Court of Gela issued a decree of preventive seizure of the assets of the Gela refinery, considering coke as a waste product and not as a refined product and putting under custody 64 storage tanks deprived of double protection (based on a further inspection only 7 were confirmed as such), 2 coke storage tanks and tanks for ASO (an oil deriving from the alkylation plant). The seizure of these coke tanks determined a serious criticality in the operation of the refinery's operating cycle, which takes place in tight linking of plants and synergy with the petrochemical cycle. AgipPetroli, owner of the plant, filed a request of freeing from seizure the two coke storage tanks and at the same time a request for re-examination at the Caltanissetta Court. The company's arguments were focused on the inevitable standstill of the refinery and on the fact that pet-coke is a refined product, as confirmed by a Ministerial Decree of January 16, 1995 and by the Presidential Decree of October 2, 1995 defines the conditions of use of coke from oil as a fuel, and also by Presidential Decree of March 8, 2002 that classifies pet-coke as a fuel. The company also reminded that pet-coke as a fuel is traded domestically and internationally, is listed in a specific exchange and European and United States rules and literature allow its use as a fuel, as it is not included in the CER catalog, which defines waste from oil refining. AgipPetroli also confirmed that the Gela Refinery conforms to Italian and European rules, is certified under ISO 14001 as a fuel standard, confirmed by the Det Norske Veritas in 2000 and in a further test in July 2001. On the other hand, in utilizing pet-coke as a fuel in accordance with the authorizations already received as mentioned above, AgipPetroli has taken serious measures for reducing the environmental impact related to this kind of combustion by building a technologically advanced plant for the reduction of polluting emissions called Snox, considered by the European Commission the best technology available for power stations, which entailed an expenditure of euro 150 million. In addition, AgipPetroli applied all the measures requested by current regulations to respect the emission thresholds related to production cycles, as can been ascertained by the trend of the major environmental indicators that in the period 1994-2000 showed an 80% decline in Nox and sulfur dioxide emissions. Despite these arguments, reported by AgipPetroli in its claim to the Court of Re-exam of Caltanissetta, the court rejected the request for freeing from seizure the two coke plants of the refinery, thus confirming the interpretive doubts posed by the so-called Ronchi Decree (Legislative Decree 22/1997) on the actual nature of pet-coke. Law Decree No. 22 of March 7, 2002, providing an authentic interpretation of the Ronchi decree, established that: (i) pet-coke used as fuel for industrial use is not a waste product and therefore is excluded from the scope of application of the decree (art. 1); (ii) the percentage of sulfur allowed in the use of pet-coke, (provided it is) burnt in the production site (art. 2.2), can be higher than the maximum limit of 3% set in the general rule mentioned in art. 2.1. The same Law Decree in its premise explicitly states that the Gela refinery is provided with "the best techniques available" and "guarantees an environmentally safe combustion of pet-coke given its high technological level". On the basis of this decree, on request of AgipPetroli, the Gela public prosecutor on March 10, 2002 freed the two coke plants from seizure and imposed some measures. The relevant Court will establish the legitimacy of this freeing and the applicability of the measures it contains.

Logistics

Eni is the leading transporter of petroleum products in Italy. Its logistical integrated infrastructure consists of a network of petroleum product pipelines, 2,420-kilometer long (of which it owns 1,480 kilometers). In 2001 the new Val d'Agri pipeline began operations. This 136-kilometer long pipeline links the Viggiano oil center to the Taranto refinery.

Eni also owns storage facilities, tanker ships and a large fleet of tanker trucks (some of which wholly owned by Eni).

Eni also operates and owns an underground storage facility in Livorno with the capacity to store 45,000 cubic meters of propane.

From 2000 three joint ventures with the most important Italian oil companies are operating at present in Vado Ligure, Venice and Ravenna aimed at reducing costs, increasing efficiency and developing innovative integrated services to customers.

Distribution and Marketing

Eni markets a wide range of refined petroleum products, primarily in Italy, through an extensive direct sales network, franchises and other distribution systems. The table below sets forth Eni's sales of refined products by distribution channel for the periods indicated.

	1997	1998	1999	2000	2001
			(millions of tons)		
Retail marketing	12.09	12.02	11.85	11.57	11.64
Wholesale marketing	11.30	11.73	11.42	11.10	11.24
	23.39	23.75	23.27	22.67	22.88
Petrochemicals	5.97	5.75	5.38	4.93	4.23
Other sales(1)	6.79	6.50	6.80	7.94	7.88
Sales in Italy	36.15	36.00	35.45	35.54	34.99
Retail marketing	2.93	3.46	3.91	3.78	4.18
Wholesale marketing(2)	6.17	6.20	6.40	5.46	5.55
	9.10	9.66	10.31	9.94	9.73
Other sales(1)(2)	6.35	8.53	6.06	7.98	8.52
Sales outside Italy	15.45	18.19	16.37	17.92	18.25
	51.60	54.19	51.82	53.46	53.24

(1) Includes bunkering, consumption for power production and sales to oil companies.

(2) From 2001 MTBE sales outside Italy, formerly included in wholesale sales, are included in other sales. Sales of 2000 are therefore adjusted (700,000 tons).

Retail Marketing

Eni markets gasoline, gasoil, LPG and other refined products (principally automotive lubricants) to retail customers under the ''Agip'' and ''IP'' brands through a network that at December 31, 2001 included 12,085 service stations, located primarily in Italy, Brazil, Central Europe and Spain. Sales of refined products (53.24 million tons) decreased by 0.22 million tons, down 0.4%, due mainly to lower sales to Eni's Petrochemical segment (0.7 million tons) and to oil companies and traders (0.24 million tons), offset in part by higher retail and wholesale sales in Italy and outside Italy (0.7 million tons).

Italy. At December 31, 2001, Eni's retail distribution network in Italy consisted of 8,351 service stations, of which approximately 59% under the ''Agip'' brand name and 41% under the ''IP'' brand name. Eni continues the requalification process of its (owned and leased) Italian retail network by selling and closing down marginal service stations and developing the stronger part of its network (stations with high throughput and high non oil retail potential). Eni's objective is to reach European standards in terms of throughput and services provided to customers. The development and upgrade of large service stations will allow to better exploit the changes that are going to be introduced in Italian regulations, such as non oil sales and longer opening hours. In 2001, the number of Eni's service stations decreased by 694 units, following the closing down of 596 stations and the sale of 255 stations. Under the Agip and IP brands 28 new owned stations were opened while 129 new lease agreements were signed. The ''Do-it-yourself'' policy supported by the ''High fidelity'' campaign continued its very successful course and was extended to more service stations (approximately 37% of Eni's network). Eni's average throughput increased by 5% over 2000, from 1,565,000 liters to 1,643,000 liters. Market share was 39.7% (40.2% in 2000). The aim to improve the quality of service to customers led to a further expansion of the automation process of the domestic network. At December 31, 2001 approximately 5,000 Agip and IP service stations (59% of retail distribution) were provided with a corporate credit card system (55% in 2000).

Eni continued the development of its non oil retail activities aimed at promoting the development of its network in line with European standards, through initiatives such as self-service and innovative outlets. To this end Eni owns 50% of Finifast, a restaurant and catering company with a strong presence in highway outlets, which owns a 20-year license for the Fini trademark, and master franchisor rights with exclusive rights for the oil sector for some international brands of the restaurant and catering sector. In the next 8 to 10 years Eni plans to open 400-500 food outlets (200 of these in the next four years) with high visibility. In 2001, a total of 53 food outlets were opened under the following trademarks: Fini (32), Mc Donalds (9), Pans & Co (6) and Café Parmalat (6). The program provides also for more service stations to be equipped with car wash facilities and convenience stores. The upgrading of Eni's network will be achieved also through other actions, such as the introduction of more advanced automated management systems of service stations, the development of payment through cards and the implementation of "customer relationship management". Contracts with service station keepers are going to be renegotiated while at the same time boosting e-business activities with an improvement in the functions provided by Eni's portals.

Retail sales (11.64 million tons) increased slightly over 2000, up 0.6%; in particular, the increase in sales of gasoil for automotive use, related also to the increase in use of corporate credit cards, was offset in part by the effect of divestments and closures. Eni's market share decreased by approximately half a percentage point from 40.2 to 39.7%, while average throughput grew by 5% from 1,565,000 liters to 1,643,000 liters.

Outside Italy. As of December 31, 2001, Eni's distribution network outside Italy consisted of 3,356 service stations located mainly in Europe and Brazil. In 2001 Eni continued the development in areas with consolidated presence and interesting growth prospects and left marginal geographic areas (Africa).

The strategic partnership with Galp Energia will allow Eni to integrate the development of its activities in downstream in the Iberian peninsula and to foster joint industrial projects. Galp, through its subsidiary Petrogal, is a leader in refining, distribution and sale of refined products in Portugal. Petrogal owns two refineries (with a total capacity of 15.2 million tons/year) and a sale network made up of 1,082 service stations (1,094 in 2000) with a 46.7% market share (46.9% in 2000) and average throughput of 2.4 million liters (unchanged in comparison with 2000). Petrogal holds also a 44.6% market share in LPG (44.3% in 2000). Galp Energia controls 90% of the Portuguese logistics assets. In Spain Galp Energia has a network of 189 service stations (192 in 2000).

In Brazil Eni purchased 258 service stations from Shell and 118 from IPE, one storage site and interests varying from 14 to 25% in four additional storage sites in southern Brazil. In France Eni bought from TotalFinaElf 91 service stations with an average throughput of 3.4 million liters located on ordinary roads and highways in the south-east of the country. Following this acquisition Eni's market share in the area increased from 2.4 to 6.5% (in the oil companies segment, excluding supermarket sales). Effective January 1, 2002, Eni sold its fuel distribution assets in Zambia (20 service stations and a gasoline storage site).

Retail sales outside Italy amounted to 4.18 million tons and increased by about 400,000 tons, up 10.5%, due mainly to the purchase of service stations in Brazil and France. Various development actions were addressed to non oil activities which account for an increasing share in results.

Wholesale Marketing and Other Sales

Eni sells gasoline, gasoil, fuel oil, lubricants, petroleum coke and LPG both directly to large customers and through independent distributors on various wholesale markets. Major customers are the agricultural and manufacturing industries, public utilities and transports. Eni also sells jet fuel directly at 40 airports, of which 27 in Italy, and marine fuel (bunkering) directly at 38 ports, of which 23 are in Italy. In addition, it sells virgin naphtha and fuel oil to Eni's Petrochemical segment. Enel is the single largest customer of Eni's Refining and Marketing segment, purchasing approximately 10% of its total refined products requirements from Eni and accounting for approximately 5% of Eni's total revenues from wholesale sales in Italy in 2000.

Sales on wholesale markets in Italy (11.24 million tons) increased by 140,000 tons, up 1.3%, due mainly to increased sales of gasoil for automotive purpose (266,000 tons). Market share increased by 1.6 percentage points from 24 to 25.6%.

The Italian Antitrust Authority on June 18, 2001 started an inquiry on 30 operators in the Italian wholesale market for refined products (among these AgipPetroli SpA and Atriplex SpA) aimed at verifying the possible infringement of competition rules in public bids for contract in the 1996-2000 period. Results are expected to be published at the end of 2002.

Sales to Eni's Petrochemical segment (4.23 million tons) decreased by 700,000 tons, down 14.2%, due mainly to lower product availability in Sardinia related to the revision of the contract with Saras, while other sales (7.88 million tons) decreased by 60,000 tons, down 0.8%, due mainly to lower sales of marine fuel.

Outside Italy, wholesale sales (5.55 million tons) increased by 90,000 tons, up 1.6%. Other sales (8.52 million tons) decreased by 160,000 tons, down 1.8%, due mainly to lower sales to oil companies and traders.

E-Business—E-Commerce

Eni continued the implementation of its strategic plan aimed at exploiting the potential of the internet in particular:

- to win customers' trust by supplying innovative products and services on line, with greater emphasis on assets and trademarks;
- to create a tool for communication with all operators of its fuel distribution network in order to increase management process efficiency and service levels. About 2,000 service stations are provided with a dedicated PC linked to the "Manager's Portal", which will be progressively extended to the most relevant stations. The following applications are active or in the development phase: fuel orders, maintenance requests, change in suggested prices, lubricant orders, management of incentives related to sales goals, display of account movements, documents and links to other relevant sites, forum. Applications concerning non oil orders and online training are in the definition phase;
- to integrate Eni's own systems and processes with those of the major customers and suppliers through the web in order to increase efficiency. Orders from the Public Administration and some major clients are already active through the web;
- to foster new initiatives aimed at specific groups of customers which can strengthen Eni's competitive position in strategic businesses, the applications active in the "AgipPetroli Portal" are:
  - *AgipShipping:* showcase for Eni's fleet for oil and oil products transport, acts as a support to the purchase and sale of transport capacity;
  - *AgipTrading:* supports crudes, semi-finished and finished products trading;
  - *AgipMarine:* provides the option to buy fuels and lubricants on line to marine shippers;
  - *MultiCard:* provides services to professionals active in road transport.

Other Activities

Eni is the world's fourth largest producer of MTBE, a gasoline additive, through its technologically advanced production plant located in Ravenna, Italy (with a capacity of 120,000 tons/year), and through plants operated by joint ventures in Venezuela and Saudi Arabia. Eni is also a producer of methanol through a plant operated in a joint venture in Venezuela. Eni also produces and markets specialty products such as solvents, paraffins, sulfur and aromatics.

LPG

Eni is a leader in Italy in the production, distribution and marketing of LPG with a retail and wholesale market share of 22% in 2001, while market share in LPG for automotive use was 25.4%. Eni also has a significant presence in Brazil and Ecuador with market shares of 20.8% and 38.2% respectively.

Eni's main activities in Brazil concern the sale of LPG directly to commercial and industrial users and bottled LPG, mainly employed in household use. Eni owns 26 LPG storage facilities and 26 bottling facilities with an overall capacity of 1.5 million tons per year, as well as a bottle manufacturing facility and a facility for the manufacture of regulation valves. In the near future Eni intends to expand its presence by: (i) building new bottling facilities in northern and north-eastern Brazil in order to support expected increasing sales in those areas; (ii) enhancing and upgrading its main bottling centers in order to increase their quality and production capacity; (iii) increasing reception capacity (new import terminals) and storage capacity in order to increase supplies and rationalize their geographical distribution, mainly to support expected increasing sales to commercial and industrial customers.

Lubricants

Eni operates 13 (owned and co-owned) blending plants, in Italy, Europe, North and South America and the Far East. Eni is a market leader in Italy in lubricants with the manufacturing of base oils, primarily at its refinery in Livorno, and in marketing. Eni owns a 33% share in facilities in Italy for the reprocessing of used oils, for the manufacture of base oils and greases, it owns two facilities for the production of additives and solvents. In 2001, retail and wholesale markets sales in Italy amounted to 163,000 with a 27.4% market share. Outside Italy sales amounted to approximately 113,000 tons, of these about 61% were registered in Europe (mainly Germany and Spain) and 34% in the Americas (Brazil and the United States).

Petrochemicals

Eni operates in the business of olefins and aromatics, basic intermediate products, chlorine derivatives, polystyrene, polyurethanes and elastomers. Through Polimeri Europa, Eni is one of the major European polyethylene producers. Its major production sites are located in Italy and in Western Europe, where Eni holds relevant market positions.

Eni intends to reduce capital employed in petrochemical activities by selling non strategic businesses and shutting down inefficient plants. The negative economic performance of petrochemicals in 2001 further enhanced the structural problems of this segment making the need for restructuring ever more compelling. In this context, on April 30, 2001, following the authorization from the relevant European antitrust authorities, Eni sold its polyurethane business to Dow Chemical and purchased from Dow a 50% interest in Polimeri Europa in which Eni already owned a 50% interest. Net proceeds to Eni from the transaction amounted to euro 224 million. Effective January 1, 2002, Eni transferred its strategic petrochemicals businesses to Polimeri Europa. These businesses include Eni's core activities in olefins and aromatics, intermediate products, styrene and elastomers produced in Italy in Brindisi, Sarroch, Ferrara, Gela, Mantova, Porto Marghera, Priolo, Ravenna and Settimo Milanese. Also the research centers of Ferrara, Mantova, Porto Marghera, Ravenna and Novara were transferred, as well as the interests in industrial and commercial companies in Italy and outside Italy and about 6,100 employees. Certain plants were not transferred. With this reorganization all the activities related to the ethylene cycle were given an integrated and consistent structure in order to facilitate negotiations for the sale of a significant share of Polimeri Europa.

In 2001 the demand for petrochemical products was affected by the slowdown of the economy worldwide. Margins of basic petrochemicals and polymers declined due to a decrease in selling prices, higher than the decline in prices of oil-based feedstocks. Only elastomers profited from the modest increase in selling prices and the time lag with the decline in feedstock prices.

The prices of Eni's principal products decreased on average by 14% over 2000; the main declines concerned: (i) intermediates (down 19%), in particular styrene, acrylonitrile and phenol; (ii) styrenic polymers (down 19%), in particular expandable and compact polystyrene; (iii) olefins (down 11.9%), in particular ethylene. Increases concerned elastomers (up 8.2%), in particular SBR and thermoplastic rubber, and ABS (up 6.8%).

Sales of petrochemical products (5,233,000 tons) decreased by 383,000 tons, down 6.8% over 2000, due to: (i) lower demand in all areas; (ii) lower availability deriving from planned plant standstills, in particular in olefins, aromatics and intermediate products; (iii) lower ethylene withdrawals by Polimeri Europa; (iv) the sale of the Polyurethane business. At December 31, 2001, Eni's sales network covered 24 countries; 60% of petrochemical revenues were represented by sales in Italy, 31% by sales in the rest of Europe, and 9% by sales in the Americas and Asia (60%, 32% and 8% respectively in 2000).

Production (7,830,000 tons) decreased by 702,000 tons, down 8.2%; this decline concerned all areas, in particular polyethylene, elastomers, aromatics and olefins.

Total nominal production capacity was stable as compared to 2000; the 3.3% increase in intermediates, related to the upgrade of cumene/phenol production capacity in Porto Torres, was offset by standstills of some lines in chlorine derivatives and elastomers. The average capacity utilization rate calculated on nominal capacity decreased by 4.4 percentage points (from 73.5 to 69.1%), in particular in olefins and intermediates due to planned standstills of plants and lower demand and in polystyrenes due to lower demand. The capacity utilization rate increased in chlorine and its derivatives.

Oil-based feedstocks supplied by Eni's Refining and Marketing segment covered about 63% of requirements in 2001 (62% in 2000).

Basic Petrochemicals. Eni's basic petrochemical products consist of olefins (such as ethylene, propylene and butadiene), aromatics (such as benzene, toluene and xylenes) and basic intermediates (such as cumene, phenol, caprolactam, styrene, acetone, cyclohexanol and acrylonitrile), chlorine and its derivatives (such as dichloroethane). Eni holds competitive positions in Europe in ethylene and in the cumene-phenol chain and its derivatives, and is a leading producer of acrylonitrile, caprolactam, chlorine and its derivatives. Such products are used mainly as raw materials in the production cycle of the chemical industry. In 2001, 47.2% of total production of basic petrochemicals were utilized by Eni in its own production processes.

Total ethylene capacity of Eni's steamcrackers is approximately 1.8 million tonnes per year. The Priolo and Gela steamcrackers are operationally integrated with adjacent Eni refineries and are also interconnected by pipelines, providing additional operating flexibility. At Priolo, refining and petrochemicals operations are further integrated through the refining of Bu-Attifel crude produced by Eni's Exploration and Production segment in Libya, which yields a premium feedstock for petrochemicals operations.

In 2001, sales of basic petrochemicals (4,122,000 tons) decreased by 105,000 tons over 2000, down 2.5%. The decrease concerned mainly intermediates (down 10.9%), in particular styrene and acrylonitrile, and olefins (down 3.1%), due to lower demand, offset in part by higher sales of chlorine derivatives, in particular chlorine.

Basic petrochemical production (6,682,000 tons) decreased by 406,000 tons, down 5.7%. The decline concerned all areas. About 47.2% of total production was directed to Eni's own production cycle (51.3% in 2000).

Polymers. The main polymers produced by Eni are polystyrenes and polyurethanes. The main users of polymers are the automobile, electronic, packaging, house appliances, paint and shoe industries. Approximately 70% of feedstocks used comes from Eni's Petrochemical segment. Eni also produces technopolymers, polymer alloys and blends.

In 2001, polymer sales (665,000 tons) decreased by 222,000 tons over 2000, down 25%, due to the sale of the Polyurethane business and, to a lesser extent, to lower sales of polyethylene and polystyrene.

Polymer production (690,000 tons) decreased by 230,000 tons, down 25%.

Elastomers. Eni holds competitive positions in SBR, BR, EPR and thermoplastic rubbers. Its major customers are the automobile, cables, adhesive and manufacturing industries. Approximately 60% of feedstocks used comes from Eni's Petrochemicals segment.

In 2001, elastomer sales (446,000 tons) decreased by 56,000 tons, down 11.2% over 2000, due to decreases in SBR, polybutadienic and thermoplastic rubbers.

Elastomer production (458,000 tons) declined by 66,000 tons, down 12.6%, in line with the trend in sales.

Polimeri Europa. Polimeri Europa, was a joint venture in equal shares of Eni and Union Carbide until the finalization of the agreement between Eni and Dow Chemical.

Polimeri Europa Srl, a European leader in polyethylene, operates production sites in Italy (Brindisi, Ferrara, Priolo, Ragusa and Gela), France (Dunkerque) and Germany (Oberhausen) with a total yearly production capacity of 1.6 million tons of polyethylene. In 2001 it generated revenues of euro 1.5 million.

Sales of basic petrochemicals (352,000 tons) were stable; sales of polymers (1,310 million tons) decreased by 104,000 tons, down 7.4%, due to lower demand.

Production of basic petrochemicals (968,000 tons) decreased by 32,000 tons, down 3.2%. Polymer production (1,270,000 tons) decreased by 50,000 tons, down 3.8%.

The table below sets forth Eni's main petrochemical products availability for the periods indicated.

	Year ended December 31,				
	1997	1998	1999	2000	2001
	(thousands of metric tons)				
Basic petrochemicals	7,592	6,869	6,877	7,088	6,682
Polymers	888	890	898	920	690
Elastomers	544	532	523	524	458
Total core petrochemicals products	9,024	8,291	8,298	8,532	7,830
Non-core petrochemicals products	33	3	—	—	—
Products consumed and lost	(3,920)	(3,724)	(3,651)	(3,673)	(3,257)
Purchases and change in inventories	976	967	975	757	660
Total products	6,113	5,537	5,622	5,616	5,233

The table below sets forth Eni's sales of main petrochemical products by volume for the periods indicated.

	Year ended December 31,				
	1997	1998	1999	2000	2001
	(thousands of metric tons)				
Basic petrochemicals	4,684	4,172	4,222	4,227	4,122
Polymers	860	850	880	887	665
Elastomers	537	510	520	502	446
Total core petrochemical products	6,081	5,532	5,622	5,616	5,233
Non-core petrochemical products	32	5	—	—	—
Total sales	6,113	5,537	5,622	5,616	5,233

Oilfield Services and Engineering

Through Saipem, Eni is a world leader in the laying of underwater pipelines and installation of offshore platforms and engages in onshore construction (pipelaying and plant erection) and onshore and offshore drilling. Through Snamprogetti, Eni is a major international operator in engineering and contracting, in particular for the oil and gas, chemical and petrochemical industries. In 2001, Eni's oilfield services activities benefited from, besides the contribution of the Blue Stream project, the recovery in the demand for services from the oil industry which provided for an increase in activities and unit margins in the Offshore construction and Offshore drilling areas. The engineering activity was affected by the continuing weakness in the demand for services from its major customers, in particular the petrochemical industry, and by the high competitive pressure of the market.

Orders acquired (euro 3,716 million) decreased by euro 993 million over 2000, down 22%, due mainly to the fact that in 2000 Eni acquired the order for the construction of the high speed/high capacity train link between Milan and Bologna (euro 2,417 million net to Eni). About 92% of new orders acquired was represented by work to be carried out abroad, and 15% by work originated by Eni companies. In the light of the turnover in the year, Eni's order backlog reached euro 6,937 million at December 31, 2001, with an increase of euro 299 million, up 4.5% as compared to December 31, 2000. Projects abroad represented 65% of the total order backlog, while orders from Eni companies amounted to 11% of the total. In 2001, Eni's Oilfield Services and Engineering segment had net sales from operations (including intersegment sales) of euro 3,114 million and operating income of euro 255 million.

Oilfield Services

Through Saipem (a publicly traded company of which Eni currently owns approximately 43% of the ordinary shares, with the balance publicly held), Eni is a world leader in the laying of underwater pipelines and the installation of offshore platforms, thanks to exclusive state-of-the-art technology and a world-class fleet of vessels, which has been further improved with an investment plan started in 1998 amounting to over euro 1 billion.

Eni intends to develop its competitive position in the segment of large offshore projects by accelerating the development of its engineering capabilities and asserting itself as global contractor. Eni intends to acquire particular strength in complex EPIC (engineering, procurement, installation, construction) projects, confirm its leadership in pipe laying and become a primary operator in floating hydrocarbon production systems.

In the field of drilling Eni intends to focus on strategic geographical areas adopting long term commercial policies that ensure high use of facilities also in case of low economic activity. In the onshore sector, Eni will focus on complex projects in strategic areas (Saudi Arabia, Central Asia and West Africa). With strong competitive pressure existing in traditional areas, Eni intends to intensify efficiency improvements in all its activities and in the management of working capital.

Some of the most important projects under construction in 2001 include:

- in the Offshore construction area: (i) on February 16, 2002, the Saipem 7000 completed the laying in deep waters of the first of the two pipelines of the Blue Stream gasline that will carry natural gas from Russia to Turkey across the Black Sea. The pipeline, with a 24-inch diameter and 385-kilometer long, is being linked by means of the Castoro Otto vessel to the section already installed off the Turkish coast, so the line will be ready for testing and starting operations. Saipem 7000 started its activities on the Russian side of the Black Sea in October 2001 and laid pipes on the seabed at depths of 2,150 meters with a laying speed of about 5 kilometers per day. The challenges faced and solved were exceptional both as concerns depth and seabeds, particularly steep and irregular in both the Russian and Turkish sides and for the harsh weather conditions, with winds blowing at over 50 knots. On February 24, 2002 the Saipem 7000 started to lay the second line on the Russian side. When fully operational the gas pipeline will transport 16 billion cubic meters of natural gas;

- in the Offshore drilling area: the Scarabeo 7 and Saipem 10000 were active nearly all year round, the latter on April 24, 2001 reached the record depth of 2,791 meters offshore Gabon. Operating activities continued in the Norwegian offshore in deep waters by means of the Scarabeo 5 and Scarabeo 6;

- in the Floating production area: the activities of the FPSO Firenze in the Otranto Channel continued; in December 2001 the new FPSO vessel Jamestown started operating on the Okono/Okpoho fields in Nigeria;

- in the Onshore construction area: (i) in Kazakhstan construction continued of the plants and pipeline for the Karachaganak project on behalf of KPO in a consortium with Consolidated Contractors Int. Co. The project provides for the construction of two treatment-compression plants for gas and condensates, a collection network and a 650-kilometer long transmission line for condensates; (ii) in Saudi Arabia for Saudi Aramco work started for the conversion of the East-West oil pipeline into a gasline within the EPC AY1 Conversion project and work continued for the Khuff project for linking new wells and laying gas collection pipes.

Among the most significant orders won in 2001 are:

- in the Offshore construction area: (i) a contract acquired through Saibos (a joint venture of Eni and Bouygues Offshore) for about euro 124 million net to Eni, for the design, procurement, installation and construction of flowlines for the development of the Kizomba A project in the offshore of Angola for ExxonMobil. The contract provides also for the installation of risers, minor and umbilical lines at a water depth of about 1,000-1,300 meters with the new Field Development Ship (FDS) for the development of underwater fields; (ii) a contract with AIOC for the transport and installation of two platforms within the Chirag project in Azerbaijan, for euro 95 million; (iii) a contract with BP, for euro 45 million, for the laying of a 362-kilometer long pipeline in Vietnam; (iv) a contract with BP, for euro 42 million, for the transport and installation of a platform and a template within the Clair Phase I project in the United Kingdom; (v) a contract with Devon Energy, for euro 41 million, for the installation of a platform in China within the Panyu project; (vi) a contract with Shell, for euro 38 million, for the laying of a pipeline in the North Sea within the Penguin project;

- in the Floating production area, a contract for Agip Energy & Natural Resources Nigeria acquired in joint venture with Single Buoy Moorings, for the development of the Okono and Okpoho fields offshore Nigeria. This contract amounts to dollar 191 million net to Eni and provides for the supply, installation and operation of two FPSO vessels;

- in the Offshore drilling area: (i) a three-year contract for the leasing of the Jack-up Perro Negro 2 to Saudi Arabian Oil Co (Saudi Aramco), for euro 58 million; (ii) the one-year renewal of the existing contract with Saga Petroleum for the leasing of the Scarabeo 5 platform in Norway, for euro 51 million;

- in the Onshore drilling area: (i) a contract with Saudi Aramco for the leasing of seven plants in Saudi Arabia, for euro 144 million. This contract has a term of three years and entails the option of a one-year extension; (ii) a three-year contract with Pluspetrol for the leasing of three plants in Peru, for euro 54 million; (iii) a three-year contract with Perez Companc for the leasing of six workover plants in Peru, for euro 11 million;

- in the Onshore construction area: (i) a contract with Saudi Aramco for the conversion of an oil pipeline into a gas pipeline in Saudi Arabia, for euro 141 million; (ii) a contract with NAOC for the installation of a compression train in Nigeria, for euro 7 million; (iii) a contract with Bord Gas Eireann for the laying of a 99-kilometer long gasline and 5 valve stations, for euro 28 million in Ireland; (iv) in February 2002 a contract in joint venture with the French company Bouygues Offshore, for dollar 129 million net to Eni, for the construction of a turnkey oil treatment plant in the Rhourde Ouled Dejmas (ROD) field in Algeria with a capacity of 80,000 barrels/day for Sonatrach/BHP. The contract provides for the engineering, procurement and construction of the treatment plant and its auxiliary installations (a network of pipelines and some storage sites) and the provision of services for the operation of the plant; (v) a contract with the Nigerian company NAOC for the upgrade of the gas plant at Obiafu/Obrikom and the construction of a flow station near the Irri field in Nigeria. The contract provides for the engineering, procurement and construction and amounts to dollar 72 million.

At December 31, 2001, the order backlog of Saipem amounted to euro 2,853 million (compared with euro 2,630 million at December 31, 2000), of which approximately 95% related to projects outside Italy and approximately 21% related to orders from Eni group companies.

In May 2002, Saipem entered into a definitive agreement with Bouygues Construction SA to acquire its majority (51.1%) stake in Bouygues Offshore S.A. at the price of euro 60 per share. The Board of Directors of Bouygues Construction has recommended the acceptance of the offer. Upon receiving antitrust clearance, Saipem will launch a Standing Offer (''garantie de cours'') on Bouygues Offshore's remaining shares held by the public at euro 60 per share in cash. The offer price of euro 60 per share represents an approximate 25% premium on Bouygues Offshore's one-month average share price and values Bouygues Offshore at approximately EURO 1 billion.

This transaction will be the largest cross-border acquisition in Europe in the oilfield services sector. The combination of Saipem's recognized construction capabilities, based on its world-class and technologically advanced fleet, and Bouygues Offshore's engineering and project management capabilities, will create a strong EPIC contractor. The new group will have one of the leading positions in the provision of EPIC services to the oil industry, with a particular focus on activities in remote areas, deep-water environments and gas-related projects. The new group would be a truly worldwide contractor, with strong local presence in strategic and emerging areas such as West Africa, the former Soviet Union, Central Asia, North Africa, the Middle East and South East Asia. The integration of the two companies is expected to be facilitated by seven years of successful cooperation through the SaiBos joint venture and other onshore construction projects performed jointly.

Engineering

Eni, through Snamprogetti, is a major international operator in engineering and contracting, in the area of plants for hydrocarbon production, refining, treatment and enhancement of natural gas, fertilizers and petrochemicals, pipeline transport systems, electricity generation and infrastructure.

Its firm standing on international markets as global contractor for complex projects is ensured by various competitive advantages deriving from its long track record in international contracting, by its ability to supply integrated packages and turn-key projects, by a flexible organizational structure and by a continuous development of advanced proprietary technologies. The services offered cover the whole cycle of investments: consulting, feasibility studies, project financing assistance, basic and executive engineering, project management, procurement, supervision and direction of operations, testing and first operation of plant, personnel training.

In over forty years of activity, Eni has operated in more than 100 countries, building 70 industrial grass-root complexes, over 1,300 plants (refineries, chemical and petrochemical plants, infrastructure, offshore rigs, marine terminals) and engineering 66,000 kilometers of onshore (for 45,000 kilometers of these it also carried out construction works) and 12,000 kilometers of offshore pipelines, including deep waters and hostile environments.

Eni intends to focus on market segments which show high growth rates and where it can play a leading role based on its specific track record. It will therefore pay special attention to the development of important technologies in strategic areas such as natural gas conversion and the enhancement of heavy crudes. Eni intends to pursue a balance between turn-key contracts and special services as well as the participation in relevant projects. It will also intensify actions for improving efficiency and operating flexibility.

In 1991, Eni's Oilfield Services and Engineering segment, through its interest in Cepav Uno and Cepav Due consortia, signed two conventions with TAV SpA (''TAV'') to participate in the construction of the tracks for high speed trains from Milan to Bologna and from Milan to Verona. Eni holds a majority stake in both Cepav Uno (50.36%) building the track from Milan to Bologna (under construction) and Cepav Due (52%), building the track from Milan to Verona (for which arbitration is under way against TAV due to the withdrawal of the concession previously awarded to TAV itself from Ferrovie dello Stato).

Among the most significant orders won in 2001 are:

- in the Refining and gas area: (i) in Qatar, in joint venture with the Japanese companies Chiyoda and Mitsui & Co Ltd, a contract to build the world's largest plant for the production of liquefied natural gas. The contract, in which Eni holds a 50% interest, amounts to euro 720 million. The plant will be built in the Ras Laffan complex for Ras Laffan Liquefied Gas Company Ltd II, a joint company between Qatar Petroleum and ExxonMobil, and will produce approximately 4.7 million tons/year of LNG. Eni and its partners will provide detailed engineering, procurement and construction. The plant will be completed before the end of 2003; (ii) in Saudi Arabia, two turnkey contracts awarded by Saudi company Saudi Aramco. The first contract, amounting to euro 150 million, provides for the construction of a plant for oil collection, gas and water separation, reinjection of water into wells, dehydration and salt removal. This new plant will allow to increase production capacity at the Haradh oil fields, in the eastern province of Saudi Arabia. The scope of work includes detailed design, procurement, construction, pre-commissioning and commissioning assistance. The project is due to be completed in 25 months. The second contract, amounting to euro 120 million, concerns the construction of a new plant for the production of naphtha, LPG, kerosene and light and heavy diesel at the Ras Tanura refinery. The plant will have a capacity of 200,000 barrels/day. The project will last 24 months and involves the detailed engineering, procurement, construction and pre-commissioning activities; (iii) a contract for Kuwait Oil Company, for the construction of a new natural gas compression station with a capacity of 2.5 billion cubic meters/year to be built in northern Kuwait. This contract amounts to dollar 130 million, has a term of 30 months and provides for the engineering, procurement and construction of the plant; (iv) in March 2002 Eni obtained from Saudi Aramco a turnkey contract for the design, procurement and construction of an industrial complex near Qatif, about 30 kilometers from Dhahran. The complex includes two plants for the separation of oil from gas (GOSP) and units for natural gas treatment, oil stabilization and power generation with a treatment capacity of 800,000 barrels/day. The work is expected to be completed in 31 months; (v) in March 2002, in joint venture with Technip-Coflexip, Kellog Brown & Root and JGC, Eni acquired a turnkey contract for Nigeria LNG for the expansion of the Bonny liquefaction plant in Nigeria. The NLNGplus project amounts to over dollar 1.7 billion and provides for the construction of the fourth and fifth LNG production trains with a capacity of approximately 5.2 billion cubic meters/year each. The trains will produce also 1.1 million tons of LPG and 0.4 million tons/year of condensates. When the two trains are completed in 2005, the Bonny plant will process 75 million cubic meters of natural gas/day with a total production of 21.8 billion cubic meters/year of LNG and 2.3 million tons/year of LPG.

Within its strategy of developing engineering know-how in offshore construction and floating production systems with the provision of EPIC integrated services, Eni acquired:

- Moss Maritime AS, a Norwegian engineering company specialized in the design of floating oil production and treatment systems, liquefied natural gas carrier vessels and semisubmersible drilling units, for euro 64 million. The acquisition is subject to the approval of Norwegian antitrust authorities and will significantly strengthen Eni's engineering capabilities in floating production systems, in particular deepwater dry completion technology, thanks to a very promising concept developed and tested by Moss Maritime;

- Petromarine and Barnett & Casbarian, US engineering companies operating in the Gulf of Mexico, for about euro 12 million (including net borrowings).

A joint venture was established with the Brazilian company Construtora Norberto Odebrecht for the provision of floating production systems that will operate mainly in offshore Brazil and Angola.

Eni acquired from Halliburton Brown & Root Ltd the remaining 50% of European Marine Contractors (EMC), leader in the offshore laying of large pipelines in the North Sea. In January 2002 authorization was granted by the relevant antitrust authorities and the closing of the contract was effected by paying the fixed price of dollar 115 million; the variable part linked to the Oil Service Index amounting to dollar 19.4 million was paid in February 2002. This acquisition will grant Eni full availability of EMC vessels, including the semi submersible vessels Castoro Sei and Semac, further enhancing its capabilities in deep water large pipe laying. Eni will also relocate some of the EMC vessels from the North Sea to other world regions, such as South East Asia, where a strong recovery is anticipated.

Eni entered an agreement for the purchase of the multipurpose vessel Maxita, capable of laying flexible and umbilical lines and moorings in deep waters. The vessel will be converted and upgraded in order make it more powerful and efficient, by providing it with a crane capable of lifting up to 3,000 tons and of the equipment of the

Pearl Marine vessel (soon to be disarmed) for «reel», «J» and «S» laying. Total expenditure, including acquisition and conversion, is estimated at euro 70 million.

Some of the most important projects under construction in 2001 include:

- in the Refining and gas area: (i) development of the gas and condensates center at Karachaganak in Kazakhstan; (ii) upgrade of the Ruwais refinery and construction of a gas treatment and fractioning plant in Asab in Abu Dhabi; (iii) completion of the grass-roots Bonny project for gas liquefaction in Nigeria; (iv) construction of ethane recovery and LNG-4 fractioning plants for QP in Qatar;
- in the Chemicals and fertilizers area: (i) construction of a fertilizer project at Jose, Venezuela; (ii) construction of the biggest single-line urea plant in the world at Bahia Blanca, Argentina; (iii) construction of an ammonia-urea complex in Nanking, China.

At December 31, 2001, the order backlog of Snamprogetti amounted to 4,084 million euro (compared with 4,008 million euro at December 31, 2000), of which approximately 35% related to projects outside Italy.

Other Activities

Eni S.p.A. engages in strategic planning, human resources management, finance, administration, legal affairs, international affairs and corporate research and development functions for the Company. Through Enifin SpA, Societa Finanziamenti Idrocarburi-Sofid SpA and Eni International Holding BV, Eni carries out lending, factoring, leasing and insurance activities, principally on an intercompany basis. Eni also engages in information technology, communications, technology research and other activities.

In 2001 Eni divested the major part of its real estate property. On January 31, 2001, Eni executed a preliminary sale contract with companies of the Whitehall fund of Goldman Sachs; most of these contracts were closed in 2001. These included 90.16% of the capital stock of Immobíliare Metanopoli SpA and real estate for a total of euro 1,142 million. Preliminary contracts were also signed with other acquirors for a total of about euro 166 million and other contracts are being negotiated for further euro 66 million. Other sales are planned with proceeds of euro 158 million. The recorded value of assets that are expected to be sold in 2002 is about euro 600 million and the expected pre-tax gain approximates euro 800 million.

Management does not consider Eni's activities in these areas to be material to its overall operations.

Research and Development

Eni conducts research and development in each of its principal operating subsidiaries and through EniTecnologie SpA (formerly Eniricerche SpA), which is responsible for corporate research and development. Eni's research and development expenses amounted to euro 234 million, euro 234 million and euro 203 million in 1999, 2000 and 2001, respectively. In 2001, research and development relating to Exploration and Production, Natural Gas and Refining and Marketing activities as well as strategic research accounted for 52.2% of Eni's total research and development expenditures, while 34.5% was attributable to Petrochemicals activities. The remaining 13.3% was attributable to Oilfield Services and Engineering activities. In year 2001, about 1,500 employees were involved in research and development activities. During the year, 65 applications for patents were filed in Italy (74 in 2000).

In the Exploration and Production segment, the innovative 3Drilling technology was applied to the design and drilling of complex trajectory wells, aimed at improving hydrocarbon production in critical geo-environmental conditions and two applications were tested for the Hyperspectrometry & Hydrocarbon Detection technique for the identification of underground hydrocarbon reservoirs through the geological interpretation of aerial imaging. An innovative technology for laying pipes in deep waters, designed and developed for the Blue Stream project, was implemented on board of the Saipem 7000. The two major systems for underwater interventions for the Blue Stream project were completed: an equipment for burying the pipes, capable of operating at a depth of 2,200 meters and a pipe recovery system during laying. The Riser Position Reference System was installed on the Saipem 10000 which represents an innovative advisory for dynamic positioning which takes the drilling riser as its reference point.

In downstream oil, production of a new kind of lubricant base started which allowed to reformulate the main products for automotive and industrial use. Support activities were performed for the commercial launching of the new «Sint Evolution» lubricant line and two new dispersing additives were sold on the market.

In the Petrochemical segment, new expandable styrene polymers were produced with specific shock absorbing features for the construction industry, refrigeration and electronics.

In the course of 2001, many technologies reached an advanced development stage. Some examples are:

In the Exploration and Production segment: the VASPS vertical system for underwater pumping of hydrocarbons and oil/gas separation, developed in cooperation with ExxonMobil and Petrobras became operational. A new drilling technique in deep waters with dual gradient was developed and tested in a well which aims at making the slugs emerging from the well lighter by adding a fluid containing glass bubble. A new floating production concept called «Octabuoy» was developed based on Moss Maritime proprietary technology. An innovative industrial plant was built for natural gas purification based on selective membranes that distinguish methane and other gases, thus reducing costs and environmental impact.

In the area of natural gas enhancement, the testing phase started for the «Fischer-Tropsch wax synthesis» from natural gas at the Sannazzaro refinery. Work continued on the use of highly resistant steel (X100 grade) for the production of pipes for the transmission of large volumes of natural gas on long distances under high pressures. Promising results were obtained in a pilot plant for partial catalytic oxidation of natural gas for obtaining syngas or hydrogen.

In the area of heavy crudes enhancement, important results were obtained in the hydroconversion of residues in the slurry phase by means of the EST (Eni Slurry Technology) which allows for the distillation of ultra heavy residues without by-production of fuel oil, which is expected to achieve real advantages also in downstream oil. A demonstration plant will be built at the Taranto refinery.

In the natural gas segment, great attention is being paid to the monitoring of gas pipelines in unstable grounds. Mathematical models are being built for the environmental and safety analysis of the natural gas transmission network and of some phases of the LNG regasification plant in Panigaglia.

In the field of renewable energy, Eni started the development of the thin film photovoltaic technology with Pacific Solar.

In the Petrochemical segment, the process scheme for 2,6-dymethilnaftalene was optimized and a pilot plant for its pre-industrial experimentation is being designed. New elastomers were developed for the «non-woven» and shoe industries.

In the area of environmental protection, a remediation technique for soils contaminated by organic compounds was developed based on an environmentally friendly solvent capable of acting on contaminants usually resisting biodegradation (high concentration hydrocarbons, chloridized aromatic compounds, etc.).

Major research areas

Reduction of exploration and development costs
High resolution prospecting techniques
Field simulation models
Field productivity enhancement methods
Advanced drilling systems

Process performance and product differentiation
Advanced process control
Innovative polymerization catalysis

Feedstock enhancement
Long distance gas lines
Conversion of gas into liquid products
Conversion of heavy crudes into light products

Environmental protection
New formulas for fuels and lubricants
"Clean" catalytic processes
Air quality monitoring
Reclaiming of polluted soil

Insurance

Through two captive insurance companies, Eni maintains property and casualty insurance against the risks of its businesses to the extent management considers appropriate or otherwise required by applicable law. At December 31, 2001, Eni's captive insurance companies sold to reinsurers approximately 20% of their portfolio. Eni, together with 44 other international oil companies, is a member of OIL Insurance Company Limited

("OIL"), a mutual insurance and reinsurance company. Management believes that the level of insurance maintained by Eni is generally appropriate for the risks of its businesses.

Environmental Matters

Together with other companies in the industries in which it operates, Eni is subject to numerous EU, national, regional and local environmental laws and regulations concerning its oil and gas operations, products and other activities, including legislation that implements international conventions or protocols. In particular, these laws and regulations require the acquisition of a permit before drilling for hydrocarbons may commence, restrict the types, quantities and concentration of various substances that can be released into the environment in connection with exploration, drilling and production activities, limit or prohibit drilling activities on certain protected areas, and impose criminal or civil liabilities for pollution resulting from oil, natural gas, refining and petrochemicals operations. These laws and regulations may also restrict air emissions and discharges to surface and subsurface water resulting from the operation of natural gas processing plants, petrochemicals plants, refineries, pipeline systems and other facilities that Eni owns. In addition, Eni's operations are subject to laws and regulations relating to the generation, handling, transportation, storage, disposal and treatment of waste materials. Environmental laws and regulations have a substantial impact on Eni's operations. Some risk of environmental costs and liabilities is inherent in particular operations and products of Eni, as it is with other companies engaged in similar businesses, and there can be no assurance that material costs and liabilities will not be incurred. Although management, considering the actions already taken, the insurance policies to cover environmental risks and the provision for risks accrued, does not currently expect any material adverse effect upon Eni's results of operations and financial position as a result of its compliance with such laws and regulations, there can be no assurance that there will not be a material adverse impact on Eni's results of operations and financial position due to: (i) the possibility of as yet unknown contamination; (ii) the results of the on-going surveys and the other possible effects of Decree No. 471/99 of the Ministry of Environment; (iii) the possible effect of future environmental legislation and rules; (iv) the effect of possible technological changes relating to future remediation; and (v) the possibility of litigation and the difficulty of determining Eni's liability, if any, as against other potentially responsible parties with respect to such litigation and the possible insurance recoveries.

The recently enacted environmental legislation includes improvements of previous laws on operations, safety and waste waters, as well as regulations on waste disposal and remediation or shutdown industrial sites. Eni is evaluating actions (such as voluntary agreements) and investments to comply efficiently with new regulations. In accordance with European guidelines, the protection from water pollution was recently strengthened with Legislative Decree No. 152/99 as completed by Decree No. 258/00, which provide for an integrated protection of water resources by extending control from each discharge place to all the effects of accumulation and interactions of various discharges into one single water course and set quality objects to be reached within 2008. All discharges require preventive authorization, to be renewed every four years, and must lie below the thresholds set by Regions. Legislative Decree No. 152/99 sets the term of June 2002 for the upgrade of existing discharges to the new rules.

To date Eni cannot evaluate the possible impact of the application of Decree No. 152/99, however there can be no assurance that there will not be a material adverse impact on Eni's operations due to measures adopted by local authorities whenever the quality of a certain water source does not comply with set standards due to the industrial activity of all plants located above that water source.

Legislative Decree No. 258 states that production water discharges from oil activities performed in the sea shall be progressively substituted by injection or reinjection in deep geological strata. Previously such production water discharges were treated as waste disposal. Eni expects that capital expenditure necessary to provide offshore wells with reinjection facilities will be paid off by lower operating expenses with respect to waste disposal costs.

Management of waste, toxic waste, packaging and packaging waste was regulated by Legislative Decree No. 22 of February 5, 1997 which referred to three European Directives (91/156/CEE, 91/689/CEE and 94/62/CE) and provided incentives to clean technologies and recycling and reuse of waste. This decree prohibits the uncontrolled disposal of waste underground and in the water and obliges polluting entities to reclaim polluted areas. Whenever it is not possible to identify one responsible for existing pollution, the owner of the polluted area is expected to pay for its reclamation. This decree became operational with decree No. 471/99 of the Ministry of the Environment, which also defined limits for the contamination of soils and underground waters, the general guidelines for reclaiming and environmental recovery of polluted areas, and the criteria for the identification of polluted areas of national interest. For the storage of toxic waste, the decree favors techniques avoiding transport of waste and their on-site treatment. Whoever causes, willfully or accidentally, pollution of an area or actual danger is expected to react within 48 hours according to the procedure set by the decree. At present Eni is not yet able to evaluate the possible future consequences deriving from the completion of on-going surveys and other possible effects of the application of Decree No. 471/99 of the Ministry of Environment; however there can be no assurance there will not be a material adverse impact on Eni's results of operations and financial position from the application of that decree.

Law 388/00 changed the regulations concerning the reclamation of polluted sites, easing the discipline of crimes related to events prior to Legislative Decree No. 22/97 and imposing the reclamation of sites where industrial activity is ongoing. However, the reclamation is to be carried out provided that it does not involve a significant disruption in operations; reclamation costs can be amortized in ten years.

In the next years Law 372/99 will gradually enter into force. This law, which is related to the European Directive 96/61/CE (IPPC — Integrated Pollution Prevention and Control), envisages that industrial installations will require an integrated authorization concerning emissions, wastes and water discharges. Before June 20, 2002 the competent authority is expected to define a schedule for the filing of requests for IPPC authorization. Many of Eni's plants — refineries, chemical plants, power stations — will have to comply with this law but Eni expects no adverse impact on its operations, since the IPPC authorization intends to integrate and make compatible authorizations which now are given separately.

To meet future environmental obligations, Eni is engaged in a continuing program to develop effective measures for the protection of the environment. This program includes research and capital expenditures related to reducing sulfur levels in heavy fuel oils and diesel fuel, reducing benzene and sulphur content in gasoline, reducing vapor emissions at service stations, improving the quality of emissions and effluents from Eni's refineries and petrochemical plants, developing and installing monitoring systems at Eni's facilities and developing environmental impact assessments for major projects.

In 2001, health, safety and environment operating and capital expenditures amounted to euro 824 million; a 6.5 increase over 2000. Environmental expenditures amounted to euro 549 million, of which euro 62 million related to air emissions, euro 109 million to water, euro 58 million to waste and euro 176 million to soil. In addition to operating and capital expenditures, Eni also creates provisions for future environmental remediation. Expenditures against such provisions are normally incurred in subsequent periods and are not included in environmental operating expenditure reported for such periods. In 2001, Eni made a provision of euro 420 million which referred principally to the Petrochemicals and Refining and Marketing sectors. The most significant part of this charge is included in extraordinary items as concerns dismantled or already closed plants. See "Item 18—Note 13 to the consolidated financial statements".

Provisions for environmental remediation are made when a clean-up is probable and the amount reasonably determinable. Generally, their timing coincides with the commitment to a formal plan of action or, if earlier, on divestment or closure of inactive sites.

In addition, Eni makes provisions against costs expected to be incurred with respect to eventual abandonment of hydrocarbon-producing assets. In 2001, Eni made a provision of euro 339 million (due also to the entry into the scope of consolidation of Lasmo). See "Item 18—Note 13 to the consolidated financial statements".

In 2001, the equivalent of about 657 full time employees were employed by the Group in the area of health, safety and environment. In the area of health Eni employs a system of constant monitoring, increasing the frequency of checks where risks are higher. In 2001, a total of 2 medical examinations and 12 medical tests per employee were performed in those areas of business where exposure to risks is highest. To ensure operating efficiency of health, safety and environment management systems, 478 internal auditors are available.

In the Exploration and Production segment, in 2001, the ISO 14001 certification was confirmed for Agip Division's environmental management system in Italy. Audits were carried out on operating sites in Italy, by employing performance indicators with a specific focus on the safety of operations. Safety audits were carried out also at sites outside Italy, in particular Congo, Nigeria and Libya in addition to the sites of strategic suppliers.

In the Natural Gas segment, the ISO 14001 certification was awarded to the environmental management system of 22 compressor stations and of the Panigaglia LNG terminal. Eni aimed at reducing energy consumption and carbon dioxide emissions through the installation of high performance gas turbines and at increasing safety and protecting the environment in maritime transport through the selection of safe vessels and the adoption of advanced management systems. In 2001, Italgas has adopted an integrated quality, health, safety and environment management system, which governs, through a unified set of procedures, all the processes related to the quality of the services offered (ISO 9001/1996), to environmental protection (ISO 14001/1996) and to safety in the workplace (OHSAS 18000/1999).

In the Refining and Marketing segment, the Taranto refinery, the Volpiano and Ponte Galeria storage units, the Fornovo plant, the aviation services and the Cagliari LPG production plant obtained the ISO 14001 certification, bringing to 19 the number of Eni Refining and Marketing sites certified according to this standard. In 2001 programs for the certification of other sites were started, in particular the storage units of Fiorenzuola, Costiero Palermo and Costiero Ortona, the Sannazzaro refinery and the Livorno plant.

In the Petrochemical segment, action focused on prevention, accident reduction and continuation of certification of industrial sites. The Priolo site has been registered according to the European EMAS regulation (Eco Management and Audit Scheme) joining the Brindisi, Ferrara and Mantova plants, which obtained it in 2000 and 1999. The Porto Marghera and Porto Torres sites have obtained the ISO 14001 certification, bringing to 13 the number of Eni petrochemical sites certified according to this standard.

In the Oilfield Services and Engineering segment, in 2001 programs for the ISM (International Safety Management) certification of the management system were started; in particular, the system will manage MODUs (Mobile Offshore Drilling Units) and cargo ships of five hundred gross tonnage and upwards. Employees of offshore plants received specific training according to the best international practices and standards. In 2001 programs for the certification according to the ISO 14000 standard were started, in particular the Ravenna plant for thermo-destruction of waste and industrial waste water treatment and the Broni centre for the biological treatment of hydrocarbon contaminated soils.

See ''Item 8—Financial Information'' for a description of certain settled legal proceedings in which Eni is involved that concern environmental matters.

Regulation of the Italian Hydrocarbons Industry

Overview

The matters regarding the effects of recent or proposed changes in Italian legislation and regulations or EU directives discussed below and elsewhere herein are forward-looking statements and involve risks and uncertainties that could cause the actual results to differ materially from those in such forward-looking statements. Such risks and uncertainties include the precise manner of the interpretation or implementation of such legal and regulatory changes or proposals, which may be affected by political and other developments.

The Italian hydrocarbons industry is regulated by a combination of constitutional provisions, statutes, governmental decrees and other regulations that have been enacted and modified from time to time, including legislation enacted to implement EU requirements (collectively, the ''Hydrocarbons Laws''). Eni was established by law in 1953 to act as Italy's national oil and gas company and from time to time has benefitted from a number of privileges granted to it by the Hydrocarbons Laws. Such privileges, which were eliminated as of January 1, 1997, included certain exclusive rights with respect to exploration and production activities in the Po Valley on the Italian mainland and the adjoining waters of the Adriatic Sea up to 15 kilometers from the Italian coastline (the ''Exclusive Area''), as well as an exemption from the limitation on the maximum exploration acreage that could be held by a single entity in Italy.

Since the 1970s, the Italian hydrocarbons industry has been subject to various forms of regulation, including regulation relating to the storage of natural gas in existing fields, methodologies for controlling retail prices for petroleum products and natural gas, regulation of production capacity and output in the refining and petrochemical segments and regulation relating to the establishment and activities of service stations. In the early 1990s, the Government commenced the gradual liberalization of the Italian hydrocarbons industry by implementing legislation that provided for, among other things, (i) the elimination of price controls on petroleum products, (ii) the abolition of Eni's right of first refusal with respect to the purchase of natural gas produced offshore Italy, (iii) the implementation of a partial third-party access system for the transportation of domestic natural gas, (iv) the establishment of a system for the updating of on natural gas retail prices and (v) the establishment of a royalty reduction program. Law No. 481 of November 14, 1995 (the ''Authority Law''), provided for the establishment of a new regulatory body, known as the *Autorità per l'Energia Elettrica e il Gas* (the ''Authority''), charged with, among other things, regulatory supervision of electricity activities and local natural gas distribution in order to guarantee the promotion of competition and efficiency while providing for an adequate level of service quality. As the latter is concerned, the Authority is mainly responsible for the public service of natural gas distribution through urban networks. In addition, Legislative Decree No. 625 of November 25, 1996 (''Decree No. 625'') liberalized exploration and production activities by eliminating Eni's rights in the Exclusive Area and any other disparities in the regulatory treatment between Eni and other operators in the Italian hydrocarbons industry, with effect from January 1, 1997. See ''Exploration and Production of Hydrocarbons—Exploration Permits and Production Concessions''.

