ENI SPA
Form 6-K
June 05, 2006
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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 6-K

REPORT OF FOREIGN ISSUER
Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934

For the month of May 2006

Eni S.p.A.
(Exact name of Registrant as specified in its charter)

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

(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.)

Form 20-F x Form 40-F o

(Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2b under the Securities Exchange Act of 1934.)

Yes o No x

(If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): _______)

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, hereunto duly authorised.

Eni S.p.A.

Name: Fabrizio Cosco
Title: Company Secretary

Date: May 31, 2006

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PRESS RELEASE

Buy-back programme: as of 25 May 2006 purchased 7.63% of Eni s share capital

Rome, 26 May 2006. In compliance with current regulations, Eni informs that as of 25 May 2006 (or the last valid date of the preceding authorisation granted to the Board of Directors by the Shareholders Meeting held on 26 May 2005 and withdrawn for the part not yet executed by the Shareholders Meeting held yesterday) 305,615,642 ordinary Eni shares were purchased, representing 7.63% of Eni s share capital, at a total cost of 4,835.7 million euro, representing an average of euro 15.823 per share.

The buy-back programme was launched on September 1st, 2000 in execution of the Shareholders resolution dated 6 June 2000, and represents an effective and flexible tool to increase shareholder value.

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PRESS RELEASE

Rome, May 25 2006. The Ordinary and Extraordinary Shareholders Meeting of Eni S.p.A. held today resolved to:

approve the Financial Statements of Eni S.p.A. at December 31, 2005 which show a net income of euro 5,287,660,333.55;

allocate euro 3,601,962,335.60 (representing Eni s residual net income following the payment, from the net income of euro 5,287,660,333.55, of an interim dividend of euro 0.45 per share resolved by the Board of Directors on September 21, 2005 and paid on October 27, 2005) as follows:

- **to the payment of a dividend of euro 0.65 for each share** outstanding on the ex-dividend date, Eni treasury shares on that date excluded. Following the payment of the 2005 interim dividend of 0.45 euro per share, the total 2005 dividend per share proposed amounts to euro 1.10;
- euro 179,800.00 to the Legal Reserve so that it totals one fifth of Eni s share capital;
- any amount left to the Distributable Reserve

pay said dividends from June 22, 2006, the ex-dividend date being June 19, 2006;

authorise the extension of the buy-back programme. The Shareholders Meeting has authorised the Board of Directors to extend the duration of the buy-back programme for a period of 18 months from the date of the Meeting, and to increase the amount of the programme from euro 5.4 billion to euro 7.4 billion. The buy-back programme was launched in September 2000 in execution of the Shareholders resolution dated 6 June 2000, and represents an effective and flexible tool, allowing the management to increase shareholder value. The Board of Directors will be authorised to purchase up to 400,000,000 (four hundred million) Eni ordinary shares, with a nominal value of euro 1 per share, and representing 9.986% of Eni s share capital, at a price not inferior to the shares nominal value, and which should not exceed by more than 5% the reference price of the shares on the day preceding each purchase, in compliance with the guidance and regulations of Borsa Italiana S.p.A.. As of 24 May 2006 304.9 million ordinary Eni shares were purchased, representing 7.6% of Eni s share capital, at a total cost of 4.8 billion euro, representing an average of euro 15.8 per share.

approve the 2006-2008 stock option plan;

insure Eni Directors and Statutory Auditors by means of a Directors and Officers Liability Policy D&O;

approve the following changes to Eni s by-laws, which result principally from the implementation of Law no. 262/2005 (protection of private investors) and from the publication of the new Corporate Governance Code for companies listed on Borsa Italiana S.p.A.:(i) the possibility to convene shareholders meetings through a notice to be published in national daily newspapers (art. 13.1); (ii) right for shareholders representing at least one fortieth (1/40) of Eni s share capital to request an integration in the agenda of shareholders meetings (art. 13.1); (iii) declaration of compliance to the legal requirements of honorability and independence to be provided by the candidates to the office of director; periodical evaluation by the Board of Directors of the persistence of such requirements in at least one or three directors depending on whether the Board is composed of up to or more than five directors (art. 17.3); (iv) clear indication of the duty of the Board of Directors to ascertain the honorability of General Managers (art. 24.1); (v) definition of the procedure for the appointment of the manager responsible for the preparation of financial reporting documents (art. 24.1); (vi) election of the Chairman of the Board of Statutory Auditors among the candidates of the minority list (art. 28.2); (vii) power to convene the Board of Directors by at least one statutory auditor and power to convene the shareholders meeting by at least two statutory auditors (art. 28.4).

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In compliance with current regulations, Eni informs that the following Directors serve on its Board: Roberto Poli - Chairman, Paolo Scaroni - Chief Executive Officer and General Manager, Alberto Clô, Renzo Costi, Dario Fruscio, Marco Pinto, Marco Reboa, Mario Resca, and Pierluigi Scibetta Members of the Board. The Board of Statutory Auditors includes: Paolo Andrea Colombo - Chairman, Luigi Biscozzi, Filippo Duodo, Riccardo Perotta, Giorgio Silva - Statutory Auditors. The following are General Managers of Eni: Stefano Cao - Exploration & Production, Domenico Dispenza - Gas & Power and Angelo Taraborrelli - Refining & Marketing. The following are Directors: Stefano Lucchini - Institutional Relations and Communications, Marco Mangiagalli - Chief Financial Officer, Massimo Mantovani - Legal Affairs, Leonardo Maugeri - Strategy and Corporate Development, Amedeo Santucci - Provisioning, Salvatore Sardo - Human Resources, Roberto Ulissi - Corporate Affairs and Governance; Rita Marino is Head of Internal Audit and Raffaella Leone is the Executive Assistant to the Chief Executive Officer.

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Rome,
Piazzale Enrico Mattei, 1

Capital stock
euro 4,005,358,876 fully paid

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ENI ANNOUNCES GROUP RESULTS FOR THE FIRST QUARTER OF 2006

BEST OF THE MAJORS FOR ORGANIC OIL AND NATURAL GAS PRODUCTION GROWTH

Reported net profit up 22% to euro 2.97 billion (adjusted net profit up 24% to euro 2.95 billion)
Oil and gas production up 7% to 1.83 million boe/d
Natural gas sales up 7% to 31.6 bcm

San Donato Milanese, 12 May 2006 - Eni, the international oil and gas company, today announces its group results for the first quarter of 2006 (unaudited).

Fourth quarter 2005		**First quarter 2005**	**2006**	**% Ch.**
	Summary group results (million euro)			
4,396	Operating profit	4,450	5,595	25.7
4,931	Adjusted operating profit (1)	4,348	5,533	27.3
2,105	Net profit	2,445	2,974	21.6
2,396	Adjusted net profit (1)	2,385	2,954	23.9
	Key operating data			
1,806	Oil and natural gas production (thousand boe/day)	1,703	1,827	7.3
28.00	Natural gas sales (2) (billion cubic metres)	29.60	31.61	6.8
3.11	Retail sales of refined products in Europe (Agip brand) (million tonnes)	2.89	2.93	1.4
6.07	Electricity sold production (terawatt hour)	4.98	6.42	28.9

(1) Adjusted operating profit and net profit are before inventory holding gains or losses and special items. For an explanation of these measures and a reconciliation of adjusted operating profit and net profit to reported operating profit and net profit see tables below.
(2) Including upstream equity production sold in Europe.

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Financial highlights

- adjusted operating profit: up 27% to euro 5.53 billion primarily reflecting the strong operating performance of the Exploration & Production division, up 63% compared to the first quarter of 2005
- 70% of operating profit earned outside Italy, compared to 54% in the first quarter of 2005
- adjusted net profit: up 24% to euro 2.95 billion as a result of the better operating performance partly offset by a higher Group tax rate, up 4% (from 42.6% to 46.7%)
- net cash provided by operating activities[3] came in at a robust euro 5.9 billion allocated for euro 1.34 billion to capital expenditure, euro 0.3 billion to the repurchase of own shares and euro 4.2 billion to debt repayment
- ratio of net borrowings to shareholders equity including minorities decreased from 0.27 at year-end 2005 to 0.15 at the end of the quarter

Operational highlights and trading environment

- oil and natural gas production increased 7% to 1.83 mboe/d, driven by organic growth primarily in Libya, Angola and Egypt. Excluding the impact of entitlement effects in certain Production Sharing Agreements (PSAs) and buy-back contracts[4] growth for the quarter was 9%. Production for the quarter was also adversely affected by residual hurricane impacts in the Gulf of Mexico and outages and disruptions in Nigeria due to social unrest
- natural gas sales were up 7% to 31.6 bcm reflecting higher volumes in both the European and Italian natural gas markets. Growth in the Italian natural gas market was driven primarily by increased consumption in the power generation and industrial segments
- the first quarter trading environment was supported by strong oil prices with average Brent crude prices exceeding $60 per barrel, up 30% from the first quarter of 2005. An 8.3% decrease in the average exchange rate of the euro versus the US dollar also boosted first quarter results. These positives were offset in part by lower refining margins, down 31% over the quarter, lower petrochemicals product margins and declining natural gas prices in Italy as a consequence of a new regulatory regime from the Italian Authority

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(3) See disclaimer at the end of this section.

(4) In PSAs the national oil company awards the execution of exploration and production activities to the international oil company (contractor). The contractor bears the mineral and financial risk of the initiative and, when successful, recovers capital expenditure and costs incurred in the year (Cost oil) by means of a share of production. This production share varies along with international oil prices. In certain PSAs changes in international oil prices also affect the share of production to which the contractor is entitled in order to remunerate its expenditure (Profit oil). A similar scheme applies to buy-back contracts.

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Outlook for 2006

Eni reaffirms its 2006 outlook, with key business trends for the year as follows:

- **production of liquids and natural gas** is forecast to continue growing. Increases will be achieved outside Italy mainly in Libya, Angola and Egypt due to the achievement of full production in fields started-up in the second half of 2005. These positives will be partly offset by natural field declines, residual hurricane impacts on production in the Gulf of Mexico and outages and disruptions in Nigeria due to social unrest and the impact of the unilateral cancellation of the service contract for the Dación oil field on part of the Venezuelan State oil company PDVSA effective on 1 April 2006. Despite the adverse impact of the unforeseen events in Venezuela and Nigeria, production growth rate for the year is expected to be 3% assuming a Brent crude oil price of $55 per barrel in the market scenario for 2006;
- **sales volumes of natural gas** are expected to increase outside Italy, in particular in Turkey, Germany and Spain;
- **sold production of electricity** is expected to increase due to the continuing ramp-up of new production capacity at the Brindisi and Mantova sites partially offset by lower production at the Ravenna and Ferrera Erbognone plants due to planned maintenance;
- **refining throughputs on Eni s account** are expected to decline slightly from 2005, due mainly to planned maintenance at the Sannazzaro, Livorno and Taranto refineries. Eni s refineries are expected to run at full capacity;
- **retail sales of refined products** on the Agip branded network in Italy are expected to remain stable: the impact of the expected decline in domestic consumption will be offset by a higher network performance. In the rest of Europe an upward trend of sales is expected to continue despite stagnation in the overall market; in particular higher sales are expected in Spain, France and Central Eastern Europe also due to construction/acquisition of service stations.

In 2006, capital expenditure is expected to amount euro 9.7 billion, representing a 31% increase from 2005. Approximately 91% of capital expenditure is planned in Eni s Exploration & Production, Gas & Power and Refining & Marketing divisions; main increases are expected in exploration projects, the development of oil and natural gas reserves, upgrading of natural gas transport and import infrastructure and upgrading of refineries.

Paolo Scaroni, Chief Executive Officer, commented:
Eni further improved both its operating and financial performance capturing the benefits of high oil prices. Results of the natural gas business were solid, despite the adverse impact of a new regulation in Italy. The foundations are in place for another year of organic growth and sound financial performance

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Disclaimer
Due to the seasonality in demand for natural gas and certain refined products and the changes in a number of external factors affecting Eni s operations, such as prices and margins of hydrocarbons and refined products, Eni s results from operations and changes in average net borrowings for the nine months of the year cannot be extrapolated for the full year.

This press release contains certain forward-looking statements, particularly the statements under Outlook . By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that will or may occur in the future. Actual results may differ from those expressed in such statements, depending on a variety of factors, including the timing of bringing new fields on stream; management s ability in carrying out industrial plans and in succeeding in commercial transactions, future levels of industry product supply; demand and pricing; operational problems; general economic conditions; political stability and economic growth in relevant areas of the world; changes in laws and governmental regulations; development and use of new technology; changes in public expectations and other changes in business conditions; the actions of competitors; and other factors discussed elsewhere in this document.

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This press release and Eni s Report on Group Results for the first quarter 2006 (unaudited) are also available on the Eni web site: www.eni.it .

About Eni
Eni is one of the leading integrated energy companies in the world operating in the oil and gas, power generation, petrochemicals, oilfield services construction and engineering industries. Eni is present in 70 countries and is Italy s largest company by market capitalisation.

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Summary quarterly results

Net profit for the first quarter of 2006 was euro 2,974 million, up euro 529 million from the first quarter of 2005, or 21.6%, reflecting higher operating profit (up euro 1,145 million), partially offset by a higher Group tax rate, up 4% (from 42.6% to 46.7%). The increase in the rate was due principally to a higher share of profit before income taxes earned by subsidiaries in the Exploration & Production division operating in countries where the statutory tax rate is higher than the average tax rate for the Group.

Eni s results benefited from a favourable trading environment with a higher Brent crude oil price (up 30%) and a depreciation of the euro versus the dollar (down 8.3%). These positives were partially offset by declining refining margins, down 30.8%, lower petrochemical products margins and declining selling margins on natural gas as a consequence of the new regulatory regime from the Italian Authority for Gas and Electricity.

Net profit for the first quarter includes an **inventory holding gain** of euro 59 million (net of the fiscal effect) and **special charges** of euro 39 million (net of the fiscal effect) relating principally to environmental provisions and provisions for redundancy incentives of euro 24 million, partially offset by gains on the divestment of mineral properties (euro 57 million). Excluding these items, **adjusted net profit** for the quarter was up 23.9% to euro 2,954 million.

Replacement cost operating profit for the first quarter was euro 5,501 million, an increase of euro 1,245 million over the first quarter of 2005, or 29.3%, reflecting primarily the increase reported in the:

- Exploration & Production division (up euro 1,736 million, or 67.6%) due to higher realisations in dollars (oil up 33.4%, natural gas up 24.4%) combined with increased production volumes sold (up 11.5 mboe, or 7.8%), and to the favourable impact of the depreciation of the euro versus the US dollar, offset in part by higher operating costs and amortisation charges.

These increases were partly offset by:

- lower replacement cost operating profit in the Gas & Power division (down euro 342 million, or 22.6%) due primarily to a decrease in natural gas margins as a consequence of a new regulatory regime from the Italian Authority for Gas and Electricity, which affected natural gas prices to residential customers and wholesalers combined with higher purchasing costs. On the positive side, sales of natural gas were up 1.87 bcm or 7.2% and electricity production sold was up 1.44 terawatt hours, or 28.9%. Transported natural gas volumes outside Italy were also higher reflecting the coming on line of volumes transported through the Greenstream pipeline from Libya;
- lower replacement cost operating profit in the Petrochemical division (euro 137 million, or 86.2%) affected by the significantly higher cost of oil-based feedstocks, not completely transferred to selling prices;
- lower replacement cost operating profit in the Refining & Marketing division (down euro 84 million, or 66.7%) due primarily to declining refining margins (margins on Brent were down 1.31 dollars/barrel, or 30.8%), the impact of longer refineries maintenance outages and higher environmental provisions (euro 21 million). These negatives were partly offset by the favourable impact of the depreciation of the euro versus the dollar.

Revenues for the first quarter of 2006 were euro 23,584 million, a 36.5% increase from the first quarter of 2005, primarily reflecting higher realised prices and higher sales volumes in virtually all of Eni s operating divisions. Also contributing to these increases was the favourable impact of the depreciation of the euro versus the dollar.

Net borrowings as at 31 March 2006 were euro 6,291 million, representing a decrease of euro 4,184 million from 31 December 2005. Cash inflow provided by operating activities came in at euro 5,863 million also benefiting from seasonality factors, and was partly offset by financial requirements for capital expenditure and investments (euro 1,359 million) and the repurchase of own shares (euro 313 million).

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At 31 December 2005, the ratio of net borrowings to shareholders equity including minority interests was 0.15, compared with 0.27 at 31 December 2005.

From 1 January to 31 March 2006 a total of 13.15 million Eni shares were purchased by the company for a total cost of euro 313 million (representing an average cost of euro 23.808 per share). Since the inception of the share repurchase programme (1 September 2000), Eni has repurchased 295 million shares, equal to 7.37% of its share capital, at a total cost of euro 4,585 million (representing an average cost of euro 15.54 per share).

Capital expenditure in the first quarter of 2006 amounted to euro 1,340 million (euro 1,474 million in the first quarter 2005) and was primarily related to:

- the development of oil and gas reserves (euro 777 million) in particular in Kazakhstan, Italy, Egypt, the United States and Angola and exploration projects (euro 173 million) in Egypt, Nigeria, Italy and Australia;
- the upgrading of Eni s natural gas transport and distribution networks in Italy (euro 114 million);
- the continuation of the construction of combined cycle power plants (euro 26 million);
- actions for the improvement of flexibility and yields of refineries, including the construction of a new hydrocracking unit at the Sannazzaro refinery, and the upgrade of the refined product distribution network in Italy and in the rest of Europe (overall euro 95 million).

Oil and natural gas production for the quarter averaged 1,827 kboe/d, representing an increase of 7.3% or 124 kboe/d from the first quarter of 2005, driven by organic growth in Libya, Angola and Egypt. Excluding the impact of adverse entitlements effects, oil and natural gas production increased by 9%.

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Post closing events

On 1 April 2006 the Venezuelan national oil company Petróleos de Venezuela SA (PDVSA) unilaterally cancelled the service contract regulating activities at the Dación oil field. Accordingly, starting on the same day, operations at the Dación oil field are being run by PDVSA which took over Eni Dación BV, Eni wholly owned subsidiary that had been operating the field until that date.

Eni proposed to PDVSA to agree on terms in order to recover the fair value of its Dación assets. If negotiations do not respond successfully to Eni s expectations, any legal action will be considered in order to defend vigorously Eni s claims in Venezuela.

Eni believes it has the right to be entitled to a compensation proportioned to the fair value of the relevant assets as consequence of the expropriation following the unilateral cancellation. This compensation, according to internal evaluations and evaluations made by qualified independent oil engineers company, should not be lower than the book value of assets which has not been impaired.

In 2005 and in the first quarter of 2006, oil production from Dación field averaged approximately 60 kbbl.

Other information

The Board of Directors decided to merge the wholly owned subsidiary Eni Tecnologie into Eni. The merger plan was approved by the Board on 30 March 2006.

The Board also approved the merger plan of the wholly owned subsidiary Enifin which is responsible for finance services to Group Italian subsidiaries and treasury management. This operation aims at simplifying the Group organisational structure and intragroup financial transactions.

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Trading environment indicators

Fourth quarter 2005		First quarter 2005	First quarter 2006	% Ch.
56.90	Average price of Brent dated crude oil (1)	47.50	61.75	30.0
1.189	Average EUR/USD exchange rate (2)	1.311	1.202	(8.3)
47.86	Average price in euro of Brent dated crude oil	36.23	51.37	41.8
5.05	Average European refining margin (3)	4.26	2.95	(30.8)
4.25	Average European refining margin in euro	3.25	2.45	(24.6)
2.3	Euribor - three-month rate (%)	2.1	2.6	23.8
4.3	Libor - three-month dollar rate (%)	2.8	4.7	67.9

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

(2) Source: ECB.

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

Summary group results

Summarised consolidated profit and loss account

(million euro)

Fourth quarter 2005		First quarter 2005	First quarter 2006	% Ch.
21,506	Net sales from operations	17,445	23,584	35.2
318	Other income and revenues	184	209	13.6
(15,684)	Operating expenses	(12,023)	(16,739)	(39.2)
(1,744)	Depreciation, amortisation and writedowns	(1,156)	(1,459)	(26.2)
4,396	**Operating profit**	**4,450**	**5,595**	**25.7**
(98)	Net financial expense	(92)	42	(145.7)
146	Net income from investments	134	240	79.1
4,444	**Profit before income taxes**	**4,492**	**5,877**	**30.8**
(2,237)	Income taxes	(1,915)	(2,747)	(43.4)
2,207	**Profit before minority interest**	**2,577**	**3,130**	**21.5**
(102)	Minority interest	(132)	(156)	(18,2)
2,105	**Net profit**	**2,445**	**2,974**	**21.6**
2,105	**Net profit**	**2,445**	**2,974**	**21.6**
(131)	Exclusion of inventory holding (gains) losses	(122)	(59)	..
1,974	**Replacement cost net profit** (1)	**2,323**	**2,915**	**25.5**
422	Exclusion of special items	62	39	..
2,396	**Adjusted net profit** (1)	**2,385**	**2,954**	**23.9**

(1) For an explanation of adjusted profit and replacement cost profit see page 10.

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Segmental analysis of operating profit

(million euro)

Fourth quarter 2005		First quarter 2005	First quarter 2006	% Ch.
3,559	Exploration & Production	2,567	4,303	67.6
641	Gas & Power	1,563	1,199	(23.3)
329	Refining & Marketing	269	89	(66.9)
37	Petrochemicals	158	39	(75.3)
138	Oilfield Services Construction and Engineering	65	83	27.7
(298)	Other activities	(62)	(65)	(4.8)
(41)	Corporate and financial companies	(53)	(51)	3.8
31	Unrealized profit in inventory [1]	(57)	(2)	
4,396	**Operating profit**	**4,450**	**5,595**	**25.7**
(209)	Exclusion of inventory holding (gains) losses	(194)	(94)	
4,187	**Replacement cost operating profit**	**4,256**	**5,501**	**29.3**
744	Exclusion of special items	92	32	
4,931	**Adjusted operating profit**	**4,348**	**5,533**	**27.3**

(1) Unrealized profit in inventory concerned intragroup sales of goods and services.

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Reconciliation of reported operating profit by division and net profit to adjusted operating and net profit

Adjusted operating profit and net profit are before inventory holding gains or losses and special items. Information on adjusted operating profit and net profit is presented to help distinguish the underlying trends for the company s core businesses and to allow financial analysts to evaluate Eni s trading performance on the basis of their forecasting models. These financial measures are not GAAP measures under either IFRS or U.S. GAAP; they are used by management in evaluating Group and Divisions performance.

Replacement cost net profit and operating profit reflect the current cost of supplies. The replacement cost net profit for the period is arrived at by excluding from the historical cost net profit the inventory holding gain or loss, which is the difference between the cost of sales of the volumes sold in the period based on the cost of supplies of the same period and the cost of sales of the volumes sold in the period calculated using the weighted-average cost method of inventory accounting.

Certain infrequent or unusual incomes or charges are recognised as special items because of their significance. Special items include also certain amounts not reflecting the ordinary course of business, such as environmental provisions or restructuring charges, and asset impairments or write ups and gains or losses on divestments even though they occurred in past exercises or are likely to occur in future ones.

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

First quarter 2006	**E&P**	**G&P**	**R&M**	**Petrochemicals**	**Oilfield Services Construction and Engineering**	**Other activities**	**Corporate and financial companies**	**Unrealized profit in inventory**	**Eni**
(million euro)									
Reported operating profit	**4,303**	**1,199**	**89**	**39**	**83**	**(65)**	**(51)**	**(2)**	**5,595**
Exclusion of inventory holding (gains) losses		(30)	(47)	(17)					(94)
Replacement cost operating profit	**4,303**	**1,169**	**42**	**22**	**83**	**(65)**	**(51)**	**(2)**	**5,501**
Exclusion special items:									
gains on disposal of assets	(57)								(57)
environmental charges		20	44						64
asset impairments						3			3
provisions to the reserve for contingencies			1	2					3
provisions for redundancy incentives		14	5				5		24
other			(3)	(1)		(1)			(5)
Special items of operating profit	**(57)**	**34**	**47**	**1**		**2**	**5**		**32**
Adjusted operating profit	**4,246**	**1,203**	**89**	**23**	**83**	**(63)**	**(46)**	**(2)**	**5,533**
Reported net profit									**2,974**
Exclusion of inventory holding (gains) losses									(59)
Replacement cost net profit									**2,915**
Exclusion special items									39
Adjusted net profit									**2,954**

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First quarter 2005

(million euro)	E&P	G&P	R&M	Petrochemicals	Oilfield Services Construction and Engineering	Other activities	Corporate and financial companies	Unrealized profit in inventory	Eni
Reported operating profit	**2,567**	**1,563**	**269**	**158**	**65**	**(62)**	**(53)**	**(57)**	**4,450**
Exclusion of inventory holding (gains) losses		(52)	(143)	1					(194)
Replacement cost operating profit	**2,567**	**1,511**	**126**	**159**	**65**	**(62)**	**(53)**	**(57)**	**4,256**
Exclusion special items:									
environmental charges			25						25
asset impairments	31					3			34
provisions to the reserve for contingencies						6			6
provisions for redundancy incentives		1	4				2		7
other		23	(3)						20
Special items of operating profit	**31**	**24**	**26**			**9**	**2**		**92**
Adjusted operating profit	**2,598**	**1,535**	**152**	**159**	**65**	**(53)**	**(51)**	**(57)**	**4,348**
Reported net profit									**2,445**
Exclusion of inventory holding (gains) losses									(122)
Replacement cost net profit									**2,323**
Exclusion special items									62
Adjusted net profit									**2,385**

Fourth quarter 2005

(million euro)	E&P	G&P	R&M	Petrochemicals	Oilfield Services Construction and Engineering	Other activities	Corporate and financial companies	Unrealized profit in inventory	Eni
Reported operating profit	**3,559**	**641**	**329**	**37**	**138**	**(298)**	**(41)**	**31**	**4,396**
Exclusion of inventory holding (gains) losses		(32)	(177)						(209)
Replacement cost operating profit	**3,559**	**609**	**152**	**37**	**138**	**(298)**	**(41)**	**31**	**4,187**
Exclusion special items:									
environmental charges		3	157			146	8		314
asset impairments/write-ups	(43)	1	5	11	4	47	2		27
Antitrust fine		290							290
provisions to the reserve for contingencies			8	6		(4)			10
provisions for increased insurance premium	57	6	30	17		4	(55)		59
provisions for redundancy incentives	4	3	13	4	2	3	15		44
other		(22)	14	(1)		9			0
Special items of operating profit	**18**	**281**	**227**	**37**	**6**	**205**	**(30)**		**744**
Adjusted operating profit	**3,577**	**890**	**379**	**74**	**144**	**(93)**	**(71)**	**31**	**4,931**
Reported net profit									**2,105**
Exclusion of inventory holding (gains) losses									(131)
Replacement cost net profit									**1,974**
Exclusion special items									422
Adjusted net profit									**2,396**

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Adjusted operating profit by segment

(million euro)

Fourth quarter 2005		First quarter 2005	First quarter 2006	% Ch.
3,577	E&P	2,598	4,246	63.4
890	G&P	1,535	1,203	(21.6)
379	R&M	152	89	(41.4)
74	Petrochemicals	159	23	(85.5)
144	Oilfield Services Construction and Engineering	65	83	27.7
(93)	Other activities	(53)	(63)	(18.9)
(71)	Corporate and financial companies	(51)	(46)	9.8
31	Unrealized profit in inventory	(57)	(2)	
4,931	**Adjusted operating profit**	**4,348**	**5,533**	**27.3**

Summarised consolidated balance sheet

(million euro)	31 Dec. 2005	31 Mar. 2006	Change
Fixed assets	54,291	53,876	(415)
Working capital, net	(3,568)	(4,988)	(1,420)
Employee termination indemnities and other benefits	(1,031)	(1,045)	(14)
Net capital employed	**49,692**	**47,843**	**(1,849)**
Shareholders equity including minority interest	39,217	41,552	2,335
Net borrowings	10,475	6,291	(4,184)
Total liabilities and shareholders equity	**49,692**	**47,843**	**(1,849)**
Debts and bonds	12,998	11,054	(1,944)
short-term	*5,345*	*3,674*	*(1,671)*
long-term	*7,653*	*7,380*	*(273)*
Cash	(2,523)	(4,763)	(2,240)
Net borrowings	**10,475**	**6,291**	**(4,184)**

Summarised cash flow statement

(million euro)

Net cash provided by operating activities	5,863
Capital expenditure and investments	(1,340)
Investments	(19)
Share buy-back	(313)
Divestments	85
Exchange difference and other changes	(92)
Change in net borrowings	**4,184**

There follows a review of financial and operating performance of Eni s main operating business divisions.

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First quarter operating results by division

Exploration & Production

(million euro)

Fourth quarter 2005		First quarter 2005	First quarter 2006	% Ch.
6,405	Revenues	4,601	7,399	60.8
3,559	Operating profit	2,567	4,303	67.6
18	Exclusion special items	31	(57)	
3,577	**Adjusted operating profit**	**2,598**	**4,246**	**63.4**
1,516	Capital expenditure	1,053	961	(8.7)

Operating profit for the first quarter was euro 4,303 million, up euro 1,736 million, or 67.6%, reflecting primarily higher realisations in dollars (oil up 33.4%; natural gas up 24.4%) combined with a growth in sales volumes, which were up 11.5 million boe, or 7.8%. The depreciation of the euro over the dollar also boosted operating profit by an estimated euro 350 million, pertaining principally to currency translation effects. These positive factors were partially offset by higher operating costs and amortisation charges in connection with higher development costs of new fields and for maintaining production levels in certain mature fields. Higher exploratory costs were also incurred.

The first quarter result included a special gain of euro 57 million resulting from asset divestment, compared with special charges of euro 31 million in the first quarter of 2005 resulting principally from asset impairments.

Fourth quarter 2005		First quarter 2005	First quarter 2006	% Ch.
1,806	**Daily production of oil and natural gas** [(1)] (thousand boe)	**1,703**	**1,827**	**7.3**
254	Italy	265	247	(6.8)
522	North Africa	432	541	25.2
372	West Africa	327	382	16.8
291	North Sea	290	298	2.8
367	Rest of world	389	359	(7.7)
161.0	**Oil and natural gas production sold** [(1)] (million boe)	**148.0**	**159.5**	**7.8**

(1) Includes Eni s share of production of joint ventures accounted for with the equity method.

Oil and natural gas production for the quarter averaged 1,827 kboe/d, representing an increase of 7.3% or 124 kboe/d from the first quarter of 2005, driven by organic growth in Libya, Angola and Egypt. Production for the quarter was adversely impacted by: (i) lower entitlements in certain PSAs and buy-back contracts of 29 kboe/d; (ii) field declines in mature areas, mainly in natural gas production in Italy; (iii) residual hurricane impacts on production in the Gulf of Mexico and outages and disruptions in Nigeria due to social unrest. Excluding the impact of adverse entitlement effects, oil and natural gas production increased by 9%.

The share of production outside Italy for the quarter was 86% (84% in the first quarter of 2005).

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Gas & Power

(million euro)

Fourth quarter 2005		First quarter 2005	First quarter 2006	% Ch.
7,419	Revenues	6,662	9,134	37.1
641	Operating profit	1,563	1,199	(23.3)
(32)	Exclusion of inventory holding (gains) losses	(52)	(30)	
609	**Replacement cost operating profit**	**1,511**	**1,169**	**(22.6)**
281	Exclusion special items	24	34	
890	**Adjusted operating profit**	**1,535**	**1.203**	**(21.6)**
411	Capital expenditure	265	151	(43.0)

Replacement cost operating profit for the first quarter of 2006 was euro 1,169 million, down euro 342 million, or 22.6%, due primarily to lower margins on natural gas sales as a consequence of a new regulatory regime from the Italian Authority for Electricity and Gas affecting natural gas prices to residential customers and wholesalers combined with higher purchasing costs. On the positive side, sales of natural gas (including own consumption) were up 1.87 bcm or 7.2% and electricity production sold was up 1.44 terawatt hour, or 28.9%. Transport activity outside Italy recorded a higher operating profit reflecting mainly higher volumes in particular for the coming on line of volumes transported through the Greenstream pipeline from Libya.

The first quarter results included special charges of euro 30 million related primarily to environmental provisions and provisions for redundancy incentives. Special items for the first quarter of 2005 related primarily to certain non-operating charges.

Fourth quarter 2005		First quarter 2005	First quarter 2006	% Ch.
	Sales of natural gas (billion cubic metres)			
15.67	Italy	16.99	17.47	2.8
7.04	Rest of Europe	7.33	8.57	16.9
0.22	Outside Europe	0.23	0.16	(30.4)
1.47	Eni s own consumption	1.25	1.47	17.6
24.40	**Total sales of consolidated subsidiaries to third parties and Eni s own consumption**	**25.80**	**27.67**	**7.2**
2.59	Sales of natural gas of Eni s affiliates (net to Eni)	2.64	2.41	(8.7)
26.99	**Total sales of natural gas**	**28.44**	**30.08**	**5.8**
22.05	**Transport of natural gas in Italy** (billion cubic metres)	**23.70**	**24.89**	**5.0**
14.75	Eni	15.36	16.12	4.9
7.30	Third parties	8.34	8.77	5.2
6.07	**Electricity production sold** (terawatt hour)	**4.98**	**6.42**	**28.9**

Natural gas sales for the first quarter were 30.08 bcm, or 1.64 bcm higher, primarily reflecting higher sales in the rest of Europe, up 1.24 bcm, or 16.9%, and in Italy, up 0.48 bcm, or 2.8%. Natural gas supplies to Eni s wholly-owned subsidiary EniPower for power generation increased by 0.22 bcm.

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Despite an increasingly competitive market, natural gas sales in Italy (17.47 bcm) increased by 0.48 bcm from the first quarter of 2005, reflecting higher sales to the industrial sector (up 0.48 bcm) and to the power generation industry (up 0.31 bcm), partially offset by lower volumes to wholesalers (down 0.24 bcm) and to residential customers (down 0.07 bcm).

Sales in the rest of Europe were 8.57 bcm, or 1.24 bcm higher, reflecting increases in: (i) sales under long-term supply contracts to Italian importers (up 0.61 bcm) for the progressive reaching of full supplies from Libyan fields; (ii) supplies to the Turkish market (up 0.37 bcm); (iii) increased volumes in France (up 0.23 bcm) relating to higher supplies to industrial operators.

Electricity production sold increased to 6.42 terawatt hour, or 28.9%, reflecting the continuing ramp-up of new production capacity, in particular at the Brindisi plant (up 1.07 terawatt hour) and full production of the Mantova plant, up 0.83 terawatt hour.

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Refining & Marketing

(million euro)

Fourth quarter 2005		First quarter 2005	2006	% Ch.
9,555	Revenues	6,901	9,280	34.5
329	Operating profit		89	(66.9)
(177)	Exclusion of inventory holding (gains) losses	(143)	(47)	
152	**Replacement cost operating profit**	**126**	**42**	**(66.7)**
227	Exclusion special items	26	47	
379	**Adjusted operating profit**	**152**	**89**	**(41.4)**
317	Capital expenditure	66	95	43.9

Replacement cost operating profit for the first quarter was euro 42 million, down euro 84 million or 66.7%, from the first quarter of 2005, due primarily to: (i) declining realised refining margins (Brent margin was down 1.31 dollars/barrel, or 30.8%) and the impact of longer refineries maintenance outages partially offset by the favourable impact of the depreciation of the euro over the dollar; (ii) a reduction in operating results of marketing activities in Italy due to lower margins in connection with higher international prices of refined products not entirely transferred to selling prices and with competitive pressure; (iii) higher special charges, which increased to euro 21 million.

The first quarter result included special charges of euro 47 million related primarily to environmental provisions and provisions for redundancy incentives. In the first quarter of 2005 special items were euro 26 million, related primarily to environmental provisions.

Fourth quarter 2005		First quarter 2005	2006	% Ch.
13.66	**Sales** (million tonnes)	**12.30**	**12.32**	**0.2**
2.20	Retail sales Italy on Agip branded network	2.06	2.06	
	Retail sales Italy on IP branded network	0.46		
0.91	Retail sales rest of Europe	0.83	0.87	4.8
2.83	Wholesale sales Italy	2.53	2.54	0.4
1.20	Wholesale sales outside Italy	1.10	1.13	2.7
6.52	Other sales	5.32	5.72	7.5

Refining throughputs on own account for the period in Italy and outside of Italy were up 0.17 million tonnes to 8.61 million tonnes, or 2%, reflecting higher throughputs in the Venezia and Gela refineries in Italy. It must be noted, however, that the Gela refinery ran at a low rate in the first quarter of 2005 as a consequence of a sea storm which impacted operations. These positives were partially offset by a reduction in the Livorno and Taranto refineries due to maintenance outages.