Decree No. 164, which enacted into Italian Legislation European Directive on Natural Gas 98/30/CE, regulates the Italian natural gas market. Prior to the implementation of Decree No. 164, the Italian natural gas market lacked a legislative framework. See ''—Natural Gas''.

Legislative Decree No. 32 of February 11, 1998 (''Decree No. 32'') as amended by Legislative Decree No. 346 of September 8, 1999 and Law Decree No. 383 of October 29, 1999, significantly changed Italian regulation of service stations. In particular, the Decree replaced the process of concessions granted by the Ministry of Industry, regional and local authorities with a license granted by city authorities. See ''—Refining and Marketing of Petroleum Products''.

Legislative Decree No. 443 of October 29, 1999 (''Decree No. 443) modified Legislative Decree No. 112 of March 31, 1998 (''Decree No. 112'') which attributed to Regions many responsibilities in the field of energy and specifically in the sector of hydrocarbons. Decree No. 443 attributes to the State administrative decisions concerning exploration and production of hydrocarbons in the Italian offshore as well as natural gas storage in fields, whilst administrative decisions concerning exploration and production of hydrocarbons on the Italian mainland are made by the Government in agreement with Regions.

Exploration and Production of Hydrocarbons

Exploration Permits and Production Concessions. Pursuant to the Hydrocarbons Laws, all hydrocarbons existing in their natural condition in strata in Italy or beneath its territorial waters (including its continental shelf) are the property of the State. Exploration activities require an exploration permit, while production activities require a production concession, in each case granted by the Ministry of Industry. The initial duration of an exploration permit is six years, with the possibility of obtaining two three-year extensions and an additional one-year extension to complete activities underway. Upon each of the three-year extensions, 25% of the area under exploration must be relinquished to the State. The initial duration of a production concession is 20 years, with the possibility of obtaining one ten-year extension and additional five-year extensions.

Royalties. The Hydrocarbons Laws require the payment of royalties for hydrocarbon production. Until December 31, 1996, royalties were equal to 9% and 8%, respectively, for onshore and offshore production of oil and 9% and 5%, respectively, for onshore and offshore production of natural gas. In order to promote oil and gas exploration in Italy, in 1991 the Government established a royalty reduction program, which permitted oil and gas companies, including Eni, to reduce their royalty payments by up to 30% of the total exploration costs incurred in connection with exploration projects approved by the Ministry of Industry. This royalty reduction program terminated at the end of 1996. Starting from January 1, 1997, royalties are equal to 7% and 4%, respectively, for onshore and offshore production of oil and 7% for both onshore and offshore production of natural gas.

Preferential Rights. Until December 31, 1996, Eni was entitled to a number of preferential rights, including: (i) the exclusive right to explore for and exploit, without permit or concession, hydrocarbon deposits in the Exclusive Area, (ii) the exclusive right to construct and operate oil and natural gas pipelines in the Exclusive Area for the transport of hydrocarbons produced in the Exclusive Area, (iii) an exemption from royalties and land fees with respect to exploration and production activities in the Exclusive Area and (iv) the exclusive right, within the Exclusive Area, to use existing surveyed fields for the underground storage of natural gas. In addition, as permitted by legislation in effect until December 31, 1996, Eni performed surveys of the territorial sea and the continental shelf of Italy on a temporarily exclusive basis and was entitled to select and obtain exploration permits for 25% of the areas surveyed.

In 1994, the EU enacted a licensing directive (the ''Licensing Directive''), which required member states to enact legislation eliminating, by December 31, 1996, all laws that provided exclusive rights to a single entity in a specific geographic area. Decree No. 625, which was adopted to implement the Licensing Directive, eliminated the exclusivity of Eni's rights in the Exclusive Area and Eni's exemption from the payment of royalties and land fees with respect to exploration and production activities in the Exclusive Area with effect from January 1, 1997. Decree No. 625 allows Eni to obtain upon application exploration permits and production concessions having effect from January 1, 1997 that would preserve such rights as have vested under the regime of exclusivity (based on the activities that have been carried out or are currently underway). As of December 31, 2000, Eni held 119 exploration permits and 184 production concessions for a total net acreage of 52,922 square kilometers and 9 storage concessions. See ''Item 3—Risk Factors—Impact of Decree No. 625''.

Italian Acreage Limitations. Until December 31, 1996, Italian law limited the maximum acreage covered by exploration permits in Italy that could be held by one entity to one million hectares for each of onshore and offshore exploration. Eni was exempt from these acreage limitations. This disparate treatment was eliminated by Decree No. 625, which repealed the limits on the maximum acreage that could be held by one entity and thereby conformed Italian law to that of other principal EU nations.

Natural Gas

Legislative Decree No. 164 of May 23, 2000 for the Implementation of the European Directive on Natural Gas 98/30/CE. The European Directive on natural gas was implemented into Italian legislation through Legislative Decree No. 164 of May 23, 2000 ("Decree No. 164"), effective from June 21, 2000. As concerns transmission and distribution activities carried out by Eni the decree defines until December 31, 2002 eligible customers (with access to the natural gas system) to be: (i) final customers consuming more than 200,000 cubic meters per year; (ii) wholesalers and all distributing companies; (iii) electricity producers and co-generators; (iv) consortia consuming more than 200,000 cubic meters per year provided each partner consumes more than 50,000 cubic meters per year. Starting in 2003 all customers will be eligible customers. From January 1, 2003 to December 31, 2010 no single operators is allowed to hold a market share higher than 50% of domestic sales to final customers. In addition, no single operators is allowed to supply more than 75% of all natural gas volumes introduced in the domestic transmission network by 2002, decreasing by 2 percentage points per year until it reaches 61%. The two ceilings are calculated net of losses (in the case of sales) and own consumption. A three-year average mechanism is used to evaluate whether volumes introduced in the domestic transmission network or sold to final customers are above set ceilings. Those ceilings are considered exceeded if at the end of the first three-year period, the average of volumes introduced in the domestic transmission network or sold to final customers is higher than the allowed average for that period. In subsequent years, the three-year average is calculated on data of the most recent three years. Imports from the European Union are free, while natural gas imported from outside the European Union is subject to an authorization of the Ministry of Industry (now Ministry of Productive Activities). From January 1, 2002, the decree provides that natural gas transport and dispatching activities be carried out by a separate company that is not allowed to carry out any other activity in the natural gas field. By the same date distribution, which includes the management of local networks, is to be carried out by a separate company which may not perform other gas related activities. Sale activity to final customers is compatible only with import, export and production activities and is subject to an authorization from the Ministry of Industry (now Ministry of Productive Activities). Concessions for the distribution of natural gas will be assigned only through an auction procedure. Tariff criteria and return on capital employed for transport, dispatching, storage, use of LNG terminals and distribution are determined by the Authority. As provided for by the decree, a Network Code containing norms and regulations for the operation and management of networks was prepared by operators. Approval is still pending before the Authority.

With decision No. 237 dated December 28, 2000, the Authority determined tariff criteria for natural gas distribution and supply to non eligible customers as provided for by Decree No. 164. This tariff reform separates distribution from sale activities and links tariffs to costs borne in order to provide safe and efficient services. Tariffs are determined so that annual revenues from natural gas distribution and supply activities to non eligible customers do not exceed the threshold on distribution and sale revenues determined in order to cover operating costs and the remuneration of capital employed and are adjusted according to the price cap method based on parameters and formulas determined by the Authority. Provisional tariffs were defined for the first six months of 2001. From July 2001 current tariffs (varying according to type of use—cooking, heating, small enterprises) have been progressively substituted by tariffs varying according to consumption levels and costs. Every two months the portion of the tariff which relates to the cost of natural gas is adjusted to international oil, gasoil and low sulphur fuel oil prices as measured over a six-month period. On June 13, 2001, the Regional Administrative Court of Lombardia accepted the claim of the association of companies distributing natural gas to non-eligible customers who disputed the parameters used by the Authority for determining the cost of capital employed which in turn determines the revenues threshold of such companies. As the Authority filed a claim with the Council of State against the Regional Court's decision, Eni applied the criteria suggested by the Authority to the determination of revenues of natural gas distribution and supply activity in its 2001 financial statements.

With decision No. 120 of May 30, 2001, the Authority published the criteria for determining natural gas transport and dispatching tariffs on national and local networks, as provided for by Decree No. 164. Tariffs, as determined by transport companies, are subject to approval by the same Authority, which ensures their compliance with preset criteria. Such tariffs are applicable to eligible customers as defined by Decree No. 164 (approximately 11,000 entities, of these 3,200 are industries and thermoelectric power stations linked to high pressure lines), the so called "shippers". With this document the Authority completes the regulatory framework for all transmission activities on high, medium and low pressure networks. The new tariff system substitutes preceding agreements between Eni and customers of any category. The new tariff system is in force from the beginning of the first thermal year set on October 1, 2001 (the so called thermal year goes from October 1 to September 30), and applies retroactively to the period June 21, 2000 to September 30, 2001, as provided for by Decree No. 164. As provided for by Decree No. 164, transport companies, among which Eni, have to compensate customers for any difference between the provisional tariffs applied in the transitional period and those determined by the Authority. In 2001 financial statement Eni recorded a provision against this circumstance; the amount of this provision is not material.

Criteria established by the Authority provide for a cap on revenues from transport and dispatching activity (''allowed revenues'') which is adjusted annually; those criteria also provide for a separate treatment of revenues on existing assets and on new capital expenditure on expansions and extension of infrastructure. In the first thermal year allowed revenues are calculated as the sum of: (i) operating costs including storage and modulation costs; (ii) amortization and depreciation of transport assets; and (iii) return on net capital employed. Net capital employed is calculated by revaluating historic costs of transport infrastructure (pipelines, compressor stations and other support equipment) on the basis of certain inflationary indexes; resulting amounts are adjusted to take into account the residual useful life of assets (pipelines are estimated to have a useful life of 40 years) and also subtracting State grants. The application of this methodology implies an estimated value of Eni's transport assets of approximately euro 9.6 billion. This, however, is a valuation for regulatory purposes and should not be read as an indication of the market value of Snam Rete Gas. The rate of return on capital employed set by the Authority is 7.94% (pre-tax). Once established, allowed revenues for the first year are divided into two components: (i) capacity revenues equal to 70% of allowed revenues which are the maximum amount of revenues collectable from the sale of transport capacity to customers; (ii) commodity revenues equal to 30% of allowed revenues which are the maximum amount of revenues collectable from transported volumes. Starting from the second year these two components are adjusted on a yearly basis to take into account inflation and certain reduction factors (set at 2% and 4.5% for capacity revenues and commodity revenues respectively); commodity revenues are also adjusted to transported volumes of the current regulatory period. The 2% reduction factor on capacity revenues provides scope for improving results of operations of the transport company if cost reductions exceed the set amount, whereas the 4.5% reduction factor on commodity revenues provides scope for improving results of operations of the transport company if transported volumes grow more than the reduction factor. Allowed revenues can also be increased to reflect costs associated with exceptional events, quality improvement in service and efficient utilization of resources; this increases have yet to be established by the Authority. New capital expenditure in extension and expansion enable transport companies to increase the capacity revenue by a stated percentage in the regulatory period following the period in which new capital expenditure is made. In addition, those capital expenditures give rise to a 6 year fixed increase in allowed commodity revenues. This tariff system will be in force for four years (first regulatory period). At the end of the first regulatory period, all transport cost components will be recalculated and 50% of higher cost reductions with respect to established efficiency improvements will be recognized to transport companies and 50% will be transferred to customers. Once the allowed revenues are established, transport companies define individual tariffs to clients which are based on a charge for the capacity used at the entry location (border, fields, storage sites) and the capacity used at interconnection joint nodes with regional networks (divided into 15 zones) and on a charge for the capacity used at regional level, providing for discounts to those entering the network at less than 15 kilometers from the interconnection point. A further charge (commodity charge) is related to the amounts of gas transported.

With decision No. 193 of September 7, 2001, issued in implementation of decision No. 120/2001, the Authority approved the transportation tariffs for natural gas on the national gas pipelines and regional networks, and the regassification tariffs for LNG treated at the Snam Rete Gas plant in Panigaglia. The tariffs were proposed by firms owning transportation networks and by Snam Rete Gas with respect to the LNG terminal at Panigaglia, on the basis of criteria and constraints defined by the Authority with decision 120/2001. The Authority found the proposals to comply with set criteria.

Following the definition of the tariff regime for transport activity as formulated in Decision No. 120/01 of the Authority which represent a key element of the regulatory framework of the Italian natural gas market, management expects that competition will induce a reduction in Eni's commercial margins in coming years; however management believes that there will not be a material adverse impact on Eni's results of operations because such reduction in domestic commercial margins will be partially offset by an expansion of natural gas activity outside Italy, cost reduction measures and improvement in service quality.

Natural Gas Prices. The price of natural gas charged by Eni for primary sales, as well as the terms of supply, are generally determined through arm's-length negotiations with associations representing major categories of customers, such as industrial companies (Confindustria and Confapi), industrial electricity producers (Unapace), electricity producers and distributors (Federelettrica) and local distribution companies (ANCI, Federgasacqua and Gasit) as well as with Enel, the former Italian national electricity utility, directly. Once established, contractual terms, including the pricing provisions, are applied uniformly to buyers in each category. Prices are generally updated by means of indexation to certain parameters (such as the price of oil and certain refined products). These contracts are also subject to supervision of the Government. This framework is about to change due to the liberalization of the natural gas sector introduced by Decree No. 164 and the unbundling of the several segments of the natural gas industry which will highlight the revenues of costs of each segment. Eni plans to re-formulate its commercial offer by applying a multi-choice price structure to individual customers or groups of customers who will be able to choose among various forms of price indexation. This new price structure will be offered to customers at the expiration of existing contracts and aims at reducing the impact of the volatility of raw material prices due to fluctuations in the prices of energy parameters and in exchange rates by introducing mechanisms that minimize commodity risks.

On May 3, 2000, Eni and Confindustria agreed upon terms for the supply of natural gas to industrial users effective from May 1, 2000. This agreement terminated with the publication of Decree No. 164. The existing contracts are still valid until their contractual date. These terms provide for various price reductions based on the type of supply (firm or interruptible) and volumes supplied. Price reductions apply also to industrial users supplied by local distribution companies. Eni and Unapace (the Italian association of industrial power producers) entered into new agreements regulating natural gas supplies to industrial power producers which sell electricity to the market, effective from June 1, 1998 to December 31, 2006. Such agreements reviewed the existing long-term contracts to (10 years or longer), allowing also for the introduction of short-term contracts (3 years). Prices may be reviewed in case the outlook of the energy industry appears changed at December 31, 2003, or following the publication of transport and storage tariffs by the Authority.

With Decision No. 193 of December 22, 1999, the Authority imposed a price cut of 23.7 lire/cubic meter on tariffs to distributors for the component of cost relating to raw materials, effective January 1, 2000, imposing also a renegotiation of monitored prices in view of applicable cost criteria. Eni and other operators filed a claim against this decision to the Regional Administrative Court of Lombardia. With a decision published on February 15, 2001, such Court accepted Eni's claim and repealed the Authority's decision. Eventually with a decision published on June 26, 2001, the Council of State confirmed decision No. 193 of December 22, 1999 of the Authority. In 2000 financial statements Eni prudentially allocated the price reduction amount imposed by the Authority (euro 273 million) to the reserve for contingencies awaiting for the conclusion of appeals. Therefore this price reduction had no effects on the variation of natural gas primary distribution margins when comparing 2001 to 2000 results of operations.

Storage. The right to store natural gas in depleted fields in Italy is exercised pursuant to concession agreements with the Government. Only entities already holding a concession to exploit a hydrocarbon deposit may receive a concession to store natural gas, which is granted by the Ministry of Industry (now the Ministry of Productive Activities). The initial duration of a concession is 20 years, with the possibility of obtaining ten-year extensions. After the expiration of a concession, new storage or production concessions on the same field may be granted through competitive auctions. Pursuant to Decree No. 625, unused storage capacity can be made available to third parties, subject to the approval of the Ministry, for a price and other conditions to be negotiated between the parties. Until December 31, 1996, Eni had the exclusive right to store natural gas in depleted fields in the Exclusive Area. Decree No. 625 eliminated this exclusive right, while granting Eni the right to obtain upon application storage concessions having effect from January 1, 1997 that would preserve such rights as had vested during the regime of exclusivity (based on current storage activities or certain statutory conditions). Eni obtained the nine storage concessions which it had applied for. In 1999, Eni applied for another concession.

The most important aspects of Decree No. 164 concerning production and storage activities performed by Eni are the following: (i) it favors the development of domestic natural gas reserves; (ii) effective January 1, 2002, storage can be carried out by companies which only engage in transmission and dispatching, provided the accounts of these two activities are clearly separated from the accounts of storage. Existing storage concessions are subject to the Decree. Their original term was confirmed and include relevant production concessions: (iii) the need for strategic storage in Italy is confirmed; (iv) holders of storage concessions are required to provide storage capacity for domestic production, for strategic use and for modulation to users without discriminations, in agreement with maintenance and operation programs and the capacity of transmission networks linked to storage sites; (v) the burden of strategic storage is imposed upon companies importing from non-EU countries, which have to provide a strategic storage capacity in Italy corresponding to 10% of the amount of natural gas imported each year; (vi) from the date of the decree for eligible customers and from July 1, 2003, for all other customers, modulation storage costs are charged to distribution companies which have to provide modulation services adequate to requirements; (vii) storage tariffs criteria are determined by the Authority which ensures a proper return on capital employed, taking into account the typical risk inherent in mineral activities as well as volumes stored for ensuring peak supplies and provides incentives to capital expenditure for the upgrading of the system; and (viii) in the transitional period until the publication of the Authority's decision, storage companies determine and publish their own tariffs.

With decision No. 26 dated February 27, 2002 the Authority determined tariff criteria for natural gas storage for the first regulated period (from April 1, 2002 to March 31, 2006). The Authority determined criteria on the basis of the costs of the service, plus a weighted average real rate of return of 8.33%. The increase in these tariffs is subject to a price cap that takes into account inflation and a productivity recovery of 2.75% per year. The tariff structure consists of two fixed elements, one based on the annual capacity used (space occupied in the reservoir) and one based on maximum output capacity demand for one day in the year, as well as a variable element calculated on the basis of the quantities entering and leaving the field. Operators with storage fields that are not yet fully operational, or who are developing new fields, are free to define their own tariffs or ask for the tariff defined by the Authority to be applied. The Authority's decision to leave this latter kind of operators free to define their tariffs was prompted by the need to encourage new operators to enter the Italian market of storage services. On the basis of these criteria on March 18, 2002, Stoccaggi Gas Italia SpA presented its suggested tariffs for cyclical modulation, mineral and strategic storage services for the first regulatory period. The Authority rejected Stoccaggi Gas Italia proposal and set storage tariffs for thermal year 2002-2003 with decision No. 49 of March 26, 2002 and effective starting from June 21, 2000. Tariffs set by the Authority are 50% lower than those currently applied by Eni. On April 29, 2002, Stoccaggi Gas Italia SpA notified to the Authority that it will appeal both Authority decisions to the Regional Administrative Court of Lombardia in order to obtain their repeal. As provided for by Decree No. 164, storage companies, among which Eni, have to compensate customers for any difference between the provisional tariffs applied in the transitional period (from June 21, 2000 to April 1, 2002) and those determined by the Authority. In 2002 Eni reimbursed its customers of an amount of euro 16 million.

Decree No. 625, as amended by Decree 164, provides for the holders of storage concessions to keep storage capacity available for mineral, strategic and modulation storage functions for the national natural gas system.

In implementation of Decree 164, the Decree of the Minister of Productive Activities of September 26, 2001 defined the criteria for the determination and use of strategic storage. The utilization of natural gas volumes held under strategic storage becomes mandatory in case of interruption or reduction of imports from non-EU countries due to technical and unpredictable causes, in case of emergency on the national gasline network, in case of colder winters than those expected by the Authority in its periodic statements concerning the determination of modulation obligations for seasonal consumption peaks.

On March 14, 2002, the Authority issued a consultation document containing criteria relating the storage code that storage companies have to propose. The consultation document, among other things, suggests: (i) a preference order in assigning storage capacity which favours natural gas transport companies, natural gas distribution companies as defined by Decree No. 164 art. 18, eligible customers and other natural gas companies of members States of the European Union and non members; (ii) mechanisms to assign scarce storage capacity (competitive bid, pro quota or first come first served); (iii) contents of the storage code, among which access criteria to storage services and criteria of utilization of storage service.

With Regional Law of March 26, 2002 No. 2, the Sicilia Region introduced a tax on the owners of first category pipelines (with maximum operating pressure exceeding 24 bar) in Sicily. The tax has been set, for 2002, at euro 153 per cubic meter of gas pipeline on public territory and euro 137.70 per cubic meter of pipeline on private land. The annual amount of the tax due by Snam Rete Gas is about euro 130 million. The law was enacted on April 1, 2002; therefore the amount due in the current year is around euro 97 million, split in nine monthly payments of about euro 10.8 million each, the first payment was made on April 30, 2002. The company presented its tariff proposal for thermal year 2002/2003 to the Authority for Electricity and Gas at the end of March 2002, and, under the proposal, the impact of this tax would be effectively transferred to Snam Rete Gas' customers, such as Eni, through a component of the tariff. Management also expects that, as well as any other cost component, the impact of this tax will be effectively transferred to the end users of Eni's primary and secondary distribution and therefore that this tax will have no impact on Eni's results of operations.

In a note to the Italian Government, the Authority for Electricity and Gas stated that these kinds of taxes are against the principles and objectives of Law No. 481/1995, which promotes the spread of competition in the public utilities sector, and do not take in proper account the European Directive implemented in Italy with Legislative Decree No. 164/2000.

On May 31, 2002, the Board of Directors of Snam Rete Gas resolved to take all necessary measures in order to have the Sicilian tax revoked on the basis of European Union rules and sent to the Sicilia Region notice of its petition for reimbursement of all sums paid to date, as a preliminary measure to the legal dispute, Eni intends to file a petition with the European Union.

According to the Board, the tax is illegal for the following main reasons:

- it violates European Union rules which prohibit customs duties—and all other taxes having the same effect—on the importing, exporting and transmission of natural gas, as well as the provisions of the Italian Constitution, which prohibits constraints to the free circulation of people and goods among regions;

- the declared purposes of environmental restoration are inconsistent with the total lack of pollution of gas pipelines, especially considering that laying gas pipelines has always entailed environmental restoration carried out at the expense of the pipeline owners;
- the Sicilia Region has failed to comply with the principles of coordination with State and regional legislation, as well as with the legislation of other regions, by enacting laws without waiting for the specific provisions of the State, bearing the fundamental principles ''of coordination of public finance and of the tax system''.

Refining and Marketing of Petroleum Products

Refining. Under Decree No. 112, companies that seek to establish refining operations in Italy or to expand the capacity of existing refining operations must obtain an operating concession from the relevant Region, while companies that seek to build or operate new plants that do not increase refining capacity must obtain an authorization from the relevant Region.

Service Stations. Decree No. 32 of February 11, 1998 significantly changed Italian regulation of service stations. The Decree replaces the system of concessions granted by the Ministry of Industry, regional and local authorities with an authorization granted by city authorities. Legislative Decree No. 112/98 confers the power to grant concessions for the construction and operation of service stations on highways to Regions. Decree No. 32 also requires that contracts between license holders and service station operators have a duration of not less than six years and be drafted in accordance with arrangements agreed by the relevant trade group of license holders and the union representatives for the service station operators. Decree No. 32 also provides for: (i) the testing of compatibility of existing service stations with local planning and environmental regulations and with those concerning traffic safety to be performed by city authorities; (ii) upon the closure of at least 7,000 service stations, the option to extend by 50% the opening hours (currently 52 hours per week) and a generally increased flexibility in scheduling opening hours; (iii) simplification of regulations concerning the sale of non-oil products and the permission to perform simple maintenance and repair operations at service stations; (iv) establishment of a fund for the restructuring of the sales network, in part financed through a contribution of lire 4 per liter of fuel sold (lire 3 paid by licence holders and lire 1 paid by operators of service stations); (v) the opening up of the logistics segment by permitting third party access to unused storage capacity for petroleum products; and (vi) measures designed to increase competition on the market for LPG for residential, industrial and agricultural users. With the goal of streamlining the Italian distribution network, Law no 57/2001 provides that the Ministry of Industry (now Ministry for Productive Activities) is to prepare guidelines for the modernization of the network, and the Regions shall follow those guidelines in the preparation of regional plans. The Decree was issued on October 31, 2001 and established the criteria for the closing down of incompatible stations, the opening up of new ones and will regulate the operations of service stations on matters such as automation, working hours and non oil activities.

In 2001 the Antitrust Authority completed an inquiry, started upon request of the Ministry of Productive Activities, on the Italian fuel distribution network, aimed at verifying the application of Legislative Decree No. 32/98 and at identifying the appropriate measures for modernizing this sector. The Authority believes that the Italian network is generally inefficient due to the presence of too many service stations, many of which have low throughput and do not provide all those elements that are considered essential in more advanced markets. Recent measures published by the Ministry of Productive Activities concerning access to storage facilities and the national plan containing guidelines for the modernization of the distribution system, approved by Ministerial Decree on October 31, 2001, will contribute to the modernization of the Italian fuel distribution network in a more competitive context. Essential for the modernization are the reduction in the number of service stations, with related increase in average throughput.

The Antitrust Authority on June 18, 2001 started an inquiry on 30 operators in the Italian wholesale market for refined products (among these AgipPetroli SpA and Atriplex SpA) aimed at verifying the possible infringement of competition rules in public bids for contract in the 1996-2000 period. Results are expected to be published at the end of 2002.

Petroleum Product Prices. Petroleum product prices were completely deregulated in May 1994 and are now freely established by operators. Oil and gas companies periodically report their recommended prices to the Ministry of Industry and service station operators, and such recommendations are considered by service station operators in establishing retail prices for petroleum products. With Ministerial Decree dated February 16, 2000 an entity was established that supports the Ministry of Industry in monitoring trends in domestic and international prices of oil and oil products. Furthermore, in order to avoid initiatives inhibiting competition, Law No. 57/2001 provides the compliance with EU Regulation No. 2790/1999 concerning ''vertical agreements'' on economic relations between operators in this area. Management believes that these developments will not have any significant impact on Eni's operations.

Mandatory Reserves. The Hydrocarbons Laws require companies operating in the oil and gas business in Italy to contribute to mandatory reserves of oil and certain petroleum products equal to 90 days' average consumption. Decree No. 32 of February 11, 1998, provides for the establishment of an entity responsible for the maintenance and management of the mandatory reserves; the by-laws of this entity were approved on January 29, 2001. Legislative Decree No. 22 of January 31, 2001, for the implementation of European Directive 98/83/CEE concerning the minimum mandatory reserve for Member States, redefines the calculation method of such reserve and provides for the possibility to hold such reserve in the country of another Member State.

Competition

Like all Italian companies, Eni is subject to Italian and EU competition rules. EU competition rules are set forth in Articles 81 and 82 of the Treaty of Rome as amended by the Treaty of Amsterdam dated October 2, 1997 and entered into force on May 1, 1999 (''Article 81'' and ''Article 82'', respectively being the result of the new denomination of former Articles 85 and 86) and EU Merger Control Regulation No. 4064 of 1989 (''EU Regulation 4064''). Article 81 prohibits collusion among competitors that may affect trade among member states and that has the object or effect of restricting competition within the EU. Article 82 prohibits any abuse of a dominant position within a substantial part of the EU that may affect trade among member states. EU Regulation 4064 sets certain limits for cross-border transactions, above which enforcement authority rests with the European Commission and below which enforcement is carried out by national competition authorities, such as the Antitrust Authority in the case of Italy. Eni is also subject to the competition rules established by the Agreement on the European Economic Area (the ''EEA Agreement''), which are analogous to the competition rules of the Treaty of Rome and apply to competition in the European Economic Area (which consists of the EU and Norway, Iceland and Liechtenstein). These competition rules are enforced by the European Commission and the European Free Trade Area Surveillance Authority.

In addition, Eni's activities are subject to Law No. 287 of October 10, 1990 (the ''Antitrust Law''). In accordance with the EU competition rules, the Antitrust Law prohibits collusion among competitors that restricts competition within Italy and prohibits any abuse of a dominant position within the Italian market or a significant part thereof. However, the Antitrust Authority may exempt for a limited period agreements among companies that otherwise would be prohibited by the Antitrust Law if such agreements have the effect of improving market conditions and ultimately result in a benefit for consumers. The Antitrust Authority has intervened on the basis of the Antitrust Law in several instances, particularly in order to prohibit the imposition of discriminatory tariffs in the telecommunications, railway and air transport sectors, among others. In addition, the Antitrust Authority has undertaken investigations regarding the activities of certain oil and gas companies, including Eni. See ''Note 23 to the Consolidated Financial Statements—Legal Proceedings—Antitrust Proceedings.''

Property, Plant and Equipment

Eni has freehold and leasehold interests in real estate in numerous countries throughout the world, but no one individual property is material to Eni as a whole. See ''Exploration and Production'' above for a description of Eni's reserves and sources of crude oil and natural gas.

Organizational Structure

The significant subsidiary and associated undertakings and joint ventures of Eni Group controlled directly or indirectly by Eni at December 31, 2001 and included in scope of consolidation as well as Eni's percentage of equity capital or joint venture interest (rounded to the nearest whole number) are set forth in the table below. The principal country of operation is generally indicated by the company's country of incorporation or by its name.

Company/Undertaking	Country of Incorporation	%
Exploration Production		
Agip Algeria Production BV	Netherlands	100
Agip Angola Production BV	Netherlands	100
Agip Azerbaijan BV	Netherlands	100
Agip Caspian Sea BV	Netherlands	100
Agip Congo SA	Netherlands	100
Agip Exploration BV	Netherlands	100
Agip Iran BV	Netherlands	100
Agip Karachaganak BV	Netherlands	100
Lasmo Plc	United Kingdom	100
Agip North Africa BV	Netherlands	100
Agip North Sea Ltd	United Kingdom	100
Agip Oil Ecuador BV	Netherlands	100
Agip Petroleum Co Inc.	USA	100
Agip (UK) Ltd	United Kingdom	100
Brithish-Borneo Oil & Gas Plc	United Kingdom	100
Ieoc Production BV	Netherlands	100
Lukagip NV	Netherlands	50
Naoc – Nigerian Agip Oil Co Ltd	Nigeria	100
Norsk Agip A/S	Norway	100
Natural Gas		
Snam SpA	Italy	100
Snam Rete Gas SpA	Italy	60
Società Italiana per il Gas pA	Italy	41
Adriaplin Doo	Slovenia	21
Distribuidora de Gas Cuyana SA	Argentina	19
Gas Brasiliano Distribuidora Ltda	Brazil	71
Inversora de Gas Cuyana SA	Argentina	31
Tigaz	Hungary	26
Electricity Generation		
EniPower SpA	Italy	100
Refining and Marketing		
Agip Petroli SpA	Italy	100
AgipGas SpA	Italy	100
Atriplex Srl	Italy	100
Ecofuel SpA	Italy	100
Eni Portugal Investment SpA	Italy	100
Agip Deutschland AG	Germany	100
Agip Do Brasil SA	Brazil	100
Agip Ecuador SA	Ecuador	100
Agip Espana SA	Spain	100
American Agip Co Inc	USA	

Company/Undertaking	Country of Incorporation	%
Petrochemicals		
EniChem SpA	Italy	100
Dunastyr Polystyrene Manufacturing Company Ltd	Hungary	100
EniChem Americas Inc.	USA	100
EniChem Benelux SA	Belgium	100
EniChem Deutschland GmbH	Germany	100
EniChem Elastomères France SA	France	100
EniChem UK Ltd	United Kingdom	100
Oilfield Services and Engineering		
Saipem SpA	Italy	43
Snamprogetti SpA	Italy	100
Consorzio Eni per l'Alta Velocità-Cepav Uno	Italy	50
Other Activities		
Società Finanziaria Eni S.p.A.—Enifin	Italy	100
Società Finanziamenti Idrocarburi-Sofid-Spa	Italy	100
EniData SpA	Italy	100
EniTecnologie SpA	Italy	100
Eurosolare SpA	Italy	100
Sieco SpA	Italy	91
Tecnomare SpA	Italy	57
Eni International Holding BV	Netherlands	100
Eni Coordination Center SA	Belgium	100

Item 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The information in this item should be read together with the Key Information presented in Item 3 and the Consolidated Financial Statements and related Notes thereto included in Item 18. The Consolidated Financial Statements and the related Notes thereto have been prepared in accordance with Italian GAAP, which differ in certain respects from generally accepted accounting principles applied in the United States. For a summary of the significant differences between Italian accounting principles and U.S. GAAP that are relevant to Eni, see "—Summary of Differences Between Italian accounting principles and U.S. GAAP" and Notes 29, 30 and 31 to the Consolidated Financial Statements. Note 31 to the Consolidated Financial Statements provides certain additional disclosures required under U.S. GAAP.

Critical Accounting Policies

The consolidated financial statements of Eni have been prepared in accordance with Eni Group accounting policies which are in accordance with accounting principles prescribed by Italian law and supplemented by the accounting principles issued by the Consiglio Nazionale dei Dottori Commercialisti e dei Ragionieri (C.N.D.C.R.) or, in the absence thereof and if applicable, the International Accounting Standards Committee (I.A.S.C.). In the absence of indications in said principles, specific criteria for hydrocarbon exploration and production applied internationally have been followed (collectively "Italian GAAP").

Italian GAAP differ in certain respects from generally accepted accounting principles in the United States ("U.S. GAAP"); a description of these differences is set forth in Note 29 to Financial Statements.

Accounting policies affect the recognition of assets and liabilities in the balance sheet and revenues and expenses on the income statement. The accounting methods used can affect net income, stockholders equity and various financial statement ratios. However, Eni's accounting policies generally do not change cash flows or liquidity.

Oil and Gas Activities

Costs associated with the acquisition of mineral rights, including reserves purchased in connection with such acquisition, are capitalised. Mineral rights can also include exploration permits, among other items. Mineral rights are amortised on a straight-line basis over the expected period of benefit. Capitalised costs associated with proved reserves are amortised on a Unit-of-Production (UOP) basis, while capitalised costs related to all other reserves are not amortised until classified as proved. Capitalised costs related to abandoned drilling programs are expensed.

Costs associated with exploratory activities for oil and gas producing properties incurred to obtain information in order to characterise fields (such as acquisition of seismic data from third parties, test wells and geophysical surveys) are expensed as incurred for financial reporting purposes.

Costs incurred in development activities (acquisition of concessions, drilling of wells and their completion before production, as well as plant and equipment necessary for production, etc.) are capitalised and amortised on a UOP basis. Costs related to unsuccessful developmental wells are expensed immediately as loss on disposal.

Eni regularly accrues costs expected to be incurred with respect to eventual well abandonment, including costs associated with site restoration, on a UOP basis.

Engineering estimates of the Company's oil and gas reserves are inherently uncertain; the accuracy of any reserve estimate is a function of the quality of available data and engineering and geological interpretation and judgement. There are authoritative guidelines regarding the engineering criteria that have to be met before estimated oil and gas reserves can be designated as "proved". Proved reserves are the estimated volumes of crude oil, natural gas and gas condensates, liquids and associated substances which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Proved reserves include: (i) proved developed reserves: amounts of hydrocarbons that are expected to be retrieved through existing wells, facilities and operating methods; (ii) non developed proved reserves: amounts of hydrocarbons that are expected to be retrieved following new drilling and facilities.

Results of drilling, testing and production after the date of the estimate may require substantial upward and downward revision. In addition changes in oil and natural gas prices could have an effect on the value of Eni's proved reserves. Accordingly, the estimated reserves could be materially different from the quantities of oil and natural gas that ultimately will be recorded.

Despite the inherent imprecision in these engineering estimates, estimated reserves are used in determining depreciation expenses and impairment expense. Depreciation rates on oil and gas assets using the UOP basis are determined from the ratio between the amount of hydrocarbons extracted in the year and proved developed reserves existing at the year-end increased by the amounts extracted during the year. Therefore, assuming all other variables are held constant, an increase in estimated proved reserves decreases depreciation, depletion and amortisation expense. The UOP rate is then applied to the costs capitalised.

Also, estimated reserves are often used to calculate future cash flows from our oil and gas operations, which serve as an indicator in determining whether a property is impaired or not. The larger the estimated reserves, the less likely the property is impaired.

Impairment of Assets

Fixed assets are written down whenever events and changes in circumstances indicate that the carrying amount may not be recoverable. Eni calculates the writedown as the difference between the expected accumulated discounted cash flow and the book value of the asset. According to Italian Gaap, when the circumstances causing an impairment cease to exist, Eni reverses previously recorded impairment charges net of depreciation.

For oil and natural gas properties, the expected future cash flows are estimated based on the developed and non developed proved reserves including, among other elements, the cost for closure and abandonment wells, production taxes and the costs to be incurred for the reserves yet to be developed. The estimated future level of production is based on assumptions about future commodity prices, lifting and development costs, field decline rates, market demand and supply, economic regulatory climates and other factors.

Asset Retirement Obligations

Eni has significant obligations to remove tangible equipment and restore land or seabed at the end of operations. Removal and restoration obligations are primarily associated with plugging and abandoning wells and removal and disposal of offshore oil and gas platforms around the world. The estimated undiscounted costs, net of salvage value, of dismantling and removing these facilities are accrued over the productive life of the asset. Estimating the future asset removal costs is difficult and requires management to make estimates and judgements because most of the removal obligations are many years in the future and contracts and regulations often have vague descriptions of what constitutes removal. Asset removal technologies and costs are constantly changing, as well as political, environmental, safety and public relations considerations.

Environmental Liabilities

Together with other companies in the industries in which it operates, Eni is subject to numerous EU, national, regional and local environmental laws and registrations concerning its oil and gas operations, productions and other activities, including legislations that implements international conventions or protocols.

Environmental expenditures are made in order to prevent, reduce, repair or control the environmental impact of production activities. Reserves for environmental contingencies are established when it becomes probable or certain that a liability has been incurred and the amount can be reasonably estimated.

Although management, considering the actions already taken, the insurance policies to cover environmental risks and provision for risks accrued, does not expect any material adverse effect upon Eni's results of operations and financial position as a result of its compliance with such laws and regulations, there can be no assurance that there will not be a material adverse impact on Eni's results of operations and financial position due to: (i) the possibility of as yet unknown contamination; (ii) the results of the ongoing surveys; (iii) the possible effect of future environmental legislations and rules; (iv) the effect of possible technological changes relating to future remediation; and (v) the possibility of litigation and the difficulty in determining Eni's liabilities, if any, as against other potentially responsible parties with respect to such litigation and the possible insurance recoveries.

Contingencies

In addition to accruing the estimated costs for asset retirement obligation and environmental liabilities, Eni accrues for all known and estimable contingencies. These other contingencies are primarily related to litigation and tax issues. Determining appropriate amounts for accrual is a complex estimation process that includes subjective judgements. Eni reviews these contingencies on at least a quarterly basis to determine if new accruals need to be recorded or if adjustments to existing accruals need to be made.

Background and Recent Developments

Eni's results of operations and the period-to-period comparability of its financial results are affected by a number of external factors which exist in the industry environment, including changes in oil, natural gas and refined products prices, industry-wide movements in refining and petrochemical margins and fluctuations in exchange rates and interest rates. Changes in weather conditions from year to year can influence demand for natural gas and some petroleum products, thus affecting results of operations of the natural gas segment and, to a lesser extent, of the refining and marketing segment. See ''Item 3. Risk Factors.'' The trading environment was mixed in 2001. Hydrocarbons prices were high in the first half of the year; then they began to decline due to the general economic downturn. Refining margins were weak all year round due to sluggish demand for refined products; this trend worsened in the first quarter of 2002 and, as a result, refining margins dropped to a ten-year low during this quarter. Margins on distribution of refined products benefited from the time lag with which decreases in international prices of refined products are transferred to retail prices. Natural gas demand in Italy was affected by unfavourable climatic conditions in the first quarter of 2001 and by slow economic activity. Margins on natural gas distribution in Italy benefited from the weak euro and, to a lesser extent, from the favourable trends in energy prices. Petrochemical product margins suffered from the weak economic environment and came under pressure as decreases in selling prices were sharper than those in the prices of oil-based feedstocks. This trend worsened dramatically in the first quarter of 2002 and, as a result, margins on ethylene (Eni's leading product) dropped to their lowest level since 1989. In 2001 Eni's profits benefited from the weak euro.

Within a business environment characterized, with respect to the first quarter of 2001, by an 18% reduction in Brent oil prices, a sharp decline in refining margins (Brent margin was down 90%) — which are the lowest refining margins registered in the past ten years — and in petrochemicals product margins (margins on cracker were at their lowest level since 1989), Eni's 2002 first quarter operating income increased by 4% over the fourth quarter, while it decreased by 27% over the first quarter of 2001.

The table below summarizes the principal operating data for the first quarter of 2001 and 2002 and for the fourth quarter of 2001.

Fourth quarter 2001		First quarter 2001	First quarter 2002
1,408	Daily production of hydrocarbons (thousands of boe)	1,387	1,441
17.8	Sales of natural gas in Italy (billions of cubic meters)	20.32	19.02
1.62	Sales of natural gas in Europe (billions of cubic meters)	0.47	2.00
3.79	Natural gas transporter on behalf of third parties in Italy (billions of cubic meters)	2.43	4.55
1,306	Electricity sales (gigawatthour)	1,319	1,366
13.84	Sales of petroleum products (millions of tons)	12.60	12.22

Daily hydrocarbon production reached the record level of 1,441,000 boe, an increase of 54,000 boe or 3.9%, notwithstanding the 34,000 boe reduction due to production cuts decided by OPEC. The production increase was due to: (i) start-up of new fields in the United Kingdom, Algeria, the Congo, Angola, Nigeria, Italy and the United States; (ii) production increases recorded mainly in the United Kingdom, Algeria and Pakistan. These increases were partly offset by declines of mature gas fields in Italy. The share of production outside Italy remains at 78%. In April 2002, daily hydrocarbon production was 1,462,000 boe.

The 27% decline in Eni's operating income for the first quarter of 2002 as compared to the first quarter of 2001 was mainly due to:

- a euro 688 million decrease, or 34.8%, in operating income recorded by the Exploration and Production segment due to lower prices realized by Eni on hydrocarbons produced (oil was down 14.4%; natural gas 30.6%) and lower production sold of natural gas in Italy (down 11.3 million boe or 32.8%). These decreases were partly offset by increased hydrocarbon production sold outside Italy (up 8.5 million boe or 9.1%) and increased oil production sold in Italy (up 1.1 million boe or 18.5%);

- a euro 232 million decrease, or 78.9%, in operating income recorded by the Refining and Marketing segment mainly due to a sharp decline in refining margins and to lower margins on mainland-based refineries following a reduction of Fob/Cif differentials, as well as to lower results of distribution activities in Italy reflecting the effects of divestments and shut downs of service stations and decreased marketing margins in relation to competitive pressure;

- a euro 99 million increase in operating loss recorded by the Petrochemicals division due to the contraction of margins of petrochemicals products, partly offset by lower depreciation and amortization charge following significant assets writedowns recorded in 2001 financial statements;

Other Eni's business segments recorded stable operating income or small increases compared to the first quarter of 2001.

Net sales from operations decreased by 7.8% over the first quarter of 2001, due mainly to lower prices of hydrocarbons produced and main downstream products. These negative effects were offset in part by an increase in oil production sold and the higher activity levels in the Oilfield Services and Engineering division.

In the first quarter of 2002, streamlining and efficiency improvement actions continued and allowed material cost savings.

Net borrowings decreased over December 31, 2001 due to cash provided from operating activities which was only partially absorbed by financial requirements for capital expenditures.

For a more complete description of first quarter results see Eni's Report on Form 6-K dated May 9, 2002 which contains a full description of results.

During the second quarter of 2002, Brent oil price improved and management expects Eni's results of operations in the second quarter to benefit from higher oil prices; refining and petrochemical products margins remained on poor levels. Conversely the weakening of the U.S. dollar against the euro will adversely affect Eni's results of operations in the second quarter of 2002 as compared to the same period of 2001.

The table below sets forth certain indicators of some of these external factors for the periods indicated:

	Year ended December 31,			Three months ended March 31,		Two months April-May,	
	1999	2000	2001	2001	2002	2001	2002
Average price of Brent dated crude oil(1)	17.87	28.39	24.46	25.84	21.14	27.09	25.50
Average European refining margin(2)	1.21	3.99	1.97	2.16	0.21	3.21	0.56
Average Euro/USD Exchange rate(3)	1.067	0.924	0.896	0.923	0.876	0.883	0.901
EURIBOR—three-month euro rate %	3.0	4.4	4.3	4.8	3.3	4.7	3.4

(1) in US dollars per barrel. Source: Platt's Oilgram.

(2) in US dollars per barrel. FOB Mediterranean Brent dated crude oil. Source: Eni calculations based on Platt's Oilgram data.

(3) Source: European Central Bank.

Principles of Consolidation

The consolidated financial statements include the statutory accounts of Eni S.p.A. and all Italian and foreign companies controlled by Eni S.p.A., directly or indirectly, either by holding the majority of the voting rights or sufficient votes to enable it to exercise control at ordinary shareholders' meetings (as in the case of Italgas and Saipem).

The consolidated financial statements also include, on a proportional basis, the accounts of companies controlled jointly with other partners, except in the case in which the partners have agreed to account for the joint venture using the equity method. The effects of proportionate consolidation are not material. Insignificant subsidiaries, companies held exclusively for sale and companies in liquidation, if their exclusion does not result in a misrepresentation of the company's financial condition and consolidated results, are not included in the scope of consolidation. The effects of this exclusion, on the whole, are not material. Investments in controlled companies excluded from the consolidation process and in companies where Eni S.p.A. has a 20% to 50% investment, if material, are accounted for using the equity method. Other investments are recorded at cost, adjusted for permanent impairment of value.

Results of Operations

Three Years ended December 31, 2001

The table below sets forth a summary of Eni's income statement for the periods indicated.

	Year ended December 31,		
	1999	2000	2001
	(millions of euro)		
Net sales from operations	31,008	47,938	48,925
Other income and revenues(1)	952	905	921
Total revenues	31,960	48,843	49,846
Operating expenses	(22,782)	(34,228)	(34,679)
Gross operating margin	9,178	14,615	15,167
Depreciation, amortization and writedowns	(3,698)	(3,843)	(4,771)
Operating income	5,480	10,772	10,396
Net financial income (expense)	10	64	(259)
Net income (expense) from investments	89	33	(216)
Income before extraordinary income and income taxes	5,579	10,869	9,921
Net extraordinary income (expense)(2)	(528)	(512)	1,837
Income before income taxes	5,051	10,357	11,758
Income taxes	(2,054)	(4,335)	(3,530)
Income before minority interest	2,997	6,022	8,228
Minority interest	(140)	(251)	(477)
Net income	2,857	5,771	7,751

(1) Includes, among other things, contract penalties, income from contract cancellations, gains on disposal of mineral rights and other fixed assets, compensation for damages and indemnities and other income.

(2) Gross of income tax.

Revenues from sales of products are recognized upon transfer of title. Revenues from sale of services are recognized when services have been provided. Revenues relating to long term construction contracts are recognized using the percentage-of-completion method.

Costs are recognized when the related goods and services are sold, consumed or allocated, or when their future useful lives cannot be determined.

Revenues, income, costs and expenses are recorded net of exchanges of oil sales, returns, discounts, allowances and rebates, excluding taxes directly related to the sale of products, excise taxes, exchanges of oil sales and the provision of services and billings to partners in joint ventures.

Eni is party to certain Production Sharing Agreements whereby taxes are settled by state-owned entities in the name and on behalf of Eni out of reserves produced.

The table below sets forth certain income statement items as a percentage of net sales from operations for the periods indicated.

	Year ended December 31,		
	1999	2000	2001
Operating expenses	73.5%	71.4%	70.9%
Gross operating margin	29.6%	30.5%	31.0%
Depreciation, amortization and writedowns	11.9%	8.0%	9.8%
Operating income	17.7%	22.5%	21.2%

2001 compared with 2000. Eni's consolidated financial statements at December 31, 2001 showed a record net income of euro 7,751 million, with an increase of euro 1,980 million over 2000, up 34.3%, mainly due to: (i) an euro 2,349 million increase in net extraordinary income related to higher gains on disposals (euro 3,387 million) generated in particular by the offering of 40.24% of the share capital of Snam Rete Gas SpA, the sale of part of Eni's real estate portfolio and of the Polyurethane business in the Petrochemical segment, offset in part by an euro 1,038 million increase in extraordinary expense due to higher restructuring charges, in particular in the Petrochemical segment; (ii) lower income taxes (euro 805 million) mainly related to the effects of the voluntary revaluation of assets as per Law 342/2000 carried out by some of Eni's subsidiaries in 2000. These positive factors were offset in part by: (i) an euro 376 million decrease in operating income (down 3.5%) due in particular to the decline in oil prices; (ii) the negative change amounting to euro 323 million in the balance of financial income/expense due to higher net borrowings; (iii) the negative change amounting to euro 249 million in the balance of income/loss on investments due mainly to higher losses recorded by subsidiaries and (iv) the share of profits of Snam Rete Gas attributed to minorities following the offering (euro 232 million).

Despite the 16% decline in selling prices realized by Eni on oil and the euro 336 million decrease in operating income generated by the Petrochemical segment, Eni's net income before non-recurring items, which amounted to a gain of euro 1,994 million (net of tax effect), and before the first time attribution to minorities of net income generated by Snam Rete Gas (euro 232 million) increased by 3.2% (euro 5,989 million as compared to euro 5,804 million in 2000). See "Non-recurring Items" for more details relating these items.

Cost reduction and efficiency improvement actions allowed savings amounting to euro 475 million (including Lasmo), offsetting almost completely salary increases, inflation and the effect of the appreciation of the dollar over the euro. Savings obtained in 2001 brought total savings in the 1999-2001 period to euro 1,199 million, or 40% of the euro 3 billion target set for 2005 of which 0.6 billion related to the planned divestment of the petrochemical segment.

Return on average capital employed (ROACE) increased significantly to 24% (21.5% in 2000). See — "Glossary" for a definition of ROACE.

2000 compared with 1999. Eni's consolidated financial statements at December 31, 2000 showed a net income of euro 5,771 million, more than double the net income generated in 1999. Without taking into account the effect of the change in the criteria for determining the useful life of assets in the Natural Gas segment (euro 312 million) and the effect of non-recurring items (net expense amounting respectively to euro 190 and 33 million for 1999 and 2000), net income increased by 80%. The rise was due mainly to the marked increase in operating income resulting from higher Eni hydrocarbon prices and refining margins, in addition to increases in hydrocarbon production sold, natural gas volumes sold and transported on behalf of third parties, cost reduction efforts as well as an improvement of euro 366 million in operating income recorded by the Petrochemical segment. Cost reductions amounting to euro 435 million (of these 50 million related to savings on investment goods) brought total savings in the 1999-2000 period to euro 724 million, well beyond the target set for the period. Eni believes that the acceleration of streamlining efforts will allow Eni to reach in advance the euro 1,660 million savings target set for 2003.

Return on average capital employed (ROACE) increased significantly, reaching 21.5% (12.5% in 1999).

Revenues

Eni's total revenues were euro 49,846, 48,843 and 31,960 million in 2001, 2000 and 1999, respectively. Total revenues consist of net sales from operations and other income and revenues. Eni's net sales from operations amounted to euro 48,925 million, euro 47,938 million and euro 31,008 million in 2001, 2000 and 1999, respectively, and its other income and revenues totalled euro 921 million, euro 905 million and euro 952 million, respectively, in these periods.

The table below sets forth, for the periods indicated, the net sales from operations generated by each of Eni's business segments, together with consolidated net sales from operations.

	Year ended December 31,		
	1999	2000	2001
	(millions of euro)		
Exploration and Production	6,840	12,308	13,960
Natural Gas	9,900	13,935	15,495
Electricity Generation		492	603
Refining and Marketing	14,415	25,462	22,083
Petrochemicals	4,096	6,018	4,761
Oilfield Services and Engineering	2,988	2,146	3,114
Other activities	555	608	695
Activities to be divested	83		
Elimination of intersegment sales(1)	(7,869)	(13,031)	(11,786)
Consolidated net sales from operations	31,008	47,938	48,925

(1) Intersegment sales are included in net sales from operations in order to give a more meaningful indication as to the volume of the activities to which sales from operations by segment may be related. The most substantial intersegment sales are recorded by the Exploration and Production segment. See Note 25 to the Consolidated Financial Statements for a breakdown of intersegment sales by segment for the three years ended December 31.

2001 compared with 2000. Eni's net sales from operations (revenues) amounted to euro 48,925 million, representing an euro 987 million increase over 2000, up 2.1%, due mainly to higher prices of natural gas, higher hydrocarbon production sold, the appreciation of the dollar over the euro and higher activity levels in the Oilfield Services and Engineering segment. These positive factors were offset in part by the decline in international oil prices and in the prices of the main downstream products, as well as in volumes of petrochemical products sold.

Net sales from operations generated by the Exploration and Production segment (euro 13,960 million) increased by euro 1,652 million, up 13.4%, due mainly to: (i) an increase in hydrocarbon production sold (72 million boe, up 17%) mainly related to the acquisition of Lasmo; (ii) the appreciation of the dollar over the euro; (iii) higher prices realized by Eni on natural gas (up 2%); (iv) increased resales of purchased hydrocarbons (39 million boe). These positive factors were offset in part by lower selling prices realized by Eni on oil (down 16%).

Net sales from operations generated by the Natural Gas segment (euro 15,495 million) increased by euro 1,560 million, up 11.2%, mainly due to higher natural gas prices.

Net sales from operations generated by the Electricity Generation segment (euro 603 million) increased by euro 111 million, up 22.6%, due mainly to the fact that in 2001 Eni in addition to selling internally produced electricity began to sell traded electricity mainly to industrial customers for use in their business. Higher electricity prices also increased net sales from operations.

Net sales from operations generated by the Refining and Marketing segment (euro 22,083 million) decreased by euro 3,379 million, down 13.3%, due to the decline in prices in euro of refined products (in Italy retail diesel fuel and gasoline decreased by 9.1 and 8.2% respectively) and lower resales of purchased crudes (3.6 million tons).

Net sales from operations generated by the Petrochemical segment (euro 4,761 million) decreased by euro 1,257 million, down 20.9%, due to a 13.9% decrease in average selling prices of products and a 6.8% decrease in volumes sold, due in part to the sale of the Polyurethane business.

Net sales from operations generated by the Oilfield Services and Engineering segment (euro 3,114 million) increased by euro 968 million, up 45.1%, due to increased activities in particular in oilfield services.

2000 compared with 1999. Eni's net sales from operations (revenues) amounted to euro 47,938 million, representing a euro 16,930 million increase over 1999, up 54.6%, due mainly to higher prices and volumes of hydrocarbons and main downstream products sold. These positive factors were offset in part by lower activity levels in the Oilfield Services and Engineering segment. Net sales from operations generated by the Exploration and Production segment (euro 12,308 million) increased by euro 5,468 million, up 79.9%, due mainly to: (i) an increase sale prices in euro realized by Eni on oil (78.7%) and natural gas (58%), as well as in higher traded crude prices (up 71.6%); (ii) an increase in hydrocarbon production sold (34.4 million boe, up 8.7%). These positive changes were offset in part by lower resales of purchased crudes (12.7 million barrel, down 49%).

Net sales from operations generated by the Natural Gas segment (euro 13,935 million) increased by euro 4,035 million, or 40.8%, due to: (i) higher natural gas prices related to the increase in prices of refined products to which tariffs are contractually indexed; (ii) higher natural gas volumes sold in primary distribution (1.01 billion cubic meters, up 1.7%) and increased volumes of natural gas transported on behalf of third parties (3.41 billion cubic meters or 30.2%); (iii) the inclusion in consolidation of secondary distribution companies Distribuidora de Gas Cuyana SA and Adriaplin Doo (for a total of 0.90 billion cubic meters).

Net sales from operations generated by the Electricity Generation segment amounted to euro 492 million and are related to sales of electricity amounting to euro 311 million and to steam sales totaling euro 152 million. Approximately 37% of revenues were represented by sales to other Eni segments.

Net sales from operations generated by the Refining and Marketing segment (euro 25,462 million) increased by euro 11,047 million, or 76.6%, due to the increase in prices in euro of refined products sold (in Italy the retail price of gasoline and that of diesel fuel increased by 60.8 and 56.2%, respectively), an increase in prices and, to a lower extent, in volumes of purchased crudes resold (6.22 million tons or 31%), as well as higher amounts of refined products sold (1.64 million tons, or 3.2%).