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Sales of refined products for the quarter were 12.32 mtonnes, 20 ktonnes higher from the first quarter of 2005 due essentially to the increase in sales in the retail and wholesale markets in the rest of Europe (up 70 ktonnes, or up 0.26). The 460 ktonnes reduction in retail sales due to the divestment of the entire share capital of Italiana Petroli, which occurred early in September 2005, was partially offset by Eni s ongoing supply of significant volumes of fuels and other products to the divested company.

Sales of refined products on the Agip branded network in Italy were 2.06 mtonnes, unchanged from the first quarter 2005. Sales of refined products on the retail markets in the rest of Europe increased by 40 ktonnes, or 4.8%, reflecting principally higher volumes in Spain and Central and Eastern Europe, also in connection with the acquisition of service stations in 2005.

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Summary financial data

Fourth quarter	(million euro)	First quarter			
2005		2005	**2006**	Change	% Ch.
21,506	Net sales from operations	17,445	**23,584**	6.139	35.2
4,396	Operating profit	4,450	**5,595**	1.145	25.7
4,187	Replacement cost operating profit	4,256	**5,501**	1.245	29.3
4,931	Adjusted operating profit	4,348	**5,533**	1.185	27.3
2,105	Net profit	2,445	**2,974**	529	21.6
1,974	Replacement cost net profit	2,323	**2,915**	592	25.5
2,396	Adjusted net profit	2,385	**2,954**	569	23.9
2,464	Capital expenditure	1,474	**1,340**	(134)	(9.1)

Adjusted operating profit and net profit are before inventory holding gains or losses and special items. For an explanation of these measures and a reconciliation of adjusted operating profit and net profit to reported operating profit and net profit see tables below.

Due to the seasonality in demand for natural gas and certain refined products and the changes in a number of external factors affecting Eni s operations, such as prices and margins of hydrocarbons and refined products, Eni s results of operations and changes in average net borrowings for the first quarter of the year cannot be extrapolated for the full year.

Key market indicators

Fourth quarter		First quarter			
2005		2005	**2006**	Change	% Ch.
56.90	Average price of Brent dated crude oil (1)	47.50	**61.75**	14.25	30.0
1.189	Average EUR/USD exchange rate (2)	1.311	**1.202**	(0.109)	(8.3)
47.86	Average price in euro of Brent dated crude oil	36.23	**51.37**	15.14	41.8
5.05	Average European refining margin (3)	4.26	**2.95**	(1.31)	(30.8)
4.25	Average European refining margin in euro	3.25	**2.45**	(0.80	(24.6)
2.3	Euribor - three-month rate (%)	2.1	**2.6**	0.50	23.8
4.3	Libor - three-month dollar rate (%)	2.8	**4.7**	1.90	67.9

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

(2) Source: ECB.

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

Summary operating data

Fourth quarter		First quarter			
2005		2005	**2006**	Change	% Ch.
	Daily production:				

1,132	oil (thousand barrels)	1,100	**1,143**	43	3.9
674	natural gas [(1)] (thousand boe)	603	**684**	81	13.4
1,806	**hydrocarbons** [(1)] (thousand boe)	**1,703**	**1,827**	**124**	**7.3**
22.93	Sales of natural gas to third parties (billion cubic meters)	24.55	**26.20**	1.65	6.7
1.47	Own consumption of natural gas (billion cubic meters)	1.25	**1.47**	0.22	17.6
24.40	**Total sales of consolidated companies**	**25.80**	**27.67**	**1.87**	**7.2**
2.59	Sales of natural gas of Eni s affiliates (net to Eni) (billion cubic meters)	2.64	**2.41**	(0.23)	(8.7)
26.99	**Total sales and own consumption of natural gas** (billion cubic meters)	**28.44**	**30.08**	**1.64**	**5.8**
1.01	Upstream gas direct sales in Europe (billion cubic meters)	1.16	**1.53**	0.37	31.9
28.00	**Sales of natural gas** (billion cubic meters)	**29.60**	**31.61**	**2.01**	**6.8**
7.30	Natural gas transported on behalf of third parties in Italy (billion cubic meters)	8.34	**8.77**	0.43	5.2
6.07	Electricity production sold (terawatthour)	4.98	**6.42**	1.44	28.9
13.66	Sales of refined products (million tonnes)	12.30	**12.32**	0.02	0.2
1,289	Sales of petrochemicals products (thousand tonnes)	1,372	**1,411**	39	2.8

(1) Includes own consumption of natural gas (48,000 and 40,000 boe/day in the first quarter of 2006 and 2005; 49,000 boe/day in the fourth quarter of 2005, respectively).

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ENI REPORT ON THE FIRST QUARTER OF 2006

BASIS OF PRESENTATION

Eni s accounts for the first quarter of 2006 unaudited, have been prepared in accordance with the criteria defined by the Commissione Nazionale per le Società e la Borsa (CONSOB) in its regulation for companies listed on the Italian Stock Exchange.
Financial information relating to the profit and loss account are presented for the first quarter of 2006 and for the first quarter and fourth quarter of 2005. Financial information relating to balance sheet data are presented at 31 March 2006 and 31 December 2005. Tables are comparable with those of 2005 financial statements and the first half report.
Eni s accounts for the first quarter of 2006 have been prepared in accordance with the evaluation and measurement criteria contained in the International Financial Reporting Standards (IFRS) issued by the International Accounting Standard Board (IASB) and adopted by the European Commission according to the procedure set forth in article 6 of the European Regulation (CE) No. 1606/2002 of the European Parliament and European Council of 19 July 2002.

Disclaimer
This report contains certain forward-looking statements, particularly in the Outlook section. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that will or may occur in the future. Actual results may differ from those expressed in such statements, depending on a variety of factors, including the timing of bringing new fields on stream; management s ability in carrying out industrial plans and in succeeding in commercial transactions; future levels of industry product supply, demand and pricing; operational problems; general economic conditions; political stability and economic growth in relevant areas of the world; changes in laws and governmental regulations; development and use of new technology; changes in public expectations and other changes in business conditions; the actions of competitors.

Financial review

PROFIT AND LOSS ACCOUNT

Fourth quarter	(million euro)	First quarter			
2005		2005	**2006**	Change	% Ch.
21,506	Net sales from operations	17,445	**23,584**	6,139	35.2
318	Other income and revenues	184	**209**	25	13.6
(15,684)	Operating expenses	(12,023)	**(16,739)**	(4,716)	(39.2)
(1,744)	Depreciation, amortization and writedowns	(1,156)	**(1,459)**	(303)	(26.2)
4,396	**Operating profit**	**4,450**	**5,595**	**1,145**	**25.7**
(98)	Net financial expense	(92)	**42**	134	..
146	Net income from investments	134	**240**	106	79.1
4,444	**Profit before income taxes**	**4,492**	**5,877**	**1,385**	**30.8**
(2,237)	Income taxes	(1,915)	**(2,747)**	(832)	(43.4)
2,207	**Profit before minority interest**	**2,577**	**3,130**	**553**	**21.5**
(102)	Minority interest	(132)	**(156)**	(24)	(18.2)
2,105	**Net profit**	**2,445**	**2,974**	**529**	**21.6**
2,105	**Net profit**	**2,445**	**2,974**	**529**	**21.6**
(131)	Exclusion of inventory holding (gains) losses	(122)	**(59)**	63	

1,974	**Replacement cost net profit**	**2,323**	**2,915**	**592**	**25.5**
422	Exclusion of special items	62	**39**	(23)	
2,396	**Adjusted net profit**	**2,385**	**2,954**	**569**	**23.9**

Net profit for the first quarter of 2006 was euro 2,974 million, up euro 529 million from the first quarter of 2005, or 21.6%, reflecting higher operating profit (up euro 1,145 million), partially offset by a higher Group tax rate, up 4.1% (from 42.6 to 46.7%). The increase in tax rate was due principally to a higher share of profit before income taxes earned by subsidiaries in the Exploration & Production division operating in countries where the statutory tax rate is higher than the average tax rate for the Group.
Eni s results benefited from a favorable trading environment with a higher Brent crude oil price (up 30%) and a depreciation of the euro versus the dollar (down 8.3%). These positive factors were partially offset by declining refining margins (down 30.8%), lower petrochemical products margins and declining selling margins on natural gas as a consequence of the new regulatory regime from the Italian Authority for Electricity and Gas.
Net profit for the first quarter includes an inventory holding gain of euro 59 million (net of the fiscal effect) and special charges of euro 39 million (net of the fiscal effect) relating principally to environmental provisions and provisions for redundancy incentives, partially offset by gains on the divestment of mineral properties. Excluding these items, adjusted net profit for the quarter was up 23.9% to euro 2,954 million.

Operating profit

Fourth quarter	(million euro)	First quarter			
2005		2005	**2006**	Change	% Ch.
3,559	Exploration & Production	2,567	**4,303**	1,736	67.6
641	Gas & Power	1,563	**1,199**	(364)	(23.3)
329	Refining & Marketing	269	**89**	(180)	(66.9)
37	Petrochemicals	158	**39**	(119)	(75.3)
138	Oilfield Services Construction and Engineering	65	**83**	18	27.7
(298)	Other activities	(62)	**(65)**	(3)	(4.8)
(41)	Corporate and financial companies	(53)	**(51)**	2	3.8
31	Unrealized profit in inventory (1)	(57)	**(2)**	55	
4,396	**Operating profit**	**4,450**	**5,595**	**1,145**	**25.7**
(209)	Exclusion of inventory holding (gains) losses	(194)	**(94)**	100	
4,187	**Replacement cost operating profit**	**4,256**	**5,501**	**1,245**	**29.3**
744	Exclusion of special items	92	**32**	(60)	
4,931	**Adjusted operating profit**	**4,348**	**5,533**	**1,185**	**27.3**

(1) Unrealized profit in inventory concerned intragroup sales of goods and services recorded at 31 March in the equity of the purchasing company.

Replacement cost operating profit for the first quarter was euro 5,501 million, an increase of euro 1,245 million from the first quarter of 2005, or 29.3%, reflecting primarily the increase reported in the Exploration & Production division (up euro 1,736 million, or 67.6%) due to higher realizations in dollars (oil up 33.4%, natural gas up 24.4%) combined with increased production volumes sold (up 11.5 mboe, or

These increases were partly offset by lower replacement cost operating profit in:

- the Gas & Power division (down euro 342 million, or 22.6%) due primarily to a decrease in natural gas margins as a consequence of the new regulatory regime from the Italian Authority for Electricity and Gas affecting natural gas prices

7.8%), and to the favorable impact of the depreciation of the euro versus the US dollar (with an approximately euro 350 effect related in part to currency translations), offset in part by higher operating costs and amortization charges.

to residential customers and wholesalers combined with higher purchasing costs. On the positive side, sales of natural gas were up 1.87 bcm or 7.2% and electricity production sold was up 1.44 terawatthours, or 28.9%. Transported natural gas volumes outside Italy were also higher reflecting the coming on line of volumes transported through the Greenstream pipeline from Libya;

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- the Petrochemical division (down euro 137 million) affected by the significantly higher cost of oil-based feedstocks not completely transferred to selling prices.
- the Refining & Marketing division (down euro 84 million, or 66.7%) due primarily to declining refining margins (margins on Brent were down 1.31 dollars/barrel, or 30.8%), the effect of longer maintenance outages of refineries and higher environmental provisions (euro 21 million). These negatives were offset in part by the impact of the appreciation of the dollar over the euro.

Analysis of profit and loss account items

Net sales from operations

Fourth quarter 2005	(million euro)	First quarter 2005	2006	Change	% Ch.
6,405	Exploration & Production	4,601	**7,399**	2,798	60.8
7,419	Gas & Power	6,662	**9,134**	2,472	37.1
9,555	Refining e Marketing	6,901	**9,280**	2,379	34.5
1,656	Petrochemicals	1,534	**1,728**	194	12.6
1,820	Oilfield Services Construction and Engineering	1,176	**1,326**	150	12.8
223	Other activities	237	**214**	(23)	(9.7)
440	Corporate and financial companies	316	**307**	(9)	(2.8)
(6,012)	Consolidation adjustment	(3,982)	**(5,804)**	(1,822)	(45.8)
21,506		**17,445**	**23,584**	**6,139**	**35.2**

Eni s **net sales from operations** (revenues) for the first quarter of 2006 were euro 23,584 million, a 35.2% increase from the first quarter of 2005, primarily reflecting higher realized prices and higher sales volumes in virtually all of Eni s operating segments. Also contributing was the favorable impact of the depreciation of the euro versus the dollar.
Revenues generated by the Exploration & Production segment (euro 7,399 million) increased by euro 2,798 million, up 60.8%, essentially due to higher prices realized in dollars (oil up 33.4%, natural gas up 24.4%), higher hydrocarbon production sold (11.5 million boe, up 7.8%) and the appreciation of the dollar aver the euro.

Revenues generated by the Gas & Power segment (euro 9,134 million) increased by euro 2,472 million, up 37.1%, essentially due to: (i) increased natural gas prices, related in particular to trends of energy parameters to which gas prices are contractually indexed, whose effects were offset in part by a new regulatory regime in Italy (see Operating report on the Gas & Power segment below); (ii) increased natural gas volumes sold (up 1.65 billion cubic meters or 6.7%); (iii) higher electricity production sold (1.44 terawatthour, up 28.9%).

Revenues by geographic area

(million euro) First quarter

	2005	**2006**	Change	% Ch.
Italy	**8,592**	**11,118**	**2,526**	**29.4**
Rest of European Union	4,357	**5,528**	1,171	26.9
Rest of Europe	1,096	**2,118**	1,022	93.2
Africa	1,655	**1,768**	113	6.8
Americas	714	**1,479**	765	107.1
Asia	956	**1,339**	383	40.1
Other areas	75	**234**	159	212.0
Total outside Italy	**8,853**	**12,466**	**3,613**	**40.8**
	17,445	**23,584**	**6,139**	**35.2**

Revenues generated by the Refining & Marketing segment (euro 9,280 million) increased by euro 2,379 million, up 34.5%, essentially due to higher international prices for oil and refined products and the effect of the appreciation of the dollar over the euro.

Revenues generated by the Petrochemical segment (euro 1,728 million) increased by euro 194 million, up 12.6% due essentially to an average 3.5% increase in selling prices and a 2.8% increase in volumes sold.

Operating expenses

Fourth quarter	(million euro)	First quarter			
2005		2005	**2006**	Change	% Ch.
14,838	Purchases, services and other	11,238	**15,912**	4,674	41.6
846	Payroll and related costs	785	**827**	42	5.4
15,684		**12,023**	**16,739**	**4,716**	**39.2**

Operating expenses for the first quarter of 2006 (euro 16,739 million) increased by euro 4,716 million from the first quarter of 2005, up 39.2%, essentially due to: (i) higher prices for oil-based and petrochemical feedstocks and for natural gas; (ii) currency translation effects; (iii) higher provisions to the risk reserve (euro 67 million as compared to euro 31 million in the first quarter of 2005), in particular for environmental charges in the Refining & Marketing and Gas & Power segments.

Labor costs (euro 827 million) increased by euro 42 million, up 5.4%, due mainly to an increase in unit labor cost in Italy, whose effects were offset in part by a decline in the average number of employees in Italy. Higher labor costs were due also to the increase in the average number of employees outside Italy and currency translation effects.

Employees

	31 Dec. 2005	**31 Mar. 2006**	Change	% Ch.
Exploration & Production	7,707	**7,719**	12	0.2
Gas & Power	12,324	**11,943**	(381)	(3.1)
Refining & Marketing	8,894	**8,959**	65	0.7
Petrochemicals	6,462	**6,493**	31	0.5
Oilfield Services and Construction	24,604	**25,648**	1,044	4.2
Engineering	4,403	**4,456**	53	1.2
Other activities	2,636	**2,625**	(11)	(0.4)
Corporate and financial companies	5,228	**5,099**	(129)	(2.5)
Total	**72,258**	**72,942**	**684**	**0.9**

As of 31 March 2006, employees were 72,942, with a decrease of 684 employees from 31 December 2005, down 0.9%.
Employees in Italy were 39,967. The 225 employee decline was related mainly to changes in consolidation (a total of 316 employees related to Fiorentina Gas

In the first quarter of 2006 a total of 546 employees was hired, of these 147 on open-end contracts (195 with university degrees, of these 129 newly graduated), and 441 employees were dismissed (of these 148 employees on open-end contracts).
Outside Italy employees were 32,975, with a 909

which was conferral in kind to a newly incorporated Eni s affiliate and water treatment activities in Ferrara), whose effects were offset in part by the positive balance of hiring and dismissals (105 employees).

employee increase mainly concerning fixed-term workers in the Oilfield Services Construction and Engineering segment.

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Depreciation, amortization and writedown

Fourth quarter	(million euro)	First quarter			
2005		2005	**2006**	Change	% Ch.
1,325	Exploration & Production	736	**1,095**	359	48.8
169	Gas & Power	161	**162**	1	0.6
122	Refining & Marketing	121	**110**	(11)	(9.1)
30	Petrochemicals	31	**31**		
45	Oilfield Services Construction and Engineering	46	**38**	(8)	(17.4)
4	Other activities	3	**2**	(1)	(33.3)
43	Corporate and financial companies	24	**19**	(5)	(20.8)
(4)	Unrealized profit in stock		**(1)**	(1)	
1,734	**Total amortization and depreciation**	**1,122**	**1,456**	**334**	**29.8**
10	**Impairments**	**34**	**3**	**(31)**	**(91.2)**
1,744		**1,156**	**1,459**	**303**	**26.2**

Depreciation and amortization charges (euro 1,456 million) increased by euro 334 million, up 29.8% mainly in the Exploration & Production segment (euro 359 million) related to increased development costs incurred for developing new fields and for maintaining production levels in mature fields, higher production and higher exploration costs (euro 92 million), in addition to currency translation effects.

Net financial expense

In the first quarter of 2006 **net financial expense** (euro 42 million) decreased by euro 134 million from the first quarter of 2005, due to the positive change in the recording at fair value of derivative financial instruments and a decrease in average net borrowings, whose effects were offset in part by higher interest rates, particularly on dollar loans on the London interbank market (Libor up 1.9 percentage points).