Net sales from operations generated by the Petrochemical segment (euro 6,018 million) increased by euro 1,922 million, up 46.9%, due mainly to a 46% increase in average unit prices of principal products, in particular basic petrochemicals, and higher resale prices of purchased oil-based feedstocks.

Net sales from operations generated in the Oilfield Services and Engineering segment (euro 2,146 million) decreased by euro 842 million, down 28.2%, essentially due to decreased activities, particularly in Chemicals and fertilizers, Onshore and offshore construction activities.

Operating Expenses

The table below sets forth the components of Eni's operating expenses for the periods indicated.

	Year ended December 31,		
	1999	2000	2001
	(millions of euro)		
Purchases, services and other	20,000	31,442	31,828
Payroll and related costs	2,782	2,786	2,851
Operating expenses	22,782	34,228	34,679

2001 compared with 2000. Operating expenses in 2001 (euro 34,679 million) increased by euro 451 million over 2000, up 1.3%, due primarily to: (i) increased purchase costs of natural gas; (ii) the inclusion of Lasmo in the scope of consolidation; (iii) increased activity levels in the Oilfield Services and Engineering segment; (iv) higher resales of purchased hydrocarbons (13 million boe); (v) the appreciation of the dollar over the euro. Such increases were offset in part by: (i) lower international prices of oil-based raw materials and petrochemical feedstocks; (ii) lower production in the Petrochemical segment (702,000 tons, down 8.2%) due in part to the sale of the Polyurethane business; (iii) lower costs due to streamlining and efficiency improvement actions which offset almost entirely salary increases, the effects of inflation and the appreciation of the dollar over the euro.

Payroll and related costs (euro 2,851 million) increased by euro 65 million, up 2.3%, due essentially to the inclusion of Lasmo in the scope of consolidation, the effect of new hiring on a temporary base in Oilfield Services and Engineering segment, as a result of increased activity levels, and the 2.6% increase in unit labor costs in Italy. These factors were offset in part by a decline in Eni's average workforce in Italy by approximately 2,800 employees related to streamlining.

2000 compared with 1999. Operating expenses (euro 34,228 million) increased by euro 11,446 million over 1999, up 50.2%, due primarily to: (i) increased unit costs of natural gas, oil and petrochemical feedstocks purchased as a result of energy sector performance and the appreciation of the dollar over the euro; (ii) increased volumes of natural gas purchased from third parties (3.84 billion cubic meters, up 8.6%), increased petrochemical production (234,000 tons, up 2.8%), increased refinery intake (630,000 tons, up 1.7%) and purchases of refined products (1.45 million tons, up 11%) to be sold on foreign and domestic markets; (iii) increased volumes (about 33 million barrels) and prices of resales of crudes purchased; (iv) increased provisions to the risk reserve related to Decision No. 193 dated December 22, 1999, of the Authority for Electricity and Gas imposing a price cut of 23.7 lire/cubic meter on final tariffs paid to distributors with reference to raw material costs; (v) increased royalties (euro 221 million) due to higher value of production; (vi) a non-recurring euro 134 million revaluation of inventories of oil products recorded in 1999; (vii) the inclusion in the consolidation of natural gas secondary distribution companies Distribuidora de Gas Cuyana SA and Adriaplin Doo. Such factors were offset in part by: (i) lower operating expense in the Oilfield Services and Engineering segment relating to lower activity levels; (ii) lower fixed costs due to streamlining and disposals, offset in part by the effects of salary increases, inflation and the depreciation of the euro over the dollar, as well as the development of upstream activities.

Payroll and related costs (euro 2,786 million) remained stable. The effect of a decline in Eni's average workforce by approximately 2,500 employees due to streamlining and disposals effected in 1999 in all segments, offset in part the approximately 3% increase in unit labor costs in Italy, and an increase in labor costs outside Italy due mainly to exchange rate differences.

Depreciation, Amortization and Writedowns

The table below sets forth a breakdown of depreciation, amortization and writedowns by business segment for the periods indicated.

	Year ended December 31,		
	1999	2000	2001
	(millions of euro)		
Exploration and Production(1)	1,654	2,364	3,163
Natural Gas	1,045	454	485
Electricity generation		20	15
Refining and Marketing	476	502	508
Petrochemicals	284	273	251
Oilfield Services and Engineering	109	144	203
Other activities	24	31	46
Total of depreciation and amortization	3,592	3,788	4,671
Writedowns	106	55	100
Depreciation, amortization and writedowns	3,698	3,843	4,771

(1) Exploration expenditures of euro 471,744 and 757 million are included in these amounts at December 31, 1999, 2000 and 2001, respectively.

2001 compared with 2000. Depreciation, amortization and writedown charges (euro 4,771 million) increased by euro 928 million over 2000, up 24.1%, in particular in the Exploration and Production segment, principally due to the inclusion of Lasmo in the scope of consolidation (euro 810 million).

2000 compared with 1999. Depreciation, amortization and writedowns (euro 3,843 million) increased by euro 145 million over 1999, or 3.9%. The increase in depreciation and amortization charges taken in connection with development activities (euro 437 million) related to higher hydrocarbon production, while those taken in connection with exploration (euro 273 million) related to higher exploration activity aimed at enhancing recently acquired assets. These were offset in part by the effect of the change in the useful life of assets in the Natural Gas segment which reduced amortization by 663 million in 2000.

Operating Income

The table below sets forth Eni's operating income by business segment for the periods indicated.

	Year ended December 31,		
	1999	2000	2001
	(millions of euro)		
Exploration and Production	2,834	6,603	5,984
Natural Gas	2,580	3,150	3,606
Electricity Generation		28	66
Refining and Marketing	478	986	985
Petrochemicals	(362)	4	(332)
Oilfield Services and Engineering	149	144	255
Other activities	(199)	(143)	(168)
Operating income	5,480	10,772	10,396

2001 compared with 2000. Eni's operating income (euro 10,396 million) decreased by euro 376 million over 2000, down 3.5% (1.7% without taking into account the impact of non-recurring items recorded in operating income. See ''Non-Recurring Items'' for more details) due to:

— a decrease in operating income generated by the Exploration and Production segment (euro 619 million, down 9.4%), due to the decline in selling prices realized by Eni on oil (down 16%), whose effects were offset in part by the contribution of the acquisition of Lasmo (euro 275 million), increased natural gas production sold in Italy (5.4 million boe, up 6.1%), higher selling prices realized by Eni on natural gas (up 2%), the appreciation of the dollar over the euro (up 3%) and lower operating expenses;

— an euro 332 million operating loss registered by the Petrochemical segment compared to the operating income of euro 4 million generated in 2000, due mainly to a decline in product margins (down 14%) and volumes sold (down 6.8%) related to the decline in demand for petrochemical products, as well as the effect of lower prices on inventories valuation as stocks of petrochemical products are recorded at the average production or purchase cost of the year which were both lower than at the beginning of the year, thus resulting in a loss on inventory.

These decreases were offset in part by:

— an increase in operating income generated by the Natural Gas segment (euro 456 million, up 14.5%), due mainly to higher margins on primary distribution, a decrease in costs, as well as higher volumes sold in Italy and outside Italy in secondary distribution, whose effects were offset in part by a change in the sale mix of products sold in primary distribution and lower margins in secondary distribution;

— an increase in operating income of the Oilfield Services and Engineering segment (euro 111 million, up 77.1%), resulting from the positive trend of the oilfield services activity;

— an increase in operating income of the Electricity Generation segment (euro 38 million, up 135.7%), resulting mainly from higher margins on electricity sales.

Operating income generated by the Refining and Marketing segment (euro 985 million) remained at approximately the same level of year 2000, as the decline in refining margins (margin on Brent was down 50.6%) was almost completely offset by an increase in retail margins of refined products in Europe, lower provisions to the reserve for environmental charges, due to the fact that in year 2000 a significant charge was recorded in connection with the rationalization process of the Italian network, and lower costs.

2000 compared with 1999. Eni's operating income (euro 10,772 million) increased by 97% over 1999 (89% without taking into account the impact of the change in the determination of the useful life of assets in the Natural Gas segment and non-recurring items); in particular:

— the increase in selling prices in euro realized by Eni on oil (up 78.7%) and natural gas (up 58%) reflecting the increase in international oil prices and the appreciation of the dollar over the euro (13.4%), increased hydrocarbon production sold (8.7%) and cost reductions allowed the Exploration and Production segment to increase its operating income by 133% over 1999 and to generate 61% of Eni's operating income (about 52% in 1999);

— increased refining margins (the margin on Brent oil increased from 1.21 to 3.99 dollars/barrel) due to higher demand, low inventories and the appreciation of the dollar over the euro, as well as increased volumes processed, higher yields and cost reductions allowed the Refining and Marketing segment to improve its operating income by 106% over 1999. These positive factors were offset in part by a euro 119 million revaluation of inventories recorded in 1999, increased environmental charges and a decrease in unit sale margins on the Italian retail market, due mainly to the portion of the increase in refined product prices that could not be transferred to sale prices due to high competitive pressures;

— a decline in unit margins of primary distribution of natural gas was offset in part by a 1.7% increase in natural gas volumes sold and a by a 30.2% increase in volumes of natural gas transported on behalf of third parties as well as cost reductions. The Natural Gas segment registered a 3.6% decline in operating income (calculated without taking into account the euro 663 million effect of change in the useful life of assets), generating 29% of Eni's operating income as compared to 47% in 1999;

— higher product unit margins (up 27%) and cost reductions allowed the Petrochemical segment to generate an operating income amounting to euro 4 million as compared to an operating loss of euro 362 million in 1999.

The table below sets forth, for each of Eni's principal business segments, operating income as a percentage of such segment's net sales from operations (including intersegment sales) for the periods indicated.

	Year ended December 31,		
	1999	2000	2001
Exploration and Production	41.4%	53.6%	42.9%
Natural Gas	26.1%	22.6%	23.3%
Electricity Generation	—	5.7%	10.9%
Refining and Marketing	3.3%	3.9%	4.5%
Petrochemicals	(8.8%)	0.1%	(7.0%)
Oilfield Services and Engineering	5.0%	6.7%	8.2%

Exploration and Production. Operating income in 2001 totaled euro 5,984 million, a decrease of euro 619 million over 2000, down 9.4%, due mainly to: (i) lower selling prices realized by Eni on oil (down 16%); (ii) lower oil production sold in Italy (3.5 million barrels, down 12.5%) and outside Italy (4 million barrels, down 1.7%, excluding Lasmo's contribution); (iii) writedowns of assets (euro 88 million). These negative factors were offset in part by: (i) the contribution of Lasmo which generated an operating income of euro 275 million; net sales from operations and operating income before the amortization of the difference of purchase price over net equity amounted to euro 1,586 and euro 553 million, respectively; (ii) increased natural gas production sold in Italy (5.4 million boe, up 6.1%) related to higher withdrawals from storage; (iii) higher prices realized by Eni on natural gas (up 2%); (iv) the appreciation of the dollar over the euro; (v) cost reductions (approximately euro 137 million) related to synergies deriving from the integration of purchased companies, the rationalization of exploration expenditure and streamlining.

Natural Gas. Operating income in 2001 amounted to euro 3,606 million with an increase of euro 456 million, up 14.5% over 2000, due essentially to: (i) higher margins on natural gas sold in primary distribution, related to the appreciation of the dollar over the euro and to the pricing of natural gas, as sales prices are linked to an index which moved favourably compared to the cost of supplies, especially in the first half of 2001. See also ''Item 4—Information on the company. Regulation of the Italian Hydrocarbon Industry. Natural Gas''; (ii) lower costs (approximately euro 56 million) related to streamlining and disposals which were partly offset by salary increases and inflation; (iii) increased volumes sold in secondary distribution in Italy (0.21 billion cubic meters, up 2.7%) and outside Italy (0.43 billion cubic meters, up 12.4%). These positive factors were offset in part by: (i) a change in the sales mix in primary distribution, related to the higher share of volumes sold in Europe for resale in Italy which bear a lower margin than direct sales in Italy; (ii) lower margins in secondary distribution related to the new tariff regime imposed by the Authority for Electricity and Gas with decision No. 237 of December 28, 2001. See also ''Item 4—Information on the company. Regulation of the Italian Hydrocarbon Industry. Natural Gas''.

Electricity Generation. Operating income in 2001 amounted to euro 66 million, an euro 38 million increase, up 135.7%, due mainly to higher margins on electricity sales, in particular in the fourth quarter, resulting from the positive trend in fuel prices. The increase in electricity and steam production sold and margins on trading activities (operational since January 2001) also contributed to the increase in operating income.

Refining and Marketing. Operating income for 2001 amounted to euro 985 million, substantially similar to 2000 levels, due to: (i) higher selling margins on European retail markets and higher LPG margins; (ii) lower provisions to the environmental risk reserve (euro 95 million), due to the fact that in year 2000 a significant charge was recorded in connection with the rationalization process of the Italian network; (iii) lower costs (approximately euro 100 million) related to streamlining that substantially offset salary increases, inflation and the appreciation of the dollar over the euro; (iv) lower writedowns of assets (euro 36 million); (v) a profit relating to withdrawals from inventories (euro 36 million). These positive factors were offset by a decline in refining results due to a price environment less positive than the exceptionally favorable scenario of 2000, whose effects were offset in part by higher margins for the refineries located on continental Italy (resulting from increased CIF/FOB differentials), higher processing yields related also to the higher profitability of crudes supplied, and the appreciation of the dollar over the euro.

Petrochemicals. In 2001 the Petrochemical segment recorded an operating loss amounting to euro 332 million, as compared to an operating income of euro 4 million generated in 2000. This euro 336 million decline was due to: (i) the negative impact of the decline in prices on the evaluation of stocks (euro 100 million as compared to the positive effect of euro 80 million of 2000); (ii) lower product margins (down in average 14%) due to a decline in selling prices, only partly offset by the decline in prices in euro of oil-based feedstocks; (iii) a 6.8% decline in volumes sold related to declining demand, lower product availability and the sale of the Polyurethane business. These negative factors were offset in part by lower costs related to streamlining and divestments (approximately euro 92 million), only partially offset by salary increases and inflation and by lower recurring environmental charges.

Oilfield Services and Engineering. Operating income in 2001 amounted to euro 255 million, with an euro 111 million increase over 2000, up 77.1%. Operating income of oilfield services amounted to euro 256 million, with an increase of euro 115 million, up 81.6%, due to the contribution of the Blue Stream contract, an increased use of the Scarabeo 7 and Saipem 10000 vessels, the recovery of demand and higher profitability of orders in the Onshore construction area, the effects of which were offset in part by higher depreciation and amortization charges related to the entry into service of new vessels and investments concerning ongoing projects. Engineering activities recorded an operating break-even as compared to the income of euro 3 million generated in 2000. This decline is mainly due to the prudential provision to the reserve for contingencies on nearly completed projects in the Chemicals and fertilizers area, offset in part by the proceeds recorded after the payment of insurance damage, improvements in the Field upstream facilities and pipelines and Energy areas and the contribution of the contract for the construction of the high capacity/high velocity train tracks from Milan to Bologna. The results obtained from the completion of joint venture projects (euro 22 million in 2001 and euro 16 million in 2000) are recorded under investments.

Other Activities. This area includes Eni's corporate and financial overhead costs as well as the operating results of insurance and service businesses (administration, technical services and IT), in addition to those of EniTecnologie SpA, Eurosolare SpA and Tecnomare SpA. Operating losses amounted to euro 168 million (euro 143 million in year 2000).

Net Financial Expense

The table below sets forth a breakdown of Eni's net financial (expense) income for the periods indicated:

	Year ended December 31,		
	1999	2000	2001
	(millions of euro)		
Net financial expense	(217)	(302)	(433)
Income on receivables related to operations and tax credits	254	201	184
Exchange difference, net	(27)	165	(10)
	10	64	(259)

2001 compared with 2000. Net financial expense totaled euro 259 million, as compared to net financial income of euro 64 million in 2000. The euro 323 million negative change is due to higher financial charges (euro 131 million), related to an increase in average net borrowings of approximately euro 3,400 million, as well as to the fact that in year 2000 an euro 99 million exchange rate income was recorded on dividend payment to Eni SpA from a foreign subsidiary due to the fact that a different exchange rate was applied to net income and reserves in the years they were first recorded with respect to the exchange rate of the year in which they were distributed.

2000 compared with 1999. Net financial income was euro 64 million, a euro 54 million increase over 1999, due to higher net income from exchange rate differences, offset in part by higher interest paid because of increased interest rates in Europe (Euribor up 1.4 percentage points) and a reimbursement of tax credits paid in Treasury Bonds amounting to euro 95 million recorded in 1999.

Net Income from Investments

2001 compared with 2000. Net expense on investments amounted to euro 216 million (as compared to a net income of euro 33 million in 2000) and represented the balance between euro 491 million expense on investments and euro 275 million income on investments. Expense on investments was primarily due to Eni's share of losses on investments accounted for under the equity method under the cost method (euro 486 million) and related to Polimeri Europa Srl (euro 209 million, including non recurring items for euro 100 million), Galp Energia SGPS SA (euro 144 million, including goodwill amortization for euro 107 million and non recurring items for euro 82 million), Blu SpA (euro 57 million) and Albacom SpA (euro 42 million).

Income from investments (euro 275 million) was mainly related to: (i) Eni's share of income on investments accounted for under the equity method (euro 158 million) relating in particular to the Natural Gas segment (euro 81 million), the Refining and Marketing segment (euro 43 million), and the Oilfield Service and Engineering segment (euro 21 million); (ii) gains on disposals (euro 76 million) related mainly to the sale of 15% of Saras SpA-Raffinerie Sarde (euro 38 million) and 4.7% of Nuovo Pignone Holding SpA (euro 36 million); (iii) dividends paid by affiliates accounted for under the cost method (euro 40 million).

The euro 249 million negative change was mainly related to the euro 209 million losses of Polimeri Europa Srl (as compared to a net income of euro 35 million in 2000) and higher losses of Galp Energia SGPS SA (euro 99 million), whose effects were partially offset by increased gains on disposals (euro 35 million) and lower losses of Albacom SpA (euro 39 million).

2000 compared with 1999. Net income from investments was euro 33 million (euro 89 million in 1999), reflecting the difference between euro 211 million in income from investments and euro 178 million in losses on investments. Income from investments was mainly related to income from unconsolidated subsidiaries in the Petrochemical segment (euro 46 million), the Refining and Marketing segment (euro 44 million), the Natural Gas segment (euro 44 million), the insurance business (euro 31 million) and in Engineering (euro 17 million). Expenses from investments were primarily due to the amortization of goodwill, related to the purchase of Galp Energia SGPS SA (euro 45 million) to losses recorded by unconsolidated companies, in particular by Albacom

SpA (euro 81 million) and the writedown of the investment in EVC International NV (euro 17 million) mainly reflecting the increase in Eni's share in the income of Polimeri Europa Srl (euro 31 million).

Net Extraordinary Income

The table below sets forth Eni's extraordinary income and extraordinary expense for the periods indicated:

	Year ended December 31,		
	1999	2000	2001
	(millions of euro)		
Gains on disposals	77	86	3,473
Other extraordinary income	26	146	173
Extraordinary income	103	232	3,646
Restructuring costs:			
Provisions for risks	(330)	(182)	(885)
Writedowns of fixed assets	(169)	(34)	(607)
Cost of redundancy incentives	(110)	(202)	(237)
Total restructuring costs	(609)	(418)	(1,729)
Other extraordinary expense	(22)	(326)	(80)
Extraordinary expense	(631)	(744)	(1,809)
Net extraordinary income (expense)	(528)	(512)	1,837

2001 compared with 2000. Gains on disposals (euro 3,473 million) related to the sale of investments, businesses and fixed assets as a result of restructuring activities. In particular, gains on disposal were primarily due to: (i) the public offering of 40.24% of the share capital of Snam Rete Gas (euro 2,453 million); this gain derives from the difference between proceeds from the sale of Snam Rete Gas shares and the corresponding stake of consolidated equity, which does not include the voluntary revaluation of assets, performed by Snam SpA in 2000 as per Law 342/2000, which is eliminated in accordance with Italian GAAP; (ii) the sale of Eni's interest in Immobiliare Metanopoli (euro 348 million) and other real estate (euro 403 million) within Eni's real estate divestment program; (iii) the sale of the Polyurethane business in the Petrochemical segment (euro 211 million).

Other extraordinary income for euro 173 million related primarily to the release for redundancy of the reserve for contingencies of euro 112 million due to the annulment by the Council of State of the fine imposed on AgipPetroli by the Antitrust Authority for alleged horizontal cartel with other oil companies. The reserve had been prudentially recorded in year 2000.

Provisions for risks of euro 885 million related to closing downs, disposals and environmental remediation on plants still in operation as of December 31, 2001 in the Petrochemical segment (euro 616 million, of which euro 240 million related primarily to environmental remediation efforts at plants that management has specifically identified to close down in the next two-three years and euro 376 million related to environmental compliance provisions on all operating plants made in application of Law 471/99), and to environmental remediation on de-industrialized areas in the Petrochemical (euro 91 million), Refining and Marketing (euro 77 million) and Natural Gas (euro 44 million) segments.

Writedowns for euro 607 million concerned primarily the writedown of fixed assets and investments in the Petrochemical segment (euro 574 million) in order to align the book value of assets to both the results of the impairment test made on the basis of estimated future cash flows in a declining market scenario for petrochemical products margins and also to the result of an asset valuation made by a court-appointed expert in connection with the transfer of same to Polimeri Europa on January 1, 2002.

Redundancy incentives of euro 237 million concerned primarily the Exploration and Production segment (euro 101 million), the Natural Gas segment (euro 44 million), the Refining and Marketing segment (euro 42 million), the Petrochemical segment (euro 39 million).

2000 compared with 1999. Gains on disposals (euro 86 million) relate primarily to gains on the sale of interests in African companies in the Refining and Marketing segment (euro 63 million), of real estate (euro 14 million) and of service stations (euro 8 million).

Other extraordinary income (euro 146 million) concern in particular: (i) gains (euro 35 million) on the interest in Trans Europa Naturgas Pipeline GmbH (Tenp) due to the settlement of a fiscal claim concerning transport tariffs charged by Tenp; (ii) the results of litigation and transactions (euro 9 million).

Provisions for risks and contingencies (euro 182 million) concerned mainly costs for environmental reclamation in the Petrochemical (euro 99 million) and in the Refining and Marketing (euro 83 million) segments. Cost of redundancy incentives (euro 202 million) referred to early retirement expenses affecting the Refining and Marketing (euro 49 million), Natural Gas (euro 33 million), Oilfield Services and Engineering (euro 31 million), Exploration and Production (euro 28 million), Petrochemical (euro 27 million) segments, and Eni corporate (euro 22 million).

Other extraordinary expenses (euro 326 million) concern mainly the provision to a reserve of euro 112 million relating to a fine imposed by the Antitrust Authority on AgipPetroli SpA for the breach of art. 2 of Law 287/90 related to alleged cartel agreements with other oil companies, tax loss carryforwards relating to Agip Angola Production BV (euro 90 million) and the additional tariff on natural gas transmission (euro 72 million) paid to Tenp, as mentioned among other extraordinary income, and expenses for litigations (euro 40 million).

See Note 29 to the Consolidated Financial Statements for a discussion of the different criteria used under Italian GAAP and U.S. GAAP for determining extraordinary items.

Non-Recurring Items

In 2001, non-recurring items (euro 1,994 million) net of fiscal effects concerned:

— net extraordinary income of euro 1,837 million and the related fiscal benefit of euro 410 million, as the sale of Snam Rete Gas was not subject to income taxes, while extraordinary expenses were tax deductible.

— operating expense of euro 137 million related to the writedown of assets in the Exploration and Production segment and the negative effect of inventory evaluation, mainly in the Petrochemicals segment;

— non-recurring charges on subsidiaries accounted for with the equity method (euro 116 million);

In 2000 non-recurring items (euro 33 million) concerned:

— net gains of euro 25 million in operating income, representing the balance of the revaluation of inventories to bring them into line with average cost following the increase in 2000 of purchase costs for the Petrochemical segment (euro 80 million) and the writedown of plant (euro 55 million) mainly in the Refining and Marketing segment;

— net extraordinary expense totaling euro 512 million;

— the fiscal effect of non-recurring items as well as income related to the release of the reserve for deferred taxes (euro 410 million).

	Year ended December 31,		
	1999	2000	2001
	(millions of euro)		
Writedowns of assets	(106)	(55)	(100)
Revaluations of assets	113		
Positive (negative) effects of inventory revaluation	134	80	(69)
Non-recurring items in operating income	141	25	(169)
of which:			
Exploration and Production	120		(88)
Natural Gas	(26)	(5)	(3)
Refining and Marketing	94	(45)	22
Petrochemicals	(43)	79	(100)
Other	(4)	(4)	
Net extraordinary income (expense)	(528)	(512)	1,837
Non-recurring financial income	95		
Non-recurring expense on investments			(182)
Non-recurring items before taxes	(292)	(487)	1,486
Taxes (estimated)	102	508	508
Minority interest		(54)	
Non-recurring items after taxes	(190)	(33)	1,994

Taxes

Under Italian tax law, Eni, like all other Italian groups, is unable to offset fully income earned by certain subsidiaries with losses recognized by other subsidiaries because each legal entity must pay income tax on the basis of the results recorded by it rather than on the basis of consolidated financial results.

2001 compared with 2000. Income taxes (euro 3,530 million) decreased by euro 805 million over 2000, due to: (i) the effect of the application in 2000 of the voluntary revaluation of assets as per Law 342/2000; (ii) a higher taxable income at the reduced 19% rate as provided for by Legislative Decree No. 466/97 related to dual income tax; (iii) a decrease in Irpeg rate (from 37 to 36%). These positive factors were offset in part by increased tax rates of foreign subsidiaries.

Effective tax rate was 30% as compared with a statutory tax rate of 40.9%. This 10.9 percentage point difference was due to: (i) permanent timing differences for 7.6 percentage points, of which 7.2 related to the gain recorded in Eni's consolidated financial statements following the offering of 40.24% of the share capital of Snam Rete Gas; this gain is not subject to income taxes due to the fact the substitute tax paid on a 19% basis in application of Law 342/2000 was recorded by increasing Eni consolidated accounts of the book value of assets transferred to Snam Rete Gas, consequently affecting the measure of the gain. Substitute taxes will be charged to Eni consolidated income statements in line with the amortization process of relevant assets; (ii) the effect of the application in 2000 of the voluntary revaluation of assets as per Law 342/2000 for 4.6 percentage points; (iii) for 2.3 percentage points the effect of the application of a favourable tax regime as provided for by certain Italian tax laws (for example the law on dual income tax, Law 383/2001 which provides for fiscal incentives to new investments, and substitute taxes allowed on gains on disposals); (iv) for 1.4 percentage points for other reasons. These effects were partially offset by the higher rate of taxes on some foreign subsidiaries (5.0 percentage points).

Income taxes of foreign subsidiaries in the Exploration and Production segment amounted to euro 2,028 million, representing a euro 84 million increase over 2000 reflecting the acquisition of Lasmo partially offset by lower oil prices.

2000 compared with 1999. Income taxes totaled euro 4,335 million, up euro 2,281 million, due mainly to an increase in taxable income. The effect on the tax rate of the increased value of hydrocarbon production in countries where the tax rate is higher or where net profit margins are fixed (5.2 percentage points) was offset in part by the reduction of the deferred tax reserve (3.9 percentage points) in accordance with the enactment of new income tax regulations. Tax rate increased by 1.2 percentage points.

The tax benefits related to the revaluation of transmission assets in the Natural Gas segment are deferred to the years when they will actually accrue.

Income taxes of foreign subsidiaries in the Exploration and Production segment amounted to euro 1,944 million, representing a euro 1,416 million increase over 1999 reflecting higher hydrocarbon prices.

Income taxes of foreign subsidiaries in the Exploration and Production segment amounted to 627 million euro, representing a 514 million euro decrease over 1998 and reflecting higher hydrocarbon prices and the presentation of taxes related to some PSAs (203 million euro).

Minority Interest

2001 compared with 2000. Minority interests (euro 477 million) increased by euro 226 million over 2000, due in particular to the share of profits of Snam Rete Gas SpA attributed to minorities and higher net income earned by Saipem SpA, partially offset by lower net income earned by Italgas SpA.

2000 compared with 1999. Minority interests (euro 251 million) increased by euro 111 million over 1999 due in particular to higher net income earned by Italgas SpA.

Liquidity and Capital Resources

The table below sets forth the principal components of Eni's cash flow for the periods indicated.

	Year ended December 31,		
	1999	2000	2001
	(millions of euro)		
Net income before minority interest	2,997	6,022	8,228
Adjustments to reconcile to cash generated from operating income before changes in working capital:			
• Amortization and depreciation and other non-monetary items	3,869	4,307	4,942
• Net gains on disposals of assets	(60)	(82)	(170)
• Dividends, interest, extraordinary income (expense) and income taxes	2,618	4,990	2,038
Net cash generated from operating income before changes in working capital	9,424	15,237	15,038
Changes in working capital related to operations	(660)	(1,592)	(197)
Dividends received, taxes paid, interest and extraordinary income/expense (paid) received during the year	(516)	(3,062)	(6,695)
Net cash provided by operating activities	8,248	10,583	8,146
Capital expenditures	(5,483)	(5,431)	(6,577)
Financial investments	(114)	(3,483)	(3,082)
Disposals	295	277	2,114
Other investments and divestments	(446)	(69)	(88)
Free cash flow(1)	**2,500**	**1,877**	**513**
Dispositions (acquisitions) of highly liquid investments	(433)	111	994
Changes in short and long-term financial debt	(294)	121	(534)
Dividends paid and changes in minority interests and reserves	(1,311)	(2,118)	(950)
Effect of change in consolidation scope and exchange differences	(29)	41	38
Net cash flow for the year	433	32	61

The table below sets forth changes in Eni's net borrowings for the periods indicated.

	Year ended December 31,		
	1999	2000	2001
	(millions of euro)		
Free cash flow(1)	**2,500**	**1,877**	**513**
Net borrowings of acquired companies		(901)	(1,582)
Net borrowings of divested companies	3	20	185
Exchange differences on net borrowings and other changes	(389)	(353)	(312)
Dividends paid and changes in minority interests and reserves	(1,311)	(2,118)	(950)
Change in net borrowings	803	(1,475)	(2,146)

(1) Consists of the sum of (i) net cash provided by operating activities, (ii) capital expenditures, (iii) financial investments (iv) disposals, (v) other investments and divestments.

Cash generated from operating income before changes in working capital

Cash generated from operating income before changes in working capital totaled euro 15,038 million, euro 15,237 million and euro 9,424 million in 2001, 2000 and 1999, respectively.

In 2001, income before minority interests has been adjusted to take into account depreciation, amortization and other non-cash items (euro 4,942 million). Adjustments concerned primarily depreciation and amortization of tangible and intangible assets (euro 4,671 million), writedowns of fixed assets and investments (euro 571 million) and a decrease in the reserve for contingencies (euro 323 million) relating primarily to the reversal (euro 200 million) made in the Natural Gas segment of the provision recorded in year 2000 in connection with Decision No. 193/1999 of the Authority for Electricity and Gas relating to the price of natural gas, as well as to the reversal of the loss adjustment and actuarial reserve made by Eni's insurance subsidiaries (euro 79 million). See ''Item 4. Regulation of the Italian Hydrocarbon Industry—Natural Gas Prices''.

In 2000, income before minority interests has been adjusted to take into account depreciation, amortization and other non-cash items (euro 4,307 million). Adjustments concerned primarily depreciation and amortization of tangible and intangible assets (euro 3,843 million), an increase in the reserve for contingencies (euro 344 million) relating primarily to a provision recorded in connection with Decision No. 193/1999 of the Authority of Electricity and Natural Gas relating to the price of natural gas, in addition to the net provision to the site abandonment reserve.

Changes in working capital related to operations

Net working capital related to operations increased by euro 197 million, by euro 1,592 million and by euro 660 million in 2001, 2000 and 1999, respectively.

In 2001, the increase in net working capital (euro 197 million) was mainly due to the decrease in trade accounts payable and other (euro 420 million) reflecting the deferral to year 2001 of the payment of excise taxes due for year 2000, partly offset by a decrease in inventories (euro 179 million) due to withdrawals from inventories in particular of oil and refined products in the Refining and Marketing segment.

In 2000, the increase in net working capital (euro 1,592 million) was mainly due to the increase in trade accounts payable (euro 2,025 million) and in inventories (euro 523 million), offset in part by increased trade accounts receivable (euro 932 million). The increase in trade accounts payable was due to higher sale prices of oil, natural gas and petrochemical products registered in the fourth quarter of 2000 as compared to the fourth quarter of 1999, and to higher trade accounts payable in the Oilfield Services and Engineering segment due to the start of work for the high-speed train link by the Cepav Uno Consortium. The increase in inventories was due mainly to the input of 2.43 billion cubic meters of natural gas into Eni's storage system by Snam SpA (euro 324 million). The decrease in trade accounts receivable was due mainly to higher operating expenses resulting from increased purchase prices, offset in part by the deferral to January 2000 of the payment of excise taxes for December 1999, as provided for by Italian law, and of other payments relating to the so called ''Millennium Bug''.

Dividends, interest, taxes and extraordinary expense

Dividends, interest, taxes and extraordinary expense paid (which is net of amounts received) during the year totaled euro 6,695 million, euro 3,062 million and euro 516 million in 2001, 2000 and 1999, respectively. In 2001, dividends received, interest, extraordinary income (expense) and income taxes paid (euro 6,695 million) concerned primarily the payment of income taxes for euro 6,189 million, of which euro 2,166 million relating to the payment of the substitute tax due on the voluntary revaluation of assets as per Law 342/2000 carried out by some of Eni's subsidiaries in year 2000. In 2000, dividends, interest, taxes, extraordinary income (expense) and income taxes paid during the year (euro 3,062 million) refer primarily to the payment of income taxes.

Capital expenditures and Financial Investments

Capital expenditures totaled euro 6,577 million, euro 5,431 million and euro 5,483 million in 2001, 2000 and 1999, respectively. The euro 1,146 million increase from 2000 to 2001 was due mainly to the euro 737 million increase in the Exploration and Production segment and to the euro 249 million in the Electricity Generation segment. The euro 52 million decrease from 1999 to 2000 was due to the decrease in the Oilfield Services and Engineering (euro 180 million) and Natural Gas (euro 126 million) segments, partially offset by the increase in the Exploration and Production segment (euro 271 million).

Financial investments (including net borrowings) totaled euro 4,664 million, euro 4,384 million and euro 114 million in 2001, 2000 and 1999, respectively. In 2001, financial investments (euro 4,664 million) referred in particular to the completion of the acquisition of Lasmo for euro 4,128 million (including net borrowings for about euro 970 million), thus total investment for this operation amounted to euro 5,353 million including euro 1,225 million paid in 2000, the purchase of 50% of Polimeri Europa — the remaining 50% already owned by Eni — (euro 204 million), the share capital increase related to the two telecoms affiliates Albacom SpA (euro 53 million) and Blu SpA (euro 26 million), the purchase of three engineering companies (for a total of euro 69 million) in the oilfield services activity and the purchase of an interest in a company engaged in the marketing of refined products in Brazil (euro 34 million). In its cash-flow statement, Eni classifies as financial investments the cash used for corporate acquisitions. In 2000, acquisitions (euro 4,384 million) referred in particular to the purchase of 28% of the share capital of Lasmo Plc as a result of a Public Offering launched by Eni on December 21, 2000 (euro 1,225 million), the acquisition of British-Borneo for euro 1,263 million (847 are net borrowings), of 33.34% of Galp (euro 964 million) and of stock in natural gas secondary distribution companies in Argentina for euro 216 million (35 are net borrowings), the capital increase of Blue Stream Pipeline Company BV (euro 212 million), the acquisition of a 49% share in natural gas secondary distribution companies EPA Thessaloniki and Thessaly in Greece (euro 192 million), and the purchase by the Refining and Marketing segment of Lesh SA, later incorporated into Agip Distribuidora SA (euro 72 million).

Disposals

Disposals (including net debt discharged) totaled euro 2,299 million, euro 297 million and euro 298 million in 2001, 2000 and 1999, respectively. In 2001, disposals (euro 2,299 million, including net debt discharged of euro 185 million) concerned: (i) the sale of the entire interest in Immobiliare Metanopoli and of part of Eni's real estate (for a total of about euro 1,400 million, of which euro 60 million of transferred net debt); (ii) the sale of the Polyurethane business in the Petrochemical segment (euro 428 million); (iii) the sale of the 15% interest in Saras SpA-Raffinerie Sarde (euro 59 million); (iv) the sale of the 4.7% interest in Nuovo Pignone Holding SpA (euro 46 million). In 2000, disposals (euro 277 million) concerned the sale of interests held in Kenya, Ivory Coast, Uganda, Ethiopia and Eritrea by the Refining and Marketing segment (euro 94 million), as well as the sale of property, service stations and other minor assets.

Dispositions (acquisitions) of highly liquid investments

The table below sets forth the principal movements of the cash flow from dispositions (acquisitions) of highly liquid investments.

	Year ended December 31		
	1999	2000	2001
	(millions of euro)		
Financing investments:			
— securities	(2,863)	(2,648)	(291)
— financing receivables	(246)	(222)	(8)
	(3,109)	(2,870)	(299)
Disposals of financing investments:			
— investments	6	8	
— securities	2,361	2,951	758
— financing receivables	309	22	535
	2,676	2,981	1,293
Net cash flows	(433)	111	994

Dividends paid and changes in minority interests and reserves

In 2001, dividends paid and changes in minority interests and reserves (euro 950 million) consisted primarily of the distribution of dividends for 2000 by Eni S.p.A. for a total amount of euro 1,664 million corresponding to euro 0.424 per share or US dollar 1.81 per ADS (converted at the Noon buying rate of the payment date), as well as the purchase of 109,999,326 own shares for euro 1,494 million (at an average price per share of euro 13.58). These outflows were partly offset by the euro 2,202 million inflow generated by the offering of 40.24% of the share capital of Snam Rete Gas.

Net borrowings

Eni evaluates its financial condition by reference to ''net borrowings'', which it calculates as total debt less: cash, marketable securities, non-operating financing receivables, non-operating non-current securities and other items, net. In 2001, net borrowings amounted to euro 9,888 million, an increase of euro 2,146 million over December 31, 2000. In 2001, cash and accounts receivable financing and securities decreased by euro 642 million (from euro 3,302 million in 2000 to euro 2,660 million). Debts and bonds were consequently increased by euro 1,504 million. Cash and cash equivalents are denominated principally in euro and U.S. dollars.

The table below sets forth the calculations of net borrowings for the periods indicated.

	Year ended December 31,								
	1999			2000			2001		
	Short-term	Long-term	Total	Short-term	Long-term	Total	Short-term	Long-term	Total
	(millions of euro)								
Debt and bonds	4,764	4,787	9,551	5,928	5,116	11,044	6,464	6,084	12,548
Cash	(1,212)		(1,212)	(1,244)		(1,244)	(1,305)		(1,305)
Securities not related to operations	(1,645)	(85)	(1,730)	(1,432)	(24)	(1,456)	(940)	(312)	(1,252)
Non operating receivables financing	(343)		(343)	(550)		(550)	(74)		(74)
Other, net	26	(25)	1	(50)	(2)	(52)	(29)		(29)
	1,590	4,677	6,267	2,652	5,090	7,742	4,116	5,772	9,888

Total debt outstanding at December 31, 2001, was euro 12,548 million, consisting of short-term debt (including bonds and the current portion of long-term debt) of euro 6,464 million and long-term debt of euro 6,084 million. Euro 4,368 million of Eni's long-term debt outstanding at December 31, 2001, is scheduled to mature after December 31, 2003. Of the total debt at December 31, 2001, euro 4,731 million was denominated in euro and euro 7,817 million was denominated in other currencies (principally U.S. dollars). The weighted average interest rate on Eni's long-term debt (including current maturities) at December 31, 2001, was approximately 5.33%.

The increase in long-term debt of euro 1,615 million, relates primarily to the change in the scope of consolidation (euro 1,683 million of which euro 1,846 million related to Lasmo Plc) and exchange rate differences deriving from the translation into euro of financial statements denominated in other currencies (euro 326 million). This increase was offset in part by the net change in debt assumed and repaid in the year (euro 394 million).

The amount of debt subject to restrictive covenants was not material.

Capital expenditures by segment

The table below sets forth a breakdown, by segment, of capital expenditures net of related Government grants which have been recognized to Eni ("recognized grants") for euro 102 million, euro 39 million and euro 104 million in 2001, 2000 and 1999, respectively.

	Year ended December 31,		
	1999	2000	2001
	(millions of euro)		
Exploration and Production	3,268	3,539	4,276
Natural Gas	906	780	802
Electricity generation		14	263
Refining and Marketing	524	533	496
Petrochemicals	289	265	361
Oilfield Services and Engineering	425	245	304
Other activities	55	55	75
Activities to be divested	16	—	—
Total	5,483	5,431	6,577

In the Exploration and Production segment, capital expenditure in 2001, including the purchase of proved and unproved property, but excluding the purchase of companies, amounted to euro 4,276 million, increasing by euro 737 million over 2000, up 20.8%. Exploration expenditure amounted to euro 757 million (euro 811 million in 2000), of which 89% was directed outside Italy, representing a 6.7% decrease over 2000. Expenditure in Italy (euro 80 million as compared to euro 156 million in 2000) concerned primarily areas in Northern Italy and the Southern Apennines. Outside Italy, exploration expenditure amounted to euro 677 million (euro 655 million in 2000) and concerned mainly core areas in North Africa (in particular Algeria and Egypt), West Africa (Nigeria, Congo and Angola), the North Sea (Norway), Latin America and the Caspian Sea and recently acquired areas (those of Lasmo and British-Borneo and the United States).

Expenditure for development and capital goods totaled euro 3,452 million (euro 2.312 million in 2000) of which 83% outside Italy, increasing by 49.3% over 2000. Development expenditure in Italy amounted to euro 600 million and referred in particular to the continuation of construction of plant and infrastructure in the Val d'Agri. Development expenditure outside Italy, amounting to euro 2,852 million, concerned mainly fields in Kazakhstan, Nigeria, Congo, the United States, Egypt, Angola and the United Kingdom. Development expenditure on Lasmo's fields amounted to euro 649 million.

Expenditure for the purchase of proved and unproved property amounted to euro 67 million (euro 416 million in 2000), of which euro 34 million related to the purchase of a 30% interest in the T-Block fields in the North Sea, in which Eni already held a 47.48% interest, allowing to increase daily production for the year by 3,000 boe. Other expenditure concerned mainly the acquisition of proved and unproved property in Italy (euro 13 million) and the acquisition of a 35% interest in the Woollybutt field in Australia (euro 13 million).

In the Natural Gas segment, capital expenditure totaled euro 802 million, increasing by euro 22 million over 2000, up 2.8%, relating in particular to: (i) the upgrade of the import system from Russia (euro 103 million); (ii) development and maintenance of Eni's primary transmission and distribution network in Italy (euro 406 million); (iii) development and expansion of urban networks in Italy (euro 233 million).

In the Electricity Generation segment, capital expenditure totaled euro 263 million with an increase of euro 249 million over 2000 and concerned the commencement of the development plan of generation capacity by about 3,800 megawatts through the installation of 10 gas fired combined cycle generation plants, nine with a 390 megawatt capacity and one with a 250 megawatt capacity at the Ferrera Erbognone (near Sannazzaro), Ravenna, Mantova and Brindisi plants. All these plants will be fired with natural gas, except the 250 megawatt group to be installed at AgipPetroli refinery in Sannazzaro, fired in part with the syngas produced with refining residues.

In the Refining and Marketing segment, capital expenditure amounted to euro 496 million, decreasing by euro 37 million, down 6.9%, over 2000 and concerned: (i) refining and logistics in Italy (euro 143 million, of which 37 in logistics) aimed at maintaining plant efficiency and measures taken to comply with health, safety and environmental standards and regulations; (ii) distribution of refined products in the Italian network (euro 131 million) in particular for the reorganization, upgrade and construction of new service stations (euro 104 million) and measures taken to comply with safety, health and environmental standards and regulations (euro 20 million); (iii) outside Italy activities (euro 145 million) representing 29.2% of the total and concerning primarily the purchase of service stations in France and Slovakia and the upgrade of the LPG distribution network in Brazil (euro 31 million). Expenditure on compliance with regulations on health, safety and the environment amounted to euro 76 million (15.3% of the total).

In the Petrochemicals segment, capital expenditure amounted to euro 361 million, with an increase of euro 96 million over 2000, up 36.2% and concerned mainly efficiency maintenance actions and safety and environmental regulations. Other actions concerned the automation of the cracker and the upgrade of the cumene-phenol plant in Porto Torres, new plants for the production of CO/hydrogen in Porto Marghera and thermoplastic rubber in Ravenna.

Capital expenditure in intangible assets concerned mainly the purchase from Union Carbide of the rights to use the license for the gas phase at the Brindisi plant (euro 108 million).

In the Oilfield Services and Engineering segment, capital expenditure amounted to euro 304 million, increasing by euro 59 million over 2000, up 24.1%, and concerned mainly: (i) the upgrade of equipment employed in the Blue Stream project, both offshore and onshore; (ii) the purchase of equipment for the Onshore construction area for the development of the Karachaganak oil field; (iii) the completion of a new vessel for developing underwater fields (Field Development Ship) provided with dynamic positioning, a crane for lifting up to 600 tons, and a vertical pipe laying system reaching water depths of up to 2,000 meters; (iv) the upgrade of onshore drilling plants for work in Saudi Arabia and Kazakhstan.

Management Expectations of Operations

On the basis of its own projections and estimates, management expect that trends of main market indicators affecting Eni's results of operation in 2002 will be the following:

- worldwide demand for oil is expected to show a moderate increase compared to 2001 (+0.5%), in line with the gradual recovery of the world economy. With demand and supply essentially reaching equilibrium, the price of oil is forecasted in the 22 dollars/barrel range, representing a decrease of approximately 2 dollars/barrel compared to 2001 (down 8%). In the short term, however, prices could prove to be significantly volatile, depending on world geopolitical developments (tension in the Middle East);

- demand for natural gas in Italy is forecasted to grow by 4% compared to 2001, with more than 32% (31.3% in 2001) of the overall requirements for primary energy sources being filled by natural gas. This expected rise in demand is related to increased consumption for the production of electricity and by industrial users;
- refining margins are forecast to fall compared to 2001. The recovery in product demand expected in the second half of the year is forecasted to less than offset the weak price quotations of the products, as compared to crude oil, registered in the early months of the year: this trend has brought refining margins to their lowest levels in the last ten years;
- margins of petrochemical products are expected to increase over weak levels of 2002 first quarter due to the expected recovery in demand and prices as well as reduction in petrochemicals feedstock costs in the second half of the year. Notwithstanding this improvement, margins will remain on lower levels than in year 2001.

Management expects production and sales performance in 2002 of Eni's main activities will be as follows:

- daily production of hydrocarbons, prior to the effect of the rationalization of the portfolio of mineral assets, is forecasted to grow by approximately 9% compared to 2001, thanks to the planned entry into production of new fields, in particular in Algeria, Iran, the United States, Egypt and the United Kingdom, as well as projected production increases in Kazakhstan, Norway, Nigeria, Congo, the United Kingdom and Italy (oil), plus increased production by Lasmo fields (in particular in Venezuela, Pakistan and Algeria). These increases will be partly offset by the effect of production cuts decided by OPEC;
- volumes of natural gas sold through primary distribution in Italy, assuming that temperatures are normal for the rest of the year, are forecasted to drop by approximately 7% compared to 2001, due to the gradual decrease of Eni's market share to comply with the regulatory ceilings; the volume sold in Europe for resale in Italy are expected to increase significantly. Volumes transported on behalf of third parties in Italy are forecasted to rise by more than 60%, mainly on behalf of companies distributing electricity;
- electricity production sold is expected to be approximately 5,000 gigawatthour, an increase of 1% compared to 2001; the volumes of purchased electricity sold on the market is expected at approximately 1,500 gigawatthour;
- the processing of crude oil on own account is forecasted stable; total refinery processing on wholly owned refineries (including processing on account of third parties) is expected to increase by 2%, consequently the overall balanced capacity utilization rate of wholly owned refineries is forecasted to grow from 97% in 2001 to 99%;
- sales of petrochemical products are expected to rise by 2% as a result of the expected recovery in demand, in particular for basic petrochemicals and elastomers.

Eni has entered into certain long-term gas supply agreements which currently have an average unexpired duration of approximately 20 years. Such agreements, which contain take-or-pay provisions, will enable Eni to purchase an aggregate of approximately 1,120 billion cubic meters of natural gas. See ''Item 18—Note 24 to Consolidated Financial Statements—Commitments and Contingencies''. In order to comply with the above mentioned mandated thresholds relating to volumes input to the national transport network, Eni signed multi-annual contracts with third party importers to sell natural gas volumes exceeding said threshold limits outside the Italian territory; in prior years these volumes were imported into Italy and sold to Italian consumers by Eni. Those third parties are expected to import such gas into Italy and resell it to Italian consumers. This change in the sale mix is structural and will affect Eni's results of operations as sales made to third party importers are less profitable than direct sales by Eni to customers in Italy. Further, management expects Eni's margins on natural gas in Italy to come under pressure in future years due to the entry into the market of new competitors including the above mentioned third parties which purchase natural gas from Eni outside the Italian territory. Finally due to the antitrust threshold on direct sales in Italy, management expects Eni's natural gas sales in Italy to increase at no more than the same rate as overall natural gas demand in Italy. Management believes all these developments will have a material adverse impact on Eni's results of operations. However management has put in place actions to absorb a large part of this reduction by leveraging on natural gas sales expansion outside Italy, improving the profitability of the transport activity on the international network for the import of gas to

Italy, cost improvement measures and an effective commercial policy within Italy based on service quality and customer satisfaction.

In the United Kingdom a new tax regime regarding exploration and production companies was proposed. This new regime provides for a ten-point percentage increase in the corporate tax rate (from 30% to 40% and total deductibility of development investments from income before taxes. In addition, the proposal contemplated the abolition of royalties (12.5%) on fields developed before 1982. If enacted this new tax regime would result in a euro 226 million non recurring charge due to the alignment of the reserve for deferred taxes, partly offset by an estimated euro 8 million reduction in income taxes due for the year as a consequence of deductibility of new development investments. The negative impact on 2002 net income would therefore amount to euro 218 million.

In the years 2002-2005, Eni plans to make capital expenditures totaling approximately euro 24 billion, 86% of which in the Exploration and Production, Natural Gas and Electricity Generation segments. Eni's most significant projects include: (i) development of oil and gas reserves in Libya, Iran, the deep offshore of Angola, Kazakhstan and Italy, as well as exploration projects mainly in the deep offshore of Gulf of Mexico, Brazil and West Africa, in the Caspian Sea and Russia as well as in remote areas of the North Sea; (ii) the construction of natural gas transport infrastructure for imports from Libya and Russia and the upgrading and maintenance of the natural gas transport network in Italy; (iii) the expansion of installed electricity generation capacity up to at least 5,000 megawatts in Eni's sites through the construction of new natural gas-fired, combined-cycle units; (iv) the upgrading of the distribution network for petroleum products and non oil products in Italy, optimization and automation of logistical activities, selected development of distribution network outside Italy, maintenance of wholly owned refineries to a high standard of safety and compliance with environmental regulations, as well as increase in yields and quality of products. Eni expects to finance future capital expenditures with cash flows from operations and to maintain a ratio of net debt to equity of approximately 0.5 in the medium term. In 2002, Eni expects to make capital expenditures totaling over euro 8 billion, about 85% of which in the Exploration and Production, Natural Gas and Electricity Generation segments.

Eni maintains both committed and uncommitted lines of credit available pursuant to short-term borrowing agreements with banks both inside and outside Italy, which provide for interest rates based on prevailing market conditions; at December 31, 2001 these short term borrowing facilities amounted to euro 9,175 million.

In addition, Eni has in place a program of issuance of Commercial Paper within the maxim amount of euro 2 billion. At December 31, 2001, the amount drawn down against this program was euro 1,471 million.

Eni maintains both committed and uncommitted lines of credit available pursuant to long-term borrowing agreements with banks both inside and outside Italy, which provide for interest rates based on prevailing market conditions; at December 31, 2001 these long term borrowings facilities amounted to euro 778 million, of which euro 406 million due to expire in 2002.

Management believes that, taking into account unutilized market facilities, Eni has sufficient working capital for foreseeable requirements.

The following table summarizes the principal financial obligations which are described in Item 18—Financial Statements—Note 12 and 24.

	Total	2002	2003	2004	2005	2006	Thereafter
			(millions of euro)				
Long-term debt	7,317	1,233	1,716	402	733	828	2,405
Short-term debt	5,231	5,231					
	12,548	**6,464**	**1,716**	**402**	**733**	**828**	**2,405**
Operating leases	385	77	67	56	54	30	101
Other commitments (off balance sheet):							
Take or pay (natural gas)	87,810	5,220	4,810	4,680	4,570	4,610	63,920
Ship or pay (natural gas)	12,470	490	610	600	600	600	9.570
Others(1)	644	195	55	51	43	43	257

(1) – Purchase of Government Bond from employees (in balance sheet as per US GAAP)	150	150					
– Memorandum of intent relating to Porto Marghera	272	30	30	30	30	30	122
– Memorandum of intent relating to Val D'Agri	222	15	25	21	13	13	135
	644	195	55	51	43	43	257

Operating lease refers to real estate rental in Italy; the amounts of rental outside Italy were not material. Other commitments relating to natural gas ''take or pay'' and ''ship or pay'' contracts were calculated by applying the forecasted prices of energy or services in the medium term scenario used in Eni's four-year plan to minimum take or minimum ship quantities.

Liquidity Risk

Eni's financial operations are managed according to a centralized model where financial subsidiaries have specific roles and assignments. Eni's Treasury Department coordinates and controls all activities, defines objectives and constraints in terms of financial structure, programs and risk management.

Liquidity risk is the risk that suitable sources of funding for the Group's business activities may not be available. The Group has access to a wide range of funding at competitive rates through the capital markets and banks. The Group believes it has access to sufficient funding and has also both committed and uncommitted borrowing facilities to meet currently foreseeable borrowing requirements. At December 31, 2001, Eni had both committed and uncommitted long term borrowing facilities available of euro 778 million, of which euro 406 million due to expire in 2002, and both committed and uncommitted short term borrowings facilities available of euro 9,175 million.

Credit risk

Credit risk is the potential exposure of the Group to loss in the event of non-performance by a counterparty. The credit risk arising from the Group's normal commercial operations is controlled by individual operating units within guidelines. In addition, as a result of its use of financial and commodity instruments, including derivatives, to manage market risk, Eni has credit exposures through its dealings in the financial and specialized oil and gas markets. Eni controls the related credit risk by entering into contracts only with highly credit-rated counterparties and through credit approvals, limits and monitoring procedures, and does not usually require collateral or other security. Counterparty credit validation, independent of the dealers, is undertaken before contractual commitment. Eni has not experienced material non-performance by any counterparty.

Hedging

The most important currencies for Eni are the euro and the U.S. dollar. See ''Item 3—Risk Factors—Factors Affecting Results of Operations—Exchange Rates''. Eni's hedging policy is to minimize foreign exchange rate exposure through a policy of matching assets and liabilities where appropriate. Eni also uses forward exchange contracts to hedge existing receivables and payables, including deposits and borrowings denominated in currencies other than the currency used in the relevant financial statements. At December 31, 2001, the notional amount of forward exchange contracts was euro 5,172 million and the notional amount of purchased options was euro 538 million. Eni does not enter into derivative transactions on a speculative basis.

Where appropriate, Eni enters into commodity hedging contracts for the purpose of reducing its exposure to changes in commodity prices in connection with specific transactions, including, to a limited extent, to mitigate the effects of petroleum price fluctuations. At December 31, 2001, Eni maintained for this purpose open derivative commodity contracts, the amounts of which were not material.

The Company also enters into various types of interest rate contracts (primarily interest rate swaps, forward rate agreements and interest rate collars, to manage its interest rate risk, to lower its funding costs and diversify its sources of funding and to alter interest rate exposures arising from mismatches between assets and liabilities. At December 31, 2001, the notional amount of interest rate contracts was euro 3,510 million, of which euro 3,208 million related to swaps, euro 168 million related to forward rate agreements and euro 134 million related to collars. See Note 24 to the Consolidated Financial Statements.

Euro

The conversion of Eni's accounting to the euro was planned within the context of the reengineering of its application software. From January 1, 2001, one year in advance of the date imposed by the law, Eni adopted the euro in all its transactions and gave appropriate indications to suppliers, customers and to all parties with whom it has relations.

Research and Development

For a description of Eni's research and development operations in 2001, see ''Item 4 —Research and Development''.

Summary of Significant Differences Between Italian GAAP and U.S. GAAP

Eni's Consolidated Financial Statements have been prepared in accordance with Italian GAAP, which differ in certain material respects from U.S. GAAP. The principal differences between Italian GAAP and U.S. GAAP, as applied to Eni's Consolidated Financial Statements, are (i) consolidation policy, (ii) accounting for exploratory wells, exploration permits and developmental expenditure of oil and natural gas activities, (iii) valuation of assets and subsequent revaluation, (iv) monetary revaluation of assets, (v) financing costs, (vi) treasury shares, (vii) marketable securities; (viii) income taxes, (ix) capitalized interest expense, (x) derivatives, (xi) classification of revenues, extraordinary income and extraordinary expense items, (xii) sale of Government bonds, (xiii) reclassification of inventory, (xiv) stock compensation, (xv) comprehensive income and (xvi) definition of gross operating margin; (xvii) gain on sale of Snam Rate Gas. See Note 29 to the Consolidated Financial Statements for a more detailed discussion of the significant differences between Italian GAAP and U.S. GAAP that affect Eni's Consolidated Financial Statements, and Note 30 to the Consolidated Financial Statements for a reconciliation of net income and shareholders' equity between Italian GAAP and U.S. GAAP.

Consolidated operating income reconciled to U.S. GAAP was euro 8,642 million, 9,662 million and 4,724 million in 2001, 2000 and 1999, respectively, compared with consolidated operating income under Italian GAAP of euro 10,396 million, 10,772 million and 5,480 million in those same years. The principal effects on operating income by segment that arise from a reconciliation to U.S. GAAP are as follows: (i) for the Exploration and Production segment, the recapitalization of certain oil and natural gas exploration and development costs that were fully or differently amortized in the same period under Italian accounting principles, (ii) for the Natural Gas segment, the different useful lives used until 2000 financial statements in calculating depreciation for Italian accounting principles and U.S. GAAP purpose, (iii) for all segments, the reclassification of restructuring costs into operating expense as required by U.S. GAAP, (iv) for all segments, the reclassification of certain income and gains and other expenses, which would normally be considered as net sales from operations and operating expenses, respectively under Italian accounting principles, into other non operating income or expense for purposes of U.S. GAAP, (v) for all segments, depreciation of monetary revaluation of assets, (vi) for all segments, the recapitalization of interest on debt that was incurred in order to bring qualified assets to their intended use and was expensed in the year incurred and (vii) for the Oilfield Services and Engineering and Natural Gas segments the accounting for Saipem Spa and Società Italiana per il Gas pA, including their subsidiaries, under the equity method for U.S. GAAP purposes, while the same entities are consolidated for Italian accounting principles purposes, (viii) in 1999, 2000 and 2001, by the effect of stock grants awarded to employees which, under Italian accounting principles, are treated as reclassification from retained earnings to capital stock for the par value of the stock issued, while under U.S. GAAP are treated as compensation expense (See Note 29 and 30 to the Consolidated Financial Statements); See Note 29 to the Consolidated Financial Statements for the ''Summary of Differences Between Italian and U.S. GAAP and Note 30 for a breakdown of operating income by segment under U.S. GAAP for the years 1999 through 2001.

Consolidated net income reconciled to U.S. GAAP was euro 6,317 million, 5,758 million and 2,873 million in 2001, 2000 and 1999, respectively, compared with consolidated net income under Italian accounting principles of euro 7,751 million, 5,771 million and 2,857 million. In addition to the effects discussed above, the reconciliation of consolidated net income to U.S. GAAP was affected (i) in 1999 and in 2000, by the effect of elimination of reversal of impairment changes which is accounted for under Italian accounting principles when the situation giving rise to an impairment ceases to exist; (ii) in 2001 adjustment of gains on disposals due to elimination of monetary revaluation, adjustment of gains on disposals due to elimination of reversal of impairment charges and adjustment of gains on the sale of an interest in a consolidated subsidiary (Snam Rete Gas) and (iii) taxes on distributable reserve.

Item 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Directors and Senior Management

The Board of Directors of Eni in office at December 31, 2001 consisted of nine members. The table below sets forth the names of the nine members of the Board of Directors of Eni, their positions, the year when each was initially appointed as a Director and their ages. This Board of Directors expired on the date of the Ordinary Shareholders' Meeting called on May 29 and 30, 2002 on first and second call, respectively, to approve Eni's 2001 Financial Statements.

Name	Position	Year First Appointed to Board of Directors	Age
Gian Maria Gros-Pietro	Chairman	1999	60
Vittorio Mincato	Managing Director and CEO	1998	66
Mario Giuseppe Cattaneo	Director	1998	72
Alberto Clô	Director	1999	55
Umberto Colombo	Director	1998	75
Renzo Costi	Director	1996	65
Luigi De Paoli	Director	1999	53
Domenico Siniscalco(1)	Director	2001	48
Giulio Marcello Sapelli	Director	1998	55

(1) Appointed by the Treasury on October 30, 2001.

While it remains a significant shareholder, the Treasury intends to continue to participate in the nomination and election of Eni's Board of Directors in order to protect its investment as a shareholder. During whatever period the Treasury remains a majority shareholder, according to Italian law, as confirmed by Decision No. 466/1993 of the *Corte Costituzionale* (Constitutional Court), the *Corte dei Conti* (Court of Accounts) has the right and duty to exercise a role as financial controller of Eni's operations in order to protect the interest of the State as a shareholder. In order for the Court of Accounts to exercise such control, a representative of the Court of Accounts attends the meetings of the Board of Directors and the Board of Statutory Auditors of Eni without the right to vote and Eni has the obligation to send to the Court of Accounts its financial statements together with the reports of the Board of Directors, the Board of Statutory Auditors and its external auditors. The representative of the Court of Accounts who attends the meetings of the Board of Directors and Board of Statutory Auditors of Eni is Nicola Soria, who was appointed in 1999.

Eni's Ordinary Shareholders' Meeting held on May 30, 2002 appointed a new Board of Directors; on that occasion the Minister of Economy and Finance decided not to exercise its power to appoint a member of the Board. Therefore the number of members of the Board was set at eight versus the preceding nine-member Board. The Directors appointed are: Roberto Poli, Chairman; Vittorio Mincato, Mario Giuseppe Cattaneo, Alberto Clô, Renzo Costi, Dario Fruscio, Guglielmo Moscato and Mario Resca, Directors. The new Board will expire at the date of the General Shareholders' Meeting approving Eni's financial statements for year 2004.

On June 5, 2002 the new Board of Directors delegated to the Chairman, Roberto Poli, powers for researching and promoting integrated projects and strategic international agreements, and appointed Vittorio Mincato Managing Director, confirming the powers already delegated to him by the previous Board of Directors.

On November 14, 2000 the Board of Directors of Eni appointed Stefano Cao (aged 51, 26 years of service at Eni) as General Manager of the Agip division for exploration and production with those powers as determined by the Board on the same date. Mr. Cao may be removed by the Board of Directors of Eni without cause.

On September 19, 2001 the Board of Directors of Eni appointed Luciano Sgubini (aged 62, 32 years of service at Eni) as General Manager of the Gas & Power division with those powers as defined by the Board on the same date. Mr. Sgubini may be removed by the Board of Directors of Eni without cause.

The table below sets forth Eni's executive officers, their positions within Eni, the year they were appointed to such positions, their total years of service at Eni and their ages. The executive officers of Eni are appointed by the Managing Director of Eni and may be removed without cause.

Name	Management Position	Year First Appointed to Current Position	Total Number of Years of Service at Eni	Age
Carlo Grande	The Group Senior Vice President for Legal Affairs	1986	24	61
Roberto Jaquinto	The Group Senior Vice President for Administration	1992	40	60
Marco Mangiagalli	The Group Senior Vice President for Finance	1993	24	53
Leonardo Maugeri(1)	The Group Senior Vice President for Strategies and International Relations	2000	8	38
Renato Roffi	The Group Senior Vice President for Human Resources	2000	31	55
Vittorio Giacomelli(2)	The Group Senior Vice President for Supply Operations	2001	34	62
Eugenio Palmieri(1)	The Group Senior Vice President for Public Affairs and Communication	2001	11	55
Luigi Patron(1)	Chief Technology Officer	2001	42	62

(1) Appointed on August 7, 2001.
(2) Appointed on March 7, 2001.

The biographies of Eni's directors and executive officers are set out below.

Gian Maria Gros-Pietro was appointed Chairman of Eni S.p.A. on November 30, 1999. From 1997 to 1999 he served as Chairman of IRI, Istituto per la Ricostruzione Industriale. He also served as Director on several company boards, including those of Finmeccanica and Teknecomp. He is currently Chairman of the Agenzia per il Trasferimento dell'Innovazione S.p.A., Chairman of the Scientific Committee of the SME Observatory set up by Banca di Roma, guest participant at meetings of the Executive Committee and Management Committee of Confindustria, the Italian manufacturers' association, member of the Management Committee of the Council for the United States and Italy.

Vittorio Mincato was appointed Chief Executive Officer of Eni S.p.A. on November 19, 1998. He was confirmed for a three-year term (1999-2002) by the Board meeting held on June 17, 1999. This appointment capped an over 40-year-career with the Eni group. He is currently member of the Management Board and the Executive Committee of Confindustria, the Italian Manufacturers' Association, member of the General Council and of the Management Committee of ASSONIME, the Association of Italian Public Limited Companies, and Member of the Board of Directors of Il Sole 24 Ore S.p.A. and of "Fondazione Teatro alla Scala".

Mario Giuseppe Cattaneo is public auditor and Professor of Corporate Finance at the School of Business of Milan's Università Cattolica del Sacro Cuore. He is President of the Boards of Auditors of San Paolo Leasint and Italiana Assicurazioni, and President of C.B.I. Factor, Member of the Board of Directors of Unicredito and Banca Lombarda.

Alberto Clô was Minister of Industry and Minister of Foreign Trade ad interim in 1995 and 1996. Since 1997 he has been Chairman of the Scientific Committee of the Scuola Enrico Mattei and since 1998 Member of the Boards of Finmeccanica and Crea S.p.A., and President of the Aeroporto G. Marconi di Bologna S.p.A.

Umberto Colombo is Chairman of the European Science Foundation, of EIRMA (European Industrial Research Management Association) and of the Advisory Committees on Science and Technology Policy of OECD, the European Union and the United Nations.

Renzo Costi served as a magistrate from 1964-68 and is currently a professor of commercial law at the University of Bologna. He is a consultant for Consob and the Banca d'Italia.

Luigi De Paoli graduated in Nuclear Engineering at the Milan Polytechnic. He is Professor of Economics and Management of International Corporations at the Faculty of Economics and Trade of Palermo; Visiting Professor of Economics of Energy Sources and Environment at the Luigi Bocconi University of Milan, Co-Director of the Iefe of the Bocconi University, Editor of the Economic Review of Energy Sources and Environment, and Board Member of the Aiee.

Giulio Marcello Sapelli holds the Economic History Chair at the School of Literature and Philosophy of the University of Milan, where he also teaches Cultural Analysis of Organizational Processes. He taught at the London School of Economics and Political Sciences, the University of Barcelona and the University of Buenos Aires, and has served as Directeur d'Etudes en Science Sociales in Paris.

Domenico Siniscalco graduated in Law at the University of Torino; gained a PhD in economics at the University of Cambridge; is Professor of Economics, University of Torino, since 1990 (currently on leave). Past academic positions include teaching at LUISS (Rome), University of Cagliari, Johns Hopkins, Cambridge and Catholic University of Leuven, CORE. Member of the Royal Swedish Academy of Sciences, Beijer Institute and CESifo fellow, advisor to the Querini Stampalia and IRI Foundations, Director of the Eni Enrico Mattei Foundation from 1989 to 2001. Member of the Board of Directors of a number of listed companies until assignment to the position of Director General of the Ministry of Economy and Finance.

Stefano Cao joined the Eni Group as a technical engineer active mainly in offshore construction, he then became general manager, managing director and chairman of Saipem S.p.A., and is at present general manager of Eni's Agip Division for Exploration and Production.

Luciano Sgubini, mining engineer, was involved in hydrocarbon production activities of Agip SpA; he served various positions in Eni group such as Vice President of Agip SpA, Chairman and CEO of Saipem SpA and Chairman of Snam until he became General Manager of Eni's Gas & Power division. He sits in the Board of Directors of many Eni group companies.

Vittorio Giacomelli, a chemical engineer, started his career in Germany, joined the Eni group in 1968 and held various positions in Eni's subsidiaries until he became the Group's senior vice president for procurement.

Carlo Grande, attorney at law, joined the Eni group in 1997 and has served as senior vice president for legal affairs since 1986. He is a member of the Board of Directors of various Eni companies.

Roberto Jaquinto, a registered auditor, joined the Eni group in 1962 and served in various administrative management positions, until he became senior vice president for administration. He sits in the Board of Directors of many Eni group companies.

Marco Mangiagalli worked for the Barclays Group and other Italian merchant banks, he is Eni group's senior vice president for finance and a member of the Board of Directors of various Eni companies.

Leonardo Maugeri, after extensive academic experience acquired also outside Italy, joined the Eni group in 1994, holding various positions mainly as counsel for strategic decisions. He is a member of the executive council of Censis and of the Commission on international relations at Confindustria.

Eugenio Palmieri is Group Senior Vice President for Institutional Relations and Communication of Eni since September 2001. He qualified as journalist in 1971 and worked as correspondent for "Il Sole 24-Ore", "Il Tempo", "La Stampa". In 1991 he was appointed Head of Press Office and later also supervisor of External Relations. In May 1995 he was appointed Managing Editor of Agi News Agency, owned by Eni, Agi is the second Italian newswire.

Lugi Patron is Chief Technology Officer of Eni and Chairman of Shamprogetti, the engineering company of the Eni Group. Mr. Patron's industrial career started with Montefibre SpA at Porto Marghera; in 1991, he became Chairman of Montefibre SpA and Chairman of Enichem Fibre SpA. From June 1993 to May 1996, Mr. Patron was Managing Director of EniChem.

Renato Roffi joined the Eni Group in 1971 and held various positions in Eni's subsidiaries until he became the Group's senior vice president for human resources in 2000. He is a member of the Board of Directors of various Eni companies and Vice Chairman of ASIEP (the Italian association of energy and petroleum companies).

The table below sets forth the names of the senior management of Snam S.p.A. merged with Eni SpA on January 2002, Snam Rete Gas S.p.A., AgipPetroli S.p.A., EniChem S.p.A., Saipem S.p.A. and Snamprogetti S.p.A., their positions within the subsidiaries, the year they were first appointed to such positions, their total years of service at Eni and their ages. The members of senior management listed below were appointed for three-year terms in June and July 1999. Senior managers and directors of these subsidiaries are designated by the Board of Directors of Eni S.p.A. on the Managing Director's recommendation, generally for three-year terms. Under Eni policy, the appointment of senior managers of Eni's operating subsidiaries, who are 63 years old at the time of the appointment, has to be authorized by Eni's Managing Director.

Snam S.p.A.

Name	Management Position	Year First Appointed to Current Position	Total Number of Years of Service at Eni	Age
Luciano Sgubini	Chairman	2000	32	62
Domenico Dispenza	Managing Director	1999	27	56

Snam Rete Gas

Name	Management Position	Year First Appointed to Current Position	Total Number of Years of Service at Eni	Age
Salvatore Russo	Chairman	2001	21	63

AgipPetroli S.p.A.

Name	Management Position	Year First Appointed to Current Position	Total Number of Years of Service at Eni	Age
Gilberto Callera	Chairman	1999	28	63
Giorgio Clarizia	Managing Director	1999	28	57
Francesco Furci	Vice President	1999	29	58

EniChem S.p.A.

Name	Management Position	Year First Appointed to Current Position	Total Number of Years of Service at Eni	Age
Fabrizio D'Adda(1)	Chairman	1999	33	60
Carmine Cuomo(2)	Managing Director	1996	43	63
Piero Raffaelli(1)	Managing Director	1999	29	56

(1) Until December 20, 2001.
(2) Appointed Chairman on December 21, 2001, effective date of appointment January 1, 2002.

Saipem S.p.A.

Name	Management Position	Year First Appointed to Current Position	Total Number of Years of Service at Eni	Age
Pietro Franco Tali(1)	Chairman	2001	21	53
Giancarlo Mazzone(2)	Managing Director	1999	32	61
Hugh O'Donnell(1)	Managing Director	2001	6	51

(1) Confirmed in their offices at the Shareholders' Meeting held on May 15, 2002.
(2) Until May 6, 2001.

Snamprogetti S.p.A.

Name	Management Position	Year First Appointed to Current Position	Total Number of Years of Service at Eni	Age
Luigi Patron	Chairman	1996	42	62
Maurizio Gatti	Managing Director	1996	36	62

Auditors

Statutory Auditors

The Italian legislation requires Italian listed corporations to have a board of statutory auditors composed of independent experts in accounting matters and in matters specified in their By-Laws. Eni S.p.A.'s Board of Statutory Auditors is elected by the meeting of shareholders, with the exception of the Chairman thereof, who is appointed by the Ministry. See "Item 10. Additional Information —Memorandum and Articles of Association — Limitations on Voting and Shareholdings—Special Powers of the State". Eni S.p.A.'s By-Laws currently provide that the Board of Statutory Auditors consists of five statutory auditors and two alternate auditors (each of them automatically substitutes an effective auditor drawn off the same list who resigns or is otherwise unable to serve as an auditor).

The following table sets forth the names, positions and year of appointment of the members of the Board of Statutory Auditors of Eni, who were elected on 4 June 1999 and whose term of office expired on the date of Eni Ordinary Shareholders' Meeting held on May 30, 2002.

Name	Position	Year First Appointed to Board of Statutory Auditors
Andrea Monorchio	Chairman	1995
Luigi Biscozzi	Auditor	1999
Filippo Duodo	Auditor	1998
Riccardo Perotta	Auditor	1999
Mario Sica	Auditor	1995
Fernando Carpentieri	Alternate Auditor	1995
Giorgio Silva	Alternate Auditor	1999

Eni's Ordinary Shareholders' Meeting held on May 30, 2002 appointed the new Board of Statutory Auditors. Pursuant to Article 6.2 of the By-laws, the Minister of Economy and Finance, in agreement with the Minister of Productive Activities, appointed the Chairman of the Board of Statutory Auditors. The Statutory Auditors appointed are Andrea Monorchio (Chairman), Luigi Biscozzi, Paolo Colombo, Filippo Duodo and Riccardo Perotta, Effective Auditors; Fernando Carpentieri and Giorgio Silva, Alternate Auditors.

External Auditors

The Shareholders' Meeting held on June 1, 2001 resolved to appoint PricewaterhouseCoopers SpA as external auditors for the three-year period 2001-2003 for both consolidated and non consolidated accounts.

Compensation

See Note 31 to the consolidated financial statements, page F-54 to F-56 for a description of stock grant and stock option plans.

For the year ended December 31, 2001, the aggregate compensation paid to or on behalf of members of the Board of Directors (including, in the case of members of the Board of Directors who were also employees of Eni, amounts paid to or on behalf of such persons by Eni S.p.A. or its consolidated subsidiaries in their capacity as employees) was approximately euro 1.2 million, while the aggregate compensation paid to or on behalf of the executive officers of Eni S.p.A. was approximately euro 4.6 million. The foregoing amounts include salaries, fees for attending meetings, lump-sum amounts paid in lieu of expense reimbursements, stock option and health and pension contributions. The foregoing amounts do not include amounts accrued to the reserve for employee termination indemnities, which is used to pay severance pay as required by Italian law to employees upon termination of employment. The members of the Board of Directors in their capacity as such are not entitled to receive such severance pay. At December 31, 2001, the total amount accrued to the reserve for employee termination indemnities with respect to members of the Board of Directors who were also employees of Eni and with respect to the executive officers of Eni S.p.A. was euro 2.6 million.

Board Practices

In its meeting of January 20, 2000 Eni's Board of Directors adopted the Self-discipline Code of Listed Companies. On that occasion, the Board—pursuant to a thorough review of the matter—underscored how Eni's organizational model is essentially in line with the principles expounded in the Code, as well as with related recommendations issued by Consob.

In accordance with the request of Borsa Italiana SpA of May 2000, follows information on Eni's corporate governance systems.

The Board of Directors: centrality, competencies, delegate powers

The Board of Directors is the central element of Eni's corporate governance system. Its responsibilities include the definition, application and updating of corporate governance rules, the determination of strategic guidelines at the Company and Group level, and the verification of control systems required to monitor corporate performance. In addition to exclusive competencies entrusted to it by art. 2381 of the Civil Code, the Board makes decisions related to resolutions to be adopted in Shareholder's meetings of main subsidiaries and approval of major sales and acquisitions of amounts exceeding euro 26 million.

The Board's Chairman is entrusted with powers to conduct strategic international relations.

The Chairman and Managing Director refer at each meeting to Board of Directors and Board of Statutory Auditors for what entails the exercise of delegate powers, the provision of adequate information on actions undertaken and, in particular, any anomalous, atypical or unusual operations that may surface in exercising such delegate powers. Special emphasis is placed on operations with related entities. These concern ordinary management, are settled based on market conditions and reported in the notes to the financial statements.

Board meetings are convened every month. In 2001 the Board of Directors met 13 times. In the first half of 2002 the Board is expected to meet 6 times. Eni's by-laws do not indicate a specific frequency of meetings.

The Board of Directors defined the rules for the calling of its meetings; in particular, the Chairman convenes Board of Directors meetings, and, in concert with the Managing Director, defines agenda items. Notice is sent within five days of the meeting's date, at least 48 hours in advance in case of urgency and at least 24 hours in advance in case of extreme urgency. Board members receive in advance adequate and thorough information on all issues subject to Board evaluation and resolutions.

In 2001 on average 88% of directors participated to Board meetings and 90% of independent directors.

Composition of Board of Directors and Board of Statutory Auditors

The Board of Directors is made up by nine members. The Board of Statutory Auditors comprises five auditors and two substitute auditors. Their mandate expired with the General Shareholders' Meeting held on May 30, 2002 to examine financial statements as of December 31, 2001. Appointment of Board of Directors and Board of Statutory Auditors members is regulated by articles 17 and 28 of the by-laws, which call for a list vote in order to ensure presence of representatives of minority equity interests on the Board of Directors and the Board of Statutory Auditors. The lists of candidates include a resume of each candidate. One member of the Board of Directors and the Chairman of the Board of Statutory Auditors are appointed by the Economy and Finance Minister, in concert with the Minister of Productive Activities, as per article 6 of Eni's by-laws.

The expired Board of Directors was formed by the Chairman, Gian Maria Gros-Pietro, the Managing Director, Vittorio Mincato, directors, Domenico Siniscalco, appointed as per article 6 of Eni's by-laws, Mario Giuseppe Cattaneo, Alberto Clô, Umberto Colombo, Renzo Costi, Luigi De Paoli, Giulio Marcello Sapelli. Of these, the latter six were independent, having no relationship of an economic or any other nature with the company or its shareholders such as to influence their autonomous judgment and proper execution of their functions. The Board of Statutory Auditors was made up of the Chairman, Andrea Monorchio, four auditors, Luigi Biscozzi, Filippo Duodo, Riccardo Perotta, Mario Sica and two substitute auditors, Fernando Carpentieri and Giorgio Silva. Eni's Ordinary Shareholders' Meeting held on May 30, 2002 appointed the new Board of Directors, on that occasion the Minister of Economy and Finance decided not to exercise his power to appoint a member of the Board. Therefore the number of members of the Board was fixed in eight versus the preceding nine-member Board. The Directors appointed are: Roberto Poli, Chairman; Vittorio Mincato, Mario Giuseppe Cattaneo, Alberto Clô, Renzo Costi, Dario Fruscio, Gublielmo Moscato and Mario Resca, Directors. Eni's Ordinary Shareholders' Meeting also appointed the Statutory Auditors. Pursuant to Article 6.2 of the By-laws, the Minister of Economy and Finance, in agreement with the Minister of Productive Activities, appointed the Chairman of the Board of Statutory Auditors. The Statutory Auditors appointed are: Andrea Monorchio, Chairman; Luigi Biscozzi, Paolo Colombo, Filippo Duodo and Riccardo Perotta, Auditors; Fernando Carpentieri and Giorgio Silva, Alternate Auditors.

On December 19, 2001 the Extraordinary Shareholders' Meeting modified art. 28 of Eni's by-laws in order to include the provisions contained in the Decree of the Minister of Justice no. 162 of March 30, 2000, concerning the honorability and professional requirements of auditors of listed companies. The by-laws state that at least two auditors and one substitute auditor are chosen among chartered auditors and must have performed auditing activities for at least three years and that auditors provided with these requirements must be chosen among those provided with the level of professionalism described in Decree 162/2000. For the purposes of said Decree, the by-laws define as related subjects commercial law, corporate economy and finance engineering and geology.

Board member compensation is determined by the Shareholders' Meeting, while remuneration levels of Chairman and Managing Director are determined by the Board of Directors. Additionally the Board defines, based on proposals submitted by the Compensation Committee, compensation policies applicable to Group corporate executives. In line with Consob provisions, the Report of Directors and the notes to Eni SpA's financial statements indicate: (i) number of shares of Eni SpA and of Eni companies held by board members, statutory auditors and the general manager; (ii) compensation paid to board members, statutory auditors and the general manager; (iii) subscription rights for Eni Shares assigned to board members, statutory auditors and the general manager.

In 2001, a 41% share of the remuneration of the Chairman and of the Managing Director was variable, a 38% share of that of the top management.

Board Activities and Committees

The Board of Directors normally meets once a month. Meeting dates are made public for meetings convened to examine regular financial statements, as required by current laws.

In order to carry out its tasks more effectively, the Board of Directors has instituted two Committees, the Audit Committee and Compensation Committee, which are formed exclusively by independent, non-executive Board members. Until the expiration of the preceding Board, the Audit Committee was comprised by Mario Giuseppe Cattaneo, Renzo Costi, Luigi De Paoli and Giulio Marcello Sapelli; the Compensation Committee was comprised by Alberto Clô, Umberto Colombo and Luigi De Paoli. On June 5, 2002 the new Board of Directors appointed Mario Cattaneo, Renzo Costi and Mario Resca members of the Compensation Committee and Mario Cattaneo, Alberto Clô, Renzo Costi and Dario Fruscio members of the Audit Committee. The new Board of Directors also set up the Oil & Gas Committee composed by Alberto Clô, Dario Fruscio, Vittorio Mincato and Guglielmo Moscato.

Audit Committee

The Audit Committee, based on the decision adopted by the Board of Directors on October 18, 2000, holds functions of supervision and proposal in the area of monitoring general management issues, in particular; (i) it evaluates the adequacy of Eni SpA's and Eni Group companies, internal audit functions; (ii) it reviews the work plans of internal audit functions, which are expected to report to it at least quarterly; (iii) it reviews annually the issues related to statutory and consolidated financial statements of Eni's main operating companies, meeting the chief administrative officers and chairmen of boards of statutory auditors of said companies as well as their external auditors; (iv) evaluates any offer of external auditors related to their possible appointment, as well as their work plan and the work they performed and their independence; (v) considers the possible comments contained in the audit reports of Eni's internal auditors and of those of the Group companies, the reports made by the Board of Statutory Auditors and individual members thereof, the reports of external auditors, the yearly report of the Guarantor for the Code of Conduct and any report from other appointed parties.

Meetings of the Audit Committee are open to the Chairman and members of Eni's Board of Statutory Auditors, the Chairman and Managing Director of Eni SpA, who can express their opinion. The Audit Committee informs such individuals of its meetings.

The Audit Committee reports to the Board of Directors on the activities it performed and on the adequacy of Eni's internal audit system, at least every six months, when the first half report and the annual report are presented.

The Board of Directors reports on the Audit Committee's activity to the General Shareholders' Meeting convened for approving Eni's yearly financial statements.

In the course of 2001, the Audit Committee, which convened 13 times, has accomplished the following: (i) reviewed the audit program prepared by Eni SpA's internal audit function; (ii) reviewed and evaluated results of internal auditing procedures; (ii) reviewed the structures and procedures of the Group's internal audit functions; (iv) met with top level representatives of administrative functions in the main subsidiaries, chairmen of boards of statutory auditors and partners responsible for audit companies to examine the essential features of fiscal year 2000 financial statements; (v) reviewed the bid procedure for the appointment of the Group's main external auditors for the 2001-2003 period, expressing its opinion; (vi) reviewed the situation of appointments of external auditors of main group companies, the relevant accounts and the opinions contained in the reports of external auditors of Eni's Italian subsidiaries; (vii) examined the option of appointing the external auditors to additional functions, expressing its opinion; (viii) examined the yearly report of the Guarantor for the Code of Conduct, and expressed its opinion; (ix) examined the 2001 program for the external auditors; (x) monitored the development of the operational and oganizational model of the internal audit function; (xi) discussed the suggestions presented in their management letter by external auditors.

Compensation Committee

The Compensation Committee overviews the criteria used in determining compensation of the Group's top management, proposes incentive schemes and the yearly remuneration of the Chairman and Managing Director. In 2001, the Committee met four times and proposed changes to the short-term incentive plan for Eni Group managers, through cash incentives and the use of stock options (see ''Incentive plan for Eni managers'' in the Report of the Directors to Eni SpA's statutory financial statements), and reviewed Eni's remuneration policy for Group managers.

Employees

In 2001 Eni continued the implementation of a new organizational model capable of effectively supporting the Group's strategic development lines and therefore to pursue:

— increase coordination in the governance of business through greater guidance and control by Eni Corporate;

— integration of business support functions;

— simplification of decision making, highest decentralization of decisions to operating businesses to improve response to market.

This organizational model entails a widespread transfer of decision making and responsibility to operating units. A shared and efficient system of guidelines, policies and directions will make the implementation of business strategies easier, while respecting Group values and principles and will allow for a focused control activity.

Within the Recovering Efficiency and Development (RES) program Eni made a series of interventions for human resources and organization following four lines:

— to attract and develop human resources using an internal marketing strategy;

— to decentralize the human resource departments;

— to strengthen Eni's international profile;

— to recognize and develop the value of the Group's intellectual capital.

In the 2000-2001 two-year period with a policy of incentives to retirement, Eni laid the grounds for a renewal of Eni's management.

In 2001 Eni issued a ''guideline for the development of human resources'' which provided the directions for management and development of human resources directly to business units. The innovative aspects of this guideline are: the inclusion of the process of human resource planning in the general business plan; the definition of criteria for the promotion to a managing position and for the development to key managing roles; the acceleration of the development process for becoming a manager; greater attention to most talented employees. Along with this guideline Eni provided specific procedures for applying it to the Group's human resources management and development.

The establishment of Eni Corporate University was the outcome of a project of streamlining and relaunching training activities aimed at the development of corporate culture. This company is the center of competence for the sharing and development of the system of managerial and operative knowledge of the Group. It represents a point of institutional contact with the network of the academic world both for training and for supplying studies and research to the Group. Its task is to improve the Group's attractiveness on the labor market, to supply skilled and efficient recruitment and selection services.

In 2001 the Internal Communication project was started aimed at the creation of a function organically managing all the issues related to internal communication as a support to change within this project an internet portal for employees was created. In February 2001 a specific unit for Internal Communication was created.

Other actions were started that are expected to be completed in the first half of 2002 such as: the creation of territorial centers (shared services for supplying services in the field of personnel organization and management) and of the intranet portal for all employees and the implementation of a new staff information system.

The need for renewing Eni's industrial relations system, as a tool for supporting the active management of organizational change related to Eni's growth strategies led Eni, Eni Group companies and trade unions to sign a Protocol on industrial relations on June 22, 2001.

This Protocol contains some basic principles, such as previous information of unions, consultation and experimenting on new participation models that can enhance the degree of sharing of corporate objectives. It also provides for the establishment of joint bodies organized around various information levels and procedures that are implemented according to a predetermined yearly plan corresponding to the major institutional events (presentation of budget and final balance of capital expenditures, reference scenarios, four-year plan).

In addition the Protocol contains a first commitment to create global forms of information of trade unions — consistent with Eni's worldwide presence — and to safeguard ethical principles and human rights in the development process of activities.

This commitment represents also an evolution of Eni's experience in European social dialogue, started with the European Company Committee and confirmed with a new agreement on June 22, 2001, which strengthens the operating ability of the Committee by means of a new organization and new meetings between Eni, Eni companies and union representatives of the main European countries. In 2001 elaboration continued on the issue of unification of the collective contracts of Eni energy companies and private oil companies. In 2002 a new unified contract will be available containing remuneration issues and provisions related to various aspects that were differently regulated in the original separated contracts.

At December 31, 2001, Eni's employees were 70,948 an increase of 979 employees over 2000, up 1.4%.

Employees by business segment	1999	2000	2001
Exploration and Production	7,773	7,741	7,533
Natural Gas	16,475	15,663	13,850
Electricity Generation		437	436
Refining and Marketing	17,061	16,130	15,172
Petrochemicals	13,908	12,857	11,022
Oilfield Services	13,487	13,217	18,632
Other	3,319	3,924	4,303
Total	72,023	69,969	70,948

At December 31, 2001, Eni's employees were 70,948 with an increase of 979 employees over December 31, 2000, (up 1.4%), as a result of the 5,291 persons increase outside Italy (up 24.9%) and the 4,312 persons decrease in Italy (down 8.9%).

Employees hired in Italy were 44,378, of these 41,880 were working in Italy, 2,062 outside Italy and 436 on board of vessels. Employees hired in Italy decreased by 4,312 over 2000, of these 3,013 represented the balance of persons leaving their job and new hiring, while 1,299 were the balance of acquisitions and disposals of businesses.

The process of efficiency improvement continued with the hiring of a total of 1,600 new employees, of which 740 persons with a fixed-term contract and 852 with open-end contracts; of these 410 persons had university qualifications (264 are engineers) and 380 persons had a high school degree, working in operating jobs in order to improve the qualitative mix of production units.

Employees hired and working outside Italy at December 31, 2001 were 26,570, with a 5,291 persons increase due mainly to hiring of personnel on fixed-term contracts in the oilfield service activities and to acquisitions in the Exploration and Production segment.

Share Ownership

At April 30, 2002, the total number of Shares owned by the directors and executive officers of Eni S.p.A. as a group was 175,201, equal to approximately 0.004% of Eni's share capital outstanding at December 31, 2001.

Item 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

Major Shareholders

At April 30, 2002, the Ministry of Economy and Finance was the only person known by Eni to own more than 5% of any class of Eni S.p.A.'s voting securities. At such date, the total amount of Eni S.p.A.'s voting securities owned by the Treasury was:

Title of Class	Number of Shares Owned	Percent of Class
Ordinary Shares	1,213,731,615	30.33%

The Ministry of Economy and Finance, in agreement with the Ministry of Productive Activities, retains certain special powers over Eni. See "Item 10. Additional Information—Memorandum and Articles of Association—Limitations on Voting and Shareholdings—Special Powers of the State".

Related Party Transactions

In the ordinary course of its business, Eni enters into transactions concerning the exchange of goods, provision of services and financing with non consolidated subsidiaries and affiliates as well other companies owned or controlled by the Italian Government. All such transactions are conducted on an arm's length basis and in the interest of Eni companies.

Amounts and types of trade and financial transactions with related parties are described in Note 28 to the Financial Statements.

Item 8. FINANCIAL INFORMATION

Consolidated Statements and Other Financial Information

See Item 18—Financial Statements

Disclosure of Legal Proceedings

For a disclosure of legal proceedings in which Eni is involved and which may affect Eni's financial position or results of operations see Note 24 to the consolidated financial statements—Legal proceedings. In this item settled legal proceedings are described as follows.

In 1996, the Venice public prosecutor started a preliminary investigation of alleged pollution of the Venice lagoon with waste waters discharged by the Porto Marghera plant. A preemptive seizure decree was issued in 1998 for the Porto Marghera plant and subsequently released. The proceeding was closed with non material fines to be paid by EniChem SpA.

In late 1995, Finpas SpA, currently in bankruptcy, brought an action against EniChem SpA to obtain revocation of its past purchase of shares of Auschem SpA and restitution from EniChem of euro 44 million, which represents the purchase price, plus interest thereon. EniChem has opposed the claim in court. On February 5, 2001 the Court of Bergamo rejected the action against EniChem and the defendant was condemned to pay all judicial expenses.

Agip SpA (now merged in Eni S.p.A.) received a formal assessment from the Italian tax authorities that claimed that its income in 1991 had been understated for an amount of euro 246 million determined for income tax purpose in relation to the deductibility of certain costs incurred by Eni. This claim was judged as unfounded by the Provincial Tax Commission of Milan on March 31, 1999. The appeal period expired, therefore the judgment is to be considered final.

The action brought by Montedison in 1997 for damages against Agip SpA and Snam SpA (now merged in Eni S.p.A.) arising out of the termination of the Enimont joint venture ended with a judgment of the Court of Milan which repealed Montedison's claims. This judgment is to be considered final.

Antitrust and EU Proceedings

BP Chemicals Ltd has appealed the July 27, 1994 decision of the European Union Commission regarding the recapitalization of EniChem SpA by Eni in 1992, 1993 and 1994 in the amount of euro 2,476 million. In such decision, the Commission considered the payments made to EniChem in 1992 and 1993 acceptable subsidies, while the payments made in 1994 were not considered subsidies. In September 1998, notice was received that the Court of first instance of European Communities accepted BP Chemicals' appeal thereby annulling the Commission's decision on the ground that the conclusion reached was not adequately supported, resulting in the third recapitalization for euro 1,549 million. The Commission initiated a new case to reinvestigate the matter that was closed in September 2001 with a decision that deems the recapitalization was acceptable.

Dividends

Eni's dividend policy in future periods, and the amount of future dividends, will depend upon a number of factors including, but not limited to, Eni's capital expenditure and investment plans, level of profitability and ratio of debt to equity and the ''Risk Factors'' set out in Item 3. However, consistent with such factors, the Board of Directors expects to recommend to future meetings of shareholders a progressive increase in dividends paid in line with the dividend policy followed by other major oil and gas companies traded on international equity markets. Eni SpA's net income and, therefore, the amounts available for payment of dividends therefrom will also depend on the level of dividends received from Eni's subsidiaries. In 2001, the euro 0.75 dividend per share proposed by Eni's Board of Directors for fiscal year 2001 (representing a 76.9% increase over the year 2000 dividend) also reflected the significant amount of gains on disposals recorded in 2001, as well as the effect of the share buy-back program. This dividend proposal was approved by General Shareholders' Meeting on May 30, 2002.

Significant Changes

See ''Item 5—Background and Recent Developments'' for a discussion of Eni's results of operations in the first quarter of 2002.

Item 9. THE OFFER AND THE LISTING

Offer and Listing Details

The ordinary shares of Eni SpA, nominal value euro 1.00 each (the ''Shares''), are traded on the Blue Chip segment of the *Mercato Telematico Azionario* or *MTA* (''Telematico''), the Italian screen-based dealer market, which is the principal trading market for Italian shares. The Blue Chips segment of Telematico includes shares of the companies whose market capitalization amounts to more than euro 800 million. American Depositary Shares (''ADSs''), each representing five Shares, are listed on the New York Stock Exchange.

The table below sets forth the reported high and low reference prices of Shares on Telematico and of ADSs on the New York Stock Exchange, respectively. See "Item 3—Key Information—Exchange Rates" regarding applicable exchange rates during the periods indicated below.

	Telematico		New York Stock Exchange	
	High	**Low**	**High**	**Low**
	(euro per Share)		(US$ per ADS)	
1997	11.361	8,073	63.125	48.125
1998	13.799	9.195	73.500	50.500
1999	12.608	10.184	69.00	52.375
2000	14.496	9.536	64.875	46.5625
2001	15.598	11.564	69.700	52.500
2000				
First quarter	11.096	9.536	56.31	48.56
Second quarter	12.188	9.810	58.1875	46.5625
Third quarter	13.668	11.586	61.3125	52.9375
Fourth quarter	14.496	12.232	64.875	52.5625
2001				
First quarter	14.778	13.266	67.730	60.420
Second quarter	15.598	14.414	69.7	61.7
Third quarter	14.807	11.564	67.74	52.5
Fourth quarter	14.732	12.701	66.2	56.55
2002				
First quarter	16.865	13.536	74.150	60.900
November 2001	14.009	12.701	63.15	56.55
December 2001	14.051	12.894	62.18	57.36
January 2002	15.146	13.536	66.200	60.900
February 2002	16.137	14.698	69.700	64.440
March 2002	16.865	15.691	74.150	68.950
April 2002	17.145	16.307	76.37	71.55
May 2002	16.956	16.211	77.73	73.75
June 2002 (through June 19, 2002)	16.482	15.560	78.20	73.10

Morgan Guaranty Trust Company of New York (the "Depositary") functions as Eni's depositary bank issuing American Depositary Receipts ("ADRs") pursuant to the Deposit Agreement among Eni, the depositary and the beneficial owners ("Beneficial Owners") and registered holders form time to time of ADRs issued thereunder.

At June 19, 2002 there were 6,129,139 ADRs outstanding held by 36 holders of record (including The Depository Trust Company). Since certain of such ADRs are held by nominees, the number of holders may not be representative of the number of Beneficial Owners in the United States or elsewhere.

The Shares are included in the MIB 30, the index of the 30 largest companies on Telematico in terms of capitalization and the liquidity of the market in their shares. The MIB 30 is the principal indicator used to track the performance of the Italian stock market, and is the basis for FIB 30 future contracts, as well as MIBO 30 option contracts traded in the Italian Derivatives Market ("IDEM"). The Shares are one of the largest component of the MIB 30, with a weighting of approximately 13.7%, as established by Borsa Italiana SpA ("Borsa Italiana") with review of the composition of the MIB 30 on March 18, 2002. In addition, options on the Shares are traded on IDEM. IDEM facilitates the trading of call and put options on securities issued by Italian companies that meet certain required capitalization and liquidity thresholds.

Since March 19, 2001, shares are traded on Telematico in minimum lots of 100 Shares; effective from January 14, 2002 the rule of the minimum lot for shares has been eliminated. Outside Telematico, block trading is permitted for orders that meet certain minimum size requirements and must be notified to CONSOB (as defined below) and Borsa Italiana. Starting from May 15, 2000 shares have been also trading on a special market, named After Hours trading market or TAH ("After Hours"), after the closure of the day time of Telematico under special rules.

Markets

Telematico is organized and administered by *Borsa Italiana* subject to the supervision and control of the *Commissione Nazionale per le Società e la Borsa* (the National Commission for Companies and the Stock Exchange or ''CONSOB''), the public authority charged, *inter alia*, with regulating investment companies, securities markets and public offerings of securities in Italy to ensure the transparency and regularity of the dealings and protect investors. Borsa Italiana is a joint stock company (*Società per Azioni*) that was established to manage the Italian regulated financial markets (including Telematico) as part of the implementation in Italy of the EU Investment Services Directive, and has issued rules governing the organization and the administration of the markets—Telematico, Nuovo Mercato (high growth companies), TAH (''After Hours''), Mercato Ristretto (over-the-counter), IDEM (index and stock derivatives market), MIF (interest rate derivatives market), MOT and Euro Mot (bond markets), MCW (covered warrants) and MPR (traditional options on equities)—as well as the admission to listing on and trading in these markets. Since March 28, 2000, a three-day rolling cash settlement has been applied to all trades of equity security in Italy, instead of the preceding five-day settlement.

Any person, through an authorized intermediary, may purchase or sell listed securities following (i) in the case of sales, deposit of the securities or 100% of their value in cash, and (ii) in the case of purchases, deposit of 100% of their value in cash. No ''closing price'' is reported for the electronic trading system, but an ''official price'' calculated for each security as a weighted average of all trades effected during the trading day and a ''reference price'' calculated for each security on the basis of a closing bid or, when such closing bid does not reach 10% of volumes traded during the day, as a weighted average of the last 10% of the trades effected during such day are reported daily.

If the opening price of a security (established each trading day prior to the commencement of trading based on bids received) differs by more than 10% (or such other amount established by Borsa Italiana) from the previous day's reference price, trading in that security will not be permitted until Borsa Italiana authorizes the trading. If in the course of a trading day the price of a security fluctuates by more than 5% from the last reported sale price (or 10% from the previous day's reference price), trading in that security will be automatically suspended for a certain period of time. In the event of such a suspension, effect is not given to trades agreed but not confirmed before the suspension.

Effective July 1, 1998, the Italian financial markets are primarily regulated by Legislative Decree No. 58 of February 24, 1998 (''Decree No. 58''), which consolidated the previous regulation primarily by restating the provisions of Legislative Decree No. 415 of July 23, 1996 (the ''Eurosim Law'').

Decree No. 58 provides that trading of equity securities, as well as any other investment services, may now be carried out on behalf of the public by *società di intermediazione mobiliare* (securities dealing firms or ''SIMs''), which are authorized intermediaries, authorized banks and certain types of finance companies. In addition, banks and investment firms organized in a member nation of the EU are permitted to operate in Italy provided that the intent of the bank or investment firm to operate in Italy is communicated to CONSOB and the Bank of Italy by the competent authority of the member state. Pursuant to Decree No. 58 the Bank of Italy, in agreement with CONSOB, is responsible for regulating clearance and settlement. Non-EU banks and non-EU investment firms may operate in Italy subject to the specific authorization of CONSOB and the Bank of Italy.

Item 10. ADDITIONAL INFORMATION

Memorandum and Articles of Association

Eni is incorporated under the name ''Eni S.p.A.'' resulting from the transformation of Ente Nazionale Idrocarburi, a public law agency, established by Law 136 of February 10, 1953. The company objects are the direct and/or indirect management, by way of shareholdings in companies, agencies or businesses, of activities in the field of hydrocarbons and natural vapours, such as exploration and development of hydrocarbon fields, construction and operation of pipelines for transporting the same, processing, transformation, storage, utilisation and trade of hydrocarbons and natural vapours, all in respect of concessions provided by law.

The company also has the object of direct and/or indirect management, by way of shareholdings in companies, agencies or businesses, of activities in the fields of chemicals, nuclear fuels, geothermy and renewable energy sources, in the sector of engineering and construction of industrial plants, in the mining sector, in the metallurgy sector, in the textile machinery sector, in the water sector, including derivation, drinking water, purification, distribution and reuse of waters; in the sector of environmental protection and treatment and disposal of waste, as well as in every other business activity that is instrumental, supplemental or complementary with the aforementioned activities.

The company also has the object of managing the technical and financial co-ordination of subsidiaries and affiliated companies as well as providing financial assistance on their behalf.

The company may perform any operations necessary or useful for the achievement of the company objects; by way of example, it may initiate operations involving real estate, moveable goods, trade and commerce, industry, finance and banking asset and liability operations, as well as any action that is in any way connected with the company objects with the exception of public fund raising and the performance of investment services as regulated by Legislative Decree No. 58 of February 24, 1998.

The company may take shareholdings and interests in other companies or businesses with objects similar, comparable or complementary to its own or those of companies in which it has holdings, either in Italy or abroad, and it may provide real and or personal bonds for its own and others' obligations, especially guarantees.

Directors

The Board of Directors is invested with the fullest powers for ordinary and extraordinary management of the company and, in particular, the Board has the power to perform all acts it deems advisable for the implementation and achievement of the company objects, except for the acts that the law or Eni's by-laws reserve for the shareholders' meeting.

For a complete description of the powers of the Board, the Managing Director and the Chairman, appointments, role of the Board and rules and procedures of the meetings of the Board see ''Item 6.—Board Practices''.

The Board of Directors and the Managing Director report timely, at least every three months and however in the Board of Directors meetings, to the Board of Statutory Auditors on the activities and on the most relevant operations regarding the operational, economic and financial management of the company and its subsidiaries: in particular the Board of Directors and the Managing Director report to the Board of Statutory Auditors on operations entailing potential conflicts of interest. Article 2391 of the Italian Civil Code applies in the case of conflicts of interest.

On May 30, 2002, Eni's ordinary Shareholders' Meeting resolved to delegate authority to the Board of Directors, pursuant to Article 2420-ter of the Civil Code, to issue bonds, included bonds convertible into shares issued by Eni S.p.A. controlled subsidiaries and/or warrant bonds to purchase or subscribe shares of Eni S.p.A. controlled subsidiaries, up to the amount corresponding to the counter-value of euro 4 billion for a five-year period commencing on May 30, 2002, in one or more times and in one or more tranches. The Board of Directors is empowered to adopt any act, including but not limited to the fixing of yield, duration and regulation of the issues.

The Chairman and the members of the Board are remunerated in an amount established by the ordinary Shareholders' Meeting. Said resolution, once taken, will remain valid for subsequent business years until the Shareholders' Meeting decides otherwise.

There are no retirement based on age-limit requirements in Eni's by-laws, not requirement of share ownership for a director's qualification.

Limitations on Voting and Shareholdings

General

There are no limitations imposed by Italian law or by the By-laws of Eni S.p.A. on the rights of non-residents of Italy or foreign persons to hold or vote the Shares other than the limitations described below (which are equally applicable to residents and non-residents of Italy).

The By-laws provide that no person, in any capacity, may own Shares amounting to more than 3% of Eni S.p.A.'s voting share capital. Such maximum limit is calculated taking into account the aggregate shareholding of a controlling entity, whether an individual or a legal entity (each a ''person''); its directly or indirectly controlled entities, as well as entities controlled by the same controlling entity; affiliated entities, as well as relatives within the second degree by blood or marriage (except for a legally separated spouse). Affiliation exists as set forth in applicable Italian legislation, as well as between entities that, directly or indirectly, through controlled entities (other than those managing investment funds) are bound, even with third parties, by agreements relating to the exercise of voting rights or the transfer of shares or interests in third-party companies or other agreements relating to third-party companies as specified by applicable Italian legislation if such agreements relate to at least 10% of the voting share capital of a listed company or 20% of the voting share capital of an unlisted company. For purposes of calculating the 3% limit, Shares held through a fiduciary nominee or intermediary are taken into account.

Any voting rights attributable to Shares held or controlled in excess of such 3% limit cannot be exercised, and the voting rights of each entity to whom such limit on shareholding applies are reduced proportionately, unless otherwise jointly provided for in advance by the parties involved. In the event that Shares held or controlled in excess of the maximum limit are voted, any shareholders' resolution adopted pursuant to such a vote may be challenged if the majority required to approve such resolution would not have been reached without the vote of the Shares exceeding such maximum limit. Shares not entitled to be voted are nevertheless counted for the purpose of determining the quorum at a shareholders' meeting.

Under the provisions of Law No. 602 of November 27, 1996, the 3% limit does not apply to shareholdings in Eni S.p.A. held by the Treasury, public entities controlled by public entities or by the State. The 3% limit does not apply, in the event that such limit is exceeded as a result of the acquisitions of shares pursuant to a mandatory tender offer (*offerta pubblica di acquisto totalitaria*) or a preventative tender offer (*offerta pubblica di acquisto preventiva*), each as provided for by Decree No. 58, regardless of whether a majority of the voting rights is acquired thereby. The requirement of obtaining the approval of the Ministers as described below in ''—Special Powers of the State'' still applies to Shares acquired pursuant to tender offers.

For other limitations that may affect voting rights, see ''—Reporting Requirements and Restrictions on Acquisitions of Shares''.

Special Powers of the State

The Privatization Law confers upon the State, acting through the Minister of Economy and Finance, in agreement with the Minister of Productive Activities (together with the Treasury, the ''Ministers''), certain special powers in connection with any transfer of a controlling interest in certain State-owned companies operating in public service sectors, including Eni S.p.A.. The Privatization Law places no limit on the duration of such special powers. Such powers are to be exercised in accordance with EU principles. Specific guidelines have been introduced by the Decree of the President of the Council of Ministers ''DPCM'', issued on May 4, 1999, in order to spell out the conditions in which the Ministers can exercise their special veto over a company's strategic decisions. Recently, according to article 66 of Law 488, dated December 23, 1999, such guidelines have been confirmed by the DPCM dated February 11, 2000.

The By-laws acknowledge that the Ministers possess the following special powers:

- *Approval of Material Acquisitions of Shares.* The Ministers have the authority to approve or disapprove the acquisition of ''material interests'' in the share capital of Eni S.p.A., defined as interests representing at least 3% of the share capital having the right to vote at an ordinary shareholders' meeting. See ''—General''. Approval or disapproval must be given within 60 days from the date of the notice to be filed by the Board of Directors at the time a request is made for registration in the register of shareholders by such a purchaser of a material interest. Until the approval is granted or the 60-day period has expired without the approval having been granted, the purchaser may not exercise the voting rights or any rights other than economic rights pertaining to the Shares constituting the material interest. In the event the approval is denied by the Ministers or the 60-day period has expired without the approval having been granted, the purchaser must sell the Shares constituting the material interest within one year. In the event of failure to comply with such requirement, the Treasury shall petition the courts to order the forced sale of the Shares constituting such a material interest. With reference to the ADR program established in respect of the Shares, the Ministers approved the acquisition of 3% or more of the voting share capital of Eni S.p.A. by the Depositary, considering the Depositary the record holder and not the Beneficial Owner of Shares, represented by ADSs and evidenced by ADRs. Each of the holders and Beneficial Owners of ADSs are subject to the 3% limit.
- *Approval of Material Shareholders' Agreements.* The Ministers have the authority to approve or disapprove shareholders' agreements or other arrangements involving 3% or more of the share capital of Eni S.p.A. having the right to vote at an ordinary shareholders' meeting. Such approval or disapproval must be given within 60 days from the date of the notice to be provided to the Treasury by CONSOB following to the notifications of shareholders' agreements or other arrangements to CONSOB. Until such approval is granted or the 60-day period has expired without the approval having been granted, the shareholders participating in such agreement or other arrangement may not exercise the voting rights or any rights other than economic rights pertaining to the Shares subject to such agreement or other arrangement. In the event the approval is denied by the Ministers or the 60-day period has expired without the approval having been granted, the agreement is ineffective. In accordance with the Privatization Law, if the conduct of shareholders during a shareholders' meeting supports an inference that there exists among such shareholders a shareholders' agreement or other arrangement to be notified to CONSOB and such agreement or other arrangement has not been notified, then any resolutions adopted at such meeting with the decisive vote of such shareholders may be challenged and voided.
- *Board of Directors and Board of Statutory Auditors' Members.* The Ministers have the power to appoint one Director to the Board of Directors and the Chairman of the Board of Statutory Auditors. At

Eni's Ordinary Shareholders' Meeting held on May 30, 2002 which, among other things, appointed the new Board of Directors, the Ministers decided not to exercise their power to appoint a member of the Board. Therefore the number of members of the Board was fixed in eight versus the preceding nine-member Board.

- *Veto Power over Major Changes.* The Ministers have veto power with respect to shareholders' resolutions to dissolve Eni S.p.A., to cause a transfer, merger or demerger, to transfer the registered office of Eni S.p.A. outside Italy, to change the corporate purposes or to amend or modify any of the special powers described in this section.

With a decision published on May 23, 2000, the European Court of Justice declared that Italy, in granting the Treasury "special powers" and introducing them in the by-laws of some privatized companies, violated the obligations imposed by Articles 43 (former article 52, right of establishment), 49 (former 59, free provision of services) and 56 (former 73b, free movement of capitals) of the European Treaty.

In accordance with past decisions, the Court analyzed Italian legislation in force at the expiration of the terms defined in the Commissions's informed opinion, therefore it did not keep into account DPCM of May 4, 1999, article 66 of Law No. 488/99 and DPCM of February 11, 2000 which included provisions limiting those "special powers" of the Treasury. These are presently being analyzed by the European Commission.

Minority Protection Provisions

Under the Privatization Law, the by-laws of companies, such as Eni S.p.A., that impose a maximum limit on the number of shares that may be held by any shareholder must provide for the election of directors and statutory auditors through the *voto di lista* (voting list) system, to ensure that minority shareholders of a company are represented on its board of directors and board of statutory auditors. Accordingly, the By-laws require that the members of the Board of Directors and the Board of Statutory Auditors of Eni S.p.A. not directly appointed by the Ministers (see "—Special Powers of the State") be elected on the basis of candidate lists presented either by the Board of Directors or by one or more shareholders (including the Treasury) representing in the aggregate at least 1% of the share capital of Eni S.p.A. having the right to vote at ordinary shareholders' meetings. Such candidate lists must be deposited at the head office of Eni S.p.A. and published in at least three Italian newspapers having general circulation in Italy (two of which must be business dailies). Publication of the candidate list presented by the Board of Directors shall occur at least 20 days before the first call (as defined below) of the Shareholders' Meeting. Such term is reduced to 10 days in the case of candidate lists proposed by shareholders. Each shareholder may present or participate in the presentation of only one candidate list and each candidate may appear on only one list.

Under the By-laws, the election of the members of the Board of Directors will proceed as follows:

a) seven tenths of the members to be elected will be drawn out from the candidate list that receives the majority of votes expressed by the shareholders in the numerical order in which they appear on the list, rounded off in the event of a fractional number to the next lower number;

b) the remaining Board members will be drawn out from the other candidate lists; to this purpose the votes obtained by each candidate list will be divided by one or two or three depending on the number of the members to be elected. The quotients thus obtained will be assigned progressively to candidates of each said list in the order given in the lists themselves. Quotients thus assigned to candidates of said lists will be set in one decreasing numerical order. Those who obtain the highest quotients will be elected.