Net income from investments

Net income from investments in the first quarter of 2006 amounted to euro 240 million and concerned essentially: (i) Eni s share of income of affiliates accounted for with the equity method of accounting (euro 204 million), in particular in the Gas & Power and Refining & Marketing segments; (ii) dividends received by affiliates accounted for at cost (euro 27 million). The euro 106 million increase in net income from

Income taxes

Income taxes were euro 2,747 million, up euro 832 million due primarily to higher income before taxes (euro 1,385 million). The 4 percentage points increase in Group tax rate (from 42.6 to 46.7%) was due principally to a higher share of profit before income taxes earned by subsidiaries in the Exploration & Production division operating in countries where the statutory tax rate is higher than the average tax rate for the Group and provisions for the settlement of certain tax claims.

Minority interests

Minority interests were euro 156 million and concerned primarily Snam Rete Gas SpA (euro 96 million) and Saipem (euro 53 million).

investments was due essentially to improved results of operations of affiliates in the Gas & Power segment.

SUMMARIZED CONSOLIDATED BALANCE SHEET

(million euro)	31 Dec. 2005	**31 Mar. 2006**	Change
Fixed assets	54,291	**53,876**	(415)
Working capital, net	(3,568)	**(4,988)**	(1,420)
Employee termination indemnities and other benefits	(1,031)	**(1,045)**	(14)
Net capital employed	**49,692**	**47,843**	**(1,849)**
Shareholders equity including minority interest	39,217	**41,552**	2,335
Net borrowings	10,475	**6,291**	(4,184)
Total liabilities and shareholders equity	**49,692**	**47,843**	**(1,849)**
Debts and bonds	12,998	**11,054**	(1,944)
short-term	*5,345*	***3,674***	*(1,671)*
long-term	*7,653*	***7,380***	*(273)*
Cash	(2,523)	**(4,763)**	(2,240)
Net borrowings	**10,475**	**6,291**	**(4,184)**

The appreciation of the euro over other currencies, in particular the US dollar (at 31 March 2006 the EUR/USD exchange rate was 1.210 as compared to 1.180 at 31 December 2005 up 2.5%) determined with respect to 2005 year-end an estimated decrease in the book value of net capital employed of about euro 500 million, in net equity of about euro 420 million and in net borrowings of about euro 80 million as a result of currency translations at 31 March 2006.
At 31 March 2006, net capital employed totaled euro 47,843 million, representing a decrease of euro 1,849 million from 31 December 2005.
Fixed assets (euro 53,876 million) decreased by euro 415 million from 31 December 2005 due mainly to depreciation, amortization and impairment charges for the period (euro 1,459 million) and currency translation effects offset in part by capital expenditure (euro 1,340 million).

Net working capital (euro 4,988 million) decreased by euro 1,420 million from 31 December 2005 due mainly to higher taxes payable and reserves for taxation related to taxes due for the period and the fact that excise taxes on oil products sold in Italy the first 15 days of December are paid in the same month, instead of being paid in the following month as in the rest of the year.

The share of the Exploration & Production, Gas & Power and Refining & Marketing segments on net capital employed was 89.7% (90.9% as at 31 December 2005).

Net borrowings at 31 March 2006 were euro 6,291 million, representing a decrease of euro 4,184 million from 31 December 2005. Cash inflow provided by operating activities came in at euro 5,863 million also benefiting from seasonality factors. Cash from asset divestments (euro 85 million) and currency translation effects (approximately euro 80 million) also contributed to the reduction of net borrowings. These inflows were partly offset by financial requirements for capital expenditure and investments (euro 1,359 million) and the repurchase of own shares (euro 313 million).
Debts and bonds amounted to euro 11,054 million, of which euro 3,674 million were short-term (including the portion of long-term debt due within twelve months for euro 764 million) and euro 7,380 million were long-term.

Summarized cash flow statement

(million euro)

Net cash provided by operating activities	5,863
Capital expenditure and investments	(1,340)
Investments	(19)
Share buy-back	(313)
Divestments	85
Exchange difference and other changes	(92)
Change in net borrowings	**4,184**

Net equity at 31 March 2006 (euro 41,552 million) increased by euro 2,335 million from 31 December 2005, due essentially to net profit before minority interest (euro 3,130 million) whose effects were offset in part by currency translation effects (approximately euro 420 million) and the purchase of own shares (euro 313 million).
At 31 March 2006, the ratio of net borrowings to shareholders equity including minority interest was 0.15, compared with 0.27 at 31 December 2005.

In the period from 1 January to 31 March 2006 a total of 13.15 million own shares were purchased for a total of euro 313 million (representing an average euro 23.808 per share). From the beginning of the share buy-back plan (1 September 2000) Eni purchased 295 million own shares, equal to 7.37% of its share capital, for a total of euro 4,585 million (representing an average cost of euro 15.54 per share).

CAPITAL EXPENDITURE

Fourth quarter	(million euro)	First quarter			
2005		2005	**2006**	Change	% Ch.
1,516	Exploration & Production	1,053	**961**	(92)	(8.7)
411	Gas & Power	265	**151**	(114)	(43.0)
317	Refining & Marketing	66	**95**	29	43.9
33	Petrochemicals	13	**10**	(3)	(23.1)
114	Oilfield Services Construction and Engineering	57	**97**	40	70.2
31	Other activities	6	**3**	(3)	(50.0)
42	Corporate and financial companies	14	**23**	9	64.3
2,464	**Capital expenditure**	**1,474**	**1,340**	**(134)**	**(9.1)**

In the first quarter of 2006 capital expenditure amounted to euro 1,340 million, of which 90% related to the Exploration & Production, Gas & Power and Refining & Marketing segments. The decline from the first quarter of 2005 (euro 134 million, down 9.1%) was due mainly to the completion of relevant projects in the E&P segment (in particular the Libya Gas project and the Kizomba B-Block 15 project in Angola) and reduced requirements for the plan for generation capacity increase in power generation.
Capital expenditure of the Exploration & Production segment amounted to euro 961 million and concerned essentially development (euro 777 million) directed mainly outside Italy (euro 692 million), in particular Kazakhstan, Egypt, the United States and Angola. Development expenditure in Italy (euro 85 million) concerned in particular the continuation of work for well drilling, plant and infrastructure in VaI d Agri and sidetrack and infilling work in mature areas. Exploration expenditure amounted to euro 173 million, of which

Capital expenditure in the Gas & Power segment totaled euro 151 million and related essentially to: (i) development and maintenance of Eni s primary transmission and distribution network in Italy (euro 87 million); (ii) development and maintenance of Eni s natural gas distribution network in Italy (euro 27 million); (iii) the continuation of the construction of combined cycle power plants (euro 26 million) in particular at Ferrara and Brindisi.
Capital expenditure in the Refining & Marketing segment amounted to euro 95 million and concerned: (i) refining and logistics in Italy (euro 58 million), in particular actions for improving flexibility and yields of refineries, among which the construction of the new hydrocracking plant at the Sannazzaro refinery; (ii) the upgrade of the refined product distribution network and the purchase of service stations in the rest of Europe (euro 16 million); (iii) the upgrade of the distribution network in in Italy (euro 9 million).
Capital expenditure in the Oilfield Service Construction

about 88% was directed outside Italy. Outside Italy exploration concerned in particular Egypt, Nigeria and Australia. In Italy essentially the offshore of Sicily and onshore in Central Italy.

and Engineering segment amounted to euro 97 million and concerned: (i) the conversion of the Margaux tanker ship into an FPSO vessel that will operate in Brazil on the Golfinho 2 field; (ii) maintenance and upgrading of

equipment; (iii) beginning of fabrication and installation of facilities in the offshore phase of the Kashagan project in Kazakhstan.
Capital expenditure in the Petrochemical segment amounted to euro 10 million and concerned mainly environmental protection actions and compliance with safety and health regulations.

Post closing events

On 1 April 2006 the Venezuelan State oil company Petróleos de Venezuela SA (PDVSA) unilaterally cancelled the service contract regulating activities at the Dación oil field. Accordingly, starting on the same day, operations at the Dación oil field are being run by PDVSA which took over Eni Dación BV, Eni s wholly-owned subsidiary that had been operating the field until that date.

Eni proposed to PDVSA to agree on terms in order to recover the fair value of its Dación assets. If negotiations do not respond successfully to Eni s expectations, any legal action will be considered in order to defend vigorously Eni s claims in Venezuela.

Eni believes it has the right to be entitled to a compensation proportioned to the fair value of the relevant assets as consequence of the expropriation following the unilateral cancellation. This compensation, according to internaI evaluations and evaluations made by qualified independent oil engineers companies, should not be lower than the book value of assets which has not been impaired.

In 2005 and in the first quarter of 2006, oil production from the Dación field averaged approximately 60 kbbl/d.

OUTLOOK FOR 2006

Eni reaffirms its 2006 outlook, with key business trends for the year as follows:

- **production of liquids and natural gas** is forecast to continue growing. Increases will be achieved outside Italy mainly in Libya, Angola and Egypt due to full production of fields started-up in the second half of 2005. These
- **sales volumes of natural gas** are expected to increase outside Italy, in particular in Turkey, Germany and Spain;
- **sold production of electricity** is expected to increase due to the continuing ramp-up of new production capacity at the Brindisi and Mantova sites partially offset by lower production at the Ravenna and Ferrera Erbognone plants due to planned maintenance;
- **refining throughputs on Eni s account** are expected to decline slightly from 2005, due mainly to planned maintenance at the Sannazzaro, Livorno and Taranto refineries. Eni s refineries are expected to run at full capacity;
- **retail sales of refined products** on the Agip branded network in Italy are expected to remain stable: the impact of the expected decline in domestic consumption will be offset by a higher network performance. In the rest of Europe the upward trend of sales is expected to continue despite stagnation in the overall market; in particular higher sales are expected in Spain, France and Central Eastern Europe also due to the construction/acquisition of service stations.

In 2006, capital expenditure is expected to amount euro 9.7 billion, representing a 31% increase from 2005. Approximately 91% of capital expenditure is planned in Eni s Exploration & Production, Gas & Power and Refining & Marketing divisions; main increases are expected in exploration projects, the development of oil and natural gas reserves, upgrading of natural gas transport and import infrastructure and upgrading of refineries.

positives will be partly offset by natural field declines, residual hurricane impacts on production in the Gulf of Mexico and outages and disruptions in Nigeria due to social unrest and the impact of the unilateral cancellation on part of the Venezuelan national oil company PDVSA of the service contract for the Dación oil field effective from 1 April 2006. Despite the adverse impact of the unforeseen events in Venezuela and Nigeria, production growth rate for the year is expected to be 3% assuming a Brent crude oil price of $54.5 per barrel in the market scenario for 2006;

Operating results by business segment

EXPLORATION & PRODUCTION

Fourth quarter	(million euro)	First quarter			
2005		2005	**2006**	Change	% Ch.
6,405	Revenues	4,601	**7,399**	2,798	60.8
3,559	Operating profit	2,567	**4,303**	1,736	67.6
18	Exclusion special items	31	**(57)**	(88)	
3,577	**Adjusted operating profit**	**2,598**	**4,246**	**1,648**	**63.4**

Operating profit for the first quarter was euro 4,303 million, up euro 1,736 million, or 67.6%, reflecting primarily higher realizations in dollars (oil up 33.4%; natural gas up 24.4%) combined with a growth in sales volumes up 11.5 million boe, or 7.8%. The depreciation of the euro over the dollar also boosted operating profit by an estimated euro 350 million. These positive factors were partially offset by higher operating costs and amortization charges in connection with higher development costs of new fields and for maintaining production levels in certain mature fields. Higher exploratory costs were also incurred.

Fourth quarter	(million euro)	First quarter			
2005		2005	**2006**	Change	% Ch.
1,806	**Daily production of oil and natural gas** (1) (thousand boe)	**1,703**	**1,827**	**124**	**7.3**
254	Italy	265	**247**	(18)	(6.8)
522	North Africa	432	**541**	109	25.2
372	West Africa	327	**382**	55	16.8
291	North Sea	290	**298**	8	2.8
367	Rest of world	389	**359**	(30)	(7.7)
161.0	**Oil and natural gas production sold** (1) (million boe)	**148.0**	**159.5**	**11.5**	**7.8**

(1) Includes Eni s share of production of joint ventures accounted for with the equity method of accounting.

Oil and natural gas production for the quarter averaged 1,827 kboe/d, representing an increase of 7.3% or 124 kboe/d from the first quarter of 2005, driven by organic growth in Libya, Angola and Egypt. Production for the quarter was adversely impacted by: (i) lower entitlements in certain PSAs and buy-back contracts of 29 kboe/d; (ii) field declines in mature areas, mainly in natural gas production in Italy; (iii) residual hurricane

Daily production of oil and condensates (1,143 kbbl/d) increased by 43 kbbl from the first quarter of 2005, up 3.9%, due to increases registered in: (i) Angola, due to the reaching of full production of fields in the Kizomba B area in Block 15 (Kissanje and Dikanza, Eni s interest 20%) and the start-up of the Benguela/Belize fields in Block 14 (Eni s interest 20%); (ii) Libya, due to the reaching of full production at the Bahr Essalam offshore impacts on production in the Gulf of Mexico and outages and disruptions in Nigeria due to social unrest. Excluding the impact of adverse entitlement effects, oil and natural gas production increased by 9%. The share of production outside Italy was 86% (84% in the first quarter of 2005).

field (Eni s interest 50%) as part of the Western Libyan Gas Project; (iii) Algeria, due to increased production at the Rod and satellite fields (Eni operator with a 63.96% interest). These increases were partly offset by lower production in: (i) Nigeria, due to outages and disruptions related to social unrest in the country; (ii) Kazakhstan due to maintenance of facilities; (iii) USA due to the impact of hurricanes in the fourth quarter of 2005.

Daily production of natural gas (684 kboe) increased by 81 kboe from the first quarter of 2005, up 13.4%, due essentially to increases registered in Egypt for the reaching of full production at the eI Temsah 4 platform in the offshore of the Nile Delta and increased supplies to the Damietta liquefaction plant (Eni s interest 40%), Libya, due to the start-up of the Bahr Essalam field (Eni s interest 50%), Nigeria due to increased supplies to the Bonny liquefaction plant (Eni s interest 10.4%) and Kazakhstan. These increases were offset in part by a decline registered in Italy resulting from the production decline of mature fields and the impact of hurricanes in the Gulf of Mexico.

Hydrocarbon production sold amounted to 159.5 million boe. The 4.9 million boe difference over production was due essentially to own consumption of natural gas (4.4 million boe).

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ENI REPORT ON THE FIRST QUARTER OF 2006

GAS & POWER

Fourth quarter	(million euro)	First quarter			
2005		2005	**2006**	Change	% Ch.
7,419	Revenues	6,662	**9,134**	2,472	37.1
641	Operating profit	1,563	**1,199**	(364)	(23.3)
(32)	Exclusion of inventory holding (gains) losses	(52)	**(30)**	22	
609	**Replacement cost operating profit**	**1,511**	**1,169**	**(342)**	**(22.6)**
281	Exclusion special items	24	**34**	10	
890	**Adjusted operating profit**	**1,535**	**1,203**	**(332)**	**(21.6)**

Replacement cost operating profit for the first quarter of 2006 was euro 1,169 million, down euro 342 million, or 22.6%, due primarily to: (i) lower selling margins on natural gas sales mainly as a consequence of a new regulatory regime from the Italian Authority for Electricity and Gas (Decision No. 248/2004[1]) combined with higher purchasing costs; (ii) environmental provisions recorded by distribution activities (euro 20 million); (iii) lower operating income of transport activities in Italy related essentially to a new tariff regime introduced by Decision No. 166/2005[2] of the Authority for the second regulated period (1 October 2005-30 September 2009).

On the positive side, transport activity outside Italy recorded a higher operating profit reflecting mainly higher volumes in particular for the coming on line of volumes transported through the Greenstream pipeline from Libya, volumes of natural gas sold (including own consumption of 0.22 bcm related to increased supplies to EniPower power stations) were up 1.87 bcm or 7.2%.

Power generation activities generated a replacement cost operating profit of euro 39 million, with an increase of euro 24 million due mainly to an increase in electricity production sold (1.44 terawatthour, up 28.9%) and higher margins resulting from a positive scenario.

Natural gas sales volumes for the first quarter were 30.08 bcm, 1.64 bcm higher, primarily reflecting higher sales in the rest of Europe (up 1.1 bcm, or 11.2% including sales of subsidiaries) and in Italy (up 0.48 bcm, or 2.8%). Natural gas supplies to Eni wholly-owned subsidiary EniPower for power generation increased by 0.22 bcm (up17.6%).

Despite an increasingly competitive market, natural gas sales of subsidiaries in Italy of 17.47 bcm increased by 0.48 bcm from the first quarter of 2005, reflecting higher sales volumes to the industrial sector (up 0.48 bcm) and to the power generation industry (up 0.31 bcm), partially offset by lower sales volumes to wholesalers (down 0.24 bcm) and to residential customers (down 0.07 bcm).

Sales under the so called gas release[3] were in line with those of the first quarter of 2005.

Sales volumes of subsidiaries in the rest of Europe (8.57 bcm) were 1.24 bcm higher, reflecting increases registered in: (i) sales under long-term supply contracts to Italian importers (up 0.61 bcm) for the progressive reaching of full supplies from Libyan fields; (ii) supplies to the Turkish market (up 0.37 bcm); (iii) France (up 0.23 bcm) relating to higher supplies to industrial operators; (iv) Germany and Austria (0.17 bcm) essentially due to increased spot sales to Gaz de France and higher supplies to Eni s affiliate GVS (Eni s interest 50%).

(1) With this decision the Authority decided the revision of the parameters for the upgrading of the raw material component in price formulas for end users and introduced a safeguard clause that dampens the changes in energy prices that are considered abnormal (Brent price higher than 35 dollars/barrel or lower than 20 dollars/barrel), assuming that this is a common practice in import contracts between Italian importers, among which Eni, and natural gas producing countries. Decision No. 248/2004 obliges Italian suppliers to wholesalers to renegotiate supply contracts in light of the price revision introduced by same decision in supply contracts between wholesalers and end users. This decision also states that the Authority may review these clauses in the light of import

contracts. Eni provided the Authority with the terms of its import contracts that may lead the Authority to reconsider its decision, as Eni is one of the largest importers to Italy. In May 2005 the Regional Administrative Court of Lombardia, based on claims of Eni and other operators, annulled Decision No. 248/2004. In October 2005 the Council of State suspended the Court s decision upon recourse of the Authority. The final decision by the Council of State is pending. The Regional Administrative Court also cancelled the suspension it had granted of Decision No. 298/2005 implementing Decision No. 248/2004. Therefore Decision No. 298/2005 is now fully effective.