The election of members of the Board of Statutory Auditors is governed by the same rules, except that the Board of Directors may not present a candidate list to the Board of Statutory Auditors, and that, pursuant to Decree No. 58, the By-laws provides that, in the event of a Board of Statutory Auditors formed by more than three Auditors, at least two of them be appointed by minority shareholders.

Several provisions of Decree No. 58 are intended to increase the protection of minority shareholders. In particular, (i) shareholders' meetings must be called also on request of holders of at least 10% of the outstanding Shares (the Board of Directors, however, may refuse to call the meeting when conflicting with the company's interests); (ii) at an extraordinary shareholders' meeting resolutions are passed with the approval of at least two-thirds of the shares represented at the meeting, whether on first, second or third call; (iii) shareholders' actions against the Board of Directors, the Statutory Auditors and the General Manager may be promoted by shareholders holding at least 5% of the outstanding Shares registered in the Company's Register of Shareholders since, at least, the last six months; and (iv) collective shareholders' complaints to the Board of Statutory Auditors may be promoted by shareholders holding at least 2% of the outstanding Shares. The company's by-laws may further lower the thresholds in (iii) and (iv) and increase the voting quorums under (ii). In addition, Decree No. 58 modifies the responsibilities of Statutory Auditors. Effective from July 1, 1998, accounting control functions are under the exclusive competence of company's independent auditors, and the company's Board of Statutory Auditors no longer carries out such functions.

Reporting Requirements and Restrictions on Acquisitions of Shares

Under Italian securities laws and CONSOB Regulation any direct or indirect participation in excess of 2%, 5%, 7.5%, 10% and subsequent multiples of 5% in the voting shares of a listed company must be notified to such company and to CONSOB, within five open market days from the effectiveness of the transaction triggering such obligation to notify.

The obligation to notify also applies to any direct or indirect participation owned through ADSs.

For listed companies, whose by-laws impose a maximum limit on the number of shares that may be held by any shareholder, CONSOB is entitled to fix different relevant thresholds by decree.

Further, the reduction of the foregoing interest below the relevant thresholds must be notified within the same terms.

Shares held in excess of any such threshold cannot be voted in the event the above notices have not been provided. Any violation of such limitation in the voting right will make the relevant resolution voidable and challengeable in court by shareholders and CONSOB, if the resolution would have not be adopted without the consent of the shares in question.

The relevant thresholds noted above shall be calculated including (i) shares registered in the name of the relevant reporting person whose underlying voting rights are attributed to third parties, and viceversa; and (ii) shares held through third parties and shares whose voting rights are attributable to such third parties, excluding shares registered in the name of, or endorsed to, fiduciaries as well as shares whose voting rights are attributed to intermediaries for purposes of the management of mutual or individual savings.

Furthermore, calculation of 5%, 10%, 25%, 50% and 75% thresholds shall also take into account shares outstanding which the relevant reporting person is entitled to purchase or to sell directly or through third parties. Shares to be purchased through the exercise of conversion rights or warrants shall be calculated only in the event the acquisition can take place within a sixty days period.

In the event the same relevant participation is directly or indirectly held by two or more entities, then obligation to notify may be satisfied by one of such person, provided that completeness of information is guaranteed.

Any participation exceeding 10% of the voting capital of an unlisted company, including any foreign company, owned by a listed company must be notified to such unlisted company within seven days from the reaching of the threshold hereon. Similarly, the unlisted company must be notified about any subsequent reduction of such participation below the 10% threshold.

Listed companies are also required to notify CONSOB of their participation exceeding 10% of the voting capital of unlisted companies which are owned at the date of closing of the first six months and of the year. Such notification is due on a semi-annual basis: within 30 days from the date of approval of the Annual Report and the Report on the First Six Months, respectively.

In the event the same relevant participation is directly or indirectly held by two or more entities, then the obligation to notify may be satisfied by one of such entities, provided that completeness of information is guaranteed.

The 10% threshold hereon shall be calculated including (i) shares registered in the name of the relevant listed company, even if voting rights are attributable to third parties; (ii) shares whose voting rights are attributable to the relevant listed company, in the event such voting rights entitle such party to exercise a dominant or material influence at the ordinary shareholder's meeting; and (iii) shares registered in the name of third parties and shares whose voting rights are attributable to third parties.

In addition to the rules of art. 2359 bis of the Italian civil code, governing the acquisition of shares of the parent company by a controlled subsidiary, Decree No. 58/98 regulates additional cross-ownership matters as follows.

Cross-ownership between listed and unlisted companies may not exceed 2% of the shares of the listed company or 10% of the shares of the unlisted company. For calculating these ownership thresholds, the rules for calculations of interests in listed and unlisted companies apply.

The company ultimately exceeding the 2% or 10% interest in a listed or unlisted company respectively may not exercise the voting rights on the shares held in excess of such thresholds; such shares must be sold within 12 months.

If anyone holds an interest exceeding 2% of the share capital of a listed company, such listed company or any entity in control of such listed company may not acquire an interest exceeding 2% of the share capital of a listed company controlled by said holder. If the foregoing limit is exceeded, the holder who last exceeded the foregoing limit or both the holders, if it is not possible to ascertain which holder exceeded such limit last, may not exercise the voting right related to the shares exceeding the foregoing limit. Such limits are not applicable in case of a tender offer for acquiring at least 60% of the ordinary shares of a listed company. For a description of the limitation on cross-ownership between a company and its subsidiaries, see "Purchase by Eni S.p.A. of its Own Shares".

Under Decree No. 58, any agreement, in whatever form, intended to regulate the exercise of voting rights in a listed company or in the companies controlling a listed company, together with any of its subsequent amendments, renewal or termination, must be (i) notified to CONSOB, within five days from its execution; (ii) disclosed to the public through the publication, in abstract form, in one Italian newspaper having general circulation, within ten days from its execution; and (iii) deposited in the Companies' Register at the site where such listed company has its legal seat within 15 days from its execution.

The same requirements are also mandated for agreements, in whatever form, that (a) impose an obligation of prior consultation for the exercise of voting rights in a listed company and in its controlling companies; (b) contain undertakings limiting the transferability of the shares and other securities granting rights for the acquisition or subscription of the shares; (c) provide for the acquisition of the shares and securities hereon; and (d) contemplate or cause the exercise, also in association with other persons, of dominant influence on the listed company that issued the shares and on its controlled entities.

In the event the obligations set out above are not completely satisfied, then the agreement is ineffective and the voting rights connected to the relevant shares may not be exercised. In case of violation of such limitation imposed on the voting rights, a resolution can be challenged if such resolution would have not been approved without the consent of such voting rights.

If the parties have agreed upon the duration of the agreement, such duration cannot exceed three years. In absence of agreement, each party to the agreement can withdraw from such an agreement by giving a six month notice.

In accordance with Law No. 287 of October 10, 1990, any acquisition of sole or joint control over a company that would create or strengthen a dominant position in the domestic market in a manner that eliminates or significantly reduces competition is prohibited. However, if the acquiring party and the company to be acquired operate in more than one EU member state and together surpass certain revenue thresholds, the antitrust approval of the acquisition falls within the exclusive jurisdiction of the European Commission.

Shareholders' Meetings

Registered shareholders are entitled to attend and vote at ordinary and extraordinary shareholders' meetings. Each holder is entitled to cast one vote for each Share held. Votes may be cast personally, by proxy or by mail, in accordance with applicable regulations. Meetings are called by Eni S.p.A.'s Board of Directors when required or deemed necessary, or on request of shareholders representing at least 10% of outstanding shares, who must provide an agenda of the matters to be discussed to the Chairman of the Board of Directors. Meetings may also be called, (i) by the Board of Statutory Auditors or (ii) by two Auditors, provided that such call has been notified in advance.

Ordinary shareholders' meetings must be convened at least once a year. At these ordinary meetings, shareholders approve the annual accounts, resolve upon dividend distribution, if any, may appoint Directors and Statutory Auditors, determine their remuneration and vote on the liability of Directors and Statutory Auditors and any business submitted by the Directors. Extraordinary meetings of shareholders may be called to pass upon proposed amendments to the By-laws, capital increases, mergers, consolidations, demerger, issuance of debentures, appointment of liquidators and similar extraordinary actions. The notice of a shareholders' meeting generally specifies two meeting dates ("calls") and because Eni S.p.A. is listed may specify three calls for extraordinary meetings.

The attendance quorum required for a valid shareholder action at an ordinary meeting on first call is 50% or more of the outstanding Shares, while on second call there is no attendance quorum requirement. At duly called ordinary meeting, in both first and second calls, resolutions may be approved by a simple majority of the Shares represented at the meeting.

The attendance quorum required for a valid shareholder meeting at an extraordinary meeting is more than 50% of the outstanding Shares on first call, while on second call the attendance quorum is more than $1/3$ of the Shares outstanding and on third call the attendance quorum is more than $1/5$ of the Shares outstanding. On first, second and third call, resolutions may be approved by a majority of $2/3$ of the Shares represented at the shareholders meeting.

The annual accounts of Eni S.p.A. are submitted for approval to the annual shareholders' meeting, which must be convened within six months after the end of the financial year. Shareholders are informed of all meetings to be held by publication of a notice in the *Gazzetta Ufficiale* and in at least one Italian newspaper of general circulation at least 30 days before the date fixed for the meeting. Under current legislation, the reports and proposals of the Board of Directors to the shareholders meeting for any item on the Agenda of the meeting and the Financial Statements to be submitted to the shareholders' approval, shall be deposited at the Shareholders disposal at the Company's Registered Office and at the Borsa Italiana S.p.A. (Italian Stock Exchange). For a description on new regulations regarding extraordinary shareholders' meeting under Decree No. 58, see ''—Minority Protection Provisions''.

Admission to the meeting is granted to shareholders who requested the notification of attendance pursuant to article 34 of CONSOB Deliberation No. 11768 of December 23, 1998, at least five days prior to the date of the meeting on first call. For a description of the procedures to be followed by Beneficial Owners of ADRs to attend shareholders' meetings and exercise voting rights with respect to underlying Shares, see ''Description of American Depositary Receipts—Voting of Deposited Securities''. Beneficial Owners of Shares held with Monte Titoli need only to instruct the relevant banks associated with Monte Titoli which hold their accounts to procure admission tickets and proxy forms.

Pursuant to Legislative Decree No. 213 dated June 24, 1998, Eni S.p.A.'s Shares have been ''dematerialized'' (the shares are not longer incorporated in a certificate). Therefore for the exercise of the rights connected to outstanding Shares not yet dematerialized, Shareholders must first deliver such Shares to a financial intermediary associated with Monte Titoli.

Shareholders may appoint proxies by completing the form attached to the admission ticket. Directors, Statutory Auditors, auditors and employees of Eni S.p.A. or of controlled companies, as well as controlled companies, banks and Monte Titoli may not be appointed proxies. Any one proxy may not represent more than 200 shareholders of Eni S.p.A.. A proxy may be appointed for a single meeting, including the first, second and third call. The By-laws of Eni S.p.A. provide for voting by mail. There are no limitations arising under Italian law or the By-laws of Eni S.p.A. on the right of non-resident or foreign persons to hold or vote the Shares other than limitations that apply generally to all shareholders.

Rules relating to proxies are established by Decree No. 58 and the related CONSOB Regulation No. 11971 dated May 14, 1999. Accordingly whereby (i) proxies may be solicited, collected or exercised by banks, investment firms and shareholders' associations, (ii) proxies may be granted only in respect of shareholders' meetings that have been called and (iii) proxies may be limited to voting on particular proposals. Decree no. 58 also allows companies to implement vote by mail procedures and establish new regulations relating to, among other things, takeovers, cross-shareholdings, shareholders' agreements and saving shares.

Meetings of Eni's shareholders are conducted according to the ''Eni S.p.A.'s Shareholders' Meeting Regulation'' as approved by the Ordinary Meeting of Eni's Shareholders on December 4, 1998.

Subscription Rights

New Shares may be issued pursuant to a resolution of shareholders at an extraordinary meeting. Under Italian law, shareholders have a preferential right to subscribe for new issues of Shares and debentures convertible into Shares in proportion to their respective shareholdings. Subject to certain conditions principally designated to prevent dilution of the rights of shareholders, this right may be waived or limited by resolution taken by an extraordinary meeting by the affirmative vote of more than 50% of the Shares outstanding. Such percentage applies to all calls of the meeting.

Liquidation Rights

Under Italian law, subject to the satisfaction of the claims of all other creditors, shareholders are entitled to a distribution of the remaining liquidated assets of Eni S.p.A. in proportion to the nominal value of their Shares. Holders of savings shares and preferred shares, if foreseen by the by-laws, in the event such shares are issued by Eni S.p.A., are entitled to a preferred right to distribution from liquidation up to their nominal value. Thereafter, if there are surplus assets, ordinary shareholders rank equally in the distribution of such assets. Shares rank *pari passu* among themselves in a liquidation.

Purchase by Eni S.p.A. of its Own Shares

Pursuant to Italian law, a company may purchase its own shares only pursuant to a prior authorization by a shareholders' meeting, and must pay for such shares only out of distributable earnings and distributable reserves as reflected in the most recent financial statements approved by a shareholders' meeting. The nominal value of shares so purchased, including shares held by subsidiaries, may not exceed 10% of such company's share capital. Shares purchased in excess of such 10% limit must be resold within one year from the date of their purchase. Identical limitations apply to purchases of shares of a company by its subsidiaries. In order to increase shareholders' value, Eni's Ordinary Shareholders' Meeting held on June 6, 2000 authorized a share buyback program to be effected within 12 months from such date, up to a maximum of 400 million shares, corresponding to 9.997% of Eni's capital stock and for a total amount not exceeding euro 3.4 billion. Eni's Ordinary Shareholders' Meeting held on June 1, 2001 authorized the continuation of the share buy-back program for a period of 18 months from such date and up to a maximum of 400 million shares for a total amount not exceeding euro 3.4 billion. Eni Shareholders' Meeting also withdrew the former authorization. Eni's Ordinary Shareholders' Meeting held on May 30, 2002 authorised the continuation of the share buy-back program for a period of 18 months from such date and up to 400 million ordinary shares, nominal value euro 1, for a total amount not exceeding 5.4 billion euro. Eni's Ordinary Shareholders' Meeting also withdrew the former authorisation. The 400 million shares and the 5.4 billion thresholds take into account the number and amount of own shares purchased from the beginning of the buy-back program until May 29, 2002. At that date, Eni owned 161.4 million shares, equal to approximately 4.03% of Eni's share capital, for a total amount of euro 2,175 million (corresponding to an average purchase price of euro 13.47 per share). The shares are to be purchased on the Mercato Azionario Telematico della Borsa Italiana SpA at a price no lower than their nominal value and no higher than 5% over the reference price recorded on the working day preceding each purchase.

The following table summarizes the situation of shares held in portfolio by Eni as of May 7, 2002:

Period	Numbers of shares million	Average price euro	Total price million euro	Share capital %
2000	44.4	12.92	574	1.11
2001	110.0	13.58	1,494	2.75
As of December 31, 2001	154.4	13.39	2,068	3.86
January 1-May 29, 2002	7.0	15.29	107	0.17
As of May 29, 2002	161.4	13.47	2,175	4.03

Material Contracts

None.

Exchange Controls

There are no exchange controls in Italy. Residents and non-residents of Italy may effect any investments, divestments and other transactions that entail a transfer of assets to or from Italy, subject only to the reporting, record-keeping and disclosure requirements described below. In particular, residents of Italy may hold foreign currency and foreign securities of any kind, within and outside Italy, while non-residents may invest in Italian securities without restriction and may export from Italy cash, instruments of credit or payment and securities, whether in foreign currency or lire, representing interest, dividends, other asset distributions and the proceeds of dispositions.

Updated reporting and record-keeping requirements are contained in recent Italian legislation which implements an EU directive regarding the free movement of capital. Such legislation requires that transfers into or out of Italy of cash or securities in excess of lire 20 million be reported in writing to the *Ufficio Italiano Cambi* (the Italian Exchange Office) by residents or non-residents that effect such transfers directly, or by banks, securities dealers or *"Poste Italiane spa"* (Italian Mail) that effect such transactions on their behalf. In addition, banks, securities dealers or *"Poste Italiane spa"* (Italian Mail) effecting such transactions on behalf of residents or non-residents of Italy are required to maintain records of such transactions for five years, which may be inspected at any time by Italian tax and judicial authorities. Non-compliance with these reporting and record-keeping requirements may result in administrative fines or, in the case of false reporting and in certain cases of incomplete reporting, criminal penalties. The *Ufficio Italiano Cambi* will maintain reports for a period of ten years and may use them, directly or through other government offices, to police money laundering, tax evasion and any other crime or violation.

Individuals, non-profit entities and partnerships that are residents of Italy must disclose on their annual tax declarations all investments and financial assets held outside Italy, as well as the total amount of transfers to, from, within and between countries other than Italy relating to such foreign investments or financial assets, even if at the end of the taxable period such persons no longer owned such foreign investments or financial assets. No such disclosure is required in respect of foreign investments or financial assets that are exempt from income tax or if withholding tax in Italy has already been paid. Such disclosure requirement does not apply (i) if the total value of the investments and assets at the end of the taxable period or the total amount of the transfers effected during the year is not greater than lire 20 million or (ii) in respect of foreign investments, foreign assets or transfers within the EU. Corporate residents of Italy are exempt from such disclosure requirements with respect to their annual tax declarations because this information is required to be disclosed in their financial statements.

Taxation

The information set forth below is a summary only, and Italian, United States and other tax laws may change from time to time. Holders of Shares and ADSs should consult with their professional advisors as to the tax consequences of their ownership and disposition of the Shares and ADRs, including, in particular, the effect of tax laws of any other jurisdiction.

Italian Taxation

The following is a summary of the material Italian tax consequences of the ownership and disposition of Shares or ADRs as at the date hereof and does not purport to be a complete analysis of all potential tax effects relevant to the ownership or disposition of Shares or ADRs.

Income tax

The Italian imputation system entitles domestic shareholders to benefit from a dividend tax credit equal to 58.73% of the gross amount of the dividend received. Pursuant to the reduction of income tax rate from 37% to 36% coming into force from January 1, 2001, provided by Law No. 388/2000, the tax credit will be equal to 56.25% of the gross amount of the dividend received with respect to distributions deliberated as from January 1, 2002.

In consequence of the further reduction of income tax rate from 36% to 35% coming into force from January 1, 2003, the tax credit will be equal to 53.85% with respect to dividend distributions deliberated as from January 1, 2004.

Both dividend and tax credit are included in the taxable income and the latter reduces the tax due at the shareholder's level.

The other topics of the tax regime may be summarised as follows:

in principle, the dividend tax credit may not exceed the amount of taxes paid at the distributing company level;

in order to permit the transfer to the shareholder of some tax incentives, avoiding at the same time possible distortions deriving from the enjoyment of a full dividend tax credit at shareholder level, a dual basket system has been introduced;

the distributing company must keep, in its tax return, formal record of the tax effectively paid—basket A—and of taxes deemed only virtually levied—basket B. This latter refers to taxes which, although never paid, are considered under the new Italian provisions as having been paid for special cases;

the distributing company is required to reduce the amounts recorded for both baskets, upon dividend distribution, even if the recipient is not entitled to take advantage from the dividend tax credit (i.e., foreign shareholders);

dividends derived from basket B entitles shareholder to a limited dividend tax credit that cannot be claimed for refund and/or carried forward.

Resident individuals owning less than 2% of the outstanding shares not related to the conduct of a business may elect for a substitute tax of 12.5% withheld at source by the dividend paying agent. This being the case, the dividend is not to be included in the tax return.

The same substitute tax is withheld when dividend is paid to pension funds and to certain real estate investment funds. Entities exempt from IRPEG (company income tax) are subject to the substitute tax at the rate of 27%.

Dividend paid to non residents are subject to the same substitute tax levied at source by the paying agent at the rate of 27%.

Up to four-ninths of the tax withheld might be recovered by a non-resident shareholder from the Italian Tax Authorities upon provision of evidence of full payment of income tax on such dividend in his country of residence in an amount at least equal to the total refund claimed.

Such substitute tax may be reduced under the tax treaty in force between Italy and the country of residence of the Beneficial Owner of the dividend. In order to obtain the treaty benefit (reduced substitute tax rate) at the same time of payment, the Beneficial Owner must file an application to the dividend paying agent chosen by the Depositary stating the existence of the conditions for the applicability of the treaty benefit, together with a certification issued by the foreign Tax Authorities stating that the shareholder is a resident of that country for treaty purposes.

Based on the certification procedure required by the Italian Tax Authorities, the shareholder must obtain from the U.S. Internal Revenue Service (the ''IRS'') a certificate with respect to each dividend payment.

The request for that certificate must include a statement, signed under penalties for perjury, to the effect that the shareholder is a U.S. resident individual or corporation, and does not maintain a permanent establishment in Italy, and must set forth other required information. The normal time for processing requests for certification by the IRS is normally about six to eight weeks.

As an alternative to the direct application of the treaty benefit at the same time of payment, the foreign shareholder may provide for the filing of specific forms (certificate) with the Italian Tax Authorities, in order to obtain a refund of taxes withheld in excess of the withholding tax rate as provided for by the Treaty.

It should be specified that Italy has concluded income tax treaties with approximately 60 foreign countries, including all EU members, Argentina, Australia, Brazil, Canada, Japan, New Zealand, Norway, Switzerland, the United States and some countries in Africa, the Middle East, and the Far East. Generally speaking, it should be noted that tax treaties are not applicable where the holder is a tax-exempt entity or, with few exceptions, a partnership or a Trust. For further details please refer to the relevant provisions set forth in the Italy-US Tax Treaty.

Under the income tax convention between the United States and Italy, dividends derived and beneficially owned by a U.S. resident who holds less than 10% of Eni S.p.A.'s shares are subject to an Italian withholding or substitute tax at a reduced rate of 15%, provided that the dividends are not effectively connected with a permanent establishment in Italy through which the U.S. resident carries on a business or a fixed base in Italy through which such resident performs independent personal services.

In the absence of such conditions, or where the mentioned documentation has not been provided by the Beneficial Owner, the dividend paying agent will deduct from the gross amount of the dividend the substitute tax at the statutory rate of 27%. The recipient will then be entitled to claim from the Italian Tax Authorities the difference (''treaty refund'') between the domestic rate and the treaty one.

With respect to any dividend declared by the Company on or after July 1, 1998, pursuant to a change in Italian tax law as reflected in the Deposit Agreement, the Company (Eni S.p.A.) will no longer be involved (i) in withholding amounts due by Holders to relevant taxing authorities in connection with any distributions relating to ADSs or (ii) in the procedures through which certain Holders of ADSs may obtain tax rebates, credits, refunds or other similar benefits. Pursuant to the Deposit Agreement, the custodian and the Depositary have undertaken to use reasonable efforts to make and maintain arrangements to enable persons that are considered United States residents for purposes of applicable law to receive any rebates or tax credits (pursuant to treaty or otherwise) relating to distributions on the ADSs to which such persons are entitled. in addition, the Depositary has agreed to establish procedures to enable all Holders to take advantage of any rebates or tax credits (pursuant to treaty of otherwise) relating to distributions on the ADSs to which such Holders are entitled and to provide, at least annually, a written notice, in a form previously agreed to by the Company, to the Holders of any necessary actions to be undertaken by such Holders.

Transfer tax

As of January 1, 1998, Legislative Decree No. 435/97 has changed the previous rule introducing both new exclusion cases and new measures.

In general terms, no Italian transfer tax is payable in the following cases:

for contracts concluded on regulated financial markets;

contracts concerning unlisted shares, concluded between non-resident persons and banks or other authorised intermediaries (provided that certain conditions are met);

contracts concerning listed shares even if not concluded on regulated financial markets, between non-resident persons and banks or other authorized intermediaries or investment funds.

The mentioned exemption from transfer tax entails neither the application of stamp duty nor that of registration tax.

To provide a more complete picture, transfer tax is currently payable at the following rates:

Euro 0.07 for lire euro 51.65 (or fraction thereof) of the price at which the Shares or ADRs are transferred, when the transfer occurs directly between the contracting parties or through intermediaries other than those listed below.

Euro 0.025 for lire euro 51.65 (or fraction thereof) of the price at which the Shares or ADRs are transferred, when the transfer occurs between private individuals and a bank or between private individuals through an intermediary, such as an exchange agent, a bank, a stock broker, or a SIM.

Euro 0.0051 for lire euro 51.65 (or fraction thereof) of the price at which the Shares or ADRs are transferred, when the transfer occurs between banks, exchange agents or SIMs.

Capital Gains Tax

Gains deriving from the sale of participations exceeding 2% of the voting rights or 5% of the share capital i.e. ''substantial participation'' are subject to a 27% substitute tax, while other gains are liable to a substitute tax at a 12.5% rate.

For gains deriving from the sale of non substantial participations, two different systems may be applied ''upon election'' as an alternative to the filing of the tax return:

the so-called ''indirectly managed investment'' system (risparmio amministrato), based on which intermediaries acting as shares depositaries shall apply a substitute tax (12.5%) on each gain, on a cash basis. If the sale of shares generated a loss, said loss may be carried forward up to the fourth following year; and

the so-called ''directly managed investment'' system (risparmio gestito) which is applicable when the shares form part of a portfolio managed by an Italian asset management company. The accrued net profit of the portfolio is subject to a 12.5% substitute tax to be applied by the portfolio.

Gains realized by non resident from non substantial participations in quoted companies are deemed not to be produced in Italy and consequently are not subject to the capital gains tax.

On the contrary, gains realized by non resident from substantial participations even in quoted companies are deemed to be produced in Italy and consequently in principle they are subject to the capital gains tax.

However double taxation treaties may eliminate CGT. Under the income tax convention between the United States and Italy, a U.S. resident will not be subject to CGT unless the shares or ADRs form part of the business property of a permanent establishment of the holder in Italy or pertain to a fixed base available to a holder in Italy for the purposes of performing independent personal services. U.S. residents who sell shares may be required to produce appropriate documentation establishing that the above-mentioned conditions of non-taxability pursuant to the convention have been satisfied.

Inheritance and Gift Tax

Pursuant to Law No. 383 of October 18, 2001, Italian inheritance and gift tax on transfer of shares or ADRs by reason of death or donation has been abolished with respect to successions opened and to gifts made from October 25, 2001. Transfer of shares or ADRs, even if held outside Italy, by reason of donation are subject to the ordinary Italian transfer tax on the value of the gift exceeding 180.759,91 euro, only if the donee is not the spouse, a direct descendant or a relative up to fourth degree.

An anti avoidance rule has been provided by Law 383 for gift of assets (such as shares) which, if sold for consideration, would give rise to capital gain subject to substitute tax as per Decree No. 461 of November 21, 1997. In particular if the donee sells the shares for consideration within five years from the receipt thereof as gift, the substitute tax will apply on the capital gain determined as if the gift had never been given.

United States Taxation

The following is a summary of certain U.S. federal income tax consequences to U.S. Holders (as defined below) of the ownership and disposition of Shares or ADRs. This summary is addressed to U.S. Holders that hold Shares or ADRs as capital assets, and does not purport to address all material tax consequences of the ownership of Shares or ADRs. The summary does not deal with special classes of investors, such as tax-exempt entities, dealers in securities, traders in securities that elect to mark to market, certain insurance companies, broker-dealers, investors liable for alternative minimum tax, investors that actually or constructively own 10% or more of Eni S.p.A.'s Shares, investors that hold Shares or ADRs as part of a straddle or a hedging or conversion transaction and investors whose ''functional currency'' is not the U.S. dollar.

This summary is based on the tax laws of the United States (including the Internal Revenue Code of 1986, as amended, (the ''Code'') its legislative history, existing and proposed regulations thereunder, published rulings and court decisions) as in effect on the date hereof, and which are subject to change (or changes in interpretation), possibly with retroactive effect. The summary is based in part on representations of the Depositary and assumes that each obligation in the Deposit Agreement and any related agreement will be performed in accordance with its terms. U.S. Holders should consult their own tax advisors to determine the U.S. federal, state and local and foreign tax consequences to them of the ownership and disposition of Shares or ADRs.

As used in this section, the term ''U.S. Holder'' means a beneficial owner of Shares or ADRs who or that is (i) a citizen or resident of the United States, (ii) a domestic corporation, (iii) an estate the income of which is subject to United States federal income tax without regard to its source or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust.

The discussion does not address any aspects of United States taxation other than federal income taxation. In particular, U.S. Holders are urged to confirm their eligibility for benefits under the income tax convention between the United States and Italy with their advisors and to discuss with their advisors any possible consequences of their failure to qualify for such benefits.

In general, and taking into account the earlier assumptions, for the United States federal income tax purposes, U.S. Holders who own ADRs evidencing ADSs will be treated as owners of the underlying Shares. Exchanges of Shares for ADSs, and ADSs for Shares, generally will not be subject to United States federal income tax.

Dividends

Distributions paid on the Shares generally will be treated as dividends for U.S. federal income tax purposes to the extent paid out of Eni S.p.A.'s current or accumulated earnings and profits as determined for U.S. federal income tax purposes, but will not be eligible for the dividends received-deduction generally allowed to corporations. To the extent that a distribution exceeds Eni S.p.A.'s earnings and profits, it will be treated, first, as a non-taxable return of capital to the extent of the U.S. Holder's tax basis in the Shares or ADRs, and thereafter as a taxable gain on the sale or exchange of Shares or ADRs. A U.S. Holder must include in gross income as ordinary income, on the date of actual or constructive receipt by the U.S. Holder (in the case of Shares) or by the Depositary (in the case of ADRs) the gross amount of such dividends, including any Italian tax withheld therefrom, without regard to whether any portion of such tax may be refunded to the U.S. Holder by the Italian tax authorities. The amount of any dividend (or treaty payment) paid in lire will equal the U.S. dollar value of the lire received, calculated by reference to the exchange rate in effect on the date the distribution is includible in income, regardless of whether the lire are converted into U.S. dollars and U.S. Holders may recognize foreign currency gain or loss (generally treated as ordinary gain or loss) upon the disposition of such lire measured by the differences between such U.S. dollar value and the amount realized on such disposition.

Subject to certain conditions and limitations, Italian tax withheld from dividends will be treated as a foreign income tax eligible for credit against the U.S. Holder's U.S. federal income tax liability. To the extent a refund of the tax withheld is available to a U.S. Holder under Italian law or under the income tax convention, the amount of tax withheld that is refundable will not be eligible for credit against your United States federal income tax liability. See ''Italian Taxation—Income Tax,'' above, for the procedures for obtaining a tax refund. For the purposes of computing the foreign tax credit, dividends paid on the Shares will be treated as income from sources outside the United States, but generally will be grouped separately, together with other items of ''passive'' or ''financial services'' income.

Sale or Exchange of Shares

In general, a U.S. Holder will recognize gain or loss for U.S. federal income tax purposes on the sale or exchange of Shares or ADRs equal to the difference between the U.S. Holder's adjusted basis in the Shares or ADRs (determined in U.S. dollars), as the case may be, and the amount realized on the sale or exchange (or if the amount realized is denominated in a foreign currency its U.S. dollar equivalent, determined at the spot rate on the date of disposition). Generally, such gain or loss will be treated as capital gain or loss if the Shares or ADRs are held as capital assets and will be a long-term capital gain or loss if the Shares or ADRs have been held for more than one year on the date of such sale or exchange. Long-term capital gain of a non-corporate U.S. Holder is generally subject to a maximum tax rate of 20% in respect of property held for more than one year. In addition, any such gain or loss realized by a U.S. Holder generally will be treated as U.S. source income or loss for U.S. foreign tax credit purposes.

Documents on Display

It is possible to read and copy documents referred to in this annual report on Form 20-F that have been filed with the SEC at the SEC's public reference room located at 450 Fifth Street, NW, Washington, DC 20549 and at the SEC's other public reference rooms in New York City and Chicago. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms and their copy charges. The SEC filings are also available to the public from commercial document retrieval services.

Item 11. QUALITATIVE AND QUANTITATIVE DISCLOSURES OF MARKET RISK

Eni operates internationally in the oil and natural gas, electricity generation, petrochemicals and oilfield services and engineering industries and is subject to exposure to market risks from changes in interest rates, foreign exchange rates and commodity prices.

Derivative financial instruments are utilized by Eni to reduce these risks, as explained below.

Eni's treasury activities are managed primarily by two captive finance companies, operating in the Italian and international financial markets. Eni's operating subsidiaries are required to reduce foreign exchange rate risk to a minimum level by coordinating their operations with such finance companies.

Eni S.p.A.'s Board of Directors has defined a policy that requires the Treasury Department of Eni S.p.A. to determine the maximum level of foreign exchange rate and interest rate risks that can be assumed by Eni's finance companies. Such policy also defines the eligible counterparties in derivatives transactions. As far as interest rate and foreign exchange rate risks are concerned, the calculation and measurement techniques followed by Eni's finance companies are in accordance with established banking standards (such standards are established by the Basel Committee). However, the tolerable level of risk adopted by such companies is more conservative than that defined by the Basel Committee.

Eni S.p.A.'s Treasury Department is responsible for monitoring compliance with Eni's policy, as well as the correlation between the indicators adopted for measuring the tolerable risk level, the portfolio of financial instruments and market conditions.

Eni does not enter into derivative transactions on a speculative basis.

The Company has estimated its market risk exposure using sensitivity analysis. Market risk exposure has been defined as the change in fair value of derivative financial and commodity instruments and other financial instruments assuming a hypothetical 10 percent adverse change in market prices or rates. Fair value was determined using dealer quotes or appropriate pricing models. The interest rate used for periods shorter than one year is LIBOR/EURIBOR.

The Company has applied the sensitivity analysis to derivative financial and commodity instruments and other financial instruments that are exposed to interest rate, foreign exchange rate and commodities price risk.

The results of the sensitivity analysis are summarized below.

Actual changes in market prices or rates may differ from hypothetical changes.

Foreign Exchange Risks

Eni's operations are denominated in various foreign currencies and consequently Eni is exposed to exchange rate fluctuations that have an impact on its cash flows and financing activities. The Company's exposure to foreign currency rates exists primarily with U.S. dollars versus euro.

Eni enters into various types of foreign exchange contracts in managing its foreign exchange risk. The notional amount of these contracts is shown in Note 24 to the Consolidated Financial Statements. Eni uses "forward exchange contracts" primarily to hedge existing receivables and payables, including deposits and borrowings denominated in foreign currencies, and uses "currency options" to hedge expenses denominated in foreign currencies. Currency options, purchased in the over-the-counter market for a premium, provide Eni with the right to buy or sell an agreed amount of currency at a specified exchange rate at the end of a specified period normally two years.

Based on the results of the sensitivity analysis, Eni's estimated foreign currency market risk exposure related to net income as of December 31, 2001, was euro 191 million (euro 165 million at December 31, 2000). The sensitivity analysis excluded receivables, debt and securities which have a high degree of inverse correlation with the financial derivative instruments used to hedge them; these derivative instruments are not, however, material.

Interest Rate Risk

Debt and the existence of mismatches between assets and liabilities earning or paying fixed interests expose Eni to the risk of interest rate fluctuations.

Eni enters into various types of interest rate contracts in managing its interest rate risk. The notional amount of these contracts is shown in Note 24 to the Consolidated Financial Statements.

Eni enters into interest rate derivatives, particularly "interest rate swaps", to alter interest rate exposures arising from mismatches between assets and liabilities, to lower funding costs and to diversify sources of funding. Under interest rate swaps, Eni agrees with other parties to exchange, at specified intervals, the difference between interest amount calculated by reference to an agreed notional principal amount and agreed fixed or floating interest rates.

Eni also uses "interest rate collars" to manage its interest rate risk. An interest rate collar is a combination of options that enables a predetermined interest rate band to be locked in. Eni also uses primarily zero-cost collars that do not require payment of an option premium. "Forward rate agreements" are generally used by Eni to offset changes in the rates of short and long-term floating-rate debt. Forward rate agreements settle in cash at a specified future date based on the differential between agreed interest rates applied to a notional amount.

Based on the results of the sensitivity analysis, Eni's estimated interest market risk exposure related to net income as of December 31, 2001 was euro 9 million (euro 51 million at December 31, 2000).

Commodity Price Risk

Eni enters into commodity-based derivative contracts to minimize the commodities price volatility in order to conform costs to revenues.

Commodity-based derivative contracts are primarily used by the Refining and Marketing segment and consist of future contracts and over-the-counter market swaps related to crude oil and petroleum products.

Futures contracts have little credit risk because they take place in regulated markets. Swap agreements do not contain margin requirements and are subject to the creditworthiness of counterparties, which are primarily major financial institutions.

As shown in Note 24 to the Consolidated Financial Statements the amounts of derivative commodity contracts is not material. Eni's commodity market risk exposure as of December 31, 2000, is also not material.

Item 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

PART II

Item 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

Item 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

None.

Item 15. [Reserved]

Item 16. [Reserved]

PART III

Item 17. FINANCIAL STATEMENTS

Not applicable.

Item 18. FINANCIAL STATEMENTS

See pages F-1 through F-68.

(a) Index to Financial Statements:

Item 19. EXHIBITS

1. By-laws as amended as of May 30, 2002
8. List of subsidiaries
10.1 Other Auditors' Reports on the financial statements of certain other subsidiaries of Eni S.p.A. (separate financial statements not included herein)
10.2 Assurances letter related to Arthur Andersen

SIGNATURES

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant certifies that it meets all of the requirements for filing on Form 20-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereunto duly authorized.

Eni S.p.A.

/s/ Fabrizio Cosco

Title: Deputy Company Secretary

Date: 28 June, 2002

REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholders of Eni S.p.A.

We have audited the accompanying consolidated balance sheet of Eni S.p.A. and its subsidiaries (the ''Eni Group'') as of December 31, 2001, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the year then ended, all expressed in euros. These financial statements are the responsibility of the Eni Group's directors. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Snam Rete Gas S.p.A. (59.8% owned), Italgas — Societá Italiana per il Gas p.A. (40.9% owned), Saipem S.p.A. (43.0% owned) and certain other subsidiaries as indicated in Note 32, which statements, in the aggregate, reflect total assets of 25 percent of the related consolidated total assets of the Eni Group as of December 31, 2001, and total revenues of 16 percent of the related consolidated total revenues of the Eni Group for the year ended December 31, 2001. Those statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for Snam Rete Gas S.p.A., Italgas — Societá Italiana per il Gas p.A., Saipem S.p.A. and certain other subsidiaries as indicated in Note 32, is based solely on the reports of the other auditors.

The financial statements of the Eni Group as of December 31, 2000, and for the years ended December 31, 1999 and 2000, were examined by other independent accountants whose report dated April 6, 2001, expressed an unqualified opinion on those statements.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the auditing standards and criteria recommended by CONSOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Eni Group at December 31, 2001, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Italy.

Accounting principles generally accepted in Italy vary in certain significant respects from accounting principles generally accepted in the United States. The application of the latter would have affected the determination of consolidated net income expressed in euros for the year ended December 31, 2001, and the determination of consolidated shareholders' equity also expressed in euros at December 31, 2001, to the extent summarized in Note 30 to the consolidated financial statements.

PricewaterhouseCoopers SpA

Rome, April 19, 2002

BALANCE SHEETS

(Amounts stated in million € or million U.S. dollars)

	Note	Dec. 31, 2000 €	Dec. 31, 2001 €	Dec. 31, 2001 USD
ASSETS				
Current assets:				
Cash		1,244	1,305	1,162
Marketable securities	4	1,794	1,376	1,225
Receivables, net	5	13,385	13,728	12,219
Inventories, net:	6			
Crude oil, natural gas and petroleum products		1,790	1,638	1,458
Chemical products		631	497	442
Work in progress long-term contracts		280	267	238
Other		419	411	366
Total inventories		3,120	2,813	2,504
Accrued interest and other		411	444	395
Total current assets		19,954	19,666	17,505
Non-current assets:				
Fixed assets, net of accumulated depreciation, amortization and writedowns	7	26,797	33,314	29,653
Receivables, net	5	2,025	2,678	2,384
Investments	8	4,223	3,012	2,681
Intangible assets	9	2,391	2,843	2,531
Other	10	973	1,223	1,089
Total non-current assets		36,409	43,070	38,337
Total assets		56,363	62,736	55,841
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Short-term debt	12	5,342	5,231	4,656
Current portion of long-term debt	12	586	1,233	1,097
Trade accounts payable		4,847	4,974	4,427
Advances		896	1,035	921
Taxes payable	11	5,034	2,355	2,096
Accrued expenses and other		3,539	3,624	3,226
Total current liabilities		20,244	18,452	16,424
Non-current liabilities:				
Long-term debt	12	5,116	6,084	5,415
Reserve for employee termination indemnities		457	465	414
Reserves for contingencies	13	4,349	5,340	4,753
Deferred and other non-current income tax liabilities	13	1,353	2,621	2,333
Accrued expenses and other		771	585	521
Total non-current liabilities		12,046	15,095	13,436
Total liabilities		32,290	33,547	29,860
Minority interests		1,672	1,706	1,519
Shareholders' equity:	14			
Share capital, nominal value one euro each (4,001,259,476 fully paid shares, 8,002,140,853 shares at December 31, 2000 nominal value Lit. 1,000 each)		4,133	4,001	3,561
Reserves		13,071	17,799	15,843
Treasury shares		(574)	(2,068)	(1,841)
Net income for the year		5,771	7,751	6,899
Total shareholders' equity		22,401	27,483	24,463
Total liabilities and shareholders' equity		56,363	62,736	55,841

(The accompanying notes are an integral part of these consolidated financial statements)

STATEMENTS OF INCOME

(Amounts stated in million € or million of U.S. dollars, except per Share and per ADS data)

	Note	1999	2000	2001	2001
		€	€	€	USD
Revenues:					
Net sales from operations	15	31,008	47,938	48,925	43,548
Other income and revenues		952	905	921	820
Total revenues		31,960	48,843	49,846	44,368
Operating expenses:					
Purchases, services and other	16	20,000	31,442	31,828	28,330
Payroll and related costs	17	2,782	2,786	2,851	2,538
Gross operating margin		9,178	14,615	15,167	13,500
Depreciation, amortization and writedowns	18	3,698	3,843	4,771	4,247
Operating income		5,480	10,772	10,396	9,253
Interest and other income (expense):					
Financial expense and exchange differences, net	19	10	64	(259)	(231)
Other income (expense) from investments	20	89	33	(216)	(192)
Total interest and other income (expense)		99	97	(475)	(423)
Income before extraordinary income (expense) and income taxes		5,579	10,869	9,921	8,831
Extraordinary income (expense)(a)	21	(528)	(512)	1,837	1,635
Income before income taxes		5,051	10,357	11,758	10,466
Income taxes	22	(2,054)	(4,335)	(3,530)	(3,142)
Income before minority interest		2,997	6,022	8,228	7,324
Minority interest in net income		(140)	(251)	(477)	(425)
Net income		2,857	5,771	7,751	6,899
Earnings per Share (based on the weighted-average number of shares outstanding for each period)(b)	23	0.71	1.44	1.98	1.76
Earnings per ADS (based on five Shares per ADS)(b)		3.57	7.22	9.91	8.82

(a) Before income taxes.

(b) Amount in euro or U.S. dollars.

(The accompanying notes are an integral part of these consolidated financial statements)

STATEMENTS OF CASH FLOWS

(Amounts stated in million € or million U.S. dollars)

	1999 €	2000 €	2001 €	2001 USD
CASH FLOW FROM OPERATING ACTIVITIES				
Net income	2,857	5,771	7,751	6,899
Minority interest in net income	140	251	477	425
Depreciation and amortization	3,592	3,788	4,671	4,158
Writedowns (revaluations), net	(110)	130	571	508
Net change in other reserves	320	344	(323)	(288)
Net change in the reserve for employee termination indemnities	67	45	23	20
Loss (gain) on disposal of assets, net	(60)	(82)	(170)	(151)
Dividend income	(63)	(44)	(40)	(36)
Interest income	(471)	(535)	(493)	(439)
Interest expense	450	674	811	722
Unrealized exchange differences	120	48	67	60
Extraordinary expense	528	512	(1,837)	(1,635)
Income taxes	2,054	4,335	3,530	3,142
Cash generated from operating income before changes in working capital	9,424	15,237	15,038	13,385
(Increase) decrease:				
— inventories	(64)	(523)	179	159
— accounts receivable	(1,570)	(2,025)	(21)	(19)
— accrued interest and other current assets	16	(33)	(89)	(79)
— trade and other accounts payable	973	932	(420)	(374)
— accrued expenses and other	(15)	57	154	137
Cash from operations	8,764	13,645	14,841	13,210
Dividends received	123	154	129	115
Interest received	741	491	455	405
Interest paid	(429)	(613)	(790)	(703)
Net extraordinary expense paid	(135)	(177)	(300)	(267)
Income taxes paid	(816)	(2,917)	(6,189)	(5,509)
Net cash provided from operating activities	8,248	10,583	8,146	7,251
CASH FLOWS FROM INVESTING ACTIVITIES				
Investments:				
— intangible assets	(1,055)	(1,090)	(1,304)	(1,161)
— fixed assets	(4,428)	(4,341)	(5,273)	(4,693)
— new consolidated subsidiaries and businesses		(596)	(2,662)	(2,369)
— investments	(114)	(2,887)	(420)	(374)
— securities	(3,180)	(2,774)	(452)	(402)
— financing receivables	(1,233)	(900)	(758)	(675)
— change in accounts payable in relation to investments and depreciation capitalized	(29)	46	(160)	(142)
	(10,039)	(12,542)	(11,029)	9,817

(The accompanying notes are an integral part of these consolidated financial statements)

STATEMENTS OF CASH FLOWS—(Continued)

(Amounts stated in million € or million U.S. dollars)

	1999 €	2000 €	2001 €	2001 USD
Disposals				
— intangible assets	1	14	8	7
— fixed assets	119	149	882	785
— consolidated subsidiaries and business	84	94	1,084	965
— investments	97	28	140	125
— securities	2,649	2,970	978	871
— financing receivables	937	670	1,333	1,187
— change in accounts receivable in relation to disposals	(29)	22	(35)	(31)
	3,858	3,947	4,390	3,908
Net cash used in investing activities	(6,181)	(8,595)	(6,639)	(5,909)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from long-term debt	1,326	3,184	636	566
Payments of long-term debt	(1,623)	(3,254)	(1,311)	(1,167)
Additions to (reductions of) short-term debt	3	191	141	126
	(294)	121	(534)	(475)
Payments by minority shareholders		(5)	1,337	1,190
Sale (purchase) of additional interests in subsidiaries	(10)	(20)	943	839
Dividends to minority shareholders	(1,301)	(1,519)	(1,736)	(1,545)
Other		(574)	(1,494)	(1,330)
Net cash used in financing activities	(1,605)	(1,997)	(1,484)	(1,321)
Effect of change in consolidation area	(50)	2	25	22
Effect of exchange differences	21	39	13	12
Net cash flow for the year	433	32	61	54
Cash at beginning of the year	779	1,212	1,244	1,107
Cash at end of the year	1,212	1,244	1,305	1,162

(The accompanying notes are an integral part of these consolidated financial statements)

SUPPLEMENTAL INFORMATION

(Amounts stated in million € or million U.S. dollars)

	1999	2000	2001	2001
	€	€	€	USD
Effect of investments in new consolidated subsidiaries and businesses				
Non-current assets		1,978	7,262	6,464
Current assets		103	504	449
Net borrowings		(888)	(1,054)	(938)
Other liabilities		(413)	(2,307)	(2,053)
Net effect of investments		780	4,405	3,921
Transferred from equity investment		(36)	(1,215)	(1,081)
Minority interest and reserves		(135)		
Purchase price		609	3,190	2,839
less: cash acquired		(13)	(528)	(470)
Cash from investments in consolidated subsidiaries		596	2,662	2,369
Effect of disposal of consolidated subsidiaries and businesses				
Non-current assets	42	27	1,068	951
Current assets	7	57	185	165
Net borrowings	(2)	(14)	(184)	(164)
Other liabilities	(9)	(40)	(562)	(500)
Net effect of disposal	38	30	507	451
Gain (loss) on disposal	47	70	597	531
Minority interest and reserves			(19)	(17)
Selling price	85	100	1,085	966
less: cash conferred	(1)	(6)	(1)	(1)
Cash flow on disposal	84	94	1,084	965

(The accompanying notes are an integral part of these consolidated financial statements)

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Amounts stated in million €)

	Share capital	Legal reserve of Eni SpA	Reserve for treasury shares	Distributable reserve of Eni SpA	Cumulative translation adjustment reserve	Former Agip SpA reserves reconstituted	State grants	Consolidation reserves	Loans serviced by the Government	Reserve for shares granted to employees article 2349 civil code	Reserve Law 292/93	Retained earnings	Treasury shares	Net income for the year	Total
Balance at December 31, 1998	4,132	223		1,462	56	103	62	6	11	—	3,826	3,947		2,328	16,156
Dividends distribution (euro 0.15 per Share)														(1,239)	(1,239)
Allocation of 1998 net income		55		(197)						1		1,230		(1,089)	
Increase in share capital	1									(1)					
State grants							3		(3)						
Exchange differences arising on the translation of foreign currency financial statements					618										618
Other changes												6			6
Net income for the year														2,857	2,857
Balance at December 31, 1999	4,133	278		1,265	674	103	65	6	8	—	3,826	5,183		2,857	18,398
Dividends distribution (euro 0.181 per Share)														(1,446)	(1,446)
Allocation of 1999 net income		112		573						2		724		(1,411)	
Increase in share capital	—									—					
State grants							4		(4)						
Adjustment to legal reserve to one-fifth share capital		437									(437)				
Authorization to repurchase shares			3,400				(11)				(3,389)				
Shares repurchased													(574)		(574)
Exchange differences arising on the translation of foreign currency financial statements					237										237
Other changes												15			15
Net income for the year														5,771	5,771
Balance at December 31, 2000	4,133	827	3,400	1,838	911	103	58	6	4	2		5,922	(574)	5,771	22,401
Dividends distribution (euro 0.212 per Share)														(1,664)	(1,664)
Allocation of 2000 net income				1,658						1		2,448		(4,107)	
Shares repurchased													(1,494)		(1,494)
Conversion of the share capital from italian lire to euro	(132)	132													
Excess of value of net assets over acquisition cost of equity investments								25							25
State grants							4		(4)						
Exchange differences arising on the translation of foreign currency financial statements					451										451
Other changes												13			13
Net income for the year														7,751	7,751
Balance at December 31, 2001	4,001	959	3,400	3,496	1,362	103	62	31		3		8,383	(2,068)	7,751	27,483

(The accompanying notes are an integral part of these consolidated financial statements)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1) General

Eni SpA and its subsidiaries (''Eni'') together constitute a fully integrated company operating in the oil and gas, electricity generation, petrochemicals, oilfield services and engineering industries. Eni SpA is the successor entity to Ente Nazionale Idrocarburi, which was established in 1953 as a public statutory body to act as Italy's national oil and gas company. In July 1992, in connection with the privatization program of the Italian Government (the ''Government''), the public statutory body was converted into a joint stock company, with the Ministry of Economy and Finance (previously Ministry of Treasury, Budget and Economic Planning) of Italy as the sole shareholder. As of December 31, 2001, Eni SpA's share capital is made up of 4,001,259,476 shares with nominal value 1 euro of which 2,633,147,035 share, corresponding to 65.81% are publicly held 1,213,731,615, corresponding to 30.33% are held by the Ministry of Economy and Finance and 154,380,826, corresponding to 3,86% are held by Eni SpA.

2) Summary of significant accounting and reporting policies

Basis of presentation

The consolidated financial statements of Eni have been prepared in accordance with Eni's group accounting policies which are in accordance with accounting principles prescribed by Italian law and supplemented by the accounting principles issued by the Consiglio Nazionale dei Dottori Commercialisti e dei Ragionieri (C.N.D.C.R.) or, in the absence thereof and if applicable, the International Accounting Standards Committee (I.A.S.B.). In the absence of indications in said principles, particularly related to the application of the Unit-of-Production and production sharing agreement methods of accounting, specific criteria for hydrocarbons exploration and production applied internationally have been followed (collectively, ''Italian GAAP''). Italian GAAP differ in certain respects from generally accepted accounting principles in the United States (''U.S. GAAP''). A description of these differences and their effects on net income and shareholders' equity is set forth in Notes 29 and 30. The financial statements have been reformatted from the original Italian statutory financial statement presentation and include certain additional disclosures in order to conform more closely to the form and content of financial statements required by the U.S. Securities and Exchange Commission (the ''SEC'').

Principles of consolidation

The consolidated financial statements include the statutory accounts of Eni SpA and all Italian and foreign companies controlled by Eni SpA, directly or indirectly, either by holding the majority of the voting rights or sufficient votes to enable it to exercise control at ordinary shareholders' meetings. The consolidated financial statements also include, on a proportional basis, the accounts of companies controlled jointly with other partners, except in the case in which the partners have agreed to account for the joint venture using the equity method. The effects of proportionate consolidation are not material. Insignificant subsidiaries, companies held exclusively for sale and companies in liquidation, if their exclusion does not result in a misrepresentation of the company's financial condition and consolidated results, are not included in the scope of consolidation. The effects of these exclusions on the whole, are not material.

Investments

Investments in non-consolidated subsidiaries excluded from the consolidation process and in companies where Eni SpA has a 20% to 50% investment, if material, are accounted for using the equity method. Other investments are recorded at cost, adjusted for permanent impairment in value.

Sale of stakes in consolidated subsidiaries

Gains or losses on sales of stakes in consolidated subsidiaries are recorded against the income statement for the amount corresponding to the difference between proceeds from the sale and the divested stake of net equity.

Fiscally driven entries and intercompany transactions

The statutory financial statements reflect certain tax-driven entries amounts. The effects of the tax-driven entries and all intercompany balances and transactions have been eliminated in consolidation.

Translation of financial statements of consolidated companies expressed in a foreign currency

Assets and liabilities of foreign consolidated companies have been translated at exchange rates ruling at year-end. Equity accounts of foreign consolidated companies are translated using the historic exchange rates. Income statement accounts of foreign consolidated companies are translated at the average rates for the period. Related translation adjustments are reported as a component of shareholders' equity. Financial statements used for the translation are denominated in local functional currencies. Entities operating in highly inflationary (where inflation is running over 100% on a three-year basis) economies are not material. Monetary assets and liabilities denominated in foreign currencies are translated into euros using the prevailing rate at the balance sheet date. All differences are recognized in earnings in the period.

Accounting principles

Cash

Eni considers cash to be its cash on hand and on deposit with banks and short-term investments which can be cashed in within 48 hours or two working days.

Marketable securities

Marketable securities are stated at the lower of purchase cost or market value.

Inventories

Inventories, except for those relating to contract work in progress, are stated at the lower of cost or market value. The cost of inventories of hydrocarbon (crude oil and natural gas) and petroleum products, representing 57%, and 58% of Eni's inventories at December 31, 2000 and 2001, respectively, is substantially determined by the last-in, first-out (LIFO) method; the cost of inventories of the Petrochemicals segment, representing 20% and 18% of Eni's inventories, respectively, is generally determined by the average cost method.

Contract work in progress, representing 9% of inventories at December 31, 2000 and 2001 is recorded using the percentage-of-completion method. Payments received in advance of construction are subtracted from inventories and any excess of such advances over the value of work performed is recorded as a liability. Contract work in progress not yet invoiced, whose payment is agreed in a foreign currency, is recorded at current exchange rates at year-end. Future losses that exceed the revenues earned are accrued for when the company becomes aware such losses will occur.

The remaining inventories are determined, generally, by the average cost method.

Fixed assets

Fixed assets are stated at cost as adjusted by revaluations in accordance with various Italian laws; revaluations are included in the consolidated shareholders' equity. Eni capitalizes interest on debt incurred in connection with specific projects. Cash requirements in excess of such debt are satisfied primarily through funds generated and contributed in the period of construction.

Investment grants from Government agencies are recorded in a contra asset account when authorized, if all the required conditions have been met. Such grants are amortized over the useful life of the asset.

Depreciation of fixed assets, except on those related to exploration and production activities, is computed on the revalued cost, using the straight-line method by applying depreciation rates that are based on the estimated remaining useful lives of the fixed assets.

Fixed assets are written down whenever events and changes in circumstances indicate that the carrying amount may not be recoverable. Eni calculates the writedown as the difference between the expected accumulated discounted cash flow and the book value of the asset. When the circumstances causing an impairment cease to exist, Eni reverses previously recorded impairment charges net of depreciation.

Renewals and improvements which extend asset lives are capitalized; maintenance and ordinary repairs are expensed as incurred.

Intangible assets

Intangible assets are stated at cost, including interest on debt incurred in connection with specific projects as indicated previously for fixed assets.