(2) Decision No. 166/2005 defined a new method for the determination of gas transport tariffs for the second regulated period which sets the rate of return on capital employed at 6.7% (7.94% in the preceding regime) and a price cap at 2% of operating costs and amortization charges (previously the same percentage was applied to all costs). The decision also increases incentives to capital expenditure.

(3) In June 2004 Eni agreed with the Antitrust Authority to sell a total volume of 9.2 billion cubic meters of natural gas (2.3 billion cubic meters/year) in the four thermal years from 1 October 2004 to 30 September 2008 at the Tarvisio entry point into the Italian network.

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Sales

Fourth quarter 2005		First quarter 2005	2006	Change	% Ch.
	Sales of natural gas (billion cubic meters)				
15.67	***Italy***	**16.99**	**17.47**	**0.48**	**2.8**
4.00	Wholesalers	5.3	**5.06**	(0.24)	(4.5)
0.56	Gas release	0.59	**0.59**		
11.11	End customers	11.1	**11.82**	0.72	6.5
3.73	*Industrial users*	*3.32*	***3.8***	*0.48*	*14.5*
4.70	*Thermoelectric users*	*3.96*	***4.27***	*0.31*	*7.8*
2.68	*Residential and commercial*	*3.82*	***3.75***	*(0.07)*	*(1.8)*
7.04	***Rest of Europe***	**7.33**	**8.57**	**1.24**	**16.9**
0.22	***Outside Europe***	**0.23**	**0.16**	**(0.07)**	**(30.4)**
22.93	**Total sales to third parties**	**24.55**	**26.2**	**1.65**	**6.7**
1.47	**Own consumption**	**1.25**	**1.47**	**0.22**	**17.6**
24.40	**Sales to third parties and volumes consumed by Eni**	**25.8**	**27.67**	**1.87**	**7.2**
2.59	**Natural gas sales of affiliates** (net to Eni)	**2.64**	**2.41**	**(0.23)**	**(8.7)**
2.46	*Europe*	*2.48*	***2.34***	*(0.14)*	*(5.6)*
0.13	*Outside Europe*	*0.16*	***0.07***	*(0.09)*	*(56.3)*
26.99	**Total natural gas sales and own consumption** (billion cubic meters)	**28.44**	**30.08**	**1.64**	**5.8**
22.05	**Transport of natural gas in Italy** (billion cubic meters)	**23.70**	**24.89**	**1.19**	**5.0**
14.75	Eni	15.36	**16.12**	0.76	4.9
7.30	Third parties	8.34	**8.77**	0.43	5.2
6.07	**Electricity production sold** (terawatthour)	**4.98**	**6.42**	**1.44**	**28.9**

Own consumption[4] amounted to 1.47 bcm, increasing by 0.22 bcm from the first quarter of 2005, up 17.6%, due mainly to higher supplies to EniPower, due to the coming on stream of new generation capacity.
Sales of natural gas by Eni s affiliates, net to Eni and net of Eni s supplies, amounted to 2.41 bcm and concerned: (i) GVS (Eni s interest 50%) with 1.34 bcm; (ii) Unión Fenosa Gas (Eni s interest 50%) with 0.52 bcm; (iii) Galp (Eni s interest 33.34%) with 0.43 bcm.

Eni transported 8.77 bcm of natural gas on behalf of third parties in Italy, an increase of 0.43 billion cubic meters from the first quarter of 2005, up 5.2%.
Electricity production sold was up to 6.42 terawatthour, or 28.9%, reflecting the continuing ramp-up of new production capacity, in particular at the Brindisi plant (up 1.07 terawatthour), and full production of the Mantova plant, up 0.83 terawatthour.

(4) In accordance with article 19, paragraph 4 of Legislative Decree No. 164/2000, the volumes of natural gas consumed in operations by a company or its subsidiaries are excluded from the calculation of ceilings for sales to end customers and from volumes input into the Italian network to be sold in Italy.

REFINING & MARKETING

Fourth quarter	(million tonnes)	First quarter			
2005		2005	**2006**	Change	% Ch.
9,555	Revenues	6,901	**9,280**	2,379	34.5
329	Operating profit	269	**89**	(180)	(66.9)
(177)	Exclusion of inventory holding (gains) losses	(143)	**(47)**	96	
152	**Replacement cost operating profit**	**126**	**42**	**(84)**	**(66.7)**
227	Exclusion special items	26	**47**	21	
379	**Adjusted operating profit**	**152**	**89**	**(63)**	**(41.4)**
317	Capital expenditure	66	**95**	29	43.9

Replacement cost operating profit for the first quarter was euro 42 million, down euro 84 million or 66.7%, from the first quarter of 2005, due primarily to: (i) declining realized refining margins (Brent margin was down 1.31 dollars/barrel, or 30.8%) and the impact of longer maintenance outages of refineries, partially offset by the favorable impact of the depreciation of the euro over the dollar; (ii) a reduction in operating results of marketing activities in Italy due to lower margins in connection with higher international prices of refined products not entirely transferred to selling prices and competitive pressure; (iii) higher special charges, down euro 21 million.

The first quarter result included special charges of euro 47 million related primarily to environmental provisions and provision for redundancy incentives. In the first quarter of 2005 special items were euro 26 million related primarily to environmental provisions.

Sales

Fourth quarter	(million tonnes)	First quarter			
2005		2005	**2006**	Change	% Ch.
10.22	**Refining throughputs on own account**	**8.44**	**8.61**	**0.17**	**2.0**
13.66	**Sales**	**12.30**	**12.32**	**0.02**	**0.2**
2.20	Retail sales Italy on Agip branded network	2.06	**2.06**		
	Retail sales Italy on IP branded network	0.46		(0.46)	
0.91	Retail sales rest of Europe	0.83	**0.87**	0.04	4.8
2.83	Wholesale sales Italy	2.53	**2.54**	0.01	0.4
1.20	Wholesale sales outside Italy	1.10	**1.13**	0.03	2.7
6.52	Other sales	5.32	**5.72**	0.40	7.5

Refining throughputs on own account for the quarter in Italy and outside Italy were up 0.17 million tonnes to 8.61 million tonnes, or 2%, reflecting higher throughputs at the Venezia and Gela refineries in Italy, despite the circumstance that the Gela refinery ran at a low rate in the first quarter 2005 as a consequence of a

Sales volumes of refined products for the quarter were 12.32 mtonnes, 20 ktonnes higher than the first quarter of 2005, due mainly to increased sales volumes on retail and wholesale markets in the rest of Europe (up 70 ktonnes). The 460 ktonnes reduction in retail sales volumes due to the divestment of the entire share capital sea storm which impacted operations. These positives were partially offset by a reduction in the Livorno and Taranto refineries due to planned maintenance standstill.

of Italiana Petroli which occurred in September 2005 was offset by Eni s ongoing supply of significant volumes of fuels and other products to the divested company under a five-year supply contract.

Sales on the Agip branded network in Italy and outside Italy were 2.93 mtonnes, up 40 ktonnes (1.4%).

Sales volumes of refined products on the Agip branded network in Italy were 2.06 mtonnes, unchanged from the first quarter 2005. Sales volumes of refined products on retail markets in the rest of Europe increased by 40 ktonnes, or 4.8%, reflecting principally higher sales volumes in Spain and Central-Eastern Europe, also in connection with the purchase of service stations in 2005.

Sales on wholesale markets in Italy (2.54 mtonnes) were in line with those of the first quarter of 2005. Sales on wholesale markets in the rest of Europe increased by 30 ktonnes, up 2.7%, due to higher volumes sold in the Czech Republic and in Spain.

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ENI REPORT ON THE FIRST QUARTER OF 2006

PETROCHEMICALS

Fourth quarter 2005	(million euro)	First quarter 2005	2006	Change	% Ch.
1,656	Revenues	1,534	**1,728**	194	12.6
37	Operating profit	158	**39**	(119)	(75.3)
	Exclusion of inventory holding (gains) losses	1	**(17)**	(18)	
37	**Replacement cost operating profit**	**159**	**22**	**(137)**	**(86.2)**
37	Exclusion special items		**1**	1	
74	**Adjusted operating profit**	**159**	**23**	**(136)**	**(85.5)**

In the first quarter of 2006 replacement cost operating profit amounted to euro 22 million with a euro 137 million decline (down 86.2%) from the first quarter of 2005, due mainly to lower unit margins, in particular in basic petrochemicals and polyethylene related to increases in the cost of oil-based feedstocks not transferred to selling prices. This negative factor was offset in part by higher volumes sold and the positive effect of Eni s sales mix along with an improved industrial and commercial performance.

Fourth quarter 2005	(thousand tonnes)	First quarter 2005	2006	Change	% Ch.
1,289	**Sales**	**1,372**	**1,411**	**39**	**2.8**
746	Basic petrochemicals	811	**758**	(53)	(6.5)
229	Styrenes and elastomers	266	**261**	(5)	(1.9)
314	Polyethylenes	295	**392**	97	32.9

Sales of petrochemical products (1,411 ktonnes) increased by 39 ktonnes, up 2.8% from the first quarter of 2005, due essentially to higher sales of polyethylene (up 32.9%), aromatics (up 7%) and elastomers (up 7%). These positives were offset in part by a decline in: (i) olefins (down 8.5%) due a slowdown in demand for ethylene (down 12%) and propylene (down 6%) and the impact of the maintenance standstill of the Brindisi butadiene plant; (ii) intermediates (down 10.7%) due to lower phenol sales and (iii) the impact of the shutdown of the Ravenna ABS plant in the second quarter of 2005 on the styrene business (down 4.4%) and of the Champagnier elastomer plant in September 2005 (down 6%).

Petrochemical production (1,915 ktonnes) increased by 47 ktonnes from the first quarter of 2005, up 2.5% due to increases registered in particular in polyethylene (up 7.5%) and aromatics (up 7.1%) offset in part by declines in styrene (down 5%) and elastomers (down 3.1%) due to standstills and shutdowns.

OILFIELD SERVICES CONSTRUCTION AND ENGINEERING

Fourth quarter	(million euro)	First quarter			
2005		2005	**2006**	Change	% Ch.
1,820	Revenues	1,176	**1,326**	150	12.8
138	Operating profit	65	**83**	18	27.7
138	**Replacement cost operating profit**	**65**	**83**	**18**	**27.7**
6	Exclusion special items				
144	**Adjusted operating profit**	**65**	**83**	**18**	**27.7**

Operating profit for the first quarter of 2006 was euro 83 million, up euro 18 million, or 27.7% from the first quarter of 2005. This increase was recorded in particular in the following areas: (i) Onshore construction due to higher activity related essentially to the start-up of some large projects acquired in 2005; (ii) Offshore drilling, due to higher tariffs for the Scarabeo 3 and Scarabeo 4 semisubmersible platforms and higher activity levels of the semisubmersible Scarabeo 4 platform and Perro Negro 5 jack-up.

(million euro)	31 Dec. 2005	**31 Mar. 2006**	Change	% Ch.
Orders backlog	**10,152**	**9,905**	**(247)**	**(2.4)**
Oilfield Services Construction	5,513	**5,595**	82	1.5
Engineering	4,639	**4,310**	(329)	(7.1)
Eni	695	**765**	70	10.1
Third parties	9,457	**9,140**	(317)	(3.4)
Italy	1,209	**1,154**	(55)	(4.5)
Outside Italy	8,943	**8,751**	(192)	(2.1)

Eni's order backlog was euro 9,905 million at 31 March 2006 (euro 10,152 million at 31 December 2005). Projects to be carried out outside Italy represented 88.3% of the total order backlog, while orders from Eni companies amounted to 7.7% of the total.

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Reconciliation of reported operating profit by division and net profit to adjusted operating and net profit

Adjusted operating profit and net profit are before inventory holding gains or losses and special items. Information on adjusted operating profit and net profit is presented to help distinguish the underlying trends for the company s core businesses and to allow financial analysts to evaluate Eni s trading performance on the basis of their forecasting models. These financial measures are not GAAP measures under either IFRS or U.S. GAAP; they are used by management in evaluating Group and Divisions performance.
Replacement cost net profit and operating profit reflect the current cost of supplies. The replacement cost net profit for the period is arrived at by excluding from the historical cost net profit the inventory holding gain or loss, which is the difference between the cost of sales of the volumes sold in the period based on the cost of supplies of the same period and the cost of sales of the volumes sold in the period calculated using the weighted-average cost method of inventory accounting. Certain infrequent or unusual incomes or charges are recognized as special items because of their significance. Special items include also certain amounts not reflecting the ordinary course of business, such as environmental provisions or restructuring charges, and asset impairments or write ups and gains or losses on divestments even though they occurred in past exercises or are likely to occur in future ones.
For a reconciliation of adjusted operating profit and net profit to reported operating profit and net profit see tables below.

First quarter 2006 (million euro)	**E&P**	**G&P**	**R&M**	**Petrochemicals**	**Oilfield Services Construction and Engineering**	**Other activities**	**Corporate and financial companies**	**Unrealized profit in inventory**	**Eni**
Reported operating profit	**4,303**	**1,199**	**89**	**39**	**83**	**(65)**	**(51)**	**(2)**	**5,595**
Exclusion of inventory holding (gains) losses		(30)	(47)	(17)					(94)
Replacement cost operating profit	**4,303**	**1,169**	**42**	**22**	**83**	**(65)**	**(51)**	**(2)**	**5,501**
Exclusion special items:									
gains on disposal of assets	(57)								(57)
environmental charges		20	44						64
asset impairments						3			3
provisions to the reserve for contingencies			1	2					3
provisions for redundancy incentives		14	5				5		24
other			(3)	(1)		(1)			(5)
Special items of operating profit	**(57)**	**34**	**47**	**1**		**2**	**5**		**32**
Adjusted operating profit	**4,246**	**1,203**	**89**	**23**	**83**	**(63)**	**(46)**	**(2)**	**5,533**
Reported net profit									**2,974**
Exclusion of inventory holding (gains) losses									(59)
Replacement cost net profit									**2,915**
Exclusion special items									39
Adjusted net profit									**2,954**

Contents

First quarter 2005

(million euro)	E&P	G&P	R&M	Petrochemicals	Oilfield Services Construction and Engineering	Other activities	Corporate and financial companies	Unrealized profit in inventory	Eni
Reported operating profit	**2,567**	**1,563**	**269**	**158**	**65**	**(62)**	**(53)**	**(57)**	**4,450**
Exclusion of inventory holding (gains) losses		(52)	(143)	1					(194)
Replacement cost operating profit	**2,567**	**1,511**	**126**	**159**	**65**	**(62)**	**(53)**	**(57)**	**4,256**
Exclusion special items:									
environmental charges			25						25
asset impairments	31					3			34
provisions to the reserve for contingencies						6			6
provisions for redundancy incentives		1	4				2		7
other		23	(3)						20
Special items of operating profit	**31**	**24**	**26**			**9**	**2**		**92**
Adjusted operating profit	**2,598**	**1,535**	**152**	**159**	**65**	**(53)**	**(51)**	**(57)**	**4,348**
Reported net profit									**2,445**
Exclusion of inventory holding (gains) losses									(122)
Replacement cost net profit									**2,323**
Exclusion special items									62
Adjusted net profit									**2,385**

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ENI REPORT ON THE FIRST QUARTER OF 2006

Fourth quarter 2005

(million euro)	E&P	G&P	R&M	Petrochemicals	Oilfield Services Construction and Engineering	Other activities	Corporate and financial companies	Unrealized profit in inventory	Eni
Reported operating profit	**3,559**	**641**	**329**	**37**	**138**	**(298)**	**(41)**	**31**	**4,396**
Exclusion of inventory holding (gains) losses		(32)	(177)						(209)
Replacement cost operating profit	**3,559**	**609**	**152**	**37**	**138**	**(298)**	**(41)**	**31**	**4,187**
Exclusion special items:									
environmental charges		3	157			146	8		314
asset impairments/write-ups	(43)	1	5	11	4	47	2		27
Antitrust fine		290							290
provisions to the reserve for contingencies			8	6		(4)			10
provisions for increased insurance premium	57	6	30	17		4	(55)		59
provisions for redundancy incentives	4	3	13	4	2	3	15		44
other		(22)	14	(1)		9			0
Special items of operating profit	**18**	**281**	**227**	**37**	**6**	**205**	**(30)**		**744**
Adjusted operating profit	**3,577**	**890**	**379**	**74**	**144**	**(93)**	**(71)**	**31**	**4,931**
Reported net profit									**2,105**
Exclusion of inventory holding (gains) losses									(131)
Replacement cost net profit									**1,974**
Exclusion special items									422
Adjusted net profit									**2,396**

Adjusted operating profit by segment

Fourth quarter 2005	(million euro)	First quarter 2005	**2006**	Change	% Ch.
3,577	Exploration & Production	2,598	**4,246**	1,648	63.4
890	Gas & Power	1,535	**1,203**	(332)	(21.6)
379	Refining & Marketing	152	**89**	(63)	(41.4)
74	Petrochemicals	159	**23**	(136)	(85.5)
144	Oilfield Services Construction and Engineering	65	**83**	18	27.7
(93	Other activities	(53)	**(63)**	(10)	(18.9)
(71)	Corporate and financial companies	(51)	**(46)**	5	9.8
31	Unrealized profit in inventory	(57)	**(2)**	55	
4,931	**Adjusted operating profit**	**4,348**	**5,533**	**1,185**	**27.3**

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Società per Azioni
Headquarters: Rome, Piazzale Enrico Mattei, 1
Capital Stock:
euro 4,005,358,876 fully paid
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Mission

We are a major integrated energy company, committed to growth in the activities of finding, producing, transporting, transforming and marketing oil and gas. Eni men and women have a passion for challenges, continuous improvement, excellence and particularly value people, the environment and integrity

Countries of activity

EUROPE

Austria, Belgium, Croatia, Cyprus, Czech Republic, Denmark, France, Germany, Greece, Hungary, Ireland, Italy, Luxembourg, Malta, Netherlands, Norway, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Switzerland, Turkey, United Kingdom

CIS

Azerbaijan, Georgia, Kazakhstan, Russia

AFRICA

Algeria, Angola, Cameroon, Chad, Congo, Egypt, Guinea Bissau, Libya, Morocco, Nigeria, Senegal, Somalia, South Africa, Sudan, Tunisia

MIDDLE EAST

Iran, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates

CENTRAL ASIA

India, Pakistan

SOUTH EAST ASIA AND OCEANIA

Australia, China, Indonesia, Japan, Malaysia, Papua-New Guinea, Singapore, South Korea, Taiwan, Thailand, Vietnam

AMERICAS

Argentina, Brazil, Canada, Dominican Republic, Ecuador, Mexico, Peru, Trinidad & Tobago, United States, Venezuela

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Report of the Directors

This Annual Report includes the report of Eni s Board of Directors and Eni s consolidated financial statements for the year ended 31 December 2005, which have been prepared under the International Financial Reporting Standards (IFRS), as adopted by the European Union.

30 March 2006

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Profile of the year

Results

Net profit for 2005 was a record euro 8.8 billion, up euro 1.7 billion or 24.5% compared with 2004. This was driven by a strong operating performance (up euro 4.4 billion or 35.7%) achieved across all Eni s business areas boosted also by higher oil and gas prices.The share of operating profit earned outside Italy increased to 68% (56% in 2004). Total shareholder return was 35.3% (28.5% in 2004)

Dividend

The increase in earnings and in cash flow provided by operating activities, along with a sound balance sheet structure allow Eni to distribute to shareholders a cash dividend of euro 1.10 per share for 2005, up 22%, compared with euro 0.90 per share the previous year. Included in the euro 1.10 amount is euro 0.45 per share already distributed as an interim dividend. Pay-out stands at 47%

Oil and natural gas production

Oil and natural gas production for the year 2005 grew a solid 7% to above 1.74 mboe/d. Excluding the adverse impact of lower entitlements in certain PSAs and buy-back contracts due to higher oil prices, this increase was 9%. In the first two months of 2006 production exceeded 1.8 mboe/d

Proved oil and natural gas reserves

Net proved reserves of oil and natural gas were 6.84 billion boe (55% crude and condensates) at year-end, down 381 mboe from 2004 due to an estimated 478 mboe adverse impact related to lower entitlements in certain PSAs and buy-back contracts due to higher oil prices (58.205 dollar per barrel at year-end 2005 as compared to 40.47 at year-end 2004). Excluding the price impact, the reserve replacement ratio was 115%. The average reserve life index is 10.8 years (12.1 at 31 December 2004)

The Kashagan project

Eni s operatorship interest in the Kashagan project increased from 16.67% to 18.52%. The field located in the Kazakh offshore section of the Caspian Sea is considered the most important discovery in the world in the past thirty years with recoverable reserves of about 13 billion bbl through partial gas reinjection. The development of the project is advancing as planned, with 40% of work already completed. First oil is expected by the end of 2008 and the production plateau is targeted at over 1.2 mbbl/d

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Enhancement of asset portfolio

Eni enhanced its portfolio of mineral rights via acquisition of exploration permits and production licenses located mainly in core areas such as Libya, Nigeria and Angola, as well as in new high-potential basins such as Alaska and India for a total net acreage of approximately 67,000 square kilometers (44,000 square kilometers net to Eni)

Growth in natural gas

Natural gas sales volumes were up 8% to 96 bcm reflecting higher sales on both the Italian and European natural gas markets. Sales of liquefied natural gas (LNG) achieved 7 bcm, up 17% compared with 2004

Power generation development plan

Sold production of electricity (22.8 terawatthour) was up 64.4%. At year-end 2005 Eni s installed capacity was 4.5 gigawatt and will allow consumption of over 6 bcm/y of natural gas supplied by Eni when it achieves 5.5 gigawatt of installed capacity by 2009

Integration of Saipem and Snamprogetti

The integration of Saipem and Snamprogetti will create a world leader in engineering and oilfield services, increasing their role in Eni s core business growth

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Selected consolidated financial data		Italian GAAP				IFRS	
		2001	2002	2003	2004	2004	**2005**
Net sales from operations	(million euro)	49,272	47,922	51,487	58,382	57,545	**73,728**
Operating profit	(million euro)	10,313	8,502	9,517	12,463	12,399	**16,827**
Net profit	(million euro)	7,751	4,593	5,585	7,274	7,059	**8,788**
Net cash provided by operating activities	(million euro)	8,084	10,578	10,827	12,362	12,500	**14,936**
Capital expenditure	(million euro)	6,606	8,048	8,802	7,503	7,499	**7,414**
Investments	(million euro)	4,664	1,366	4,255	316	316	**127**
Shareholders equity including minority interest	(million euro)	29,189	28,351	28,318	32,466	35,540	**39,217**
Net borrowings	(million euro)	10,104	11,141	13,543	10,228	10,443	**10,475**
Net capital employed	(million euro)	39,293	39,492	41,861	42,694	45,983	**49,692**
Return On Average Capital Employed (ROACE)	(%)	23.9	13.7	15.6	18.8	16.6	**19.5**
Leverage		0.35	0.39	0.48	0.31	0.29	**0.27**
Earnings per share (1)	(euro)	1.98	1.20	1.48	1.93	1.87	**2.34**
Dividend per share	(euro)	0.750	0.750	0.750	0.90	0.90	**1.10**
Dividends paid (2)	(million euro)	2,876	2,833	2,828	3,384	3,384	**4,096**
Pay-out	(%)	37	62	51	47	48	**47**
Total shareholder return	(%)	6	13.1	4.3	28.5	28.5	**35.3**
Dividend yield (3)	(%)	5.6	5.2	5.1	4.9	4.9	**4.7**
Number of shares outstanding at period end (4)	(million)	3,846.9	3,795.1	3,772.3	3,770.0	3,770.0	**3,727.3**
Market capitalization (5)	(billion euro)	54.0	57.5	56.4	69.4	69.4	**87.3**

(1) Ratio of net profit and the average number of shares outstanding in the year. The dilutive effect is negligible.

(2) Per fiscal year. 2005 data are estimated.

(3) Ratio of dividend for the period and average price of Eni shares in December 2005.

(4) Excluding own shares in portfolio.

(5) Number of outstanding shares by reference price at period end.

Financial data for 2004 and 2005 have been derived from Eni s financial statements prepared under the International Financial Reporting Standards (IFRS), as adopted by the European Union and are therefore not comparable with those of preceding years, which had been derived from financial statements prepared under Italian GAAP.

The main differences between IFRS and Italian GAAP relate essentially to: (i) higher book value of tangible assets due primarily to a revision of the useful lives of gas pipelines, compression stations and distribution networks; (ii) recognition of deferred tax assets whenever their recoverability is probable instead of a reasonable degree of recoverability under Italian GAAP; (iii) capitalization of estimated costs for asset retirement obligations and higher financial charges; (iv) application of the weighted-average cost method for inventory accounting instead of the Last In First Out inventory accounting method; (v) write-off of the reserve for contingencies in absence of an actual obligation and use of actuarial techniques for the recording of employee benefits; (vi) goodwill is no longer amortized and is reviewed at least annually for impairment; previously it was systematically amortized; (vii) exclusion from consolidation of joint ventures; (viii) reclassification of extraordinary items in operating income.

The analysis of the nature of these main changes is found in the Notes to the consolidated financial statements in the chapter Effects of the adoption of IFRS .

Forward-looking statements

Certain disclosures contained in this annual report concerning plans, objectives, targets and other future developments are forward-looking statements. By their nature forward-looking statements involve risk and uncertainty. The factors described herein could cause actual results of operations and developments to differ materially from those expressed or implied by such forward-looking statements.

Key market indicators

		2001	2002	2003	2004	2005
Average price of Brent dated crude oil (1)		24.46	24.98	28.84	38.22	**54.38**
Average EUR/USD exchange rate (2)		0.896	0.946	1.131	1.244	**1.244**
Average price in euro of Brent dated crude oil		27.30	26.41	25.50	30.72	**43.71**
Average European refining margin (3)		1.97	0.80	2.65	4.35	**5.78**
Average European refining margin in euro		2.20	0.85	2.34	3.50	**4.65**
Euribor - three-month euro rate	(%)	4.3	3.3	2.3	2.1	**2.2**
Libor - three-month dollar rate	(%)	3.7	1.8	1.2	1.6	**3.5**

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

(2) Source: ECB.

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

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Selected operating data

		2001	2002	2003	2004	2005
Exploration & Production						
Net proved reserves of hydrocarbons	(million boe)	6,929	7,030	7,272	7,218	**6,837**
Average reserve life index	(years)	13.7	13.2	12.7	12.1	**10.8**
Production of hydrocarbons	(thousand boe/d)	1,369	1,472	1,562	1,624	**1,737**
Gas & Power						
Sales of natural gas to third parties	(billion cubic meters)	63.72	64.12	69.49	72.79	**77.08**
Own consumption of natural gas	(billion cubic meters)	2.00	2.02	1.90	3.70	**5.54**
		65.72	**66.14**	**71.39**	**76.49**	**82.62**
Sales of natural gas of affiliates (Eni s share)	(billion cubic meters)	1.38	2.40	6.94	7.32	**8.53**
Total sales and own consumption of natural gas	(billion cubic meters)	**67.10**	**68.54**	**78.33**	**83.81**	**91.15**
Natural gas transported on behalf of third parties in Italy	(billion cubic meters)	11.41	19.11	24.63	28.26	**30.22**
Electricity production sold	(terawatthour)	4.99	5.00	5.55	13.85	**22.77**
Refining & Marketing						
Refined products available from processing	(million tonnes)	37.78	35.55	33.52	35.75	**36.68**
Balanced capacity of wholly-owned refineries at period end	(thousand barrels/day)	664	504	504	504	**524**
Utilization rate of balanced capacity of wholly-owned refineries	(%)	97	99	100	100	**100**
Sales of refined products	(million tonnes)	53.24	52.24	50.43	53.54	**51.63**
Service stations at period end (in Italy and outside Italy)	(units)	11,707	10,762	10,647	9,140	**6,282**
Average throughput in Italy and outside Italy of Agip-branded network	(thousand liters per year)	1,685	1,858	2,109	2,488	**2,479**
Petrochemicals						
Production	(thousand tonnes)	9,609	7,116	6,907	7,118	**7,282**
Sales	(thousand tonnes)	6,113	5,493	5,266	5,187	**5,376**
Oilfield Services Construction and Engineering						
Orders acquired	(million euro)	3,716	7,852	5,876	5,784	**8,188**
Order backlog at period end	(million euro)	6,937	10,065	9,405	8,521	**9,964**
Employees at period end	(units)	72,405	80,655	75,421	70,348	**72,258**

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Eni s Board of Directors

Roberto Poli	Paolo Scaroni	Alberto Clô	Renzo Costi
Chairman	*CEO*	*Director*	*Director*

Letter to our Shareholders

Dear Shareholders,

Eni had an outstanding 2005, both in terms of its financial and of its operating performance. We are Italy s leading company by market capitalization and are achieving ever greater prominence on the international stage.

Eni delivered a record net profit of euro 8.8 billion in 2005, 24.5% more than in 2004. Operating profit amounted to euro 16.8 billion (+35.7%). The increase was due to a combination of a superior volume growth and ongoing performance improvements.

Of course, we benefited from last year s favorable trading environment, which saw strong gains both in crude oil prices and in refining margins. However, we are pleased with the strong operating performance throughout our businesses.

In particular, we achieved a 7% increase in oil and gas production, which is among the very highest in the industry. This growth came from build-up in existing fields and the start-up of 15 new fields. Libya, Angola and Algeria were the countries with the highest production increase.

We also confirmed our position as the largest gas company in Europe, increasing sales by a very strong 8% during the year.

Strong results enabled us to propose a dividend of euro 1.1 per share, of which euro 0.45 already paid as interim dividend in October 2005, 22% higher than in 2004 (euro 0.90 per share), with a payout of 47%.

We achieved a total shareholder return of 35.3% (28.5% in 2004).

Operating results

In **EXPLORATION & PRODUCTION**, we continued to build on our strong position in some of the world s fastest-growing producing nations to deliver industry-leading growth.

Daily production of hydrocarbons increased by 7% to 1.74 million boe. Excluding the impact of the higher crude oil price on entitlement production from Production Sharing Agreements (PSAs) and buy-back contracts, the growth rate for the year was 9%.

Net proved reserves of oil and natural gas were 6.8 billion boe at year-end (55% crude and condensates), down 381 mboe from 2004 due to an estimated 478 mboe adverse impact related to the PSA effect.

Excluding the price impact, the reserve replacement ratio was 115%. The end-year reserves life index is 10.8 years (12.1 years at 31 December 2004).

Sales of liquefied natural gas and of gas to liquefaction plants (LNG) reached 7 bcm, an increase of 17% on 2004, confirming our strong commitment in that business.

We increased our share in the Kashagan project (Kazakhstan) from 16.67% to 18.52%. Kashagan is the

Dario Fruscio	Marco Pinto	Marco Reboa	Mario Resca	Pierluigi Scibetta
Director	*Director*	*Director*	*Director*	*Director*

largest field discovered in the world for the last 30 years (around 13 billion barrels of recoverable reserves using partial gas injection). The development of the project, of which we are the sole operator, is on track, with 40% of work completed, and we confirm our target of first oil production by end-2008.
We enhanced our exploration portfolio with the acquisition of assets in core areas such as Libya, Nigeria and Angola, as well as in new high-potential basins such as Alaska and India.

In **GAS & POWER**, we are leveraging on our unique positioning in terms of access to infrastructure, availability of gas both equity and purchased under long term supply contracts and large customer base, to further extend our leadership in the highly attractive European gas market.
Overall gas sales in 2005 totalled 96 bcm, 8% up from 2004. This growth has been driven by international gas sales as well as by larger volumes sold in Italy, in line with our strategy to grow in the most attractive markets:

- gas sales across Europe (36 bcm) rose 9% up from 2004, driven also by the build up of the Greenstream project;
- Italian gas sales (58 bcm) increased by 8%, mainly driven by the power business gas consumption;
- gas sales in South America were stable at 2 bcm.

Electricity sales (22.8 TWh) increased by 64% from 2004 as a result of the start-up of two power units at the Mantova power plant and the first unit of the Brindisi plant, as well as full commercial operation at the Ravenna and Ferrera Erbognone plants.

In **REFINING & MARKETING**, we are seeking to maximize returns from our assets by upgrading our refining system, increasing integration with our E&P activities and strengthening our competitive position in marketing.
We completed the construction of the Sannazzaro gasification plant and the disposal of the IP retail subsidiary. We have also continued to monitor neighboring European markets in order to capitalize on opportunities for profitable expansion.
Overall retail sales in Europe under Agip brand amounted to 16 billion liters, of which 11.3 billion liters were in Italy.

In **ENGINEERING & CONSTRUCTION**, Saipem was awarded important contracts in challenging environments such as Kashagan in Kazakhstan and Sakhalin in Russia, confirming its role as a leader in international markets. Snamprogetti significantly increased its backlog, closing 2005 with strong financial results.

The **PETROCHEMICALS** business had another positive year: Polimeri Europa recorded a good performance,

consolidating and improving its position in the European market.

A selective and disciplined approach to **Capital Expenditure** also contributed to our outstanding operating results. We invested euro 7.4 billion in 2005, in line with 2004, mainly in oil and gas (91%):

- development of hydrocarbon reserves (euro 3.95 billion), mainly in Kazakhstan, Libya, Angola, Egypt and Italy, as well as exploration (euro 656 million) and the acquisition of proved, probable and possible reserves (euro 301 million, of which euro 161 million was for the acquisition of an additional 1.85% share in the consortium developing Kashagan);
- expansion and maintenance of the natural gas transportation and distribution network in Italy (euro 825 million);
- ongoing power generation construction programme (euro 239 million);
- upgrading of our Italian refining and logistics system to enhance flexibility and increase the yields of light products and middle distillates, including completion of the heavy residue gasification plant at the Sannazzaro refinery and improvement of the retail distribution network both in Italy and in the rest of Europe (euro 656 million).

Energy market outlook

E&P

The need to increase oil and gas production and above all renew the reserve base represents the industry s most critical challenge.
Widespread concern over security of international supplies has helped push crude prices well above the level that fundamentals seem to justify. A lack of spare production capacity worldwide means that supply interruptions either upstream or downstream have amplified price effects.
While the industry is generating huge cash flows, new investment opportunities to sustain production growth involve greater financial, technological and environmental demands than ever before.
Tighter contractual and tax terms as well as cost inflation throughout the industry are also reducing the profitability of upstream projects. At the same time have made LNG the best solution for monetizing remote gas reserves. Yet, the expansion of LNG is hindered by the resistance of local communities to the construction of regasification terminals, on environmental and safety grounds.

G&P

Prices are likely to remain high, driven by strong demand growth in the main consuming markets, Europe and North America. Prices will also be supported by infrastructure limits and declining production in traditional basins.
In coming years the European gas market will see an increase in its already marked dependence on imports; by 2015 80% of consumption will be covered by imported gas, compared to the current 37%. The shortages occurred this winter have made it clear that developing new infrastructure is a top priority.

R&M

The structural excess capacity in western countries has gradually been reduced. This, combined with more stringent quality standards and rising demand for middle distillates, has led to temporary bottlenecks in the refined products market. Operators are investing to upgrade existing plants in order to improve the flexibility and conversion capacity of the system.
As this new capacity comes onstream, our outlook is for declining margins, returning towards historic levels. In such an environment we do not see opportunities for major capital expenditures in new green field capacity. Instead, we are focusing on improving complexity in existing refineries.

Petrochemicals

The business is characterized by a structural over-capacity both in Europe and worldwide. In particular, the European petrochemical industry suffers aggressive competition from Middle East countries, which benefit from the low cost of raw materials and the large size of plants, built in areas with low environmental sensitivity.

Strategy and targets

Eni s 2006-2009 Strategic Plan is the most far-reaching we have ever launched in terms of capital expenditure, which underpins a continued strong organic growth beyond 2009. For us, acquisitions are an option not a higher oil and gas prices have sharply increased the value of the oil companies reserves, making acquisitions extremely expensive.

We expect Brent oil prices to remain in the range of $50 a barrel for the next two years, after which for planning purposes we assume declining prices gradually returning to a level of around $30 a barrel in 2010. Technological advances and higher natural gas prices necessity.

Exploration & Production

Organic growth is a strategic priority. We have strong prospects based on our portfolio in the world s most

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attractive producing areas Nigeria, Angola, Algeria, Libya and Kazakhstan.

We have set ourselves ambitious targets for this business:

- to increase production organically by 4% a year to more than 2 million boe per day by 2009 (assuming a Brent oil price of 32 $/bbl);
- to achieve an average reserves replacement of more than 100%;
- to extend and renew our exploration portfolio, by strengthening our presence in core areas (e.g. Libya, Nigeria) and by accessing new areas;
- to improve operating efficiency, curbing the increase in unit costs.