Goodwill is recorded as an asset when acquired for consideration and is amortized at constant rates in the periods of use, provided it is no longer than 15 years from the year of recording.

Other intangible assets, except for those related to exploration and production activities, are amortized over the period of expected benefit. Intangibles are written down whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Eni calculates the writedown as the difference between the expected accumulated discounted cash flow and the book value of the intangible asset. When the circumstances causing an impairment cease to exist, Eni reverses previously recorded impairment charges net of amortization. However, goodwill and capitalized organizational costs are not revalued.

Exploration and production activities

Acquisition of mineral rights

Costs associated with the acquisition of mineral rights, including reserves purchased in connection with such acquisition, are capitalized. Mineral rights can also include exploration permits, among other items. Mineral rights are amortized on a straight-line basis over the expected period of benefit. Capitalized costs associated with proved reserves are amortized on a Unit-of-Production (UOP) basis, while capitalized costs related to all other reserves are not amortized until classified as proved. Capitalized costs related to abandoned drilling programs are expensed.

Exploration

Costs associated with exploratory activities for oil and gas producing properties incurred to obtain information in order to characterize fields (such as acquisition of seismic data from third parties, test wells and geophysical surveys) are recorded as intangible assets and amortized in full in the period incurred (i.e. expensed as incurred for financial reporting purposes).

Development

Costs incurred in development activities (acquisition of concessions, drilling of wells and their completion before production, as well as plants necessary for production, etc.) are capitalized and amortized on a UOP basis. Costs related to unsuccessful developmental wells are expensed immediately as loss on disposal.

Writedowns and revaluations of development costs take place on the same basis as fixed assets.

Production

Production costs such as ordinary maintenance of wells, extraction, transport, etc. are expensed as incurred.

Abandonment

Eni regularly accrues costs expected to be incurred with respect to eventual well abandonment, including costs associated with site restoration, on a units of production basis.

Reserve for employee termination indemnities and other employee benefits

Eni's employees are eligible, immediately upon termination, for severance pay pursuant to Italian law. Eni accrues a reserve for such employee termination liabilities over the period of employment. The amount accrued at each balance sheet date reflects the aggregate liability for all eligible employees if terminated, net of applicable advances.

In addition, Eni makes contributions to certain employee associations that provide medical and various other employee benefits to current employees. These plans are not administered by Eni and contributions are determined in accordance with the provisions of negotiated contracts with trade unions. Eni expenses the contributions to the associations in the periods in which they are made. Such amounts are not significant.

Eni's pension obligations relate only to operations outside Italy and are not significant.

Treasury shares

Treasury shares are recorded at cost written-down for impairments in value as a reduction of shareholders' equity. When the reasons for the impairment cease to exist, treasury shares can be revalued up to the original cost basis.

Recognition of revenues and costs

Revenues from sales of products are recognized upon transfer of title. Revenues from services are recognized when the services have been provided. Revenues relating to long term construction contracts are recognized using the percentage-of-completion method.

Costs are recognized when the related goods and services are sold, consumed or allocated, or when their future useful lives cannot be determined.

Eni is party to certain Production Sharing Agreements whereby taxes are settled by state-owned entities in the name and on behalf of Eni out of reserves produced. The Company records such income taxes owed by Eni but paid on its behalf in revenues and income tax expense.

Income taxes

Deferred tax assets or liabilities are recognized for differences between the financial reporting and tax bases of assets and liabilities at each reporting period. Deferred tax liabilities are recognized without considering current and future tax loss positions but are not recognized if ultimate payment is not deemed probable. For example, certain reserves within shareholders' equity of consolidated companies or companies accounted for under the equity method are subject to taxation upon utilization. Taxes on such reserves are provided for only to the extent that such taxation will arise from expected future distributions or other taxable events. Deferred tax assets are recognized when there is a reasonable expectation of their realization. Deferred tax liabilities are recorded in the ''Non-current income tax liabilities'' account, while deferred tax assets are recorded in ''Other'' (non-current assets). Deferred tax assets are offset against deferred tax liabilities if they relate to the same tax paying entity.

Derivatives

With respect to interest rate, foreign exchange and price risks, Eni enters into derivative transactions to hedge specific transactions as well as net interest rate and foreign currency positions. See Note 24 for a description of Eni's overall strategy and description of financial instruments utilized to mitigate market risk.

The interest differentials to be received or paid on interest rate swaps, as well as interest differentials on interest rate collars, are charged to the income statement on an accrual basis. The interest differentials on forward rate agreements are recognized at the date of settlement of the contract and charged to the income statement on an accrual basis over the period hedged. Such interest rate differentials are recorded in ''Accrued interest and other current assets'' or ''Accrued expenses and other'' (current liabilities) as applicable until recognized in the income statement as ''Financial expense and exchange differences net''.

Foreign exchange hedge derivatives (swaps, futures, options, etc.) are valued at the spot rate at year-end and the related gains and losses are recorded in income as exchange gain and loss. Premiums or discounts are accrued over the life of the contract and classified as exchange differences. With reference to options, the premiums paid are recorded in the line item ''Marketable securities'' or ''Other assets'', depending on the maturity of the contract.

The gains on price risk hedge derivatives (interest rate swaps, futures and swaps) are recorded in income to the extent of writedowns of hedged assets; losses are recorded in income if necessary to adjust the hedged assets to the value attributed to it by the derivative when they are incurred, consistent with the value of the hedged assets. The gains and losses are classified consistently with the classification of the sale of the hedged asset.

Environmental expenditures

Environmental expenditures are made in order to prevent, reduce, repair or control the environmental impact of production activities. Environmental expenditures that improve or extend the useful lives and increase the capacity or safety of fixed assets are capitalized in the appropriate fixed asset accounts. Ongoing environmental compliance costs are expensed as incurred. Reserves for environmental contingencies are established when it becomes probable or certain that a liability has been incurred and the amount can be reasonably estimated.

Restructuring costs

The costs of redundancy incentives are accrued when a workforce reduction program is defined and the conditions precedent for its implementation have been satisfied. Such charges are recorded as extraordinary items. Restructuring charges also include the costs of facilities closures and asset impairments.

Research and development costs

Research and development costs are generally expensed as incurred.

For the years ended December 31, 1999, 2000 and 2001, total research and development costs were euro 234 million, euro 234 million and euro 203 million, respectively.

Statements of cash flows

The cash flow statements are prepared in accordance with International Accounting Standards, using the indirect method.

Introduction of the Euro

On December 31, 1998, eleven of the fifteen member countries of the European Union (the ‘‘participating countries’’) established fixed conversion rates between their existing sovereign currencies (the ‘‘legacy currencies’’) and the euro effective January 1, 1999. The participating countries agreed to adopt the euro as their common legal currency on the effective date. As of January 1, 1999, the participating countries no longer control their own monetary policies by directing interest rates for the legacy currencies. Instead, the authority to direct monetary policy, including money supply and official interest rates for the euro, is exercised by the new European Central Bank. The legacy currencies are scheduled to remain legal tender in the participating countries as denominations of the euro until January 1, 2002 (the ‘‘transition period’’). During the transition period, public and private parties may pay for goods and services using either the euro or the participating country’s legacy currency on a ‘‘no compulsion no prohibition’’ basis.

Current information systems reengineering efforts have considered, among other items, the impact of the introduction of the euro. Total costs incurred through December 31, 2001, specifically related to the introduction of the euro, amounting to euro 70 million have been expensed in the accompanying income statements. Part of such costs accrued relates to contracts formulated to date with respect to modifications resulting from the introduction of the euro and amount to euro 8 million. Such costs have been classified in ‘‘Reserves for contingencies’’. Cost incurred in 2001 with respect to the introduction of the euro amount to euro 15 million.

Unless otherwise indicated, all monetary amounts in the financial statements and in these notes are presented in millions of euro or millions of U.S. dollars, except share, per share, ADS and per ADS data.

3) Translation of euro amounts into U.S. dollar amounts

The financial statements are stated in euro. The translations of euro amounts into U.S. dollars are included solely for the convenience of the reader, using the noon buying rate certified for customs purposes by the Federal Reserve Bank of New York as of December 31, 2001, which was 0.8901 USD to euro 1.00. The convenience translations should not be construed as representations that the euro amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

4) Marketable securities

Marketable securities consist of the following:

	Net value at Dec. 31, 2000	Net value at Dec. 31, 2001
	(million €)	
Investments	5	3
Other securities:		
— Italian treasury bonds	1,471	1,035
— ordinary bonds	105	94
— ordinary bonds issued by Eni’s companies	5	5
— other	208	239
	1,789	1,373
	1,794	1,376

Other securities for euro 1,373 million decreased by euro 416 million due primarily to divestments by Eni SpA (euro 372 million).

Securities of euro 436 million are considered coverage of technical-reserves of insurance companies (euro 362 million at December 31, 2000).

5) Receivables

Receivables by type and due date consist of the following:

	Dec. 31, 2000			Dec. 31, 2001		
	Current	Non-current	Total	Current	Non-current	Total
			(million €)			
Trade:						
— customers	8,647	82	8,729	8,589	90	8,679
— other	457		457	560		560
	9,104	82	9,186	9,149	90	9,239
Financing	1,729	1,069	2,798	1,295	1,638	2,933
Other	2,552	874	3,426	3,284	950	4,234
	13,385	2,025	15,410	13,728	2,678	16,406

The euro 53 million increase in "Trade" receivables from December 31, 2000 relates primarily to the inclusion in consolidation of Lasmo Plc (euro 223 million), offset in part by other changes registered in the year.

"Financing" receivables of euro 2,933 million as of December 31, 2001 include amounts due to Eni's financing subsidiaries from banks and other public and financing institutions for euro 57 million (euro 455 million at December 31, 2000), amounts due to other subsidiaries from banks and Government Entities for investing purposes and deposits in escrow for euro 17 million (euro 95 million at December 31, 2000) and loans made for operating purposes for euro 2,859 million (euro 2,248 million at December 31, 2000).

The euro 398 million decrease in amounts due from banks and other financing institutions is due primarily to the treasury activities performed by Eni's Italian subsidiary Enifin SpA (euro 357 million at December 31, 2000).

The euro 611 million increase in loans made to affiliates relate primarily to the transfer from Trans Austria Gasline Finance Co Ltd, a consolidated company, to Trans Austria Gasleitung GmbH, an Eni company accounted for by the equity method, of payables to other consolidated companies related to the transfer of transmission rights for natural gas imported from Russia (euro 469 million), to a loan made to an affiliate company Transitgas AG (euro 115 million) for the development of a natural gas pipeline from Holland to Switzerland and to a loan made to Polimeri Europa Srl (euro 47 million).

Repayment of such receivables of euro 267 million (euro 323 million at December 31, 2000) is contingent upon the outcome of financed activities, while a portion of the loans may be converted into capital.

"Other" receivables consist of the following:

	Dec. 31, 2000	Dec. 31, 2001
	(million €)	
Accounts receivable from:		
— Italian tax authorities related to:		
• income tax credits	1,109	1,435
• value added tax (VAT)	324	212
• interest on tax credits	240	276
• other	42	50
— joint venture operators in exploration and production	420	602
— insurance companies	223	296
— foreign tax authorities	136	176
— Italian governmental entities	163	160
— receivables from affiliates	75	67
Prepayments for services	43	95
Other receivables	651	865
	3,426	4,234

Accounts receivable from Italian tax authorities for tax credits do not include tax credits generated in 1988, and applicable interest, for which Eni's companies have filed formal appeals (mainly Eni SpA for euro 101 million and euro 104 million at December 31, 2000 and 2001, respectively). These receivables have been written-off pending the final outcome of the appeal. The increase in income tax credits of euro 326 million from 2000 is primarily related to amounts of these credits which are in excess of income taxes due by Eni SpA (euro 540 million) for 2001. This increase was offset in part by the release of receivables related to taxes due by the Natural Gas segment for 2001 (euro 232 million).

The interest rate applicable to tax credits has been 2.5% for each six month period from January 1, 1997.

Approximately 53% of Eni's non-current receivables at December 31, 2001 were denominated in currencies other than the euro (43% at December 31, 2000).

Eni did not have any significant concentration of credit risk as of December 31, 2000 and 2001.

The above amounts are net of the allowance for doubtful accounts amounting to euro 1,227 million, 928 million and 929 million at December 31, 2001, 2000 and 1999 respectively. The evolution of the allowance in the past three years is a follows:

	Amount at the beginning of the year	Additions	Reductions	Other changes	Year-end amount
			(million €)		
Dec. 31, 1999	984	56	(57)	(54)	929
Dec. 31, 2000	929	69	(82)	12	928
Dec. 31, 2001	928	90	(77)	336	1,277

Other changes include mainly variations of consolidation scope and exchanges rate differences.

6) Inventories

	Dec. 31, 2000					Dec. 31, 2001				
	Crude oil, gas and petroleum products	Chemical products	Work in progress long-term contracts	Other	Total	Crude oil, gas and petroleum products	Chemical products	Work in progress long-term contracts	Other	Total
					(million €)					
Raw and auxiliary materials and consumables	732	164		350	1,246	719	147		405	1,271
Products being processed and semi finished products	58	21		4	83	57	18		2	77
Work in progress long-term contracts			208		208			152		152
Finished products and goods	1,000	446		64	1,510	862	332		4	1,198
Advances			72	1	73			115		115
	1,790	631	280	419	3,120	1,638	497	267	411	2,813

The above amounts are net of the valuation allowance amounting to euro 159 million, 106 million and 93 million at December 31, 2001, 2000 and 1999 respectively. The evolution of the allowance in the past three years is a follows:

	Amount at the beginning of the year	Additions	Reductions	Other changes	Year-end amount
			(million €)		
Dec. 31, 1999	254	34	(175)	(20)	93
Dec. 31, 2000	93	28	(6)	(9)	106
Dec. 31, 2001	106	61	(1)	(7)	159

Oil and petroleum products inventories of euro 548 million represent certain minimum quantities ("compulsory stock") required by law, while natural gas inventories valued at euro 401 million are used to satisfy peak demand (euro 612 million and euro 443 million at December 31, 2000, respectively).

The excess of market value over the book value of crude oil, petroleum products and purchased natural gas at year-end is euro 532 million. The excess of the average annual production cost over the book value of produced natural gas (valued using LIFO) at year-end is euro 249 million (euro 990 and 304 million at December 31, 2000, respectively).

The euro 458 million decrease in LIFO reserves relating to crude oil, petroleum products and purchased natural gas is due mainly to the decline in international oil prices.

7) Fixed assets

	Net value at Dec. 31, 2000	Investments	Depreciation	Writedown	Change in scope of consolidation	Exchange rate differences	Other changes	Net value at Dec. 31, 2001	Reserve amortization writedown at Dec. 31, 2001
					(million €)				
Buildings	2,390	101	(133)	(20)	(321)	7	(228)	1,796	1,403
Plant and machinery	19,251	1,475	(2,957)	(504)	3,732	468	2,531	23,996	34,296
Industrial and commercial equipment	445	140	(131)			(8)	35	481	1.188
Other assets	240	57	(89)		9	5	10	232	721
Fixed assets in progress and advances	4,471	3,500		(130)	1.867	196	(3,095)	6,809	199
	26,797	5,273	(3,310)	(654)	5.287	668	(747)	33,314	37,807

Capital expenditures of euro 5,273 million (euro 4,341 million in 2000) primarily relate to the Exploration and Production segment (euro 3,458 million), Natural Gas segment (euro 555 million), Refining and Marketing segment (euro 445 million), Electricity Generation segment (euro 263 million), and Oilfield Services and Engineering segment (euro 277 million, of which euro 267 million related to oilfield services) and Petrochemicals segment (euro 236 million).

Depreciation rates used are as follows:

	(%)
Buildings	3-10
Plant and machinery:	
— pipelines, distribution networks and related plant and machinery	2- 5
— other plant and machinery	4-25
Industrial and commercial equipment	10-25

Writedowns of euro 654 million concern primarily the Petrochemical segment (euro 554 million) and the Exploration and Production segment (euro 88 million).

The changes in scope of consolidation concerns the purchases and sales of companies during the year. The euro 5,287 million amount concerns in particular the purchase of Lasmo Plc (euro 5,617 million) and the sale of Immobiliare Metanopoli (euro 330 million).

Other changes for euro 747 million concerned in particular the sale of assets for euro 374 million (of which 223 related to real estate) and euro 293 million transfers and sale of businesses (of which 144 million related to the sale of the Polyurethane Division and 119 million related to Turin’s natural gas distribution network).

Monetary revaluations included in the gross and net value of fixed assets, amount to euro 1,295 million and 112 million, respectively (euro 1,524 million and 279 million respectively at December 31, 2000).

At December 31, 2001 fixed assets have been pledged for euro 240 million primarily as collateral on debt incurred by Eni (euro 276 million at December 31, 2000).

Fixed assets by segment

	Dec. 31, 2000	Dec. 31, 2001
	(million €)	
Fixed assets, gross:		
— Exploration and Production	28,220	38,667
— Natural Gas	16,479	15,204
— Electricity Generation	402	663
— Refining and Marketing	8,854	9,083
— Petrochemicals	4,618	4,458
— Oilfield Services and Engineering	2,564	2,805
— Other activities	224	241
	61,361	71,121
Accumulated depreciation, amortization and writedowns:		
— Exploration and Production	15,107	17,939
— Natural Gas	9,656	9,097
— Electricity Generation	157	172
— Refining and Marketing	5,461	5,751
— Petrochemicals	2,859	3,369
— Oilfield Services and Engineering	1,194	1,338
— Other activities	130	141
	34,564	37,807
Fixed assets, net:		
— Exploration and Production	13,113	20,728
— Natural Gas	6,823	6,107
— Electricity Generation	245	491
— Refining and Marketing	3,393	3,332
— Petrochemicals	1,759	1,089
— Oilfield Services and Engineering	1,370	1,467
— Other activities	94	100
	26,797	33,314

8) Investments

	Net value at Dec. 31, 2000	Acquisition	Increase in value	Reduction in value	Other changes	Net value at Dec. 31, 2001	Reserve for contingencies at Dec. 31, 2001
				(million €)			
Investments in unconsolidated subsidiaries	246	214	4	(227)	289	526	743
Investments in affiliates	3,572	164	65	(193)	(1,512)	2,096	442
Investments in other companies	405	41	—	(66)	10	390	188
	4,223	419	69	(486)	(1,213)	3,012	1,373

Acquisitions for euro 419 million concerned mainly: (i) the purchase of 50% of the share capital of Polimeri Europa (euro 204 million) in which Eni already holds a 50% interest; (ii) the subscription of capital increase of Trans Austria Gasleitung GmbH (euro 84 million), of Albacom SpA (euro 53 million) and of Blu SpA (euro 26 million).

Increases and reductions in value include Eni's portion of equity earnings or losses on investments accounted for under the equity method and changes in value of investments accounted for under the cost criteria. Specifically, the increase of euro 69 million relates to Trans Austria Gasleitung GmbH (euro 37 million); the decrease of euro 486 million relate primarily to Polimeri Europa Srl (euro 209 million), Galp Energia SGPS SA (euro 144 million), Blu SpA (euro 57 million), Albacom SpA (euro 42 million).

Other changes for euro 1,213 million relate to the cancellation of value of the interest in Lasmo Plc (euro 1,213 million) following its inclusion in the scope of consolidation, the sale of some investments (euro 47 million) among which 15% of Saras SpA-Raffinerie Sarde and 4.7% of Nuovo Pignone Holding SpA, as well as the purchase of 49% of Azienda Energia Servizi SpA following the transfer of the business which owned Turin's natural gas distribution network (euro 75 million).

The investments are comprised of the following companies:

	Dec. 31, 2000			Dec. 31, 2001		
	Net value	Eni's interest	Accounting method	Net value	Eni's interest	Accounting method
			(million €)			
Unconsolidated subsidiaries:						
— Polimeri Europa Srl				257	100.00	equity method
— Transmediterranean Pipeline Co Ltd	102	50.00	equity method	103	50.00	equity method
— Conserv Inc				25	100.00	cost
— Other(*)	144			141		
	246			526		
Affiliates:						
— Galp Energia SGPS SA	899	33.34	equity method	755	33.34	equity method
— Blue Stream Pipeline Co BV	212	50.00	equity method	214	50.00	equity method
— Eteria Parohis Aeriou Thessaloniki SA	151	49.00	equity method	151	49.00	equity method
— Albacom SpA	97	35.00	equity method	108	35.17	equity method
— Superoctanos CA	84	49.00	equity method	90	49.00	equity method
— Raffineria di Milazzo ScpA	80	50.00	equity method	82	50.00	equity method
— Fertilizantes Nitrogenados de Oriente CEC	64	20.00	cost	81	20.00	equity method
— Azienda Energia e Servizi SpA				80	49.00	equity method
— Supermetanol CA	74	34.51	equity method	76	34.51	equity method
— Distribuidora de Gas del Centro SA	100	31.35	equity method	68	31.35	equity method
— Haldor Topsøe AS	46	50.00	equity method	48	50.00	equity method
— Carson Development General Partnership				45	50.00	cost
— Eteria Parohis Aeriou Thessalia SA	39	49.00	equity method	39	49.00	equity method
— Transitgas AG	32	46.00	equity method	33	46.00	equity method
— Siciliana Gas SpA	32	50.00	equity method	32	50.00	equity method
— Termica Milazzo Srl				23	40.00	equity method
— Inversora de Gas del Centro SA	28	25.00	equity method	18	25.00	equity method
— Lasmo Plc	1,213	27.97	equity method			
— Polimeri Europa Srl	237	50.00	equity method			
— Other	184			153		
	3,572			2,096		
Other companies:						
— Nigeria Lng Ltd	114	10.40	cost	129	10.40	cost
— Ceska Rafinerska AS	43	16.33	cost	42	16.33	cost
— Discovery Producer Services Llc	33	16.67	cost	37	16.67	cost
— Interconnector (UK) Ltd	30	5.02	cost	30	5.02	cost
— Qatar Petrochemical Ltd	29	10.00	cost	29	10.0	cost
— Blu SpA	54	7.00	cost	23	7.00	cost
— Other(*)	102			100		
	405			390		
	4,223			3,012		

(*) Each individual amount included herein does not exceed euro 25 million.

The reserve for losses related to investments, included in the reserves for contingencies (Note 13) concerns the following companies:

	Dec. 31, 2000	Dec. 31, 2001
	(million €)	
Singea SpA (in liquidation)	324	
Bormia SpA (in liquidation)	182	160
Pertusola Sud SpA (in liquidation)		131
Industria Siciliana Acido Fosforico — ISAF SpA (in liquidation)		28
Agip Middle East BV	16	18
Mineraria Campiano SpA (in liquidation)		17
Fosfotec Srl (in liquidation)	9	9
Other companies	35	21
	566	384

Singea SpA (in liquidation) was included in consolidation due to the materiality of its financial position.

9) Intangible assets

	Net value at Dec. 31, 2000	Investments	Amortization	Changes in scope of consolidation	Exchange rate differences	Other changes	Net value at Dec. 31, 2001	Reserve amortization writedown at Dec. 31, 2001
				(million €)				
Organizational and financing costs	17	1	(13)			34	39	44
Costs for research and development	240	781	(985)	452	31	(9)	510	609
Industrial patent right and intellectual property rights	80	22	(66)			52	88	433
Concessions, licences, trademarks and similar items	432	66	(91)		(18)	22	411	254
Goodwill	193	26	(53)	357	(13)	33	543	192
Intangible assets in progress and advances	118	163				(153)	128	5
Other intangible assets	1,311	245	(162)		51	(321)	1,124	1,080
	2,391	1,304	(1,370)	809	51	(342)	2,843	2,617

Organizational and financing costs of euro 39 million concern costs for extraordinary corporate operations, costs for setting up or expanding production activities and costs for share capital increases.

Costs for research and development of euro 510 million concern mainly the purchase of mineral rights (euro 506 million). This item also includes exploration expenditure amortized in the year of euro 757 million (euro 744 million in 2000). The change in the scope of consolidation of euro 452 million concerns the inclusion of Lasmo Plc for euro 451 million.

Concessions, licences, trademarks and similar items of euro 411 million concern primarily concessions for mineral exploration (euro 148 million), a concession for natural gas distribution in the Brazilian state of Sao Paulo (euro 139 million) and know-how relating to new projects (euro 49 million).

Goodwill represents the difference between the purchase price of consolidated investments and the fair value of the corresponding net equity. The euro 543 million amount at December 31, 2001 concerns primarily Lasmo Plc (euro 288 million), Agip Distribuidora SA, former Companhia Sao Paulo de Petròleo SA (euro 65 million) and Inversora de Gas Cuyana (euro 23 million). The change in the scope of consolidation of euro 357 million concerns primarily the inclusion of Lasmo Plc.

Other intangible assets of euro 1,124 million relate primarily to the acquisition of transmission rights for natural gas imported from Algeria (euro 895 million), rights to receive royalty payments for the use of licenses by Polimeri Europa (euro 96 million) and investments on assets of third parties (euro 75 million). Other changes of euro 321 million relate primarily to the transfer from Trans Austria Gasline Finance Co Ltd to Trans Austria Gasleitung GmbH, an Eni company accounted for by the equity method, of transmission rights for natural gas imported from Russia (euro 392 million).

10) Other non-current assets

Other non-current assets consist of the following:

	Dec. 31, 2000	Dec. 31, 2001
	(million €)	
Securities held as long-term assets:		
— Italian treasury bonds	21	21
— other securities	111	312
Other	35	114
Deferred tax assets	806	776
	973	1,223

Securities held as long-term assets are carried at cost, adjusted for permanent impairment, and include security deposits from customers euro 21 million (euro 108 million at December 31, 2000).

Other securities (euro 312 million) increased by euro 201 million due mainly to the inclusion in the scope of consolidation of Lasmo Plc (euro 300 million) which holds in portfolio securities listed at the Luxembourg Stock Exchange given as guarantee for issued ordinary bonds. This increase was offset in part by divestments (euro 94 million) effected by Eni's foreign insurance company Finas Co Ltd, which was liquidated during the year.

Deferred tax assets are described in Note 13 ''Reserves for contingencies and other deferred non-current tax liabilities''.

11) Taxes payable

Taxes payable include the following:

	Dec. 31, 2000	Dec. 31, 2001
	(million €)	
Customs and excise duties	1,114	693
Income taxes payable	3,358	912
Other	562	750
	5,034	2,355

Taxes payable of euro 2,355 million decreased by euro 2,679 million due to a decline in income taxes payable by euro 2,446 million (of which euro 2,166 million related to the payment of a substitute tax as per Law 342/2000) and in customs and excise duties by euro 421 million, due mainly to the deferral to January 2001 of payments due by the Refining and Marketing segment in December 2000. These decreases were offset in part by an increase in other taxes (euro 188 million).

12) Debt

Short-term debt

Eni's short-term debt, as of December 31, 2000 and 2001, is composed of the following:

	Dec. 31, 2000	Dec. 31, 2001
	(million €)	
Due to:		
— banks	3,230	1,972
— other financing institutions	67	25
— commercial paper	1,670	3,032
— unconsolidated subsidiaries	309	52
— affiliates	66	150
	5,342	5,231

Short-term debt by currency is as follows:

	Dec. 31, 2000	Dec. 31, 2001
	(million €)	
U.S. dollar	2,205	2,197
Euro	2,035	1,314
British pound	1,031	1,271
Swiss franc	41	170
Norwegian kroner	2	30
Other	28	249
	5,342	5,231

The average interest rate of Eni’s short-term debt was 5.9% and 4.45% for the years ended December 31, 2000 and 2001, respectively.

Long-term debt

Eni’s long-term debt, including current maturities, as of December 31, 2000 and 2001, and the related maturity schedules are as follows:

Type of debt instrument	Maturity range	Dec. 31 2000	Dec. 31 2001	Current maturity 2002	Long-term maturity 2003	2004	2005	2006	After	Total
				(million €)						
Due to banks										
– ordinary loans	2001-2010	3,210	2,800	1,078	736	259	354	309	64	1,722
– interest rate assisted loans	2001-2008	331	296	66	63	63	60	38	6	230
– insured facility export credit	2001-2004	149	119	40	40	39				79
– exchange rate assisted loans	2001-2007	21	14	6	3	1	3		1	8
– ordinary export credit	2001-2006	21	14	4	4	3	2	1		10
– other financings	2001-2003	10	2	1	1					1
		3,742	3,245	1,195	847	365	419	348	71	2,050
Ordinary bonds	2003/2027	1,262	3,222	8	836	4	268	454	1,652	3,214
Others	2001/2019	698	850	30	33	33	46	26	682	820
		5,702	7,317	1,233	1,716	402	733	828	2,405	6,084

The increase in long-term debt of euro 1,615 million, relates primarily to the change in the scope of consolidation (euro 1,683 million of which euro 1,846 million related to Lasmo Plc) and exchange rate differences deriving from the translation into euro of financial statements denominated in other currencies (euro 326 million). This increase was offset in part by the net change in debt assumed and repaid in the year (euro 394 million).

Eni entered into a financing arrangement, relating to bank debt, that requires maintenance of certain financial ratios generally based on Eni SpA’s statutory and consolidated financial statements. At December 31, 2000 and 2001, the amount of debt subject to restrictive covenants was euro 44 million and euro 11 million, respectively. Eni is in compliance with the covenants contained in its financing arrangements.

The *exchange rate assisted loans* for euro 14 million relate to borrowings from European organizations, such as the European Investment Bank, for the purpose of economic development whereby the Italian Government partially absorbs foreign exchange gains and losses related to such loans.

Ordinary *bonds* of euro 3,222 million concern seven series of notes issued by Lasmo Plc for a total of euro 1,709 million with fixed rates from 6.7% to 10.375% and maturities between 2003 and 2027, notes issued by Eni in its Euro Medium Term Notes program for a total of euro 868 million, of which euro 500 million have a fixed rate of 6.125% and mature in 2010 and euro 368 million have fixed and variable rates and mature before 2010, Eni SpA bonds 1993-2003 with variable rate amounting to euro 516 million and Enifin SpA loan 1997-2005 with variable rate amounting to euro 129 million.

Long-term debt, including current maturities and average interest rates, by currency, is as follows:

	Dec. 31, 2000	Average interest rate	Dec. 31, 2001	Average interest rate
	(million €)			
Euro	3,973	5.6	3,417	5.7
U.S. dollar	1,706	6.7	3,510	4.8
British pound	2	10.0	280	9.2
Japanese yen	10	6.6	104	0.65
Other	11	8.8	6	7.8
	5,702		7,317	

Eni maintains both committed and uncommitted long-term lines of credit available with various domestic and foreign banks. These agreements provide for interest charges based on prevailing market conditions. Commission fees on unused lines of credit are not significant. At December 31, 2001 these long-term lines of credit amounted to euro 778 million (euro 1,031 million at December 31, 2000).

In the normal course of business, Eni utilizes various derivative contracts to reduce risks arising from interest rate and foreign currency exchange rate fluctuations, both for long and short-term debt. See Note 24 for a more detailed discussion.

Certain debt, in the amount of euro 161 million and euro 115 million at December 31, 2000 and 2001, respectively, is guaranteed by mortgages and liens on the fixed assets of consolidated companies and by pledges on marketable securities.

13) Reserves for contingencies and other deferred non-current tax liabilities

	Amount at the beginning of the year	Additions	Deduction	Other changes	Year-end amount
			(million €)		
Dec. 31, 2000					
Employee retirement and similar obligations	69	12	(5)		76
Other reserves for contingencies:					
— site restoration and abandonment	1,479	232	(68)	55	1,698
— restructuring or decommissioning of production facilities	121	16	(3)	(8)	126
— environmental risks	412	220	(90)		542
— loss adjustments and actuarial reserves for Eni's insurance companies	604	136	(152)	16	604
— losses related to investments	525	50	(20)	11	566
— contract penalties and disputes reserve	72	287	(26)	11	344
— reserve for contractual contingencies	159	31	(141)	(13)	36
— early retirement incentives	46	28	(42)		32
— other (*)	248	148	(127)	56	325
	3,666	1,148	(669)	128	4,273
Non-current income tax liabilities:					
— deferred taxation	1,448	1,214	(1,089)	(591)	982
— other tax reserves	324	62	(27)	12	371
	1,772	1,276	(1,116)	(579)	1,353
	5,507	2,436	(1,790)	(451)	5,702
Dec. 31, 2001					
Employee retirement and similar obligations	76	13	(6)	3	86
Other reserves for contingencies:					
— site restoration and abandonment	1,698	125	(74)	214	1,963
— restructuring or decommissioning of production facilities	126	631	(24)	140	873
— environmental risks	542	212	(158)	208	804
— loss adjustments and actuarial reserves for Eni's insurance companies	604	103	(182)	10	535
— losses related to investments	566	51	(34)	(199)	384
— contract penalties and disputes reserve	344	41	(233)	61	213
— reserve for contractual contingencies	36	20	(3)		53
— early retirement incentives	32	14	(23)	16	39
— other (*)	325	159	(120)	26	390
	4,273	1,356	(851)	476	5,254
Non-current income tax liabilities:					
— deferred taxation	982	737	(1,083)	1,731	2,367
— other tax reserves	371	35	(147)	(5)	254
	1,353	772	(1,230)	1,726	2,621
	5,702	2,141	(2,087)	2,205	7,961

(*) Each individual amount included herein does not exceed euro 50 million.

The "Site restoration and abandonment" reserve of euro 1,963 million represents primarily the estimated costs for well-plugging, abandonment and site restoration of euro 1,879 million. Other changes for euro 214 million concern primarily the inclusion in the scope of consolidation of Lasmo Plc (euro 146 million) and exchange rate gains from the translation of financial statements denominated in currencies other than the euro (euro 29 million).

The ‘‘Restructuring or decommissioning of production facilities’’ reserve of euro 873 million represents the estimated costs in the Petrochemicals segment of euro 768 million and in Other activities segment for euro 78 million. Additions to this reserve for euro 631 million concern primarily the Petrochemical segment (euro 616 million). Other changes for euro 140 million relate in particular to the inclusion in the scope of consolidation of Singea SpA (in liquidation) (euro 95 million) and the merger of Agricoltura SpA (in liquidation) in EniChem SpA (euro 35 million).

The ‘‘Environmental risks’’ reserve of euro 804 million represents, primarily, the estimated costs of remediation for the Petrochemicals segment (euro 470 million) and Refining and Marketing segment (euro 228 million). Additions for euro 212 million relate in particular to the Petrochemical (euro 92 million), Refining and Marketing (euro 82 million) and Natural Gas (euro 31 million) segments. Other changes for euro 208 million relate in particular to the merger of Agricoltura SpA (in liquidation) in EniChem SpA (euro 140 million) and the inclusion in the scope of consolidation of Singea SpA (in liquidation) (euro 62 million).

The ‘‘Reserve for losses on investments’’ of euro 384 million decreased by euro 182 million primarily due to the the inclusion in consolidation of Singea SpA (in liquidation).

The ‘‘Contract penalties and dispute reserve’’ of euro 213 million decreased by euro 131 million over December 31, 2000. Decreases are primarily due to the reserve accrued last year following the cut in Snam’s tariffs by 23.7 lire per cubic meter from January 2000 according to the decision of the Authority for Electricity and Gas of December 22, 1999 no. 193 (euro 200 million). Other changes for euro 61 million relate in particular to the inclusion in the scope of consolidation of Singea SpA (in liquidation) (euro 31 million) and the merger of Agricoltura SpA (in liquidation) in EniChem SpA (euro 24 million).

‘‘Deferred income tax liabilities net’’ of euro 2,367 million (euro 982 million at December 31, 2000) have already been reduced by deferred tax assets for which Eni possesses the legal right of offset. Other changes of euro 1,731 million concern the inclusion in the scope of consolidation of Lasmo Plc (euro 1,559 million), exchange rate gains on the translation of financial statements denominated in currencies other than the euro (euro 127 million) and the offsetting of deferred tax liabilities with deferred tax assets for each legal entity (euro 44 million). A description follows of net deferred tax liabilities, determined by subtracting from the reserve for taxes the deferred income tax assets that may not be offset and are included in the item ‘‘Other non-current assets’’.

Net deferred income tax liabilities

	Dec. 31, 2000	Dec. 31, 2001
	(million €)	
Deferred income taxes	2,597	4,064
Deferred tax asset:		
— may be offset(1)	(1,615)	(1,697)
— may not be offset	(806)	(776)
	176	1,591

(1) Deferred tax asset with a legal right of offset against specific future tax liabilities.

The most significant temporary differences giving rise to the net deferred tax liabilities are as follows:

	Dec. 31, 2000	Dec. 31, 2001
	(million €)	
Deferred tax liabilities:		
— accelerated depreciation	2,059	2,614
— differences between purchase cost and net book value of acquired consolidated companies	156	931
— reserve for uncollectable receivables	108	127
— distributable reserves subject to taxes	106	105
— gains taxable in the future	65	76
— other	103	211
	2,597	4,064
Deferred tax assets:		
— accruals for doubtful accounts and reserve for contingencies	(1,424)	(1,919)
— asset revaluations	(1,231)	(1,136)
— tax loss carryforwards	(584)	(1,132)
— revaluation of investments in accordance with Law 292/93 and the allocation of the merger difference arising from the merger of Agip SpA into Eni SpA	(892)	(892)
— future deductable amortization	(336)	(355)
— writeoffs of fixed assets, intangible assets and or inventories deductable in the future	(111)	(269)
— losses of investments and subsidiaries in excess of currently allowable tax deductions	(225)	(236)
— other	(302)	(347)
	(5,105)	(6,286)
Less:		
Valuation allowance	2,684	3,813
	(2,421)	(2,473)
Net deferred tax liabilities	176	1,591

The valuation allowance for deferred tax assets (3,813 and 2,684 for the years ending December 31, 2001 and 2000 respectively) mainly relates to consolidated companies with accumulated fiscal losses which are not expected to be recovered with future fiscal profits and to temporary differences which the company does not expect will reverse.

Tax loss carryforwards

Under Italian tax regulations, losses may be carried forward for up to five years; for non-Italian tax loss carryforwards the period generally ranges from 5 to 15 years, with a significant portion having no expiration date. Tax loss carryforwards reverse at a rate of 36% for Italian companies and an average rate of 33% for foreign companies.

Gross tax loss carryforwards of euro 3,324 million expire as follows:

	Domestic	Foreign
	(million €)	
2002	178	51
2003	235	52
2004	606	75
2005	44	48
2006	430	83
over 2006		528
without expiration		994
	1,493	1,831

Tax loss carryforwards expected to be utilized amount to euro 581 million and relate primarily to foreign companies (euro 577 million). The tax effect of such tax loss carryforward is euro 185 million.

Other tax reserves include estimated charges of euro 254 million for unsettled tax claims. All tax years prior to 1995 have been settled, for direct taxes, with Italian tax authorities, by Eni SpA and most of its Italian subsidiaries with the exception of ongoing tax proceedings. With regard to foreign subsidiaries, the situation varies among jurisdictions, with settled tax years ranging from 1995 to 2000.

14) Shareholders' equity

Share capital

In connection with the transformation of Ente Nazionale Idrocarburi into a joint stock company in July 1992, all reserves existing prior to the date of the transformation were converted to share capital. On June 1, 2001 the General Shareholders' Meeting approved the conversion of Eni's share capital from lira into euro and the grouping of shares where for two shares with nominal value 0.5 euro each shareholder receives one share nominal value 1 euro.

Eni SpA had 4,001,259,476 shares (nominal value euro 1 each) fully paid-up as of December 31, 2001 (8,002,140,853 ordinary shares nominal value lire 1,000 as of December 31, 2000, corresponding to 4,001,070,426 shares nominal value 1 euro and 8,002,127,653 ordinary shares nominal value lire 1,000, as of December 31, 1999, corresponding to 4,001,063,826 shares nominal value 1 euro). The increase of 6,600 and 189,050 shares nominal value 1 euro for year 2000 and 2001 respectively, results from the issue of shares subscribed under the stock grant plan. All earnings per share and earnings per ADS amounts in these financial statements corresponding to prior periods have been adjusted to reflect the 2 for 1 reverse stock split.

Reserves

The legal reserve of Eni SpA represents earnings restricted from the payment of dividends pursuant to the Italian Civil Code (the "Civil Code"). Under the Civil Code, with respect to income of any year, an amount equal to 5% of the net income of Eni SpA, as recorded in Eni SpA's statutory financial statements for such year, must be set aside until the cumulative legal reserve is equal to one-fifth of the nominal value of Eni SpA's issued and outstanding share capital. Such dividend restriction also applies to each Italian subsidiary of Eni.

Reserves include amounts received from the Ministry of Economy and Finance to reimburse Eni SpA for principal and interest payments on loans obtained and bonds issued in prior years, which under laws 730/83, 749/85 and 41/86, were obligations of the Government.

The "Reserve for the issue of shares in accordance with art. 2349 of the Italian Civil Code" contains earnings destined to increase share capital under the stock option plan. The number of shares to assign for no consideration is 3,079,500 shares nominal value 1 euro (2,843,900 nominal value lire 1,000 and 1,421,950 shares nominal value 1 euro at December 31, 2000).

As provided by Italian Law, dividends may be paid on an unconsolidated basis only out of retained earnings plus distributable reserves and statutory net income for the current year net of the amount to be allocated to the legal reserve in the subsequent year.

Approximately euro 22,000 million was unrestricted as to payment of dividends at December 31, 2001, a portion of which is subject to taxation upon distribution. Deferred tax liabilities for euro 105 million have been recorded in relation to the reserves expected to be distributed (see Note 2).

Treasury shares

Treasury shares amount to euro 2,068 million (euro 574 million at December 31, 2000) and consist of 154,380,826 ordinary shares nominal value 1 euro owned by Eni SpA (88,763,000 ordinary shares nominal value lire 1,000 as of December 31, 2000, corresponding to 44,381,500 ordinary shares nominal value 1 euro). Such shares are valued at cost and have been repurchased to increase shareholder's value in accordance with the decisions of Eni's shareholders meetings of June 6, 2000 and June 1, 2001.

Reconciliation of statutory net income and shareholders' equity to consolidated net income and shareholders' equity

The statutory financial statements of subsidiaries reflect certain tax-driven entries. In addition, Eni SpA's statutory financial statements do not reflect the consolidation of subsidiary companies.

Adjustments are made in consolidating the statutory accounts of Eni SpA and subsidiary companies to reflect the consolidation principles described in Note 2. In addition, adjustments are made to eliminate the effects of certain tax-driven entries applied by subsidiary companies in their respective statutory accounts.

The reconciliation of net income and shareholders' equity as reported in Eni SpA's statutory financial statements to those reported in the consolidated financial statements is as follows:

	Net Income			Shareholders' Equity		
	1999	2000	2001	Dec. 31, 1999	Dec. 31, 2000	Dec. 31, 2001
				(million €)		
Per Eni SpA's financial statements	2,224	3,426	2,250	11,926	14,785	15,375
Loans serviced by the Government				8	4	
Treasury shares					(574)	(2,068)
Elimination of the equity value and result of consolidated companies as accounted for in Eni SpA financial statements	(960)	(1,570)	578	(6,943)	(7,152)	(6,059)
Equity value and result of consolidated companies	2,160	1,960	2,412	13,470	22,864	24,800
Consolidation adjustments:						
— difference between cost and underlying value of equity	(22)	(22)	(49)	190	203	459
— elimination of tax adjustments and compliance with accounting policies	203	1,846	420	3,021	(4,378)	(1,945)
— elimination of unrealized intercompany (profits) losses	(12)	(72)	(130)	(412)	(437)	(1,493)
— deferred taxation	(681)	313	258	(1,534)	(1,241)	(127)
— other adjustments	85	141	2,489	23	(1)	247
	2,997	6,022	8,228	19,749	24,073	29,189
Minority interest	(140)	(251)	(477)	(1,351)	(1,672)	(1,706)
Per consolidated financial statements	2,857	5,771	7,751	18,398	22,401	27,483

15) Net sales from operations are as follows

	1999	2000	2001
		(million €)	
Gross sales from operations	44,841	62,985	63,094
Change in contract work in progress	702	(1,054)	88
Less:			
— excise tax	(13,911)	(13,126)	(13,068)
— services billed to joint venture partners	(624)	(867)	(1,189)
	31,008	47,938	48,925

16) Purchases, services and other

Purchases, services and other include the following:

	1999	2000	2001
		(million €)	
Production costs-raw, ancillary and consumable materials and goods	12,945	23,691	23,711
Production costs-services	6,035	6,513	7,507
Lease, rental and royalty expenses	941	1,203	1,242
Other expenses	1,266	1,518	1,302
	21,187	32,925	33,762
Less:			
— services billed to joint venture partners	(624)	(867)	(1,189)
— capitalized direct costs associated with self-constructed assets	(563)	(616)	(745)
	20,000	31,442	31,828

Lease, rentals and royalty expense include royalties on hydrocarbons extracted for euro 331 million, 552 million and 517 million in 1999, 2000 and 2001 respectively.

17) Payroll and related costs

Payroll and related costs are analyzed as follows:

	1999	2000	2001
		(million €)	
Wages and salaries	2,134	2,175	2,271
Social security contributions	621	627	602
Employee termination indemnities	121	117	114
Pensions and similar obligations	16	11	12
Other costs	73	57	83
	2,965	2,987	3,082
Less:			
— revenues related to personnel costs	(33)	(40)	(51)
— capitalized direct costs associated with self-constructed assets	(150)	(161)	(180)
	2,782	2,786	2,851

18) Depreciation, amortization and writedowns

Depreciation, amortization and writedowns consist of the following:

	1999	2000	2001
		(million €)	
Depreciation and amortization:			
— intangible assets	771	1,122	1,370
— fixed assets	2,825	2,678	3,310
	3,596	3,800	4,680
Writedowns			
— fixed assets	106	55	100
	3,702	3,855	4,780
Less:			
— direct costs associated with self-constructed assets	(4)	(12)	(9)
	3,698	3,843	4,771

19) Financial income (expense) and exchange differences, net

Financial expense and exchange differences, net consist of the following:

	1999	2000	2001
		(million €)	
Interest and other financial income	339	501	539
Securities gains	197	116	95
Interest and other financial expense	(556)	(791)	(932)
Exchange differences, net	(27)	165	(10)
Less:			
— interest capitalized	57	73	49
	10	64	(259)

20) Other income (expense) from investments

Other income (expense) from investments consists of the following:

	1999	2000	2001
		(million €)	
Gains on disposals	17	19	76
Dividends	63	44	40
Income from equity investments	89	137	154
Other revaluation of investments	19	10	4
Writedown of investments	(101)	(178)	(491)
Other	2	1	1
	89	33	(216)

21) Extraordinary income (expense)

Extraordinary income (expense) consists of the following:

	1999	2000	2001
		(million €)	
Extraordinary income			
Gains on disposals	77	86	3,473
Other extraordinary income	26	146	173
	103	232	3,646
Extraordinary expense			
Restructuring cost:			
— provisions for risks	(330)	(182)	(885)
— writedowns of fixed assets	(169)	(34)	(607)
— cost of redundancy incentives	(110)	(202)	(237)
	(609)	(418)	(1,729)
Other extraordinary expenses	(22)	(326)	(80)
	(631)	(744)	(1,809)
	(528)	(512)	1,837

Gains on disposals relate to sale of investments, businesses and fixed assets as a result of restructuring activities. In particular disposal gains of euro 3,473 million are primarily due to: (i) the public offering of 40.24% of the share capital of Snam Rete Gas (euro 2,453 million); (ii) the sale of the share capital of Immobiliare Metanopoli (euro 348 million) and other real estate (euro 406 million) within Eni's real estate divestment program; (iii) the sale of the Polyurethane Division (euro 211 million).

Other extraordinary income of euro 173 million relate primarily to the release of the reserve for contingencies of euro 112 million due to the annulment by the Council of State of the fine imposed on AgipPetroli by the Antitrust Authority, sentence No. 359/2001, for alleged horizontal cartel with other oil companies.

Provisions for risks of euro 885 million related to closingdowns, disposals and environmental remediation on plants still in operation as of December 31, 2001 in the Petrochemical segment (euro 616 million, of which euro 240 million related primarily to environmental remediation efforts at plants that management has specifically identified to close down in the next two-three years and euro 376 million related to environmental compliance provisions on all operating plants made in application of Law 471/99), and to environmental remediation on de-industrialized areas in the Petrochemical (euro 91 million), Refining and Marketing (euro 77 million) and Natural Gas (euro 44 million) segments.

Writedowns for euro 607 million concerned primarily the writedown of fixed assets and investments in the Petrochemical segment (euro 574 million) in order to align the book value of assets to the results of the impairment test made on the basis of estimated future cash flows in a declining market scenario for petrochemical products margins and also to the asset evaluation made by a court-appointed expert in connection with the transfer to Polimeri Europa on January 1, 2002.

Redundancy incentives of euro 237 million concern primarily the Exploration and Production segment (euro 101 million), Natural Gas segment (euro 44 million), Refining and Marketing segment (euro 42 million), and the Petrochemical segment (euro 39 million).

22) Income tax expense

Income taxes are analyzed as follows:

	1999	2000	2001
		(million €)	
Current Taxes:			
— Italian subsidiaries	1,288	3,584	1,093
— Foreign subsidiaries operating in Exploration and Production segment	528	1,944	2,028
— Other foreign subsidiaries	40	40	175
	1,856	5,568	3,296
Less:			
— Tax credits on dividends distribution not offset with current tax payment	(2)	(2)	(1)
	1,854	5,566	3,295
Deferred Taxes:			
— Italian subsidiaries	113	(1,478)	158
— Foreign subsidiaries operating in Exploration and Production segment	99	247	93
— Other foreign subsidiaries	(12)		(16)
	200	(1,231)	235
	2,054	4,335	3,530

Income taxes due relate to Irpeg (National income tax) for euro 796 million and Irap (Regional income tax) for euro 260 million and foreign income taxes of euro 37 million.

The effective tax rate is 30% compared with a statutory tax rate of 40.9%, calculated by applying a 36% tax rate (Irpeg) to income before taxes and 4.25% tax rate (Irap) to the net value of production as provided for by Italian laws.

The difference between the statutory and effective tax rate is due to the following factors:

	1999	2000	2001
		(%)	
Statutory tax rate	44.2	42.7	40.9
Permanent differences	0.3	0.5	(7.6)
Effect of the application of Law no. 342/2000		(4.9)	(4.6)
Effects of tax credits	(0.1)	(0.3)	(2.3)
Reversal of deferred taxes no longer required as result of mergers	(1.5)		
Taxes on distributable reserves	0.4	0.3	
Higher (lower) foreign subsidiaries tax rate	(3.0)	2.5	(5.0)
Other	0.4	1.1	(1.4)
	(3.5)	(0.8)	(10.9)
Effective tax rate	40.7	41.9	30.0

Permanent timing differences concern mainly the gain recorded in the consolidated financial statements due to the public offering of 40.24% of the share capital of Snam Rete Gas (7.2%).

23) Earnings per share

Earnings per share for years 1999 and 2000 have been restated to reflect the conversion of the share capital from italian lire to euro.

Earnings per share is calculated by dividing net income by the weighted-average number of shares issued and outstanding during the year, excluding treasury shares.

In order to compare earnings per share in the three years presented, the number of shares issued through stock grants made in 2000 and 2001 has been added to the number of shares outstanding in previous years. Based on this criterion, the number of shares outstanding was 4,001,259,476, 3,994,466,024 and 3,910,243,750 as of December 31, 1999, 2000 and 2001 respectively.

The dilutive effect of potential ordinary shares when converted into ordinary shares on earnings per share for the year 2001 and as recalculated for years 2000 and 1999 is not material. At present, only shares assigned under the stock grant plan are considered, as the conditions have not yet been met for the stock options to be exercised.

24) Commitments and contingencies

Derivative financial instruments

Eni operates internationally in the oil and natural gas, electricity generation, petrochemicals and oilfield services and engineering industries and is subject to exposure to market risks from changes in interest rates, foreign exchange rates and commodity prices.

Derivative financial instruments are utilized by Eni to reduce these risks, as explained below.

Eni's treasury activities are managed primarily by two captive finance companies operating in the Italian and international financial markets. Eni's operating subsidiaries are required to reduce foreign exchange rate risk to a minimum level by coordinating their operations with such finance companies.

Eni SpA's Board of Directors has defined a policy that requires the Treasury Department of Eni SpA to determine the maximum level of foreign exchange rate and interest rate risks that can be assumed by Eni's finance companies. Such policy also defines the eligible counterparties in derivative transactions. As far as interest rate and foreign exchange rate risks are concerned, the calculation and measurement techniques followed by Eni's finance companies are in accordance with established banking standards (such standards are established by the Basel Committee. However, the tolerable level of risk adopted by such companies is more conservative than that defined by the Basel Committee. Eni SpA's Treasury Department is responsible for monitoring compliance with Eni's policy, as well as the correlation between the indicators adopted for measuring of the tolerable risk level, the portfolio of financial instruments and market conditions.

Eni does not enter into derivative transactions on a speculative basis.

(a) Notional amounts and credit exposures of derivatives

The notional value of a derivative is the contractual amount on the basis of which the differentials are exchanged; this amount can be expressed either on a value basis or on a physical quantities basis (such as barrels, tons, etc.). The amounts expressed in foreign currency are converted into euro applying the exchange rate at year-end.

The notional amounts of derivatives summarized in the sections that follow do not represent amounts exchanged by the parties and, thus, are not a measure of the credit exposure of Eni. The amounts exchanged are calculated on the basis of the notional amounts and the other terms of the derivatives, which relate to interest rates, exchange rates and commodity prices. Therefore, the credit exposure of interest rate, foreign exchange and commodity contracts is represented by the fair value of contracts with a positive fair value at year-end, reduced by the effects of master netting agreements. Eni SpA's Board of Directors has approved policies which provide guidelines related to the criteria of eligible counterparties in derivative transactions and permissible financing investments, including purchases of securities. Although Eni is exposed to credit-related losses in the event of nonperformance by counterparties to derivative financial instruments, it does not expect any counterparties to fail to meet their obligations given the high credit standings of such counterparties.

(b) Interest rate risk management

Eni enters into various types of interest rate contracts in managing its interest rate risk, as indicated in the following table:

	Dec. 31, 2000	Dec. 31, 2001
	Notional amount	Notional amount
	(million €)	
Interest rate swaps	3,163	3,208
Forward rate agreements	476	168
Interest rate collars	121	134
	3,760	3,510

Eni enters into interest rate derivatives, particularly interest rate swaps, to alter interest rate exposures arising from mismatches between assets and liabilities, to lower funding costs and to diversify sources of funding. Under interest rate swaps, Eni agrees with other parties to exchange, at specified intervals, the difference between interest amounts calculated by reference to an agreed notional principal amount and agreed fixed or floating interest rates.

The following table indicates the types of interest rate swaps used and their weighted-average interest rates and maturities. Average variable rates are based on rates at year-end and may change significantly, affecting future cash flows.

The comparison between weighted-average receive rate and weighted-average pay rate does not represent the result of derivatives: such result is calculated on the basis of the underlying hedged operation.

	Dec. 31, 2000	Dec. 31, 2001
Receive-fixed/Pay-floating swaps-notional amount (million euro)	426	1,202
— weighted average receive rate	6.45%	6.99%
— weighted average pay rate	4.79%	3.50%
— weighted average maturity (years)	4.51	3.93
Receive-floating/Pay-floating swaps-notional amount (million euro)	1,223	813
— weighted average receive rate	5.10%	4.17%
— weighted average pay rate	5.03%	4.21%
— weighted average maturity (years)	4.02	4.13
Pay-fixed/Receive-floating swaps-notional amount (million euro)	1,514	1,193
— weighted average pay rate	5.22%	4.84%
— weighted average receive rate	5.14%	3.31%
— weighted average maturity (years)	2.24	2.97

Forward rate agreements are generally used by Eni to offset changes in the rates of short and long-term floating-rate debt. Forward rate agreements settle in cash at a specified future date based on the differential between agreed interest rates applied to a notional amount. Forward contracts at year-end are related to contracts whereby Eni receives or pays a fixed rate for euro 5 million and 163 million respectively (euro 50 million and euro 426 million, respectively at December 31, 2000). These contracts have terms of less than one year. Gains and losses estimated at December 31, 2001, are not material.

Eni also uses interest rate collars to manage its interest rate risk. An interest rate collar is a combination of options that enable a predetermined interest rate band to be locked in. Interest rate collar contracts at year-end have terms of up to six years. Eni also uses zero-cost collars that do not require payment of an option premium.

(c) Foreign exchange risk management

Eni enters into various types of foreign exchange contracts in managing its foreign exchange risk, as indicated in the following table:

	Dec. 31, 2000	Dec. 31, 2001
	Notional amount	Notional amount
	(million €)	
Forward exchange contracts	4,563	5,172
Purchased options	622	538
	5,185	5,710

Eni uses forward exchange contracts primarily to hedge existing receivables and payables, including deposits and borrowings denominated in foreign currencies. Some of the contracts involve the exchange of currencies other than the local currency, according to the needs of foreign consolidated subsidiaries. Both buy and sell amounts of such contracts are indicated at the notional value. The term of forward exchange contracts is normally one year.

Eni also uses currency options to hedge expenses denominated in foreign currencies. Currency options, purchased in the over-the-counter market for a premium, provide Eni with the right to buy or sell an agreed amount of currency at a specified exchange rate at the end of a specified period, normally two years.

The table below summarizes, by major currency, the contractual amounts of Eni's forward exchange and option contracts.

	Dec. 31, 2000		Dec. 31, 2001	
	Buy	Sell	Buy	Sell
	(million €)			
U.S. dollar	1,110	1,946	1,429	2,480
Pound sterling	116	838	776	177
Swiss franc	269	275	4	434
Norwegian kroner	91	228	39	95
Euro	98	28	73	2
Japanese yen	32	32	124	27
Other	4	118	4	46
	1,720	3,465	2,449	3,261

(d) Commodity price risk management

Exchange traded crude oil and petroleum product futures contracts and over-the-counter market swaps are primarily used by the Refining and Marketing segment to minimize the commodity price volatility. Futures contracts have little credit risk because they take place in regulated markets. Swap agreements do not contain margin requirements and are subject to the creditworthiness of counterparties, which are principally major financial institutions. At December 31, 2000 and 2001 the notional amounts of open contracts are not material.

(e) Sales of government bonds

Eni sold Italian Government bonds to investors, primarily employees, and simultaneously entered into interest rate swaps with such investors wherein Eni receives the rate of interest on such Italian Government bonds and pays a floating rate of interest linked to Euribor (Europe Interbank Offered Rate). Such investors may sell their securities back to Eni at any time for par value plus related interest with the simultaneous cancellation of the related swaps. Eni also entered into an interest rate swap with a financial institution wherein it receives a floating rate which is considered more favorable for its floating rate commitment to its investors. At December 31, 2000 and 2001, euro 121 million and euro 150 million, respectively, worth of such securities remained in the hands of employees. For accounting purposes, this transaction was treated as a sale of the bonds with gains recognized in current income.

Guarantees

Guarantees have been given by Eni to third parties. At December 31, 2000 and 2001, these guarantees were as follows:

	At December 31, 2000				At December 31, 2001			
	Unsecured guarantees	Other guarantees	Secured guarantees	Total	Unsecured guarantees	Other guarantees	Secured guarantees	Total
	(million €)							
Unconsolidated subsidiaries	227	684		911	126	277		403
Affiliated companies	47	1,887	78	2,012	65	1,220	78	1,363
Consolidated companies	4,800	4,250	85	9,135	4,800	5,287	85	10,172
Others	28	250		278	18	220		238
	5,102	7,071	163	12,336	5,009	7,004	163	12,176

Guarantees given on behalf of unconsolidated subsidiaries and affiliated companies of euro 1,688 million (euro 2,845 million as of December 31, 2000) consist primarily of: (i) unsecured guarantees and letters of patronage given to banks in relation to loans and lines of credit received for euro 1,495 million of which euro 983 million related to a contract issued by Snam SpA on behalf of Blue Stream Pipeline Co BV to a consortium of financing institutions (euro 931 million as of December 31, 2000); (ii) unsecured and other guarantees given to third parties in relation to the acquisition or sale of investments for euro 51 million (euro 422 million as of December 31, 2000), and unsecured guarantees to tax authorities in relation to VAT receivables for euro 60 million (euro 209 million as of December 31, 2000); (iii) unsecured guarantees and letters of patronage given to customers in relation to contractual performance and bid bonds for euro 68 million (euro 69 million as of December 31, 2000). As of December 31, 2001, the underlying commitment covered by such guarantees was euro 998 million (euro 1,657 million as of December 31, 2000).

The euro 1,157 million decrease refers mainly to the extinction of the guarantee provided by Snam SpA to the General Contractor of the Blue Stream project to cover any events that could prevent the completion of the project (euro 623 million) and to reclassifications of guarantees given on behalf of subsidiaries and affiliates following the inclusion in consolidation of Singea SpA (in liquidation) and the merger of Agricoltura SpA (in liquidation) in EniChem SpA (euro 586 million).

Guarantees given on behalf of consolidated companies of euro 10,087 million (euro 9,050 million as of December 31, 2000) consist primarily of: (i) a guarantee of euro 4,800 million (the same as in 2000) given by Eni SpA to Treno Alta Velocità — TAV — SpA for the proper and timely completion of a project relating to the Milano-Bologna train link by the Consorzio Cepav Uno; consortium members gave Eni liability of surety letters and bank guarantees amounting to 10% of their respective portion of the work; (ii) guarantees given to third parties relating to: bid bonds and performance bonds for euro 1,450 million (euro 1,526 million as of December 31, 2000); insurance risk for euro 1,248 million reinsured by Eni (euro 1,076 million as of December 31, 2000); hydrocarbon development activities for euro 1,375 million (euro 674 million as of December 31, 2000); VAT recoverable from tax authorities for euro 764 million (euro 493 million as of December 31, 2000). The underlying commitment covered by such guarantees was euro 8,613 million as of December 31, 2001 (euro 8,145 million as of December 31, 2000).

Secured guarantees of euro 163 million, relate to mortgages, liens and privileges granted to banks in connection with loans to affiliated and consolidated companies (the same amount as of December 31, 2000). At December 31, 2001 the underlying obligation covered by such guarantees was euro 107 million (euro 134 million as of December 31, 2000).

Other commitments

Other commitments and potential risks consist primarily of:

- Obligations for purchases and sales of fixed assets of euro 146 million (euro 3,291 million as of December 31, 2000). The euro 3,145 million decrease is primarily related to the settlement of obligation for the acquisition of Lasmo Plc shares (euro 3,103 million).
- Commitments of euro 508 million (euro 642 million as of December 31, 2000) primarily related to: (i) agreements between EniChem and various government entities, employee and trade groups whereby EniChem has committed to invest approximately euro 272 million (euro 387 million as of December 31, 2000) in order to further develop the chemical segment and protect the environment with respect to the Porto Marghera plant; (ii) a memorandum of intent signed with the Basilicata Region whereby Eni has agreed to invest, also on account of Enterprise SpA, euro 222 million in the future in connection with Eni's development plan of oil fields in Val d'Agri (euro 232 million as of December 31, 2000).
- Risks of euro 905 million (euro 585 million as of December 31, 2000) are primarily associated with: (i) contractual assurances given to acquirors of certain investments and businesses of Eni for euro 508 million (euro 175 million as of December 31, 2000); (ii) environmental damages for euro 136 million (euro 155 million as of December 31, 2000); (iii) potential risks associated with the value of assets of third parties under the custody of Eni for euro 159 million (euro 157 million as of December 31, 2000); (iv) tax proceedings for euro 48 million (euro 46 million as of December 31, 2000). Environmental proceedings include the action taken by the Minister of Environment against EniChem SpA in 1992 (euro 135 million) commented on under the following item "Legal Proceedings".
- In order to satisfy expected demand for natural gas in Italy in the medium and long-term, Eni has entered into certain long-term gas supply agreements which currently have an average unexpired duration of approximately 20 years. Such agreements, which contain take-or-pay provisions, will enable Eni to purchase an aggregate of approximately 1,120 billion cubic meters of natural gas. Under such agreements, the prices to be paid for the gas are periodically revised based on the market price for certain petroleum products. In connection with its supply contracts, Eni is also a party to long-term contracts with third parties for the transport of natural gas from the delivery point of foreign suppliers to Italy. These contracts generally contain ship-or-pay provisions. Eni also holds transmission rights on foreign pipelines that allow it to carry natural gas to Italy. Historically, Eni's purchasing and transmission practices have been such that take-or-pay or ship-or-pay provisions have never been invoked. Decree No. 164/2000 regulating the Italian natural gas market introduced ceilings to each operator's

market share. In order to remain within the limits set by the Decree and with the aim of non incurring in "take-or-pay" clauses, Eni signed multi-year supply contracts in order to sell natural gas available exceeding stated thresholds outside Italy to operators that are expected to resell it to Italian customers.

- Non-quantifiable risks related to contractual assurances given to acquirors of investments against certain unforeseeable liabilities attributable to tax, state welfare contributions and environmental matters applicable to periods during which such investments were owned by Eni. Eni believes such matters will not have a material adverse effect on its consolidated financial statements.

Legal proceedings

Eni is a party to a number of civil actions and administrative proceedings arising in the ordinary course of business.

Based on information available to date, and taking account of the existing contingencies, Eni believes that the foregoing will not have a material adverse effect on Eni's consolidated financial statements.

The following is a summary of significant legal matters in which Eni is involved.

Judicial or Arbitration Proceedings

In 1991, Agrifactoring SpA commenced proceedings against Serfactoring SpA a company 49% owned by the former Serfi SpA now Sofid SpA, which is controlled by Eni SpA. The claim relates to euro 182 million of receivables for fertilizer sales (plus interest and compensation for inflation), originally owed by Federconsorzi to EniChem Agricoltura SpA (later Agricoltura SpA (in liquidation) now merged in EniChem SpA) and Terni Industrie Chimiche SpA (merged in Agricoltura SpA (in liquidation) that has been merged in EniChem SpA). Such receivables were transferred by Agricoltura and Terni to Serfactoring, which appointed Agrifactoring as its agent to collect payments. Agrifactoring guaranteed to pay the amount of such receivables to Serfactoring, regardless of whether or not it received payment. Following payment by Agrifactoring to Serfactoring, Agrifactoring was placed in liquidation and the liquidator of Agrifactoring commenced proceedings in 1991 against Serfactoring to recover such payments (equal to euro 182 million) made to Serfactoring based on the claim that the foregoing guarantee became invalid when Federconsorzi was itself placed in liquidation. Agricoltura and Terni brought counterclaims against Agrifactoring for damages amounting to euro 97 million relating to acts carried out by Agrifactoring SpA as agent. The amount of these counterclaims has subsequently been reduced to euro 46 million following partial payment of the original receivables by the liquidator of Federconsorzi and various setoffs. In January 2000, the technical opinion requested by Agrifactoring was completed. According to this opinion, the balance of the account between Agrifactoring and Federconsorzi, on which Agrifactoring is claiming payment of euro 182 million, amounts to approximately euro 40 million. These proceedings, which have been joined, are still pending.

In 1992, Eni SpA and EniChem SpA initiated an arbitration proceeding against Montedison SpA and its subsidiaries in relation to guarantees given by them in connection with the formation of Enimont SpA. This proceeding is nearing completion. Defendants brought counterclaims. In December 2000, an agreement was reached through which Montedison accepted EniChem's claim of euro 41 million and paid said amount on December 22, 2000. Arbitration is still pending for all environmental issues.

Tax Proceedings

Agip SpA (now merged in Eni SpA) received four formal assessments from the Italian tax authorities that claimed that its income in 1989, 1990, 1991 and 1992 had been understated for income tax purposes. These assessments concern an alleged global understated amount for euro 196 million, determined by making downward and upward adjustments to the prices of certain petroleum products that Agip sold to or bought from other Eni companies. All these claims were judged as unfounded by the Provincial Tax Commission of Milan. The Regional Tax Commission of Milan rejected the appeal against the first and second decisions opposed by the Italian tax authorities. The appeal of the Tax Authorities against the third decision was rejected by the Regional tax Commission of Milan, but the terms to contest this decision in front of the Court of Cassation are still open. The appeal for the fourth decision has not yet been discussed. In December 2000 Eni received a fifth formal assessment concerning an alleged understated amount of euro 20 million related to 1994. The Provincial Tax Commission of Milan accepted Eni's claim with decision issued on May 7, 2001. From that date starts the period of appeal to the Regional Tax Commission.

In August 2000, the Ministry of Finance of Kazakhstan sent Agip Karachaganak a formal assessment that claims that the company understated its income for 1998 and 1999 by euro 58 million. The amount relates to the non deductibility of overhead costs considered as cost recovery and to a different criterion for the deduction of some other costs. In the first half of 2001 Eni signed a protocol with Kazakh tax authorities which reduces the disputed amount to euro 14 million. Legal proceedings related to Eni's counterclaim are however pending.

With a decree dated December 6, 2000 the Lombardia Region decided that natural gas used for electricity generation is subject to an additional regional excise tax in relation to which Snam SpA (now merged in Eni SpA) will substitute the tax authorities in its collection from customers. Given interpretive uncertainties, the same decree provides the terms within which distributing companies are expected to pay this excise tax without paying any penalty. Snam Spa and the other distributing companies of Eni believe that natural gas used for electricity generation is not subject to this additional excise tax and therefore appealed this decree against the jurisdictional bodies. With respect to this matter an official interpretation was requested from the Ministry of Economy and Finance. With a decision dated May 29, 2001 the Ministry confirmed that the additional excise tax cannot be applied. The Region decided not to revoke its decree and Snam took appropriate legal action. On the basis of action carried out by Snam, the Council of State decided on March 18, 2002 that the jurisdiction of the Administrative judge did not apply to this case. In case the Lombardia Region should request the payment of the additional excise tax, Snam will challenge this request in Court. At a later date the Lombardia Region decided with regional law 27/2001 that no additional tax is due from January 1, 2002 onwards, but still requested the payment of the additional taxes due before that date.

Environment

In 1992, the Minister of Environment filed an action against EniChem SpA and other parties to recover between euro 135 million and euro 870 million in damages relating to the discharge of effluents by the Mantua plant. This plant was owned by a former subsidiary of Montedison SpA that was conferred to Enimont SpA in connection with the formation of the Enimont joint venture. In September 1999, the State attorney requested that all the parties be condemned by the Court of Brescia to pay compensatory damages resulting from the proceeding of not less than euro 135 million.

An action was started in 1997 concerning the criminal charges brought by the Venice public prosecutor against 28 persons, including 12 former and current managers of subsidiaries of Eni[1], for alleged mismanagement of the Porto Marghera plant starting in the 1970s and for the alleged pollution and health damage resulting therefrom. In most cases such charges relate to a period in time when the plant was managed by companies not owned by Eni. With reference to the 25 year period examined in the proceeding (1971-1995) EniChem managed the CVM-PVC plant from 1987 to 1993, while land parcels and other plants were managed by EniChem only from 1990 onwards. The inclusion of Eni SpA as defendant for environmental damage and crimes related to injuries and death of persons that had worked near the Porto Marghera petrochemical plant is based on the fact that Eni SpA is a shareholder of companies operating in Porto Marghera, rather than on Eni's participation in managing such companies. Plaintiffs are both institutions (Italian Government, Veneto Region, Venice Province and some municipalities) and 69 persons and entities. Damage payments were requested for a total amount of euro 511 million, but a request of euro 2,035 million was presented in case the judge should not identify evidence for each specific case. The state attorney estimated the cost of environmental remediation in euro 36,952 million and the illicit profit of defendants of euro 5,970 million. Damage payment has been requested jointly of all defendants. Only for the environmental damage did the State Attorney request individual payment of each defendant found guilty. On November 2, 2001 the Court of Venice acquitted all defendants. When the judgment is published, plaintiffs have 45 days to file an appeal.

In 2000, the public prosecutor of Brindisi started a criminal action against 68 persons employees or former employees of various companies that owned and managed plants for the manufacture of dichloroethane, vinyl chloride monomer and vinyl polychloride from the early 1960s to date. Among these persons 20 are former employees or managers of EniChem SpA, that managed these plants from 1983 to 1993. This proceeding is still at the preliminary stage and is aimed at ascertaining any responsibility related to illnesses suffered by workers employed in said plants. A respite has been requested for further inquiry.

In 2000, the public prosecutor of Gela started an investigation on prohibited emissions from AgipPetroli SpA's refinery (as per art. 674 of the Criminal Code), which are purported to have had negative effects on the health of a number of citizens of Gela, and on AgipPetroli's lack of declaration of such emissions in violation of Presidential Decree no. 203 of 1998. The investigation brought an action against some former managers of the refinery for events occurred from 1997 to date. The Municipality of Gela, the Province of Caltanissetta and others

(1) For the purpose of this item, Eni includes Eni SpA, EniChem SpA and subsidiaries of EniChem SpA.

will act as civil party and requested the payment of compensatory damage from Agip Petroli for a total of euro 878 million.

Antitrust, EU Proceedings, and actions of the Authority for Electricity and Gas

In March 1999, the Antitrust Authority concluded its investigation and fined Snam SpA euro 2 million for allegedly abusing its dominant position in the market for the transportation and distribution of natural gas and ordered a review of certain of Snam's business practices relating to such abuses. Snam believes it has complied with existing legislation and appealed the decision with the Regional Administrative Court of Lazio. On May 26, 1999 this Court has granted the suspension of the decision. The Antitrust Authority did not appeal this decision. The definition of the dispute is still pending.

With a decision presented to Snam SpA (now merged in Eni SpA) on October 30, 2001, on suggestion of Blugas SpA whose request for access to the Italian natural gas network for the period May 1 to September 30, 2001 was accepted only in part, the Antitrust Authority started an inquiry on Snam and Snam Rete Gas SpA to establish if they abused their dominant position when they assigned transport capacity at the import points (in this case Passo Gries). The inquiry also concerns the procedure for booking capacity on the Italian natural gas network for the gas year October 2001-September 2002. Snam thinks that partial access was granted in the period from May 1 to September 30, 2001 (Blugas had requested a capacity of 150,000 cubic meters/day and was granted only 100,000 cubic meters/day) due to a decrease in total domestic transport capacity related to upgrade works underway at the time. Snam thinks it assigned fairly this reduced capacity available, proportionally to all companies requesting access.

On August 28, 2000, Enirisorse SpA (in liquidation) now Singea SpA (in liquidation) and Zincocalabra SpA signed an agreement for the sale of the whole share capital of Pertusola Sud, now merged in Singea SpA in liquidation. This agreement was filed with the European Commission within the procedure for monitoring the liquidation of Enirisorse's assets in the non ferrous metallurgy business, as per decision 98/212/CE of April 16, 1997. With a letter dated September 26, 2000, the Commission requested information from the Italian Government in order to appraise the compatibility of this agreement with said decision. On February 13, 2001, the Commission informed the Italian Government that it started the procedure as per article 88 of the Union Treaty for alleged state aid in favor of Pertusola Sud. This procedure has been started in the context of the above mentioned decision for the following reasons: (i) aid given to Pertusola Sud in relation to the decision could have been given unlawfully; (ii) funds provided to Pertusola Sud in liquidation by Singea could be considered as state aid, and in this case are not compatible with the European single market concept; (iii) funds that Singea should provide to Pertusola Sud for environmental charges may represent state aid, and if this is the case they are not compatible with the single market concept. On April 4, 2001, the Italian Government presented its report to the Commission informing the Zincocalabra SpA is no longer interested in an investment that seems to require quite a long time to be completed due to this procedure. In May 2001, the Commission started a proceeding against the Italian Government, which, on July 25, 2001, in turn sent to Enirisorse the Commission's report in order to reply. In October 2001 the Italian Government presented its observations to the Commission. The Commission may present its decision before the end of 2002. If the final decision is unfavorable, Pertusola Sud shall have to return to Enirisorse the funds in question that are considered unlawful state aid. This decision may be appealed according to European procedures.

With a decision presented on June 5, 2001 the Antitrust Authority started an inquiry against AgipPetroli, Atriplex and other companies for alleged limitations to competition within the tenders offered by public transportation companies in the urban areas of Naples, Turin and Milan for the supply of gasoil for automotive use in the period 1996-2000. This proceeding intends to ascertain if the alleged agreements could be the expression of a more general arrangement among companies for dividing between them the mentioned fuel supplies. The proceeding shall be closed before October 11, 2002.

Environmental Regulations

Together with other companies in the industries in which it operates, Eni is subject to numerous EU, national, regional and local environmental laws and regulations concerning its oil and gas operations, products and other activities, including legislation that implements international conventions or protocols. In particular, these laws and regulations require the acquisition of a permit before drilling for hydrocarbons may commence, restrict the types, quantities and concentration of various substances that can be released into the environment in connection with exploration, drilling and production activities, limit or prohibit drilling activities on certain protected areas, and impose criminal or civil liabilities for pollution resulting from oil, natural gas, refining and petrochemical operations. These laws and regulations may also restrict air emission and discharges to surface and subsurface water resulting from the operation of natural gas processing plants, petrochemicals plants, refineries, pipeline systems and other facilities that Eni owns. In addition, Eni's operations are subject to laws and regulations relating to the generation, handling, transportation, storage, disposal and treatment of waste materials.Environmental laws and regulations have a substantial impact on Eni's operations. Some risk of environmental costs and liabilities is inherent in particular operations and products of Eni, as it is with other companies engaged in similar businesses, and there can be no assurance that material costs and liabilities will not be incurred. Although Eni, considering the actions already taken, the insurance policies to cover environmental risks and the provision for risks accrued, does not currently expect any material adverse effect upon its consolidated financial statements as a result of its compliance with such laws and regulations, there can be no assurance that this will be the case due to: (i) the possibility of as yet unknown contamination; (ii) the results of the on-going characterizations and the other possible effects of decree No. 471/99 of the Ministry of Environment; (iii) the possible effect of future environmental legislation and rules; (iv) the effect of possible technological changes relating to future remediation; (v) the possibility of litigation and the difficulty of determining Eni's liability, if any, as against other potentially responsible parties with respect to such litigation and the possible insurance recoveries.

25) Segment information

Segment information is presented in accordance with the revised IAS 14. Intersegment sales are conducted on an arm's length basis.

Information by industry segment

	Exploration and Production	Natural Gas	Electricity Generation (a)	Refining and Marketing	Petrochemicals	Oilfield Services and Engineering	Other activities (b)	Activities to be divested	Total
					(million €)				
1999									
Net sales from operations (c)	6,840	9,900		14,415	4,096	2,988	555	83	
Less: intersegment sales	(5,612)	(368)		(873)	(319)	(299)	(398)		
Net sales to customers	1,228	9,532		13,542	3,777	2,689	157	83	31,008
Operating income	2,834	2,580		478	(362)	149	(199)		5,480
Identifiable assets (d)	11,889	10,951		7,864	3,431	2,629	716		37,480
Unallocated assets									8,717
Identifiable liabilities (e)	3,570	2,507		3,718	1,191	1,661	921		13,568
Unallocated liabilities									12,880
Capital expenditures	3,268	906		524	289	425	55	16	5,483
Depreciation, amortization and writedowns	(1,656)	(1,071)		(501)	(333)	(111)	(26)		(3,698)
2000									
Net sales from operations (c)	12,308	13,935	492	25,462	6,018	2,146	608		
Less: intersegment sales	(9,384)	(529)	(184)	(1,549)	(570)	(384)	(431)		
Net sales to customers	2,924	13,406	308	23,913	5,448	1,762	177		47,938
Operating income	6,603	3,150	28	986	4	144	(143)		10,772
Identifiable assets (d)	15,170	12,567	360	8,257	3,559	2,890	867		43,670
Unallocated assets									12,693
Identifiable liabilities (e)	4,408	2,913	41	4,048	1,223	1,854	1,018		15,505
Unallocated liabilities									16,785
Capital expenditures	3,539	780	14	533	265	245	55		5,431
Depreciation, amortization and writedowns	(2,364)	(459)	(20)	(547)	(274)	(148)	(31)		(3,843)
2001									
Net sales from operations (c)	13,960	15,495	603	22,083	4,761	3,114	695		
Less: intersegment sales	(8,430)	(480)	(188)	(1,202)	(471)	(509)	(506)		
Net sales to customers	5,530	15,015	415	20,881	4,290	2,605	189		48,925
Operating income	5,984	3,606	66	985	(332)	255	(168)		10,396
Identifiable assets (d)	24,261	12,226	634	7,420	2,488	3,136	789		50,954
Unallocated assets									11,782
Identifiable liabilities (e)	5,098	2,971	66	3,345	1,312	1,927	1,145		15,864
Unallocated liabilities									17,683
Capital expenditures	4,276	802	263	496	361	304	75		6,577
Depreciation, amortization and writedowns	(3,251)	(488)	(15)	(517)	(251)	(203)	(46)		(4,771)

(a) Information about Electricity Generation for the year 1999 is included in other segments.

(b) Other activities include Eni-Corporate financial data which is not significant.

(c) Before elimination of intersegment sales.

(d) Includes assets directly related to operations.

(e) Includes liabilities directly related to operations.

Geographic financial information

Assets and Investments by geographic area of origin

	Italy	Other EU	Rest of Europe	Africa	Americas	Asia	Other Areas	Total
					(million €)			
1999								
Identifiable assets (a)	22,159	3,616	1,993	6,165	2,316	1,226	5	37,480
Investments in fixed and intangible assets	2,238	320	390	1,159	1,095	280	1	5,483
2000								
Identifiable assets (a)	24,554	4,851	2,177	6,651	3,859	1,570	8	43,670
Investments in fixed and intangible assets	2,206	439	283	1,186	753	562	2	5,431
2001								
Identifiable assets(a)	23,513	11,356	2,721	7,533	3,639	2,181	11	50,954
Investments in fixed and intangible assets	2,407	1,205	249	1,288	554	799	75	6,577

(a) Includes assets directly related to the generation of operating income.

Sales from operations by geographic area of destination

	1999	2000	2001
		(millions of €)	
Italy	18,813	27,184	27,244
Other European Union	3,926	6,944	8,972
Rest of Europe	1,816	2,711	3,136
Africa	1,496	2,083	2,087
Americas	3,148	6,034	5,935
Asia	1,795	2,959	1,530
Other areas	14	23	21
	31,008	47,938	48,925

Export sales (i.e., sales originating from Italy to customers outside Italy) were euro 4,605 million, euro 5,979 million and euro 5,591 million in 1999, 2000 and 2001 respectively.

26) Assets to be disposed of

On January 31, 2001, Eni executed a preliminary sale contract with companies of the Whitehall fund of Goldman Sachs, most of which were finalized in 2001. These included 90.16% of the capital stock of Immobiliare Metanopoli SpA and real estate for a total of euro 1,142 million. Preliminary contracts were also signed with other acquirors for a total of about euro 166 million and other contracts are being negotiated for further euro 66 million. Other sales are planned for euro 158 million. The recorded value of assets for which the sale is imminent is about euro 600 million and the expected pre-tax gain approximates euro 800 million.

Effective January 1, 2002, Eni transferred its strategic petrochemicals businesses to Polimeri Europa. These businesses include Eni's core activities in olefins and aromatics, intermediate products, styrene and elastomers produced in Italy in Brindisi, Sarroch, Ferrara, Gela, Mantova, Porto Marghera, Priolo, Ravenna and Settimo Milanese. Also the research centers of Ferrara, Mantova, Porto Marghera, Ravenna and Novara were transferred, as well as the interests in industrial and commercial companies in Italy and outside Italy and about 6,100 employees. Certain plants were not transferred. With this reorganization all the activities related to the ethylene cycle were given an integrated and consistent structure in order to facilitate negotiations for the sale of a significant share of Polimeri Europa.

27) Fair value of financial instruments

In the normal course of its business, Eni utilizes various types of financial instruments. These instruments include recorded assets and liabilities, as well as items that principally involve off-balance sheet risk. Information about the fair value of Eni's financial instruments is presented below.

- Marketable securities: the fair values of marketable securities are based upon market value.
- Non-current investments carried at cost: such investments are not publicly traded and do not have quoted market prices. An estimate of fair value has not been made because the amount of the investment is not significant and the estimation of fair value would require incurring excessive costs.
- Current investments: such investments are publicly traded and their fair value is represented by their market price.
- Non-current receivables: the fair values of non-current receivables are estimated based on the discounted value of future cash flows expected to be paid, considering rates of interest which Eni could earn on similar credit. The differences between the carrying and market values of non-current receivables at December 31, 2000 and 2001, excluding tax credits with Italian tax authorities, were not significant and are not included below. In relation to tax credits the interest rate (2.5% on a six-months basis) is aligned with the average market rate trend.
- Current receivables: the fair values of current receivables are not included below because they are approximated by their carrying values.
- Bonds payable, current portion of long-term debt and long-term debt: the fair values of bonds payable and long-term debt, including current maturities, are based on discounted cash flow analyses.
- Short-term debt: the carrying value of short-term debt approximates fair value because of the short period of time between the origination and maturity of the borrowings.
- Non-current payables: the fair values of non-current payables are estimated based on the discounted value of future cash flows. The differences between the carrying and market values of non-current payables at December 31, 2000 and 2001, were not significant and are not included below.

	Dec. 31, 2000		Dec. 31, 2001	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(million €)			
Marketable securities and current investments	1,926	1,961	1,709	1,736
Bonds and long-term debt, including current maturities	5,702	5,691	7,317	7,641

- Derivative financial instruments: the fair value of derivatives generally reflects the estimated amounts that Eni would pay or receive to terminate the contracts at the reporting date, thereby taking into account the current unrealized gains or losses of open contracts. Dealer quotes or appropriate pricing models have been used to estimate the fair value for Eni's derivatives. The carrying value, compared with the fair value, represents the amount of interest rate and exchange rate differentials recognized but not yet paid at year-end. For foreign exchange derivatives related to monetary assets and liabilities, the carrying value also represents the adjustment using current exchange rates at year-end. The difference between carrying value and fair value is therefore not significant.

	Dec. 31, 2000		Dec. 31, 2001	
	Carrying value	Fair value	Carrying value	Fair value
	(million €)			
Interest rate derivatives:				
— assets	12	38	9	91
— liabilities	(40)	(11)	(27)	(33)
Foreign exchange derivatives:				
— assets	225	79	208	53
— liabilities	(113)	(57)	(87)	(56)

28) Transactions with related parties

In the ordinary course of its business Eni enters into transactions concerning the exchange of goods, provision of services and financing with affiliated companies and non-consolidated subsidiaries as well as with entities owned or controlled by the Government. All such transactions are conducted in the interest of Eni companies.

Relevant transactions effected with entities controlled by the Italian government are only those with Enel, the Italian National Electric Utility.

The following is a description of trade and financing transactions with related parties for years 1999, 2000 and 2001.

Trade and other transactions

					1999			
	December 31, 1999				Costs		Revenues	
Name	Receivables	Payables	Guarantees	Commitments	Goods	Services	Guarantees	Services
				(million €)				
Affiliated companies								
Polimeri Europa Srl	83	20			77	20	497	17
Bayernoil Raffineriegesellschaft mbH		30				537	1	
Petrobel Belayim Petroleum Co	41	89				221		3
Saras SpA Raffinerie Sarde	36	57			64	170	122	10
Agip Oil Company Ltd	8	31				145		11
Raffineria di Milazzo SpA	22	9				123	35	3
Serfactoring SpA		155						2
Superoctanos CA	1	11			120		1	
Gruppo Distribuzione Petroli Srl	20					1	70	
Fertilizantes Nitrogenados de Oriente SA				14				
Supermetanol CA		5			16			1
Transitgas AG		5						
Other	120	138	53	—	76	217	270	82
	331	550	53	14	353	1,434	996	129
Non consolidated subsidiaries								
Transmediterranean Pipeline Co Ltd		11				123		
Consorzio Eni per l'Alta Velocitá Cepav Uno	37	218						1
Hotel Assets Ltd.	3		43					
Agricoltura SpA (in liquidation)	2	1	6			3	7	4
Enirisorsa SpA (in liquidation)		12	472				4	
Other	27	62	92		4	36	30	15
	69	304	613	—	4	162	41	20
	400	854	666	14	357	1,596	1,037	149
Entities owned or controlled by the Government								
Enel SpA	228	9	—	—	—	53	893	398
	628	863	666	14	357	1,649	1,930	547

					2000			
	December 31, 2000				Costs		Revenues	
Name	Receivables	Payables	Guarantees	Commitments	Goods	Services	Guarantees	Services
				(million €)				
Affiliated companies								
Polimeri Europa Srl	99	91			204	1	797	227
Sares SpA Raffinerie Sarde	42	106			277	146	425	24
Blue Stream Pipeline Company BV	71	84	623					198
Bayernoil Raffineriegesellschaft mbH		30				576		
Petrobel Belayim Petroleum Co	16	148				296		
Promgas SpA	15	21			152		150	
Raffineria di Milazzo SpA	28	18				164	70	24
Superoctanos CA	8	14			230		6	
Agip Oil Company Ltd	4	53				154		
Serfactoring SpA	1	169						1
Inca International SpA	12		5				79	6
Gruppo Distribuzione Petroli Srl	17					1	72	
Supermetanol Ca		5			53			12
Transitgas AG	1	11				13		
Other	145	100	55	6	37	243	360	70
	459	790	683	6	953	1,594	1,959	562
Non consolidated subsidiaries								
Enirisorsa SpA (in liquidation)	1	7	522					
Transmediterranean Pipeline Co Ltd		9				145		1
Agricoltura SpA (in liquidation)	4	1	30				5	3
Other(1)	68	62	140		3	58	46	17
	73	79	692		3	203	51	21
Entities owned or controlled by the Government	532	869	1,375	6	956	1,797	2,010	583
Enel SpA	334	9			22	11	1,517	509
	866	878	1,375	6	978	1,808	3,527	1,092

(1) Each individual amount included herein does not exceed euro 50 million.

Name	December 31, 2001 Receivables	Payables	Guarantees	Commitments	2001 Costs Goods	Services	Revenues Guarantees	Services
				(million €)				
Affiliated companies								
Blue Stream Pipeline Company BV	146	84						471
Bayernoil Raffineriegesellschaft mbH	15	27				612	1	
Promgas SpA	21	21			267		302	
Petrobel Belayim Petroleum Co	21	116				296		
Raffineria di Milazzo ScpA	7	6				151	57	
Superoctanos CA	9	7			191	1		1
Agip Oil Company Ltd	16	47				130		
Trans Austria Gasleitung GmbH	89	118				34		
Serfactoring SpA	1	142						
Bronberger & Kessler Handelsgesellschaft U. Gilg & Schweiger GmbH & Co Kg	8						92	
Bernhard Rosa Inh. Ingeborg Plochinger GmbH	7						85	
Gruppo Distribuzione Petroli Srl	17						68	
Inca International SpA	6						53	9
Saccne Rete Srl	4					2	53	
Supermetanol CA		2			50			1
Transitgas AG	2	17				25		
Other (*)	134	29	31	—	63	166	154	29
	503	616	31	—	571	1,417	865	511
Non consolidated subsidiaries								
Polimeri Europa Srl	47	19			185	1	677	92
Transmediterranean Pipeline Co Ltd		10				142		
Hotel Assets Ltd			51					
Other (*)	77	138	111	—	9	44	59	4
	124	167	162	—	194	187	736	96
	627	783	193	—	765	1,604	1,601	607
Entities owned or controlled by the Government								
Enel Group	70	9		—	20	23	1.512	226
	697	792	193	—	785	1,627	3,113	833

(*) Each individual amount included herein does not exceed euro 50 million.

Financing transactions

Name	December 31, 1999 Receivables	Payables	Guarantees	1999 Charges	Gains
			(million €)		
Affiliated companies					
Polimeri Europa Srl	283		60		18
Bayernoil Raffineriegesellschaft mbH	13				
Agip Oil Company Ltd	1				
Raffineria di Milazzo SpA	11		66		
Serfactoring SpA	104				2
Supermetanol CA	25		123		2
Superoctanos CA	5		120		
Transitgas AG	232				2
Other	19	45	34	2	7
	693	45	403	2	31
Non consolidated subsidiaries					
Transmediterranean Pipeline Co Ltd	421		164		30
Consorzio Eni per l'Alta Velocità - Cepav Uno	15		8	4	1
Agricoltura SpA (in liquidation)		244		7	
Enirisorse (in liquidation)		27	44		1
Other	80	47	19	5	2
	516	318	235	16	34
	1,209	363	638	18	65

Name	December 31, 2000 Receivables	Payables	Guarantees	2000 Charges	Gains
			(million €)		
Affiliated companies					
Blue Stream Pipeline Company BV			931		8
Transitgas AG	493				16
Polimeri Europa Srl	259		60		18
Supermetanol CA	20		129		2
Superoctanos CA	4		126		
Raffineria di Milazzo SpA	11		66		
Serfactoring SpA	70			1	1
Bayernoil Raffineriegesellschaft mbH	13				1
Other (*)	46	66	17	1	2
	916	66	1,329	2	48
Non consolidated subsidiaries					
Transmediterranean Pipeline Co Ltd	431		152		41
Agricoltura SpA (in liquidation)		215		9	
Enirisorse (in liquidation)	19	34	44	1	1
Other (*)	53	60	23	16	4
	503	309	219	26	46
	1,419	375	1,548	28	94

Name	Receivables	Payables	Guarantees	Charges	Gains
	December 31, 2001			2001	
			(million €)		
Affiliated companies					
Blue Stream Pipeline Company BV		49	983	1	21
Transitgas AG	608				19
Trans Austria Gasleitung GmbH	469				2
Superoctanos CA	3		130		
Supermetanol CA	16		134		1
Serfactoring SpA	77	21			1
Raffineria di Milazzo ScpA	21		66		
Bayernoil Raffineriegesellschaft mbH					1
Other (*)	56	80	19	7	3
	1,250	150	1,332	8	48
Non consolidated subsidiaries					
Transmediterranean Pipeline Co Ltd	429		113		32
Polimeri Europa Srl	306		120		17
Other (*)	59	52	8	4	2
	794	52	241	4	51
	2,044	202	1,573	12	99

(*) Each individual amount included herein does not exceed euro 50 million.

In 1999, trade transactions with Polimeri Europa concern the sale of basic petrochemical products, financing transactions concern conditioned financing related to operations, while guarantees were provided to banks in relation to loans. Transactions with Bayernoil Raffineriegesellschaft, Saras Raffinerie Sarde and Raffineria di Milazzo concern refining of crude oil and guarantees given on behalf of Raffineria di Milazzo to banks in relation to loans. Transactions with Petrobel Belayim Petroleum and Agip Oil Company concern services for exploration and production. Transactions with Serfactoring concern factoring activities and financing. Transactions with Superoctanos and Supermetanol concern the purchase of fuel and guarantees provided to banks in relation to loans. Transactions with Gruppo Distribuzione Petroli concern sales of petroleum products. Commitments with Ferilizantes Nitrogenados de Oriente relate to the maintenance of the leverage guaranteed to the financing banks. Receivables with Transitgas relate to the financing of the doubling of the Italy/Netherlands pipeline in the Swiss section. Transactions with Transmediterranean Pipeline concern financings and guarantees given to banks in relation to loans and lines of credit for the construction of the natural gas transmission network and transport services. Transactions with Consorzio Cepav Uno concern advances and works to be performed. Transactions with Hotel Assets concern guarantees provided to banks in relation to tax proceedings. Borrowings to Agricoltura (in liquidation) and Enirisorse (in liquidation) concern temporary cash deposits with Eni's financing subsidiaries. Guarantees given by Enirisorse (in liquidation) relate to the commitments taken with acquirors of divested activities. Transactions with Enel concern the sale and transportation of natural gas, sale of fuel oil and sale and purchase of electricity.

In 2000, trade transactions with Polimeri Europa concern the sale of basic petrochemical products and engineering services, financing transactions concern conditioned financing related to operations, while guarantees were provided to banks in relation to loans. Transactions with Saras Raffinerie Sarde, Bayernoil Raffineriegesellschaft and raffineria di Milazzo concern refining of crude oil, and only with Saras Raffinerie Sarde and Raffineria di Milazzo the sale of crude oil, the purchase of petroleum products and engineering services, and guarantees given on behalf of Raffineria di Milazzo to banks in relation to loans. Trade and financial transactions with Blue Stream Pipeline Company concern the construction of a pipeline between Turkey and the Russian Federation. Transactions with Petrobel Belayim Petroleum and Agip Oil Company concern services for exploration and production. Trade transactions with Promgas concern the sale of natural gas. Transactions with Superoctanos and Supermetanol concern the purchase of fuel additives and guarantees provided to banks in relation to lendings. Trade transactions with Inca International concern the sale of petrochemical products. Transactions with Serfactoring concern factoring activities and financing. Transactions with Gruppo Distribuzione Petroli concern sales of petroleum products. Receivables with Transitgas relate to the financing of the doubling of the Italy/Netherlands pipeline in the Swiss section and transport services.

Guarantees given by Enirisorse (in liquidation) relate to the commitments given to acquirors of divested activities. Transactions with Transmediterranean Pipeline concern financings and guarantees given to banks in relation to loans and lines of credit for the construction of natural gas transmission facilities and transport services. Borrowings to Agricoltura (in liquidation) and Enirisorse (in liquidation) concern temporary cash deposits with Eni's financing subsidiaries.

Transactions with Enel concern the sale and transportation of natural gas, sale of fuel oil and sale and purchase of electricity.

In 2001, trade and financial transactions with Blue Stream Pipeline Company concern the construction of a pipeline that will link the Russian Federation to Turkey. Transactions with Bayernoil Raffineriegessellschaft and Raffineria di Milazzo concern refining of crude oil, and only with Raffineria di Milazzo the sale of crude oil, the purchase of petroleum products, and guarantees given on behalf of Raffineria di Milazzo to banks in relation to loans. Trade transactions with Promgas concern the sale of natural gas. Transactions with Petrobel Belayim Petroleum and Agip Oil Company concern services for exploration and production. Transactions with Superoctanos and Supermetanol concern the purchase of fuel additives and guarantees provided to banks in relation to lendings. Financial transactions with Trans Austria Gasleitung GmbH concern the financing of the Austrian section of the gasline from the Russian Federation to Italy as well as transmission of natural gas. Transactions with Serfactoring concern factoring activities and financing. Trade transactions with Bronberger & Kessler Handelsgesellschaft U. Gilg & Schweiger GmbH Co Kg, Bernhard Rosa Inh. Ingeborg Plochinger GmbH and Saccne Rete concern the sale of refined products on wholesale markets. Transactions with Gruppo Distribuzione Petroli concern sales of petroleum products. Trade transactions with Inca International concern the sale of petrochemical products. Receivables with Transitgas relate to the financing of the doubling of the Italy/ Netherlands pipeline in the Swiss section and natural gas transport services.

Transactions with Transmediterranean Pipeline concern financings and guarantees given to banks in relation to loans and lines of credit for the construction of natural gas transmission facilities and transport services. Trade transactions with Polimeri Europa concern the sale of basic petrochemicals and electricity, financial transactions concern financings for operating activities and guarantees given to banks. Guarantees given to Hotel Assets Ltd concern tax payments.

Transactions with Enel concern the sale and transportation of natural gas, sale of fuel oil and sale and purchase of electricity.

29) Summary of significant differences between Italian accounting principles and U.S. GAAP

Eni's financial statements have been prepared in accordance with Italian GAAP, which differ in certain respects from U.S. GAAP. A description of the significant differences and their effects on net income and shareholders' equity is set forth in the following notes.

Consolidation policy

Under Italian GAAP the consolidated financial statements include the statutory accounts of Eni SpA and all Italian and foreign companies controlled by Eni SpA, directly or indirectly, either by holding the majority of the voting rights or, in cases where Eni holds less than 50% of the voting rights, when it exercises control in shareholders' meetings.

Under U.S. GAAP investments of less than 50% are accounted for by applying the equity method. Saipem SpA (43.0%) and Società Italiana per il Gas pA (40.9%), including the subsidiaries of such entities which are controlled by Eni without holding the majority of voting rights, have been consolidated under the equity method for U.S. GAAP purposes.

Exploration and production activities

Exploration

Under Italian GAAP, exploration costs, including successful exploratory wells, are recorded as intangible assets and are amortized in full in the period incurred (i.e. expensed as incurred for financial reporting purposes). Costs for the acquisition of exploration permits and for the extension of existing permits are capitalized and amortized over the expected period of benefit.

Under U.S. GAAP costs relating to exploratory wells and exploration permits are recorded as intangible assets until it is determined if commercial quantities of reserves have been discovered ("successful efforts method"). Costs related to unsuccessful wells are expensed immediately. Costs related to proved properties are amortized over proved reserves on the basis of units of production. Other exploration costs are expensed when incurred.

Development

Under Italian GAAP, development costs of unsuccessful wells are expensed immediately. Development costs of successful wells are capitalized and amortized on the basis of units of production.

Under U.S. GAAP, development costs are accounted for using the successful efforts method described above.

Valuation of assets and subsequent revaluation

Both Italian and U.S. GAAP require that assets which are impaired be written down to their fair value. However, under Italian GAAP, in order to determine whether an impairment exists the book value of an asset in question is compared to the sum of the discounted cash flows expected to be generated by such asset. If the sum of such discounted cash flows is less than the carrying value of the asset, an impairment exists.

Under U.S. GAAP, SFAS No. 121 requires the performance of the same analysis using undiscounted cash flows. To date there has been no significant difference between the application of the two methods.

In addition, under Italian GAAP impairment charges are reversed when the situation giving rise to an impairment ceases to exist. Under U.S. GAAP reversals of impairment charges are not permitted.

Monetary revaluation of assets

Certain assets have been revalued at various times in accordance with various Italian laws. Under U.S. GAAP, such revaluations are not permitted. The adjustments provided in Note 30 below include the effect of the recomputation of depreciation expense on a historical cost basis, as well as the elimination of these revaluations and the related accumulated depreciation.

Financing costs

Under Italian GAAP, direct financing costs related to issuances of equity are capitalized by Eni in the account ''Intangible assets — organizational and financing costs'' and amortized over their economic useful lives, not to exceed 5 years.

Under U.S. GAAP, direct financing costs related to issuances of equity are netted against related proceeds.

Treasury shares

Under Italian GAAP, treasury shares, acquired as long-term investments, are recorded at cost adjusted for impairment. When the reasons for the impairment cease to exist, treasury shares are revalued.

Under U.S. GAAP, treasury shares are recorded at cost regardless of their purpose. At December 31, 2000 and 2001, such difference had no effect on net income and shareholders' equity under U.S. GAAP.

Marketable securities

Under Italian GAAP, marketable securities are carried at the lower of purchase cost or market value.

Under U.S. GAAP, the accounting for investments in marketable securities uses a fair market value methodology. Eni's marketable securities would be classified as available-for-sale with changes in market value recorded as a component of shareholders' equity.

Deferred tax assets and liabilities

Under Italian GAAP deferred taxes are recorded if recoverable with reasonable certainty. Taxes payable relating to certain potential distributions from shareholders' equity or upon liquidation of a company are accrued only to the extent such distributions are planned. Any timing difference between purchase price and tax basis of an individual asset acquired does not result in the recording of an adjustment to the carrying value of such asset.

Under U.S. GAAP, deferred tax assets are recorded if their recovery is more likely than not. The potential taxes on equity reserves are considered deferred tax liabilities and are accrued accordingly. Deferred income taxes have not been provided on undistributed earnings of foreign subsidiaries as such earnings are expected to be permanently reinvested. In addition, under U.S. GAAP in situations where the purchase price of such assets purchased is not equal to the tax basis, deferred taxes must be provided for such differences and recorded as part of the acquisition.

The adjustments included below take into account the realizability of deferred tax assets, based on the more likely than not criteria rather than the certainty of their recovery, deferred taxes on undistributed earnings of subsidiaries and deferred taxes on acquired temporary differences. The adjustments also include the deferred tax effect of U.S. GAAP adjustments.

Depreciation

Until 1999, in accordance with Italian practice, depreciation of natural gas pipelines, natural gas distribution networks and related plant and machinery, was accounted for by applying rates on a straight-line basis established by Italian tax authorities on the basis of technical studies conducted for homogeneous industries. Under U.S. GAAP, depreciation expense is recognized based on the economic useful life of the assets.

The publication of Legislative decree no. 164 of May 23, 2000, which imposed the separation of transmission and distribution activities from other natural gas activities and the criteria set for the determination of transport and distribution tariffs by the Authority for Electricity and Gas led companies operating in this segment to re-evaluate the useful lives of the assets. The useful lives calculated by Eni (40 years for pipelines and 50 for distribution networks) were confirmed by an independent appraisal and by the documents issued by the Authority. Therefore, from 2000 assets related to transmission and distribution activities are amortized based on these new useful lives and no longer on the periods indicated in decrees of the Ministry for Economy and Finance based on technical studies conducted for homogeneous industries (10% and 8% for pipelines and distribution networks, respectively).

Capitalized interest expense

Eni capitalizes interest expense only if certain conditions are met in the self-construction of assets.

Under U.S. GAAP, actual interest costs incurred to bring qualified assets to their intended use, that theoretically could have been avoided if the expenditures for the assets had not been made, must be capitalized.

The adjustments to U.S. GAAP under ''Capitalized interest'' included below represent the capitalization difference, based upon actual interest costs incurred during each period, as well as subsequent depreciation effect of the additional capitalized interest.

Derivatives

Under Italian GAAP, derivative contracts are evaluated differently if they are used as hedging or as speculative instruments. Eni values derivatives that are used for hedging purposes, but that are not designated against specific transactions, according to the nature of the hedged assets. In particular, interest differences on derivatives hedging interest rates and premiums and discounts on exchange rate risk hedging contracts are recorded in the income statement over the term of the contracts. The currency component of exchange rate risk hedging is recorded in the income statement in the year in which the hedged asset/liability is first recorded. Profits on derivative contracts on price risks are recorded in the income statement as offsetting the depreciation of the hedged asset. Losses are recorded when incurred. Derivative contracts used as speculative instruments are recorded at fair value and the related effects are recorded in the income statement.

Under U.S. GAAP, SFAS 133 ''Accounting for Derivative Instruments and Hedging Activities'' establishes accounting and reporting for derivative instruments and hedging activities. In general SFAS 133 requires that companies recognize all derivatives as either assets or liabilities on the balance sheet and measure those instruments at fair value. Eni adopted SFAS 133 for US reporting purposes on January 1, 2001. Eni uses derivative instruments to manage the risk of fluctuations in commodity prices, interest rates and foreign currencies (see note 24 for information regarding the instruments). SFAS 133 requires that derivative instruments that hedge the variability of expected cash flow, the fair value of an underlying, or foreign currencies related to a specific risk are designated as a cash flow hedge, fair value hedge, or foreign currency hedge, respectively. Changes in fair value of derivative instruments designated and effective as fair value hedges are recognized through earnings and changes in fair value of cash flow hedges are recognized through equity as a component of other comprehensive income. For U.S. GAAP purposes, on adoption of SFAS 133, the current U.S. GAAP hedging relationships for Eni's existing derivative instrument were de-designated. The financial statement effect of this de-designation was not significant in 2001. Subsequent to adoption, movements in the fair value of the derivative instruments have been recorded as adjustments to U.S. GAAP net income as reflected in Note 30.

Revenues

Italian GAAP classifies as revenues certain income and gains which would normally be considered as other income or reduction of expenses for purposes of U.S. GAAP. The effect of these differences on operating income is reflected in Note 30.

Extraordinary income and expense

Certain items recorded by Eni as extraordinary in the periods presented herein would not qualify as extraordinary under U.S. GAAP. Such items have been reclassified to the appropriate income statement captions as determined by U.S. GAAP and included in the determination of operating income by segment. In addition, under U.S. GAAP, extraordinary items are presented net of tax.

Sales of government bonds

Eni accounted for government bonds transferred primarily to employees at par value, with the repurchasing commitment at the same value, as sales of bonds, and recognized the related gains in current income. For U.S. GAAP purposes, the terms of these transactions would result in their treatment as financing transactions and consequently in a cash flow statement prepared under U.S. GAAP these cash flows would be included in financing activities. Under this method, the bonds would remain as assets and the proceeds from the ''sales'' would be treated as obligations. Gains and losses from such sales are not significant.

Reclassification of inventory

Eni values crude oil and petroleum products held as compulsory stock as inventories that are subject to lower of cost or market valuations annually.

Under U.S. GAAP, cost associated with compulsory crude oil and petroleum products inventories are recorded, for balance sheet purposes, outside of inventories and have been included in fixed assets.

Stock compensation

Under Italian GAAP stock grants and options offered to employees for no consideration are recorded within the equity accounts when the shares are issued. In particular, stock grants made for no cash consideration are recorded at nominal value as a debit against specific equity reserve, while shares issued after exercise of options are recorded as capital increase for the nominal value and as increase in the special reserve for the difference between amounts paid for exercising the options and the nominal value of issued shares. No compensation expense is recorded.

Under U.S. GAAP stock grants and options are recorded as compensation expense for the excess of the market value over the exercise price of the stock on the measurement date. Such compensation expense is recorded over the period of benefit.

Eni has granted shares and options to employees for no consideration. The compensation costs related to these instruments have been included below.

Comprehensive income

U.S. GAAP requires the reporting and display of comprehensive income and its components in accordance with Statement of Financial Standard No. 130, ''Reporting Comprehensive Income'' (''SFAS 130'').

Components of other comprehensive income include variations in equity accounts not attributable to transactions already recorded in income or transactions with shareholders. The required information pursuant to SFAS 130 is presented in the reconciliation that follows. Deferred tax effects of exchange differences from the translation of functional currency financial statements have not been recorded as provided for by SFAS 109, which permits the exclusion of the calculation of taxes on equity reserves of foreign subsidiaries when the reserves are not expected to be released.

Gross operating margin

Gross operating margin consists of total revenues less operating expenses, excluding depreciation, amortization and writedowns. Under U.S. GAAP, gross operating margin would not be presented.

Earnings per share

Under Italian GAAP prior year earnings per share is recalculated each year to include in the weighted-average number of shares the number of shares issued through stock grants made in 2001. Under U.S. GAAP prior year earnings per share is not adjusted for the exercise of stock grants in 2001. This difference did not result in a quantitative difference between U.S. GAAP and Italian GAAP.

30) Reconciliations between net income and shareholders' equity determined under Italian GAAP to U.S. GAAP

The following is a summary of the significant adjustments to net income for the years ended December 31, 1999, 2000 and 2001 and to shareholders' equity as of December 31, 2000 and 2001 that would be required if U.S. GAAP had been applied instead of Italian GAAP in the consolidated financial statements:

	1999	2000	2001	2001
		(million €)		(million USD)
Net income according to the financial statements prepared under Italian GAAP	2,857	5,771	7,751	6,899
Items increasing (decreasing) reported net income:				
— successful-efforts accounting	(23)	137	265	236
— adjustment of gains on disposals due to elimination of monetary revaluation			227	202
— derivatives contracts			52	46
— elimination of monetary revaluation	31	30	33	29
— elimination of reversal of impairment charges	(113)	(19)	17	15
— capitalized interest expense	1	15	(7)	(6)
— stock grants awarded to employees	(11)	(3)	(22)	(20)
— effect of the differences between Italian GAAP and U.S. GAAP related to companies carried at equity method and excluded from consolidation under U.S. GAAP	12	(33)	(69)	(61)
— depreciation	249	(120)	(115)	(102)
— income taxes	(130)	(20)	(499)	(444)
— adjustment of gains on the sale of an interest in consolidated subsidiary (a)			(1,385)	(1,233)
— effect of U.S. GAAP adjustments on minority interest			69	61
Net adjustments	16	(13)	(1,434)	(1,276)
Net income in accordance with U.S. GAAP	2,873	5,758	6,317	5,623
Net income per share (based on the weighted-average number of ordinary shares outstanding for each period) (b)	0.72	1.44	1.62	1.44
Net income per ADS (based on five shares per ADS) (b)	3.59	7.21	8.08	7.19
Other comprehensive income for the period gross of income taxes:				
— exchange differences from translation of financial statements denominated in currency other than euro	640	331	439	391
— exchange differences from translation in the period	(22)	(94)	12	11
— fair value of marketable securities			27	24
	618	237	478	425
Net comprehensive income for the period according to U.S. GAAP	3,491	5,995	6,795	6,048

(a) Adjustment relates to the difference in the carrying value of the net assets of Snam Rete Gas, 40.24% of which was sold through a public offering.

(b) Amounts in euro or U.S. dollars.

	At Dec. 31, 2000	At Dec. 31, 2001	At Dec. 31, 2001
	(million €)		(million USD)
Shareholders' equity according to the financial statements prepared under Italian GAAP	22,401	27,438	24,463
Items increasing (decreasing) reported shareholders' equity:			
— successful-efforts accounting	2,240	2,621	2,333
— use of different depreciation rates	2,542	2,477	2,205
— capitalized interest expense	722	686	611
— effect of the differences between Italian GAAP and U.S. GAAP related to companies carried at equity method and excluded from consolidation under U.S. GAAP	131	55	49
— derivatives contracts		52	46
— fair value of marketable securities		27	24
— financing costs		(28)	(25)
— elimination of monetary revaluations	(340)	(79)	(70)
— elimination of reversal of impairment charges	(148)	(137)	(122)
— income taxes	(2,405)	(3,420)	(3,044)
— effect of U.S. GAAP adjustments on minority interest	8	(1,297)	(1,154)
Net adjustments	2,750	957	852
Shareholders' equity in accordance with U.S. GAAP	25,151	28,440	25,314

Shareholders' equity under U.S. GAAP includes other comprehensive income of euro 917 million and euro 1,389 million as of December 31, 2000 and 2001, respectively. Such other comprehensive income relates to exchange rate differences resulting from the translation of financial statements of foreign companies (cumulative transaltion adjustment) and to the fair value of marketable securities gross of deferred income taxes.