Looking beyond 2009, we see further growth both from our strong existing positions and from new opportunities. We expect to deliver a 3% increase in production every year between 2009 and 2012.
This will be driven by our leading positions in existing long life and high growth assets such as West Africa, Karachaganak and Kashagan; our LNG projects in North and West Africa; exploration in areas such as North Africa and Barents Sea, and new opportunities in gas projects, oil reserves and non-conventional oil.
In LNG we aim to accelerate our growth to become one of the international leaders, focusing on production areas with high potential and low costs. We will monetize our existing equity gas availability (mainly in Nigeria, Egypt, Australia and Indonesia), supplying the European and the US markets.
Overall, LNG sales will amount to around 13 bcm in 2009, with a 16% increase per year versus 2005. We will also deliver above average growth beyond 2009. Through the existing project portfolio we expect to achieve more than 20 bcm of sales in 2012.

Gas & Power
Eni aims to strengthen its position as the leading European operator in terms of sales by maximizing value from our unique mix of equity gas in Italy, Libya, Egypt and the North Sea and long-term supply contracts with major producers Gazprom, Sonatrach, Gasunie and Statoil.
We expect to grow our market share of the European gas market, where total demand will rise by more than 12% during the four years of our plan.
private company with our Portuguese partner.
We aim to reach 50 bcm of our international sales by 2009, bringing our overall volume of gas sold to more than 100 bcm. We expect to sell more than 110 bcm in total by 2012.
In Italy, we aim to preserve volumes and margins, leveraging on the competitiveness of our commercial offer. In the gas distribution business, we aim to extend our concessions portfolio, favoring development in areas close to large towns and cities.
We are also enhancing the infrastructure to deliver gas to Italy through a widespread integrated transportation network with multiple entry points and storage capacity. In total, Eni will build-up an additional import capacity of approximately 25 bcm by 2009.
In particular, we are:

- expanding the TAG (Russia) and TTPC (Algeria) gas pipelines and building-up the Greenstream (Libya);
- evaluating the opportunity of building a regasification terminal in Italy;
- improving Italy s national transportation network;
- upgrading storage capacity, mainly through the development of the Bordolano field.

In the next four years our total investment in the import, transportation, distribution and storage of gas in Italy will amount to nearly euro 6 billion.
Within this context, it is worth mentioning the gas supply shortages which struck Italy in the winter 2005-2006. The supply disruption was mainly due to a colder-than-expected winter, growing gas use in power generation and a reduction of Russian deliveries due to a gas dispute with Ukraine.
These factors were not foreseeable and were beyond our control. However, the gradual increase in import capacity underpinned by our capital expenditure program will make the system better-placed to cope with unexpected supply problems. In the shorter term, we expect that an evolution in the European regulatory framework will increase the system s overall flexibility.
EniPower the power generation company we established to comply with regulatory ceilings in the Italian gas market is completing the development of efficient and profitable projects.
We aim to generate the same free cash flow in 2009 as we did in 2005, despite the expected deconsolidation of

We have launched our expansion in the European markets in 2000. Having started from scratch, we now sell more than 35 bcm outside Italy. We are well positioned in Spain, Germany, Turkey, UK, France and in Portugal, where we have recently formed a strategic partnership that will enable us to manage Galp as a Snam Rete Gas by the end of 2008. The increasing role of our international activities as well as our power generation business will contribute substantially to this target.

Refining & Marketing

We have a very strong position in Italy and our strategy is to maximize returns from our valuable existing assets.

We are investing in new conversion capacity to make our refining system more flexible, in order to run a wider range of crude oils and to obtain a higher yield of middle distillates. This will increase our overall conversion index to almost 60% by 2009.
We are also targeting a greater vertical integration with our upstream business, increasing the proportion of equity oil we run in our refineries. This will contribute to increase our European refinery throughput to 42 million tonnes per year by 2009.
In marketing we will maintain our leadership in Italy and selectively increase our presence in neighboring regions. We will develop our offer of premium products, and generate more value from non-oil activities.

Engineering & Construction

This business represents a unique and distinctive feature for Eni. Saipem and Snamprogetti play instrumental roles in innovation and implementation of world-scale projects.
Eni can benefit greatly from these companies in terms of project and risk management expertise, best in class skills, development of core technologies and key relationships with producing countries: essential elements to fuel the growth and expansion of the oil and gas business.
The recently announced integration of Snamprogetti and Saipem creates a world leader in engineering and oilfield services, confirming that these activities are a core business for Eni.

Petrochemicals

We will consolidate our structure to improve returns even in unfavorable market conditions. We will invest to enhance the performance and reliability of plants in areas of excellence (styrenes and elastomers), as well as of the most competitive cracking plants.

Technological research and innovation

As a part of our growth process, we are making some of the most significant investments in technological research and innovation within our industry. This is to ensure we have the innovative technologies needed to create and maintain competitive advantages and to promote sustainable growth.
We are reorganizing and relaunching Eni s technological research, allocating to the Corporate both long-term and

We will continue to pursue existing programmes on clean fuels, sulphur and greenhouse gas management as well as projects such as the upgrading of heavy crudes (EST), high pressure gas transmission (TAP) and Gas to Liquids (GTL).
We are committed to work on issues with high potential impact on the core business. These include hybrid engines, use of gas in distributed generation, evolution of the biofuels market and development of equity condensates, fuel cells, hydrogen, photovoltaics, and application of the Kyoto Protocol in particular, CO_2 sequestration technologies and emissions trading.

Cash allocation

Our number one priority in allocating cash generated from operating activities is capital expenditure to drive long-term organic growth in the business.
Over the next four years Eni will implement the largest capital expenditure program in its history driven by our commitment to organic growth. We will invest euro 35.2 billion, of which approximately two thirds is in Exploration and Production.
All spending will meet our strict investment criteria on rate of return and assumes a long term Brent price of around $30 per barrel.
We will also distribute significant amounts of cash to shareholders through an attractive and sustainable flow of dividends. We aim to use excess cash (after capex and dividends) to continue our programme of share buy-backs.
We remain focused on maintaining a stable financial structure and our current credit rating.

Human resources

We are reviewing our organizational structures in order to streamline business processes and organization. Furthermore, we aim to enhance the role of central functions to make guidance and control more effective.
A recruitment programme will target qualified personnel needed to support Eni s development.

Commitment for sustainable development

At the centre of our strategy is a full commitment for sustainable development involving all aspects of our activity, from valuing our people to caring for the environment, from community development to multi-business research as well as identification and acquisition of advanced external technologies, and allocating to individual Divisions and Companies research activities that will support the businesses operations.

technological innovation. This is a priority for all companies, but even more for a large international enterprise operating in an industry in which social and

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environmental management is a key element of success. Eni s business model is oriented to fulfill our mission in ways that reduce the environmental impact and minimize the risks of climate change created by greenhouse gas emissions.

Our plans to develop natural gas, a low carbon content fuel; to improve the already widespread gas transport infrastructure and to develop gas-electricity integration will all play their part in reducing environmental impact. Eni s commitment to mitigate risks associated with climate change, in particular with greenhouse gas emissions, is also enforced through the use of the mechanisms set out in the Kyoto Protocol and in the associated international directives and conventions.

We are also reorganizing our sustainability management system. A first result will be the publishing of a sustainability paper regarding Eni s activities for sustainable development, which will be presented to the Shareholders Meeting, in addition to the publishing of the HSE Report . This will be followed by a full Sustainability Report from next year.

We would like to thank the men and women of Eni who, with their enthusiasm and expertise, have made our record-breaking economic performance possible. Their skills and experience will be essential for Eni to continue on its successful path - as will a renewed commitment to face future challenges with the pioneering spirit that has always been a distinctive hallmark of Eni.

30 March 2006

for the Board of Directors

Chairman *Chief Executive Officer*

BOARD OF DIRECTORS (1)

Chairman

Roberto Poli (2)

Chief Executive Officer

Paolo Scaroni (3)

Directors

Alberto Clô, Renzo Costi, Dario Fruscio, Marco Pinto, Marco Reboa, Mario Resca, Pierluigi Scibetta

GENERAL MANAGERS

Exploration & Production Division

Stefano Cao (4)

Gas & Power Division

Luciano Sgubini (5)

Refining & Marketing Division

Angelo Taraborelli (6)

BOARD OF STATUTORY AUDITORS (7)

Chairman

Paolo Andrea Colombo

Statutory Auditors

Filippo Duodo, Edoardo Grisolia, Riccardo Perotta, Giorgio Silva

Alternate Auditors

Francesco Bilotti, Massimo Gentile

MAGISTRATE OF THE COURT OF ACCOUNTS DELEGATED TO THE FINANCIAL CONTROL OF ENI

Luigi Schiavello (8)

Alternate

Angelo Antonio Parente (9)

External Auditors (10)

PricewaterhouseCoopers SpA

The composition and powers of the Internal Control Committee, Compensation Committee and International Oil Committee are presented in the section Corporate Governance in the Report of the Directors.

(1)

Appointed by the Shareholders' Meeting held on 27 May 2005 for a three-year period. The Board of Directors expires at the date of approval of the financial statements for the 2007 financial year. Until 27 May 2005 the Board of Directors was composed of Roberto Poli, Chairman, Vittorio Mincato, Managing Director, Mario Giuseppe Cattaneo, Alberto Clô, Renzo Costi, Dario Fruscio, Guglielmo Antonio Claudio Moscato, Mario Resca

(2) Appointed by the Shareholders Meeting held on 27 May 2005

(3) Powers conferred by the Board of Directors on 1 June 2005

(4) Appointed by the Board of Directors on 14 November 2000

(5) Appointed by the Board of Directors on 30 January 2001. On 14 December 2005 Mr. Sgubini retired from the company. The Board of Directors appointed Domenico Dispenza as General Manager of the Gas & Power Division from 1 January 2006

(6) Appointed by the Board of Directors on 14 April 2004

(7) Appointed by the Shareholders Meeting held on 27 May 2005 for a three-year period, expiring at the date of approval of the financial statements for the 2007 financial year. Until 27 May 2005 the Board of Statutory Auditors was composed of Andrea Monorchio, Chairman, Luigi Biscozzi, Paolo Andrea Colombo, Filippo Duodo, Riccardo Perotta and as Alternate Auditors Fernando Carpentieri, Giorgio Silva

(8) Duties assigned by resolution of the Governing Council of the Court of Accounts on 24-25 June 2003

(9) Duties assigned by resolution of the Governing Council of the Court of Accounts on 27-28 May 2003

(10) Appointed by the Shareholders' Meeting of 28 May 2004 for a three-year term

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Exploration & Production

(million euro)		2004	2005
Revenues (1)		15,346	**22,477**
Operating profit		8,185	**12,574**
Replacement cost operating profit		8,185	**12,574**
Adjusted operating profit		8,202	**12,883**
Expenditure for exploration and new exploration initiatives		499	**656**
Acquisitions of proved and unproved property			**301**
Expenditure in development and capital goods		4,354	**4,007**
Employees at period end	(units)	7,477	**7,491**

(1) Before elimination of intersegment sales.

Oil and natural gas production for the year 2005 grew a solid 7% to above 1.7 million barrels of oil equivalent (boe)/day. Excluding the adverse impact of lower entitlements in certain Production Sharing Agreements (PSA) and buy-back contracts[1], this increase was 9%. In the first two months of 2006 production exceeded 1.8 million boe/day

Net proved reserves of oil and natural gas were 6.84 billion boe at year-end, down 381 million boe from 2004 due to an estimated 478 million boe adverse impact related to lower entitlements in certain PSAs and buy-back contracts due to higher oil prices (Brent price was 58.205 dollars per barrel at year-end 2005 as compared to 40.47 at year-end 2004). Excluding the price impact, the reserve replacement ratio was 115%. The average reserve life index is 10.8 years

(1) For a definition of PSA and buy-back contracts see Glossary below.

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As part of its strategy of expansion in areas with high mineral potential, Eni enhanced its portfolio of mineral rights via acquisition of exploration permits and production licenses located in Libya, India, Alaska, Brazil, Nigeria, Australia, Pakistan and the Gulf of Mexico for a total acreage of 67,000 square kilometers (44,000 net to Eni, of these 93% as operator)

In May 2005, the new setup of the consortium operating the North Caspian Sea PSA was defined. As a result of the transaction Eni s operatorship interest in the Kashagan project increased from 16.67% to 18.52%. The development plan of the field located in the Kazakh offshore section of the Caspian Sea aims at producing up to 13 billion barrels of recoverable reserves through partial gas reinjection and a $29 billion capital expenditure. The development of the project is advancing as planned: first oil is expected by the end of 2008 and the production plateau is targeted at over 1.2 million barrels/day

As part of the Western Libyan Gas Project (Eni s interest 50%) in August 2005 the offshore Bahr Essalam field was started-up, less than a year after the start-up of the onshore Wafa field. Peak production of the two fields is expected in 2006 at 256,000 boe/day (128,000 net to Eni). When fully operational in 2007 volumes produced and carried to Italy via the Green Stream pipeline will be 8 billion cubic meters/year of natural gas (4 billion net to Eni) already booked under long term supply contracts with operators

In Angola oil production increased over 50% also due to significant startups: phase B of the development of the fields discovered in the Kizomba offshore area in Block 15 (Eni s interest 20%) and the North Sanha and Bomboco oil, condensate and LPG fields in Block 0 former Cabinda (Eni s interest 9.8%)

Proved oil and natural gas reserves

Proved oil and gas reserves are the estimated quantities of crude oil (including condensates and natural gas liquids) and natural gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing technical, contractual, economic and operating conditions 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.

Eni has always held direct control over the booking of proved reserves. The Reserve Department of the Exploration & Production Division, reporting directly to the General Manager, is entrusted with the task of keeping reserve classification criteria (criteria) constantly updated and of monitoring their periodic process of estimate. The criteria follow Regulation S-X rule 4-10 of the Security and Exchange Commission as well as, on specific issues non regulated by rules, the consolidated practice recognised by qualified reference institutions. The current criteria applied by Eni have been examined by DeGolyer and MacNaughton (D&M) an independent oil engineers company, which confirmed that they are compliant with the SEC rules. D&M also stated that the criteria regulate situations for which the SEC rules are less precise, providing a reasonable interpretation in line with the generally accepted practices in international markets. Eni estimates its proved reserves on the basis of the mentioned criteria also when it participates in exploration and production activities operated by other entities.

From 1991 Eni has requested qualified independent oil engineers companies to carry out an independent evaluation[2] of its proved reserves on a rotative basis. In particular in 2005 a total of 1.64 billion boe of proved reserves, or about 24% of Eni s total proved reserves at 31 December 2005, have been evaluated. The results of this independent evaluation confirmed Eni s evaluations, as they did in past years. In the 2003-2005 three-year period, independent evaluations concerned 84% of Eni s total proved reserves.

(2) From 1991 to 2002 to DeGolyer and MacNaughton, from 2003 also to Ryder Scott.

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Further information on reserves are provided in Note 35 to Eni s consolidated financial statements - Additional financial statement disclosures required by U.S. GAAP and the SEC - Supplemental oil and gas information for the exploration and production activities - Oil and natural gas reserves .

Eni s net proved reserves of hydrocarbons at 31 December 2005 were 6,837 million boe (oil and condensates 3,773 million barrels; natural gas 3,064 million boe) decreasing 381million boe from 31 December 2004, due to an estimated 478 million boe adverse entitlement impact in certain PSAs and buy-back contracts resulting from higher oil prices (Brent price was 40.47 dollars/barrel at 31 December 2004 and 58.205 dollars/barrel at 31 December 2005). Excluding the adverse price impact, the reserve replacement ratio was 115% (40% taking account of the price impact). The average reserve life index is 10.8 years (12.1 at 31 December 2004).

Evolution of proved reserves in the year		(million boe)
Net proved reserves at 31 December 2004		7,218
Revisions, extensions and discoveries and improved recovery	625	
Production for the year	(634)	(9)
		7,209
Purchase of proved property		106
Price impact in PSAs and buy-back contracts		(478)
Net proved reserves at 31 December 2005		**6,837**

Additions to proved reserves booked in 2005 were 625 million boe, before the adverse price impact on PSAs and buy-back contracts (478 million boe). Including the adverse price impact additions were 147 million boe and derived from: (i) extensions and discoveries (156 million

At 31 December 2005, proved developed reserves amounted to 4,306 million boe (oil and condensates 2,350 million barrels, natural gas 1,956 million boe) or 63% of total proved reserves (60% as of 31 December 2004).

boe) in particular in Nigeria, Norway, Kazakhstan and Algeria; (ii) improved recovery (89 million boe) in particular in Algeria, Angola and Kazakhstan. These increases were offset in part by net downward revisions of 98 million boe mainly in Kazakhstan, Angola and Libya in connection with the price impact. Upward revisions were registered in Algeria, Norway and Congo. A total of 106 million boe of proved reserves were purchased in Kazakhstan, Australia, Italy and Angola.

Proved reserves of hydrocarbons applicable to long-term supply agreements with foreign governments in mineral assets where Eni is operator represented approximately 11% of all proved reserves at 31 December 2005 (10% at 31 December 2004).

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Mineral right portfolio and exploration activities

As of 31 December 2005, Eni s portfolio of mineral rights consisted of 1,041 exclusive or shared rights[3] for exploration and development in 34 countries on five continents for a total net acreage of 266,000 square kilometers[4] (234,180 at 31 December 2004). Of these, 55,098 square kilometers concerned production and development (41,997 at 31 December 2004). Outside Italy net acreage increased by 41,403 square kilometers mainly due to the acquisition of assets after international bid procedures in Libya, Egypt, India, Pakistan, Angola, Algeria, the United States and Ireland and purchases of mineral assets in Nigeria, Alaska and Australia. These increases were offset in part by releases in particular in Italy, Brazil, Congo, Morocco and Tunisia and divestments of assets in the British section of the North Sea. In Italy net acreage declined by 9,582 square kilometers due to releases.

A total of 52 new exploratory wells were drilled (21.8 of which represented Eni s share), as compared to 66 exploratory wells completed in 2004 (29.5 of which represented Eni s share). Overall success rate was 39.3% as compared to 52.1% in 2004; the success rate of Eni s share of exploratory wells was 47.4% as compared 57.3% in 2004.

(3) Of these, 5 exploration permits are owned through joint ventures.

(4) Of these 27,422 square kilometers are owned through joint ventures.