The consolidated balance sheets, if determined under U.S. GAAP would have been as follows:

	Dec. 31, 2000	Dec. 31, 2001	Dec. 31, 2001
	€	€	USD
	(Amounts stated in million € or million U.S. dollars)		
ASSETS			
Current assets:			
Cash	1,067	1,052	936
Marketable securities	1,904	1,537	1,368
Accounts receivable trade, financing and other	12,607	12,893	11,476
Inventories	2,363	2,092	1,862
Accrued interest and other	338	333	296
Total current assets	18,279	17,907	15,939
Non-current assets:			
Fixed assets, net	26,504	33,270	29,614
Receivables	2,798	3,304	2,941
Investments	4,971	3,767	3,353
Intangible assets	4,361	5,459	4,859
Other	344	1,269	1,130
Total non-current assets	38,978	47,069	41,896
Total Assets	57,257	64,976	57,835
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term debt	5,384	5,259	4,681
Current portion of long-term debt	519	1,172	1,043
Trade accounts payable	4,369	4,391	3,908
Advances	727	814	725
Taxes payable	4,709	1,962	1,746
Accrued expenses and other	3,075	3,150	2,804
Total current liabilities	18,783	16,748	14,907
Non-current liabilities:			
Long-term debt	4,907	5,948	5,294
Reserve for employee termination indemnities	365	365	325
Reserves for contingencies	4,249	5,196	4,625
Deferred and other non-current income tax liabilities	2,973	6,400	5,697
Accrued expenses and other	568	388	345
Total non-current liabilities	13,062	18,297	16,286
Total Liabilities	31,845	35,045	31,194
Minority interests	261	1,491	1,327
Shareholders' equity:			
Capital stock 4,001,259,476 fully paid shares nominal value 1 euro each (8,002,140,853 fully paid shares, nominal value ITL 1,000 at December 31, 2000)	4,133	4,001	3,561
Reserves	15,834	20,190	17,971
Treasury shares	(574)	(2,068)	(1,841)
Net income for the year	5,758	6,317	5,623
Total shareholders' equity	25,151	28,440	25,314
Total liabilities and shareholders' equity	57,257	64,976	57,835

The fixed assets as determined under U.S. GAAP would have been as follows:

	Dec. 31, 2000	Dec. 31, 2001	Dec. 31, 2001
	(million €)		(million USD)
Fixed asset, gross:			
Exploration and Production	27,720	37,832	33,674
Natural Gas	10,705	10,036	8,933
Electricity Generation	406	679	604
Refining and Marketing	8,682	8,874	7,899
Petrochemicals	4,334	3,606	3,210
Oilfield Services and Engineering	86	80	71
Other activities	217	229	204
	52,150	61,336	54,595
Less accumulated depreciation, amortization and writedowns:			
Exploration and Production	14,481	16,750	14,909
Natural Gas	3,597	3,471	3,090
Electricity Generation	157	172	153
Refining and Marketing	4,667	4,970	4,424
Petrochemicals	2,559	2,519	2,242
Oilfield Services and Engineering	61	54	48
Other activities	124	130	116
	25,646	28,066	24,982
Fixed assets, net:			
Exploration and Production	13,239	21,082	18,765
Natural Gas	7,108	6,565	5,844
Electricity Generation	249	507	451
Refining and Marketing	4,015	3,904	3,475
Petrochemicals	1,775	1,087	968
Oilfield Services and Engineering	25	26	23
Other activities	93	99	88
	26,504	33,270	29,614

With regard to the statements of income, operating income (loss) by industry segment and income before income taxes, as determined under U.S. GAAP, would have been as follows:

	1999	2000	2001	2001
		(million €)		(million USD)
Operating income (loss) by industry segment				
Exploration and Production	2,696	6,721	6,170	5,492
Natural Gas	2,522	2,446	2,940	2,617
Electricity Generation		36	66	59
Refining and Marketing	253	747	743	661
Petrochemicals	(582)	(102)	(1,080)	(961)
Oilfield Services and Engineering	30	(14)	(11)	(10)
Other activities	(195)	(172)	(186)	(166)
Activities to be divested				
	4,724	9,662	8,642	7,692
Income before income taxes	4,912	10,067	10,330	9,195

31) Additional financial statement disclosures required by U.S. GAAP and the SEC

Stock compensation

With the aim of improving motivation and loyalty of Eni managers Eni approved plans for the grant of Eni shares and stock options to Eni managers. The relevant costs are recorded in income for U.S. GAAP purposes. The disclosure requirements of SFAS No. 123, ''Accounting for Stock-Based Compensation'' (SFAS 123) and a description of Eni's stock grant and stock option plans are included below. As permitted under SFAS 123, Eni has adopted APB 25 and related interpretations in accounting for shares and options issued to employees in its reconciliation to U.S. GAAP. The application of SFAS 123 instead of APB 25 does not result in a significant difference. The fair value of stock grants and options at the date of issuance are as follows:

	Dec. 31, 2000	Dec. 31, 2001
	(million €)	
Stock grants	10.38	13.71
Options	1.54	

Stock Grant

The Shareholders' Meeting of June 6, 2000 delegated to the Board of Directors, in accordance with art. 2443 of the Civil Code, with the power to increase the capital stock to a maximum of euro 3.5 million for no consideration (or about 0.0875% of current capital stock) before July 31, 2001 in application of the 2000-2001 Incentive Plan by withdrawing from the «Reserve for the issue of shares in accordance with art. 2349 of the Civil Code». The aim was to improve motivation and loyalty of Eni managers by linking compensation to the attainment of preset individual and corporate objectives, to make management participate in corporate risk and to create greater Shareholder value.

The 2000-2001 incentive plan provides for the offering of Eni shares to those managers of Eni SpA and its subsidiaries as defined in art. 2359 of the Civil Code who have achieved corporate and individual objectives set for 1999 and 2000. These stock grants are exercisable within one month after the end of the third year from the date of the offer or, if earlier, within one month after the agreed termination of employment or death of the assignee. Stock grants may not be transferred by the assignee to other persons or entities, and their assignment is irrevocable. These grants automatically expire in the event that the assignee decides to terminate employment at Eni within three years from the date the share grants were made.

On June 21, 2000, the Board of Directors resolved to increase Eni's share capital by issuing a maximum of 2 million ordinary shares with a nominal value of 1 euro, by withdrawing from the ''Reserve for the issue of shares in accordance with art. 2349 of the Civil Code''.

On June 7, 2001, the Board of Directors resolved to increase Eni's share capital by issuing a maximum of 1.5 million ordinary shares with a nominal value of 1 euro, by withdrawing from the ''Reserve for the issue of shares in accordance with art. 2349 of the Civil Code''.

Following the Board's decision and the evaluation of management's performance, 1,428,550 shares were assigned in 2000 and 1,851,750 shares in 2001, including those offered to the Managing Director and General Manager.

At December 31, 2001 stock grants expiring in 2003 and 2004 were 1,103,400 shares and 1,587,900 shares, respectively.

After the exercise of shares assigned for no consideration, at December 31, 2001, Eni SpA's share capital amounted to euro 4,001,259,476 represented by 4,001,259,476 shares, nominal value 1 euro, excluding shares issued on January 2, 2002 for the 388,200 rights exercised in 2001. At that date Eni's share capital amounted to euro 4,001,647,676.

The Board of Directors is authorized to issue up to 1,500,000 (one million five hundred thousand) ordinary shares nominal value 1 (one) euro each, bearing regular coupon to be assigned to managers employed by the company and its subsidiaries controlled directly or indirectly by Eni S.p.A. who have achieved individual targets set for 2001. The shares will be exercisable for no consideration within a month from the expiration of a three-year term commencing as of the date of the communication of the grant to the assignee.

The Board of Directors has the power to set the terms and conditions for the execution of the stock grant.

The evolution of the stock grant plan for years 2000 and 2001 is as follows:

	2000		2001	
	Number of Shares	Market Price	Number of Shares	Market Price
Rights as of January 1	—	—	1,399,200	13,870
New rights assigned	1,428,550	11,600	1,851,750	15,100
Rights exercised in the period	(29,350)	13,158	(554,500)	13,531
Rights expired in the period	—	—	(5,150)	14,259
Rights as of December 31	1,399,200	13,870	2,691,300	14,063
Of which exercisable at December 31	—	—	6,650	14,063

Stock Option

In order to create an effective incentive tool, Eni created during 2000 the Stock Option Plan. The Plan provides that the options for rights to purchase Eni shares will be issued to top managers of Eni SpA and its subsidiaries as defined in art. 2359 of the Civil Code who had been selected by the Board of Directors who made substantial contributions to the achievement of corporate objectives and provided that Eni's average share prices recorded in July 2001 and 2002 reach specific levels set by the Board of Directors.

Options may not be transferred by the assignee to other persons or entities. In case of agreed termination of employment or retirement, the assignee maintains the right to exercise options within six months from termination of employment. Any residual rights expire at this time. Eni SpA's Managing Director maintains the right to exercise options assigned to him within six months from the date of the General Shareholders' Meeting approving Eni SpA's 2001 financial statements. In case of death of the assignee, his successors maintain the right to exercise option rights six months from the event, whereas the residual rights expire. In the event an assignee decides to terminate his employment, all option rights expire.

Assignees may receive advances from Eni's brokerage company managing the newly issued shares provided that the assignees concurrently give irrevocable instructions to sell such shares to such company.

Exercising the power conferred to it by the General Shareholders' Meeting of August 2, 2000, the Board of Directors of Eni, in the meeting held on September 26, 2000, resolved to increase Eni SpA share capital to euro 15 million (0.375% of the current capital stock) by issuing 15 million shares of ordinary stock. Such shares to be offered as options at a strike price of euro 12.992 per share (the arithmetic average of official prices recorded on the Mercato Telematico Azionario in the month preceding the date of the Board's resolution). The options granted are exercisable: (i) up to 50% of the total from August 1, 2001 to July 31, 2005 provided that the arithmetic average of quoted share prices recorded in July 2001 attains a level of euro 14.4; (ii) the entire amount of options from August 1, 2002 to July 31, 2005, provided that the arithmetic average of the quoted prices of Eni shares recorded in July 2002 attain a level of euro 16.8. Thus, if the shares reach the prices set for 2002, options not exercised because of the failure of the shares to reach the price set for 2001 become exercisable. In application of this plan, options were granted for 14,369,500 Eni shares, including those offered to the Managing Director and to the General Manager.

The arithmetic average share prices in July 2001 was euro 13.877, therefore the price set was not reached.

The following is a summary of stock option activity for years 2000 and 2001:

	2000		2001	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Options as of January 1	—	—	14,389,500	12.992
New options granted	14,369,500	12.992	—	—
Options exercised in the period	—	—	—	—
Options expired in the period	—	—	(2,337,500)	12.992
Options outstanding as of December 31	14,369,500	12.992	12,032,000	12.992
Of which exercisable at December 31	—	—	—	—

Income taxes

The following information is presented according to Statement of Financial Accounting Standards No. 109 "Accounting for Income Taxes".

Domestic and foreign components of pre-tax income are as follows:

	1999	2000	2001
		(million €)	
Domestic	3,563	5,591	6,614
Foreign	1,349	4,476	3,716
	4,912	10,067	10,330

The provision for income taxes is as follows:

	1999	2000	2001
		(million €)	
Current	1,719	5,367	3,128
Deferred	319	(1,054)	742
	2,038	4,313	3,870

The reconciliation of the income tax provision calculated under Italian tax regulation by applying a 36% rate (Irpeg) to pre-tax income and 4.25% (Irap) to net value of production, to the provision for income taxes recorded on a U.S. GAAP basis in the consolidated statements of income is as follows:

	1999	2000	2001
		(million €)	
Income before income tax in accordance with U.S. GAAP	4,912	10,067	10,330
Italian statutory tax rate (state and local)	43.2%	42.3%	41.1%
Expected income tax provision in accordance with U.S. GAAP at Italian statutory tax rate	2,123	4,261	4,242
Effect of items increasing (decreasing) the Italian statutory tax rate:			
— taxation of foreign operations at rates different from Italian statutory tax rate	(49)	378	609
— taxes on distributable reserves	19	(51)	169
— devaluation/revaluation of deferred tax assets		29	15
— effects of tax credits	(11)	(52)	(240)
— net tax effects due to the applications of Law 342/2000		(335)	(375)
— permanent differences	30	52	(394)
— tax effect of mergers	(74)		
— other		31	(156)
	(85)	52	(372)
Income taxes in accordance with U.S. GAAP	2,038	4,313	3,870

Permanent timing differences concern mainly the gain recorded in the consolidated financial statements due the public offering of 40.24% of the share capital of Snam Rete Gas (euro 348 million).

Net deferred tax liabilities

Net deferred tax liabilities under U.S. GAAP, represented by net deferred taxes recorded under "Reserve for taxes" (euro 6,181 million), less deferred tax assets recorded under "Other assets" (euro 1,292 million) amounted to euro 4,889 million (euro 2,482 million as of December 31, 2000).

The tax effects of significant temporary differences causing the tax liabilities are as follows:

	Dec. 31, 2000	Dec. 31, 2001
	(million €)	
Deferred tax liabilities:		
— accelerated depreciation	3,579	3,380
— distributable reserves subject to taxes in case of distribution	2,385	2,554
— excess cost paid for the acquisition of consolidated investments	161	1,381
— successful-efforts accounting	637	737
— capitalization of interest expense	279	322
— reserves for uncollectible receivables	108	127
— gains taxable in the future	59	69
— other	311	441
	7,519	9,011
Deferred tax assets:		
— revaluation of assets in accordance with Law 342/2000	(3,034)	(2,332)
— accruals for doubtful accounts and reserves for contingencies	(1,381)	(1,873)
— tax loss carryforwards	(542)	(1,116)
— investments revaluation in accordance with Law 292/93 and the allocation of the merger difference arising from the merger of Agip SpA into Eni SpA	(892)	(892)
— future deductable amortization	(334)	(353)
— writeoffs of assets deductable in the future	(117)	(258)
— losses of investments and subsidiaries in excess of currently allowable tax deductions	(224)	(220)
— revaluation of fixed assets	(137)	(31)
— other	(304)	(306)
	(6,965)	(7,381)
Less:		
— valuation allowance	1,928	3,259
	(5,037)	(4,122)
Net deferred tax liabilities	2,482	4,889

The valuation allowance for deferred tax assets (3,259 and 1,928 for the years ending December 31, 2001 and 2000 respectively) mainly relates to consolidated companies having accumulated fiscal losses which are not expected to the recovered with future fiscal profits and to temporary differences which the company does not expect will reverse.

Tax loss carryforwards

Gross tax loss carryforwards are the same as recorded under Italian GAAP (see note 13), with the exception of those related to the companies excluded from consolidation according to U.S. GAAP.

Acquisition Lasmo Plc

On February 2, 2001, Eni completed the acquisition of the outstanding shares of Lasmo Plc for approximately euro 4,381 million in cash plus euro 972 million in assumed liabilities. Prior to the acquisition, Lasmo Plc was a UK based independent exploration and production company with primary operations in the North Sea, Indonesia, Venezuela, Pakistan, Libya and Algeria. Lasmo was acquired to further strengthen the company's position in two of its core geographic areas — North Africa and the North Sea — and also to gain entry into the Asian gas market, as well as to establish an operating presence in Venezuela.

The following table shows the calculation and allocation of the purchase price of the assets acquired and liabilities assumed based on their relative fair values:

	(million €)
Cash paid for stock purchased	4,336
Merger costs incurred	45
	4,381
Plus: fair value of net liabilities assumed:	
Long term debt	972
Total purchase price for assets acquired	5,353
Allocation of purchase price for assets acquired:	
— fixed and Intangible assets	6,068
— goodwill	858
— deferred tax	(1,448)
other assets and liabilities	(125)
Total allocation of purchase price	5,353

The 1,448 million euro of deferred taxes recorded represent the deferred tax effect of the differences between the fair values assigned by Eni for financial reporting purposes to the assets and liabilities acquired and their tax bases. Goodwill as calculated under U.S. GAAP of euro 858 million is greater than goodwill as calculated under Italian GAAP by euro 557 million, due primarily to provisions for restructuring costs, which are expensed as incurred under Italian GAAP, and undiscounted deferred taxes, which are discounted under Italian GAAP. The difference in amortization expense resulting from difference in goodwill is included in the adjustment for ''Successful efforts accounting'' in the reconciliation in Note 30.

The effects of the Lasmo acquisition on the Company's 2000 and 1999 consolidated results of operations is not significant, therefore no pro-forma comparative presentation is given.

Investments

Investments of euro 3,767 million and euro 4,971 million as of December 31, 2001 and 2000, respectively include shares of Società Italiana per il Gas pA and Saipem SpA, valued under the equity method, which are publicly listed on the Italian Stock Exchange.

	Eni's number of shares	Eni's interest	Value of net equity	Share price €	Net equity value of Eni'Interest	Market value
		(%)	(euro million)		(euro million)	(euro million)
Dec. 31, 2001						
Società Italiana per il Gas pA	142,538,826	40.9	1,635	10.53	669	1,501
Saipem SpA	189,206,919	43.0	1,060	5.49	456	1,039
					1,125	2,540
Dec. 31, 2000						
Società Italiana per il Gas pA	142,538,848	40.9	1,626	10.60	665	1,511
Saipem SpA	189,206,919	43.0	1,007	5.93	433	1,122
					1,098	2,633

Concentrations and certain significant estimates

The following information is presented according to Statement of Position 94-6 ''Disclosures of Certain Significant Risks and Uncertainties''.

Nature of operations

Eni is an integrated energy company operating in the oil and gas, electricity generation, petrochemicals and oilfield services and engineering industries.

Exploration and Production: through Eni SpA's Agip Division and subsidiaries, Eni engages in exploration and production in Italy, North Africa (Algeria, Egypt, Libya, and Tunisia), West Africa (Angola, Congo, Gabon and Nigeria), the North Sea (Norway and the United Kingdom), Latin America (Venezuela and Ecuador), the former Soviet Union countries, mainly Kazakhstan, the United States and Asia (mainly Indonesia, Pakistan and

China). In 2001 approximately 70% of oil production sold was supplied to Eni's Refining and Marketing segment and approximately 50% of natural gas production sold was supplied to Eni's Natural Gas segment.

Natural Gas: Eni is engaged in the supply, transmission and sale of natural gas in Italy and outside Italy. Approximately 77% of total purchases for primary distribution in Italy are purchased from foreign sources (primarily Algeria, Russia, The Netherlands and Norway) under long-term contracts and transported to Italy through a network of international pipelines. The remaining purchases for primary distribution in Italy are obtained principally from Eni's Exploration and Production segment. Through an about 30,000-kilometer long network (corresponding to 96% of the Italian domestic natural gas network) Eni supplies natural gas to residential and commercial users, industrial users, independent power producers and electric utilities. Eni also participates directly in the secondary distribution of natural gas, primarily to residential and commercial customers through its approximate 41% interest in Italgas, the largest retail gas distribution company in Italy. Eni also participates in secondary distribution outside Italy, in Argentina through Distribuidora de Gas Cuyana, Hungary through Tigaz and in Slovenia through Adriaplin Doo.

Eni owns a storage system made up by a number of depleted fields used for the modulation of supply in accordance with seasonal swings in demand, (natural gas is stored in the summer and used in the winter), as strategic reserve to ensure supply and to support domestic production through mineral storage.

Legislative Decree n. 164 dated May 23, 2000 introduced rules for the liberalization of the Italian natural gas market which management believes will have a significant impact on Eni's activity, as the company is present in all the phases of the natural gas chain. The decree, among other things, establishes:

- opening of the entire market to competition by 2003;
- until December 31, 2010 antitrust thresholds to operators calculated as a percentage share of national consumption set as follows: (i) effective January 1, 2002 75% for imported or domestically produced natural gas volumes input in the national transport network and destined to sales; this percentage is to decrease by 2 percentage points per year until it reaches 61% in 2009; (ii) effective January 1, 2003 50% for sales to final customers. These ceilings are calculated net of losses (in the case of sales) and own consumption;
- the Authority for Electricity and Gas determines criteria for transport, dispatching, storage, use of LNG terminals and distribution tariffs;
- third parties will be allowed to access infrastructure according to set conditions. Pursuant to art. 24, line 5 of the Decree, the Authority for Electricity and Gas is expected to issue criteria and priorities relating to the allocation of entry capacity to the Italian gas network before the beginning of the 2002-2003 thermal year (October 2002).

In implementation of art. 21, line 1 of the Decree, in November 2000 Eni established Snam Rete Gas SpA, which owns and manages transmission, dispatching and regasification activities of Eni. In October 2001, it established Stoccaggi Gas Italia SpA which owns and manages the storage of natural gas. Snam Rete Gas was floated on the market by means of a public offering of 40.24% of its share capital with proceeds of euro 2.2 billion.

Electricity Generation: Eni through EniPower SpA and subsidiaries is engaged in generation and sale of electricity with a capacity of 1,000 megawatts and generation of about 5 thousand gigawatts/hour and approximately 40% of this is used internally. EniPower is in charge of the development of the electricity businesses. It manages the mainly market-oriented power plants which have the greatest development opportunities (Livorno, Taranto, Ravenna and Brindisi). The demand for gas and fuel oils of EniPower's stations is fully met by Eni's Natural Gas and Refining and Marketing segments.

Refining and Marketing: through AgipPetroli SpA and subsidiaries, Eni engages in refining and marketing activities primarily in Italy, with additional operations in Europe and South America. Eni is the largest refiner of petroleum products in Italy in terms of overall refining capacity. Approximately half of crude oil sold is purchased from producing countries pursuant to purchase contracts (25%) and in international spot markets (25%), while the remainder is obtained from Eni's Exploration and Production segment. Approximately 40% of the purchased crude oil is traded.

Petrochemicals: through EniChem SpA and subsidiaries (''EniChem''), Eni is a European leader in the manufacture of olefins, aromatics, intermediate products, styrene and elastomers. Eni's petrochemicals operations are concentrated in Italy, with additional operations primarily in western Europe. Approximately 63% of the oil-based feedstock requirements for Eni's petrochemicals operations were supplied by Eni's Refining and Marketing segment. Effective on January 1, 2002, the Strategic Chemical Activities business was conferred to Polimeri Europa Srl, a 100% subsidiary of Eni. This business includes some of Eni's core activities such as olefins and aromatics, intermediate products, styrene and elastomers produced in Italy in Brindisi, Sarroch, Ferrara, Gela, Mantova, Porto Marghera, Priolo, Ravenna and Settimo Milanese. To this new business unit also the research centers of Ferrara, Mantova, Porto Marghera, Ravenna and Novara were transferred, as well as the interests in industrial and commercial companies in Italy and outside Italy. The staff transferred is approximately 6,100 employees. Certain other plants were not transferred. The transfer created an integrated business for which a strategic alliance with a qualified partner in the chemical industry will be sought.

Oilfield Services and Engineering: through Saipem SpA and subsidiaries, Eni is a world leader in offshore and subsea oil and gas pipelaying and drilling and platform installation services. Through Snamprogetti SpA and subsidiaries, Eni is a leading provider of engineering and project management services to customers in the oil and gas and petrochemical industries. At December 31, 2001 approximately 15% of the order backlog of Eni's Oilfield Services and Engineering segment related to orders from Eni Group companies.

Certain significant estimates

The preparation of the financial statements in conformity with Italian GAAP, along with the reconciliation to U.S. GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recent accounting pronouncements

In June 2001, the Financial Accounting Standards Board (''FASB'') issued Statement of Financial Accounting Standards No. 141, ''Business Combinations'' (''SFAS 141''), No. 142 ''Goodwill and Other Intangible Assets'' (''SFAS 142'') and No. 143 ''Accounting for Asset Retirement Obligations'' (''SFAS 143''). In August 2001, FASB issued No. 144 ''Accounting for the Impairment or Disposal of Long-Lived Assets'' (''SFAS 144'').

SFAS 141 supercedes APB Opinion No. 16 ''Business Combinations'' and SFAS 38 ''Accounting for Preacquisition Contingencies of Purchased Enterprises'' and defines the accounting and reporting criteria for purchased business combinations. In addition, whenever certain conditions are met, it requires the separate recognition from goodwill, of intangible assets for which legal or contractual rights exist. This statement applies to business combinations entered into after June 30, 2001. For previous transactions this standard will apply to fiscal years beginning after December 15, 2001, Eni shall apply the standard beginning in 2002.

SFAS 142 supercedes APB Opinion No. 17 ''Intangible Assets'' and changes the accounting for intangible assets and goodwill. The statement establishes that goodwill and intangible assets with indefinite useful lives are not depreciated. Such goodwill and intangible assets will be evaluated for impairment on an annual basis. The forty year maximum limit for the depreciation of intangible assets with indefinite useful lives has been eliminated. This statement is effective for fiscal years starting after December 15, 2001. Eni shall apply it from 2002.

SFAS 143 ''Accounting for Asset Retirement Obligation'', provides the authoritative guidance for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The statement requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred, if estimable, concurrent with an increase in the related asset's carrying value. The increase in the related asset's carrying value is amortised to income over it's useful life. The discount associated with the liability is accreted into income over the related asset's useful life. Upon initial adoption, a liability is recognized for existing asset retirement obligations and the associated asset retirement cost is capitalized as an increase to the carrying value of the assets. The recognized liability and asset are adjusted for cumulative accretion and accumulated depreciation, respectively, from the time period when the asset retirement obligation would have originally been recognized had this statement been in effect to the date of adoption. Eni will adopt the standard beginning January, 2003.

SFAS 144 supercedes SFAS 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of" and APB Opinion No. 30 "Reporting the Results of Operations — Reporting the Effect of Disposal of a Segment of Business, and Extraordinary, Unusual or Infrequently Occurring Events and Transactions". This statement establishes one single recording criterion for assets to be disposed of, the disclosure of information for discontinued operations and valuation techniques. This statement is effective for all fiscal quarters starting after December 15, 2001. Eni shall apply it beginning in 2002.

Eni is presently evaluating these statements and cannot predict whether their application will have a material impact on Eni's financial position or operating results.

Supplemental oil and gas information (unaudited)

The following information is presented in accordance with Statement of Financial Accounting Standards No. 69, ''Disclosures about Oil & Gas Producing Activities''. Amounts related to minority interests are not significant.

Capitalized costs

Capitalized costs represent the total expenditures for proved and unproved mineral interests and related support equipment and facilities utilized in oil and gas exploration and production activity, together with related accumulated depreciation, depletion and amortization.

	Italy	North Africa	West Africa	North Sea	Rest of World	Total
			(million €)			
At December 31, 2000						
Proved mineral interests	6,509	6,339	5,885	5,395	3,009	27,137
Unproved mineral interests		175	281	101	646	1,203
Support equipment and facilities	241	30	170	49	28	518
Incomplete wells and other	1,195	413	316	547	688	3,159
Gross Capitalized Costs	7,945	6,957	6,652	6,092	4,371	32,017
Accumulated depreciation, depletion and amortization	(4,669)	(3,718)	(3,935)	(2,893)	(1,081)	(16,296)
Net Capitalized Costs (a)	3,276	3,239	2,717	3,199	3,290	15,721
Eni's share of equity method investees' net capitalized costs (Lasmo Plc)						1,484
At December 31, 2001						
Proved mineral interests	7,645	7,624	6,723	7,986	5,382	35,360
Unproved mineral interests		672	238	811	1,913	3,634
Support equipment and facilities	295	56	191	52	47	641
Incomplete wells and other	845	508	501	225	1,718	3,797
Gross Capitalized Costs	8,785	8,860	7,653	9,074	9,060	43,432
Accumulated depreciation, depletion and amortization	(5,109)	(4,333)	(4,378)	(3,612)	(1,894)	(19,326)
Net Capitalized Costs (a)(b)	3,676	4,527	3,275	5,462	7,166	24,106

(a) Amounts do not include ''non oil assets'' of euro 110 million in 2000 and 50 million in 2001.

(b) Amounts include euro 6,374 million related to the Lasmo acquisition.

Cost incurred

Costs incurred represent amounts both capitalized and expensed as incurred in connection with oil and gas producing activities.

	Italy	North Africa	West Africa	North Sea	Rest of World	Total
				(million €)		
Year ended December 31, 1999						
Proved property acquisitions	54	102	9		380	545
Unproved property acquisitions	2	102	34		234	372
Exploration (a)	194	92	87	44	121	538
Development (b)	433	356	357	400	318	1,864
Total costs incurred	683	652	487	444	1,053	3,319
Year ended December 31, 2000						
Proved property acquisitions		8	32	443	880	1,363
Unproved property acquisitions		30	11	67	149	257
Exploration	155	151	174	86	326	892
Development (b)	567	415	372	346	617	2,317
Total costs incurred (c)	722	604	589	942	1,972	4,829
Year ended December 31, 2001						
Proved property acquisitions (d1)	14	503		1,411	1,254	3,182
Unproved property acquisitions (d2)		438		495	704	1,637
Exploration (d3)	89	139	97	166	598	1,089
Development (b)	600	498	698	328	1,337	3,461
Total costs incurred (c)	703	1,578	795	2,400	3,893	9,369

(a) Amounts include R&D costs and other capitalized intangible assets of euro 79 million in 1999.

(b) Amounts include capitalized interest of euro 66 million in 1999, 94 million in 2000 and 71 million in 2001, and support equipment and facilities of euro 52 million in 1999, 98 million in 2000 and 48 million in 2001.

(c) The amounts exclude deferred income taxes of euro 165 million in 2000 (British Borneo Plc) and 974 in 2001 (Lasmo Plc) related to the respective acquisitions.

(d1) Acquisition costs per geographic area related to the Lasmo acquisition were for North Africa euro 503 million, North Sea euro 1,371 million and Rest of World euro 1,241 million.

(d2) Acquisition costs per geographic area related to the Lasmo acquisition were for North Africa euro 438 million, North Sea euro 495 million and Rest of World euro 704 million.

(d3) Acquisition costs per geographic area related to the Lasmo acquisition were for North Africa euro 13 million, North Sea euro 81 million and Rest of World euro 238 million.

Results of operations from oil and gas producing activities

Results of operations from oil and gas producing activities represent only those revenues and expenses directly associated with Eni's oil and gas production. These amounts do not include any allocation of interest expense or corporate overhead or amortization of goodwill and, therefore, are not necessarily indicative of the contributions to consolidated net earnings of Eni. Revenues and income tax expense include taxes owned by Eni but paid by government-owned entities on its behalf. Estimated income taxes are computed by applying the local income tax rates to the pre-tax income from producing activities.

	Italy	North Africa	West Africa	North Sea	Rest of World	Total
			(million €)			
Year ended December 31, 1999						
Revenues:						
— sales to affiliates	1,919	958	1,075	650	138	4,740
— sales to unaffiliated entities	499	506	81	205	222	1,513
Total revenues	2,418	1,464	1,156	855	360	6,253
Production costs	(352)	(370)	(353)	(199)	(52)	(1,326)
Exploration expenses	(120)	(69)	(61)	(39)	(83)	(372)
D.D. & A. and Provision for abandonment	(462)	(316)	(253)	(336)	(81)	(1,448)
Other income and (expenses)	(183)	(99)	(91)	3	(77)	(447)
Pretax income from producing activities	1,301	610	398	284	67	2,660
Estimated income taxes	(542)	(254)	(219)	(110)	(19)	(1,144)
Results of operations from E.&P. activities	759	356	179	174	48	1,516
Year ended December 31, 2000						
Revenues:						
— sales to affiliates	3,336	1,748	2,114	1,205	531	8,934
— sales to unaffiliated entities	136	1,134	190	373	660	2,493
Total revenues	3,472	2,882	2,304	1,578	1,191	11,427
Production costs	(399)	(459)	(517)	(238)	(125)	(1,738)
Exploration expenses	(192)	(84)	(60)	(45)	(180)	(561)
D.D. & A. and Provision for abandonment	(407)	(393)	(327)	(358)	(375)	(1,860)
Other income and (expenses)	(30)	(196)	(132)	(55)	(117)	(530)
Pretax income from producing activities	2,444	1,750	1,268	882	394	6,738
Estimated income taxes	(986)	(877)	(678)	(479)	(78)	(3,098)
Results of operations from E.&P. activities	1,458	873	590	403	316	3,640
Year ended December 31, 2001						
Revenues:						
— sales to affiliates	3,160	1,440	1,807	1,265	322	7,994
— sales to unaffiliated entities	140	1,181	169	1,250	1,271	4,011
Total revenues (a)	3,300	2,621	1,976	2,515	1,593	12,005
Production costs	(479)	(461)	(477)	(522)	(306)	(2,245)
Exploration expenses	(77)	(104)	(70)	(51)	(326)	(628)
D.D. & A. and Provision for abandonment	(474)	(417)	(315)	(704)	(612)	(2,522)
Other income and (expenses)	(87)	(129)	(129)	(79)	(214)	(638)
Pretax income from producing activities	2,183	1,510	985	1,159	135	5,972
Estimated income taxes	(877)	(605)	(628)	(672)	(136)	(2,918)
Results of operations from E.&P. activities	1,306	905	357	487	(1)	3,054

(a) Total revenues in Italy include revenues related to the "gas storage and modulation" activity. These revenues are estimated upon a first interpretation of "Delibera No. 26/02 — Criteri per la determinazione delle tariffe di stoccaggio del gas naturale" issued by the Country's Energy and Gas Authorities on February 27, 2002.

Oil and natural gas reserves

Proved oil and gas reserves are the estimated quantities of crude oil, natural gas and natural gas liquids which on the basis of geological and engineering available data will be able to be recovered with reasonable certainty in future years from known reservoirs under technical, contractual, economic and operating conditions existing at the time. Prices include consideration of changes in existing prices provided only by contractual arrangements, but not on escalations based upon future conditions.

Proved developed reserves are proved reserves that can be estimated to be recovered through existing wells, facilities and operating methods. Additional oil and gas reserves expected to be obtained through the application of fluid injection or other improved recovery techniques for supplementing natural forces and mechanisms of primary recovery are included as proved developed reserves only after testing by a pilot project or after the operation of an installed program has confirmed through production response that increased recovery will be achieved. Proved reserves exclude royalties and interests owned by others.

Proved undeveloped oil and gas reserves are reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for completion.

The estimates of Eni's reserves have been prepared in accordance with Statement of Financial Accounting Standard No. 69. The estimates of proved reserves, developed and undeveloped, at December 31, 1998, 1999, 2000 and 2001 are based on reports prepared by Eni.

Numerous uncertainties are inherent in estimating quantities of proved reserves and in projecting future rates of production and timing of development expenditures. The accuracy of any reserve estimate is a function of the quality of available data and engineering and geological interpretation and judgement. Results of drilling, testing and production after the date of the estimate may require substantial upward and downward revision. In addition changes in oil and natural gas prices could have an effect on the quantities of Eni's proved reserves because the estimates of reserves are based on prices and costs at the date when such estimates are made. In addition the reserves estimates are subject to revision as prices fluctuate due to the cost recovery feature under certain PSA. Accordingly, the estimated reserves could be materially different from the quantities of oil and natural gas that ultimately will be recovered.

ENI operates under Production Sharing Agreements (PSA's) in several of the foreign jurisdictions where it has oil and gas exploration and production activities. In countries where ENI operates under PSA's, proved reserves are shown in accordance with ENI's economic interest (pursuant to PSA contract terms) in the oil and gas reserve quantities estimated to be recoverable in future years. Such reserves include estimated quantities allocated to ENI for recovery of costs, income taxes owed by ENI but paid on its behalf and ENI's net equity share after cost recovery.

Estimated reserves include the volume of natural gas withdrawn from certain Eni Italian fields and contained in Eni's gas storage reservoirs in Italy used for responding to variations in gas demand due to seasonality (gas is usually stored during summer months for use during winter months, when demand typically peaks).

The following table presents yearly changes in estimated proved reserves, developed and undeveloped, of crude oil (including condensate and natural gas liquids) and natural gas for the years 1999, 2000 and 2001.

Crude oil (Including Condensates and Natural Gas Liquids)

Proved Oil Reserves	Italy	North Africa	West Africa	North Sea	Rest of World	Total
			(million barrels)			
Reserves at December 31, 1998	329	1,024	790	433	305	2,881
Purchase of Minerals in Place	6	13		1	79	99
Revisions of Previous Estimates	20	107	52	22	44	245
Improved Recovery			3			3
Extensions and Discoveries	5	8	126	2	11	152
Production	(32)	(81)	(71)	(41)	(18)	(243)
Reserves at December 31, 1999	328	1,071	900	417	421	3,137
Purchase of Minerals in Place		3	12	46	133	194
Revisions of Previous Estimates	(13)	42	59	36	166	290
Improved Recovery		2	9			11
Extensions and Discoveries	9	6	32	1	17	65
Production	(28)	(84)	(78)	(45)	(39)	(274)
Sales of Minerals in Place		(1)				(1)
Reserves at December 31, 2000 (1)	296	1,039	934	455	698	3,422
(1) Eni's share of equity method investees' proved oil reserves as at December 31, 2000 (Lasmo Plc) not included above						*131*
Purchase of Minerals in Place		118		120	248	486
Revisions of Previous Estimates	29	79	91	37	20	256
Improved Recovery		11	16	6		33
Extensions and Discoveries	9	8	21	8	24	70
Production	(25)	(84)	(81)	(74)	(50)	(314)
Sales of Minerals in Place			(5)			(5)
Reserves at December 31, 2001	309	1,171	976	552	940	3,948
Proved Developed Oil Reserves						
Reserves at December 31, 1998	180	689	452	315	70	1,706
Reserves at December 31, 1999	172	681	473	276	148	1,750
Reserves at December 31, 2000 (1)	144	650	487	303	189	1,773
Reserves at December 31, 2001	171	685	539	476	443	2,314
(1) Eni's share of equity method investees' proved developed oil reserves as at December 31, 2000 (Lasmo Plc) not included above						*56*

Natural gas

Proved Natural Gas Reserves	Italy (a)	North Africa	West Africa	North Sea	Rest of World	Total
			(billion cubic feet)			
Reserves at December 31, 1998	6,977	3,834	696	1,349	659	13,515
Purchase of Minerals in Place	1	19		22	81	
Revisions of Previous Estimates	22	585	(28)	37	(261)	355
Extensions and Discoveries	33	171	308	2	13	527
Production	(594)	(105)	(12)	(79)	(65)	(855)
Reserves at December 31, 1999	6,439	4,504	964	1,331	427	13,665
Purchase of Minerals in Place				195	150	345
Revisions of Previous Estimates	156	255	(19)	(23)	379	748
Improved Recovery		2				2
Extensions and discoveries	40	546		8	299	893
Production	(510)	(155)	(23)	(93)	(100)	(881)
Reserves at December 31, 2000 (1)	6,125	5,152	922	1,418	1,155	14,772
(1) Eni's share of equity method investees' proved natural gas reserves as at December 31, 2000 (Lasmo Plc)						*501*
Purchase of Minerals in Place	17			501	1,093	1,611
Revisions of Previous Estimates	(37)	539	12	148	833	1,495
Improved Recovery Extensions and discoveries	66	1	18	4	202	291
Production	(531)	(183)	(27)	(175)	(177)	(1,093)
Sales				(4)		(4)
Reserves at December 31, 2001	5,640	5,509	925	1,892	3,106	17,072
Proved Developed Natural Gas Reserves						
Reserves at December 31, 1998	4,115	516	137	838	184	5,790
Reserves at December 31, 1999	4,201	668	653	811	311	6,644
Reserves at December 31, 2000 (1)	4,012	1,009	595	810	649	7,075
Reserves at December 31, 2001	3,665	1,103	584	1,721	1,221	8,294
(1) Eni's share of equity method investees' proved developed natural gas reserves as at December 31, 2000 (Lasmo Plc)						*329*

(a) Including approximately 782, 756, 783 and 728 billions of cubic feet of natural gas held in storage at December 31, 1998, 1999, 2000 and 2001 respectively.

Standardized measure of discounted future net cash flows

Estimated future cash inflows represent the revenues that would be received from production and are determined by applying year-end prices of oil and gas to year-end quantities of proved reserves. Future price changes are considered only to extent provided by contractual arrangements. Estimated future development and production costs are determined by estimating the expenditures to be incurred in developing and producing the proved reserves at the end of the year. Neither the effects of future pricing nor expected future changes in technology and operating practices have been considered.

The standardized measure is calculated as the excess of future cash inflows from proved reserves less future costs of producing and developing the reserves, future income taxes and a yearly 10% discount factor.

Future cash flows as of December 31, 1999, 2000 and 2001 include annual payments from Natural Gas segment of Eni and other transport and distribution gas companies which represent payments for providing specified peak demand delivery capability. Such capability is provided through utilization of: (i) gas withdrawn from producing fields and injected into depleted gas fields as storage; (ii) gas acquired.

Future production costs include the estimated expenditures related to production of the proved reserves plus any production taxes without consideration of future inflation. Future development costs include the estimated costs of drilling development wells and installation of production facilities, plus the net costs associated with dismantlement and abandonment of wells and facilities, assuming year-end costs continue without considering future inflation. Future income taxes were calculated in accordance with the tax laws of the countries in which Eni operates.

The standardized measure is calculated in accordance with requirements of the Financial Accounting Standards Board. The standardized measure does not purport to be an estimate of the fair market value of Eni's proved reserves. An estimate of fair value would also take into account, among other things, the expected recovery of reserves in excess of proved reserves, anticipated changes in future prices and costs and a discount factor representative of the risks inherent in producing oil and gas.

	Italy	North Africa	West Africa	North Sea	Rest of World	Total
			(million €)			
At 31 December, 1999						
Future cash inflows	29,900	34,457	21,177	12,831	9,181	107,546
Future production costs	(3,972)	(7,782)	(5,212)	(3,528)	(1,375)	(21,869)
Future development and abandonment costs	(2,264)	(4,584)	(2,711)	(893)	(1,731)	(12,183)
Future net inflow before income tax	23,664	22,091	13,254	8,410	6,075	73,494
Future income tax	(9,168)	(10,662)	(8,012)	(4,006)	(1,594)	(33,442)
Future net cash flows	14,496	11,429	5,242	4,404	4,481	40,052
10% discount factor	(5,618)	(5,886)	(2,238)	(1,269)	(2,288)	(17,299)
Standardized measure of discounted future net cash flows	8,878	5,543	3,004	3,135	2,193	22,753
At 31 December, 2000						
Future cash inflows	50,505	39,551	22,057	16,761	17,778	146,652
Future production costs	(6,310)	(9,770)	(5,875)	(3,349)	(2,999)	(28,303)
Future development and abandonment costs	(2,310)	(4,981)	(2,708)	(860)	(2,504)	(13,363)
Future net inflow before income tax	41,885	24,800	13,474	12,552	12,275	104,986
Future income tax	(15,627)	(11,524)	(7,938)	(6,365)	(2,835)	(44,289)
Future net cash flows	26,258	13,276	5,536	6,187	9,440	60,697
10% discount factor	(12,203)	(7,146)	(2,370)	(1,867)	(4,410)	(27,996)
Standardized measure of discounted future net cash flows	14,055	6,130	3,166	4,320	5,030	32,701
Eni's share of equity method investees' standardized measure of discounted future net cash flows (Lasmo Plc)						1,058
At 31 December, 2001						
Future cash inflows (a)	32,310	37,780	20,154	17,444	20,715	128,403
Future production costs	(5,344)	(10,941)	(5,779)	(4,466)	(5,073)	(31,603)
Future development and abandonment costs	(2,577)	(5,284)	(3,194)	(1,593)	(2,607)	(15,255)
Future net inflow before income tax	24,389	21,555	11,181	11,385	13,035	81,545
Future income tax	(8,918)	(9,258)	(6,374)	(5,584)	(3,119)	(33,253)
Future net cash flows	15,471	12,297	4,807	5,801	9,916	48,292
10% discount factor	(6,925)	(6,612)	(1,992)	(1,611)	(4,381)	(21,521)
Standardized measure of discounted future net cash flows	8,546	5,685	2,815	4,190	5,535	26,771

(a) Future cash inflows in Italy include revenues related to the "gas storage and modulation" activity. These revenues are estimated upon a first interpretation of "Delibera No. 26/02 - Criteri per la determinazione delle tariffe" issued by the Country's Energy and Gas Authorities on February 27, 2002.

Changes in standardized measure of discounted future net cash flows

The following table reflects the changes in standardized measure of discounted future net cash flows for the years 1999, 2000 and 2001.

	1999	2000	2001
		(million €)	
Beginning of year	9,059	22,753	32,701
Increase (decrease):			
— sales, net of production costs	(4,927)	(9,689)	(9,760)
— net changes in sales and transfer prices, net of production costs	23,334	11,889	(16,754)
— extensions, discoveries and improved recovery, net of future production and development costs	1,144	1,623	1,027
— changes in estimated future development and abandonment costs	(1,570)	(1,061)	(2,527)
— development costs incurred during the period that reduced future development costs	1,746	2,125	3,342
— revisions of previous quantity estimates	2,054	2,736	3,397
— accretion of discount	1,362	4,226	5,628
— net change in income taxes	(12,702)	(4,102)	5,618
— purchase of reserves in-place	1,032	3,052	4,443
— sale of reserves in-place	(1)	(7)	(34)
— changes in production rates (timing) and other	2,222	(844)	(310)
End of year	22,753	32,701	26,771

32) Other Audit Reports not included herein

Eni, as a state owned company, was required by law to have each of its subsidiaries examined by independent auditors each year through 1992. Thereafter, Eni continued with the procedure as a matter of corporate policy. Eni also employs a principal auditor for the parent and a principal auditor for each major segment.

The audit reports of the principal auditor and the audit reports of certain major segments that are contained herein cover the following percentages of Eni's consolidated assets and revenues by year:

	1999	2000	2001
Assets	91.6%	89.9%	95.3%
Revenues	93.1%	92.8%	95.1%

The other subsidiaries of Eni audited by other firm, whose operations comprise substantially all of the balance of Eni's assets and revenues, are summarized below (none of these subsidiaries represented greater than 4% of Eni's consolidated assets at December 31, 2001 or 6% of Eni's consolidated revenues for the year 2001.

		Period covered by report: Year ended December 31,		
Name of major segments	Audit firm	1999	2000	2001
Società Petrolifera Italiana	Grant Thornton	X	X	X
Somicem	Mazars & Guerard	X	X	X
Lasmo Caracas BV	Ernst & Young			X
Lasmo Dacion BV	Ernst & Young			X
Lasmo Insurance Ltd	Ernst & Young			X
Lasmo Oriente BV	Ernst & Young			X
Lasmo Venezuela BV	Ernst & Young			X
Pennant Insurance Company Ltd	Ernst & Young			X
Sitep — Société Italo Tunisienne d'Exploration Pétrolière SA	KPMG Rached Fourati & Co International	X	X	X
Acquedotto Vesuviano	Ria & Partners	X		
Acquedotto Vesuviano	Consulaudit		X	X
Ambiente	Consulaudit	X	X	X

Name of major segments	Audit firm	Period covered by report: Year ended December 31, 1999	2000	2001
Energia Sicilia	Mazars & Guerard			X
Eni Acqua Campania	Ria & Partners	X	X	
Eni Acqua Campania	Grant Thornton			X
Fiorentina Gas	Bompani Audit	X	X	
Italgas Hellas	Consulaudit		X	X
Servizi Aerei	Consulaudit	X	X	
Servizi Aerei	S.G.R.C			X
Servizi Turistici Grantour	S.G.R.C	X	X	
Servizi Turistici Grantour	Audirevi			X
Slim Sicilia	Mazars & Guerard			X
Distribuidora De Gas Cuyana SA	Ernst & Young		X	
Inversora De Gas Cuyana SA	Ernst & Young		X	
Trans Austria Gasline Finance Co Ltd	Rawlinson & Hunter (D.&T.)	X	X	X
Trans Tunisian Pipeline Co Ltd	PricewaterhouseCoopers	X	X	
EniPower	PricewaterhouseCoopers		X	
EniPower Trading	Sala Scelsi Farina BDO			X
Agip Gas	Consulaudit	X	X	
Atriplex	Consulaudit	X	X	
Atriplex	Ria & Partners			X
Atriplex Servizi Logistici e Trasporti	Consulaudit			X
Big Bon Distribuzione	S.G.R.C	X	X	
Big Bon Distribuzione	Ria & Partners			X
Costiero Gas Livorno	PricewaterhouseCoopers	X	X	
Costiero Gas Livorno	Ria & Partners			X
Ecofuel	Consulaudit	X	X	
Ecofuel	Sala Scelsi Farina BDO			X
Eni Portugal Investment	Andersen			X
Euron	Neutra	X		
Mixoil	PricewaterhouseCoopers	X	X	
Mixoil	Neutra			X
Petrolig	PricewaterhouseCoopers		X	
Petrolig	Grant Thornton			X
Petroven	Consulaudit		X	X
Praoil Oleodotti Italiani	Reconta Ernst & Young	X	X	
Praoil Oleodotti Italiani	Consulaudit			X
Agip Benelux BV	Deloitte & Touche	X	X	
Agip Eritrea Share Co	Abraham Isaac & Co (KPMG)	X		
Agip (Etiopia) Share Co	A.A. Bromhead & Co (PwC)	X		
Agip (Zambia) Ltd	KPMG	X	X	
Ing. Luigi Conti Vecchi	Ria & Partners	X	X	
Ing. Luigi Conti Vecchi	Audirevi			X
EniChem Elastomeres France SA	Andersen			X
EniChem France SA	Andersen			X
Intermare Sarda	Bompani Audit	X	X	
Intermare Sarda	Grant Thornton			X

Name of major segments	Audit firm	Period covered by report: Year ended December 31, 1999	2000	2001
SASP Offshore Engineering SpA	Grant Thornton	X	X	
Saipem Energy International SpA (ex SASP Offshore Engineering SpA). .	Neutra			X
Sonsub	Deloitte & Touche	X	X	
Sonsub	Neutra			X
Aquater	Consulaudit	X	X	X
Consorzio Eni Per L'Alta Velocità (Cepav Uno)......................	Deloitte & Touche		X	
Consorzio Snamprogetti Foster Wheeler	Deloitte & Touche	X	X	
Snamprogetti Sud....................	Grant Thornton	X	X	X
EMC Netherland BV	Moret Ernst & Young		X	
European Marine Contractors Ltd	Ernst & Young	X	X	
Moss Krylov marittime	CONSAUD			X
Saibos (Services) SAS................	KPMG			X
Saipem Aban Drilling Co Private Ltd ...	PricewaterhouseCoopers	X	X	
Saipem Argentina S.A.M.I.C. YF.......	Henry M. Lisdero Y As. (E. & Y.)	X	X	
Saudi Arabian Saipem Ltd	Whinney Murray & Co (E.&Y)	X	X	
Upstream Constructors International FZCO	Andersen			X
CMS&A W.L.L	Ernst & Young			X
RPCO Enterprises Limited	Ernst & Young			X
Snamprotechint Servicos e Gestao de Projectos Lda	PricewaterhouseCoopers	X	X	
Padana Assicurazioni.................	PricewaterhouseCoopers		X	
Sofidsim Società di Intermediazione Mobiliare	Andersen			X
Eni International Bank Ltd	PricewaterhouseCoopers	X	X	
Agenzia Giornalistica Italia............	Ria & Partners	X	X	X
EniComunicazione...................	Ria & Partners	X	X	X
EniData...........................	Serca	X	X	
EniData...........................	Consulaudit			X
EniSud	Horwath & Horwath Italia	X	X	
EniSud	Ria & Partners			X
EniTecnologie	Neutra	X	X	
EniTecnologie	Audirevi			X
Eurosolare	Ria & Partners	X	X	X
Singea (in liquidazione) ex Enirisorse ...	Deloitte & Touche			X
Tecnomare	Deloitte & Touche	X	X	
Temars	Serca	X		

REPORT OF INDEPENDENT AUDITORS

To the Shareholders of Eni S.p.A.:

We have audited the accompanying consolidated balance sheets of Eni S.p.A. (an Italian corporation) and subsidiaries (the ''Company'') as of December 31, 1999 and 2000, and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2000, expressed in million of Euro. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of certain subsidiaries, prepared in accordance with generally accepted accounting principles in Italy, and which reflect total assets of 15% and 19% as of December 31, 1999 and 2000, respectively, and revenues of 11%, 11% and 9% for the years ended December 31, 1998, 1999 and 2000, respectively, of the consolidated totals. Those statements were audited by other auditors whose reports have been furnished to us and our opinion, insofar as it relates to the amounts included for those entities, is based solely on the reports of other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. Our audit included examining, on a test basis, evidence supporting the amounts (including the conversion of the financial statements of the subsidiaries referred to above to generally accepted accounting principles in the United States) and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Eni S.p.A. and subsidiaries as of December 31, 1999 and 2000, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2000 in conformity with accounting principles generally accepted in Italy.

The accounting practices of the Company used in preparing the accompanying financial statements conform with accounting principles generally accepted in Italy, but do not conform with accounting principles generally accepted in the United States. A description of these differences and a reconciliation of net income and shareholders' equity to U.S. generally accepted accounting principles are set forth in Notes 28, 29 and 30 of the Notes to the Consolidated Financial Statements.

Rome, Italy,
April 6, 2001

Arthur Andersen SpA

REPORT OF THE INDEPENDENT AUDITORS

To the Shareholders of
Snam Rete Gas S.p.A.

1. We have audited the consolidated balance sheet of Snam Rete Gas S.p.A. (an Italian corporation) and its subsidiary as of December 31, 2001, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the period then ended. Snam Rete Gas S.p.A. and its subsidiary GNL Italia S.p.A., incorporated respectively on November 15, 2000 and on July 27, 2001 and operating since the contribution, by Snam S.p.A. (now Eni divisione Gas & Power), of the business related to natural gas transportation, dispatching and regasification services, have ended the first financial period on December 31, 2001. These consolidated financial statements are the responsibility of Snam Rete Gas S.p.A.'s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

2. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. In our opinion, based on our audit, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Snam Rete Gas S.p.A. and its subsidiary as of December 31, 2001 and the results of their operations and their cash flows for the period then ended, in conformity with generally accepted accounting principles in Italy.

Milan, Italy,
March 25, 2002

Arthur Andersen SpA
Piergiulio Bizioli — Partner

INDEPENDENT AUDITORS' REPORT
Italian statutory consolidated financial statements

To the Stockholders
of Italgas — Società Italiana per il Gas p.A.

We have audited the Italian statutory consolidated balance sheet of Italgas — Società Italiana per il Gas p.A. and subsidiaries (the ''Group'') as of December 31, 2001 and the related consolidated statements of income, changes in shareholders' equity and cash flows for the year then ended. These financial statements (not presented separately herein) are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of certain subsidiaries which statements represent assets constituting 19% of the consolidated assets as of December 31, 2001. Those statements were audited by other auditors whose reports have been furnished to us and, our opinion, insofar as it relates to the amounts included for these subsidiaries, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the Italian statutory consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Italgas — Società Italiana per il Gas p.A. and subsidiaries as of December 31, 2001 and the consolidated results of their operations and their cash flows for the year then ended, in conformity with the accounting principles governing the presentation of the statutory consolidated financial statements in Italy.

Turin, Italy
April 9, 2002

Reconta Ernst Young S.p.A.

INDEPENDENT AUDITORS' REPORT
Italian statutory consolidated financial statements

To the Stockholders
of Saipem S.p.A.

We have audited the Italian statutory consolidated balance sheets of Saipem S.p.A. and subsidiaries (the ''Group'') as of December 31, 2001, and the related consolidated statements of income, changes in shareholder's equity and cash flows for the year then ended. These financial statements (not presented separately herein) are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit, the Italian statutory consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Saipem S.p.A. and subsidiaries as of December 31, 2001 and the consolidated results of their operations and their cash flows for the year then ended in conformity with the accounting principles governing the presentation of the statutory consolidated financial statements in Italy.

Milan, Italy
April 9, 2002

Reconta Ernst Young S.p.A.

REPORT OF INDEPENDENT AUDITORS

To the Shareholders of
Saipem S.p.A.

We have audited the consolidated balance sheets of Saipem S.p.A. (an Italian corporation) (the ''company'') and subsidiaries as of December 31, 1999 and 2000, and the related consolidated statements of income, changes in shareholder's equity and cash flows for each of the years in the three-year period ended December 31, 2000, expressed in Euro (not presented separately herein). These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of certain subsidiaries, which reflect total assets of 9% and 10% as of December 31, 1999 and 2000, respectively, and revenues of 16%, 23% and 18% for the years ended December 31, 1998, 1999 and 2000, respectively, of the consolidated totals. Those financial statements were audited by other auditors whose reports have been furnished to us and our opinion, insofar as it relates to the amounts included for those entities, is based solely on the reports of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in Italy which are consistent with those in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Saipem S.p.A. and subsidiaries as of December 31, 1999 and 2000, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2000 in conformity with generally accepted accounting principles in Italy.

Milan, Italy
April 11, 2001

KPMG S.p.A.

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