Production

In 2005 oil and natural gas production was 1,737,000 boe/day, up 113,000 boe from 2004, or 7%. This increase was 9% without taking into account the price effect on PSAs and buy-back contracts. Production increases were registered in particular in Libya, Angola, Iran, Algeria, Egypt and Kazakhstan. These increases were partly offset by: (i) lower production entitlements (down 32,000 boe/day) in PSAs and buy-back contracts

Net proved hydrocarbon reserves (1) (2)	(million boe)	2003	2004	**2005**	Change	% Ch.
Italy		**996**	**890**	**868**	**(22)**	**(2)**
oil and condensates		252	225	**228**	3	1
natural gas		744	665	**640**	(25)	(4)
North Africa		**2,024**	**2,117**	**2,047**	**(70)**	**(3)**
oil and condensates		1,080	993	**979**	(14)	(1)
natural gas		944	1,124	**1,068**	(56)	(5)
West Africa		**1,324**	**1,357**	**1,285**	**(72)**	**(5)**
oil and condensates		1,038	1,056	**942**	(114)	(11)
natural gas		286	301	**343**	42	14
North Sea		**912**	**807**	**758**	**(49)**	**(6)**
oil and condensates		529	450	**433**	(17)	(4)
natural gas		383	357	**325**	(32)	(9)

Rest of World	**2,016**	**2,047**	**1,879**	**(168)**	**(8)**
oil and condensates	1,239	1,284	**1,191**	(93)	(7)
natural gas	777	763	**688**	(75)	(10)
Total	**7,272**	**7,218**	**6,837**	**(381)**	**(5)**
oil and condensates	4,138	4,008	**3,773**	(235)	(6)
natural gas	3,134	3,210	**3,064**	(146)	(5)

(1) From 1 January 2004 in order to conform to the practice of other international oil companies, Eni unified the conversion rate of natural gas from cubic meters to boe. A conversion rate of 0.00615 barrels of oil per one cubic meter of natural gas was adopted. The change introduced did not affect the amount of proved reserves recorded in boe at 31 December 2003.

(2) Includes Eni s share of proved reserves of equity-accounted entities (41 million boe in 2005).

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resulting from higher international oil prices; (ii) declines in mature fields mainly in Italy (natural gas) and the United Kingdom; (iii) the effect of the divestment of assets in 2004 (down 16,000 boe/d) and of hurricanes in the Gulf of Mexico (down 10,000 boe/d). The share of production outside Italy was 85% (83.3% in 2004).

Production of oil and condensates (1,111,000 barrels/d) was up 77,000 barrels from 2004, or 7.4%, due to increases registered in: (i) Angola, due to full production of the Hungo and Chocalho fields within phase A of the development of the Kizomba area in Block 15 and the start-up of the Kissanje and Dikanza fields within phase B of the same project in Block 15 (Eni s interest 20%) and the start-up of the Sanha-Bomboco fields in area B of Block 0 (Eni s interest 9.8%); (ii) Libya, due to full production at the onshore Wafa field and the start-up of the offshore Bahr Essalam field within the Western Libyan Gas Project (Eni s interest 50%); (iii) Iran, due to full production at the South Pars field Phases 4-5 (Eni operator with a 60% interest) and production increases at the Dorood (Eni s interest 45%) and Darquain fields

Hydrocarbon production (1) (2)	(thousand boe/d)	2003	2004	**2005**	Change	% Ch.
Italy		**300**	**271**	**261**	**(10)**	**(3.7)**
oil and condensates		84	80	**86**	7	7.5
natural gas		216	191	**175**	(16)	(8.4)
North Africa		**351**	**380**	**480**	**100**	**26.3**
oil and condensates		250	261	**308**	47	18.0
natural gas		101	119	**172**	53	44.5
West Africa		**260**	**316**	**343**	**27**	**8.5**
oil and condensates		236	285	**310**	25	8.8
natural gas		24	31	**33**	2	6.5
North Sea		**345**	**308**	**283**	**(25)**	**(8.1)**
oil and condensates		235	203	**179**	(24)	(11.8)
natural gas		110	105	**104**	(1)	(1.0)
Rest of World		**306**	**349**	**370**	**21**	**6.0**
oil and condensates		176	205	**228**	23	11.2
natural gas		130	144	**142**	(2)	(1.4)
Total		**1,562**	**1,624**	**1,737**	**113**	**7.0**
oil and condensates		981	1,034	**1,111**	77	7.4

natural gas	581	590	**626**	36	6.1

(1) Includes natural gas consumed in operations (44,000, 38,000 and 26,000 boe/day in 2005, 2004 and 2003 respectively).

(2) Includes Eni s share of production of equity-accounted entities.

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(Eni operator with a 60% interest); (iv) Algeria, due to full production at the Rod and satellite fields (Eni operator with a 63.96% interest); (v) Kazakhstan, in the Karachaganak field (Eni co-operator with a 32.5% interest) due to increased exports through the Caspian Pipeline Consortium s pipeline linking the field to the Novorossiysk terminal on the Russian coast of the Black Sea; (vi) Italy, due to increased production in Val d Agri resulting from full production of the fourth treatment train of the oil center. These increases were partly offset by declines of mature fields in particular in the United Kingdom and by the effect of the divestment of assets carried out in 2004.

Production of natural gas (626,000 boe/d) was up 36,000 boe from 2004, or 6.1%, reflecting primarily increases registered in Libya, due to full production at the Wafa field and the start-up of the Bahr Essalam field (Eni s interest 50%), Egypt, for the start-up of the Barboni field and the Temsah 4 platform in the offshore of the Nile Delta, Kazakhstan and Pakistan. These increases were offset in part by the declines registered in particular in Italy due to declining mature fields, the effect of the divestment of assets effected in 2004 and of the hurricanes in the Gulf of Mexico.

Oil and gas production sold amounted to 614.9 million boe, up 37 million boe, or 6.4%. The 19.3 million boe difference over production was due essentially to own consumption of natural gas (16.2 million boe).

About 68% of oil and condensate production sold (402.6 million barrels) was destined to Eni s Refining & Marketing segment (70% in 2004). About 44% of natural gas production sold (34.5 billion cubic meters) was destined to Eni s Gas & Power segment (40% in 2004).

Main exploration and development projects

NORTH AFRICA

Algeria Exploration activities yielded positive results in permits P 404 in area C (Eni s interest 25%) near the HBNE field with the SFSW-3 appraisal well on the Sif Fatima discovery and P 403 c/e (Eni s interest 33.33%) with the ZNNW-1 appraisal well. In both permits the presence of hydrocarbons was confirmed at a depth of about 3,000 meters.

In Block P 403a/d (Eni s interest 50%) the NFW ROM-6 discovery well and the ROM North-1 appraisal well were drilled at a depth of about 3,400 meters and confirmed the extension of the new oil levels in the ROM field. The

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ROM integrated development project entails production from these new levels also through the reinjection of gas produced in the nearby BRN field, reducing gas flaring by nearly 90%. Peak production at ROM is expected at 31,000 barrels/day (16,000 net to Eni) in 2009.

The EKT, EMK, EMN and EME fields are in the development phase in block 208 (Eni s interest 12.25%). The development plan provides for the drilling of 142 wells and the construction of a central facility for the production of stabilized oil, condensates and LNG. Startup is expected in 2008 with peak production of 155,000 barrels/day (13,000 net to Eni) in 2010.

Egypt Exploration yielded positive results in the following concessions: (i) Ashrafi (Eni s interest 50%) in the Gulf of Suez with the drilling of the NFW Ashrafi 1X well that found hydrocarbons at a depth of 1,600-1,700 meters; (ii) Belayim Land (Eni s interest 50%) with the drilling of NFW BLSW-1 well that found gas at a depth of over 3,000 meters; (iii) Belayim Marine (Eni s interest 50%) in the Gulf of Suez with the drilling of the BMNW-4 outpost well which allowed to report mineralized levels at a depth of about 3,000 meters. This well was linked to the existing production facilities; (iv) North Port Said (Eni operator with a 50% interest) with the drilling of the PFM-D-1 well which found gas and condensates at a depth of about 5,000 meters. This well is the first discovery of a new exploration theme in oligocenic formations and starts a new exploration phase in deep water with very high mineral potential.

Development activities are underway in concessions in the offshore of the Nile Delta: (i) North Port Said (Eni s interest 50%) where the Barboni gas platform started production in May 2005 at an initial level of about 1 million cubic meters/day while work continued for the expansion of the el Gamil terminal where in 2005 natural gas production net to Eni increased from 11 to 13 million cubic meters/day; (ii) el Temsah (Eni operator with a 25% interest) where in August 2005 gas and liquid production started at the Temsah 4 platform. In the second quarter of 2006 production of gas and condensates will start from platform Temsah NW. Peak production at 139,000 boe/day (41,000 net to Eni) is expected in 2008.

kilometers, located in the Murzuk basin (161/1, 161/2&4, 176/3) and in the Kufra area (186/1, 2, 3, 4).

Exploration yielded positive results in offshore block NC-41 (Eni operator with a 50% interest) with the drilling of well NFW T1-NC41 which found oil and gas at a depth of 2,770 meters and yielded 4,600 barrels/day of oil and 370,000 cubic meters/day of gas in test production.

As part of the Western Libyan Gas project (Eni s interest 50%), less than one year after the start-up of the onshore Wafa field, the Bahr Essalam field located in the NC-41 permit in the Mediterranean offshore started production. The field is developed by means of the Sabratha platform to which 38 producing wells will be connected, of these 26 have already been drilled. Oil and gas are carried through two underwater pipelines to the Mellitah treatment plant on the Libyan coast. Peak production from the two fields at 256,000 boe/day (128,000 boe/day net to Eni) is expected in 2006. Natural gas is carried to Italy through the Greenstream pipeline. When fully operational in 2007 the gasline will allow the export and sale of 8 billion cubic meters per year (4 billion net to Eni) to third parties on the Italian natural gas market under long term contracts. In addition 2 billion cubic meters of gas per year will be sold on the Libyan market.

In the NC-174 permit (Eni s interest 23.33%) about 800 kilometers south of Tripoli the development of the

Libya In October 2005 following an international bid procedure Eni obtained an exploration license as operator of 4 onshore blocks with a total acreage of 18,221 square

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Elephant oil field continued. In October 2005 the new 725-kilometer long pipeline linking it to the Mellitah plant started operations. The upgrading of the Mellitah plant will be completed in the first half of 2006. The field is expected to reach a peak production of 150,000 barrels/day (35,000 net to Eni) in the second half of 2006.

WEST AFRICA

Angola Offshore exploration activities were successful in the following areas: (i) Block 0, former Cabinda (Eni s interest 9.8%) with the NFW 70-5X well that found hydrocarbons at a depth of 2,335 meters and yielded 2,000 barrels of oil/day and natural gas in test production; (ii) Block 14K/A-IMI (Eni s share 10%) with the drilling of the Lianzi-2ST and Lianzi-2OH appraisal wells on the Lianzi discovery which showed the presence of natural gas and oil layers at a depth of more than 3,000 meters; (iii) Block 15 (Eni s interest 20%) with the Batuque-3 appraisal well on the Batuque discovery which confirmed the presence of hydrocarbons at a depth of about 2,000 meters.

Between January and May 2005 in area B of Block 0 former Cabinda (Eni s interest 9.8%) production started at the oil, condensate and LPG offshore fields North Sanha and Bomboco. LPG is produced through an FPSO (Floating Production Storage Offloading) unit, the largest in its class in the world. At Sanha a complex for the reinjection of gas into the fields has been built aiming at reducing gas flaring by 50%. Peak production of oil, condensates and LPG is expected at 100,000 barrels/day (10,000 barrels/day net to Eni) in 2007.

The project is underway for the development of the Benguela, Belize, Lobito and Tomboco oilfields at a depth between 300 and 500 meters in Block 14 (Eni s interest 20%). The project provides for the drilling of 50 wells and the installation of a compliant tower with production facilities for Benguela/Belize. The first oil was produced in January 2006. Lobito and Tomboco will be developed by means of underwater completion and are going to be connected to the compliant tower of Benguela/Belize with start-up scheduled in the second half of 2006. Peak production from the four fields is expected in 2008 at 188,000 barrels/day (32,000 net to Eni).

In July, as part of Phase B of the development of discoveries in the Kizomba offshore area in Block 15 (Eni s interest 20%) the Kissanje and Dikanza fields were started up five months ahead of schedule at a water depth between 1,000 and 1,300 meters. The project provides for the drilling of 58 wells (34 producing and 24 injection), the installation of a Tension Leg Platform for Kissanje and an underwater production system for Dikanza. Production will be treated at an FPSO vessel common to both fields with a capacity of 250,000 barrels/day and a storage capacity of over 2 million barrels. Production peaked at 47,000 barrels/day net to Eni at year end 2005.

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Nigeria In September 2005 Eni acquired as operator the OML 120 and OML 121 development licenses from Nigerian companies. The concessions, where the Oyo field was discovered, are located approximately 70 kilometers offshore the western coast of the Niger Delta in Nigeria. Two exploration wells are going to be drilled in 2006.

Exploration yielded positive results in the offshore OML 125 block (Eni operator with a 50.2% interest) with the drilling of the Abo 8 appraisal well that found oil layers at a depth of 2,142 meters and in the offshore OPL 219 block (Eni s interest 12.5%) with the drilling of the Bolia 3X appraisal well that found oil levels at a depth of over 3,000 meters.

As part of the plan for increasing the treatment capacity of the Bonny liquefaction plant (Eni s interest 10.4%) the fourth and fifth treatment trains started operations in November and December 2005, respectively. When fully operational these trains will increase production capacity from 9 to 17 million tonnes/year of LNG (from 11.5 to 23 billion cubic meters/year of natural gas feedstock). When the two new trains are fully operational supplies of natural gas will reach 65 million cubic meters/day (6.25 million cubic meters/day being Eni s share).

In November 2005 the Bonga oil field (Eni s interest 12.5%), situated in the OML 118 permit offshore an FPSO vessel connected to 17 producing wells (9 already drilled). Production is expected to peak at 200,000 barrels/day (23,000 net to Eni) in 2006.

The Forcados/Yokri oil and gas fields (Eni s interest 5%) are currently under development in the onshore and offshore of the Niger Delta. Development is expected to be completed in February 2007 as a part of the integrated associated gas gathering project aimed at providing natural gas supplies to the Bonny liquefaction plant. Offshore production facilities have been installed and 25 of the planned 30 wells have been drilled. Peak production from these fields at 126,000 boe/day (6,000 net to Eni) is expected in 2006.

In April 2005, the Okpai power station (Independent Power Plant, Eni s interest 20%) started operations, with a generation capacity of 480 megawatts on two gas and one steam turbines. The power station is fed with gas from the nearby Kwale fields in permit OML 60 (Eni operator with a 20% interest) which will supply 2 million cubic meters/day of natural gas when the power station is fully operational. The project is part of Eni s and the Nigerian government s plan to reduce CO_2 emissions in the atmosphere.

Nigeria in waters of a depth between 950 and 1,150 meters, was started up. Development is achieved by means of

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NORTH SEA

Norway In the PL229 permit (Eni s interest 65%), where the Goliath discovery was made, Eni obtained an extension of its exploration license to 15 May 2007. Exploration was successful with the drilling of the 7122/7-3 appraisal well on the Goliath discovery that reached a depth of 2.701 in waters 343 meters deep and found a hydrocarbon bearing layer 180 meters thick. A new appraisal of the Goliath area through the drilling of other wells is planned aimed at starting the commercial development of the field.

In November 2005 production started at the Kristin oil and gas field (Eni s interest 8.25%) located in the PL134 permit in the Haltenbanken area about 200 kilometers off the coast in the Norwegian Sea. Oil production is treated on a semi-submersible platform with a capacity of 125,000 barrels/day. Production is expected to peak at 218,000 boe/day (18,000 net to Eni) in 2007. In the same permit the Tofte formation discovered with the first producing well on Kristin will be developed. The synergies with the Kristin production facilities will allow a viable development of the nearby Tyrihans field (Eni s interest 7.9%), expected to start-up in 2009, in coincidence with the expected production decline of Kristin.

In November 2005 the Svale and Stær oil fields in the PL128 permit (Eni s interest 11.5%) were started up, exploiting synergies with the nearby Norne production facilities. Production is expected to peak at 56,000 barrels/day (6,000 net to Eni) in 2006.

United Kingdom In July 2005 Eni divested some exploration assets located in the central section of the North Sea.
Exploration yielded positive results in the P/233 permit in blocks 15/25a (Eni s interest 12%) in the central section of the North Sea with the NWF 15/25°-DD well drilled at a depth of over 2,000 meters and flowed about 4,000 barrels/day of high quality oil and natural gas in test production.

In November 2005 the British government announced that it will increase income taxes by levying a supplementary charge increase of 10 percentage points (from 10 to 20%). This will adversely impact the Eni Group s tax rate by estimated 1.2 percentage points in 2006 as compared to 2005. Approximately half of the expected increase will relate to a provision for deferred taxation. Given the expected production decline of the area, the adverse impact of higher rates of taxes in the United Kingdom will diminish with time.

REST OF WORLD

Alaska In August 2005, Eni purchased from the US independent company Armstrong Oil & Gas 104 exploration blocks onshore in the North Slope and offshore in the Beaufort Sea. The blocks, with a total acreage of 1,718 square kilometers, include two fields in

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the pre-development phase holding estimated 170 million barrels of oil of reserves.

Australia Offshore exploration was successful in: (i) Block AC/P-21 (Eni s interest 40%) with the NFW Vesta-1 well that located natural gas at a depth of over 3,300 meters; (ii) Block WA-25-L (Eni s interest 65%) with the Woollybutt-4 appraisal well which confirmed the presence of oil in the western extension of Wollybutt-3 at a depth of over 2,000 meters; (iii) Block WA-208 P (Eni s interest 18.66%) with the NFW Hurricane-1 well that identified natural gas at a depth of over 3,000 meters.

In December 2005 Eni purchased further interests and reached 100% in permits WA 279-P and WA 313-P in the Bonaparte offshore basin off the northern coast of Australia where the Blacktip and Penguin fields are located. In the same basin Eni purchased a 39% interest in the WA 34-R permit where the Rubicon-Prometeus field is located.

In December 2005 Eni signed Heads of Agreement with the Darwin Power and Water Utility Company for the supply of a total amount of 20 billion cubic meters of natural gas from the Blacktip field for a 25-year period starting in January 2009. Further volumes may be supplied in the future.

Brazil In January 2006 following an international bid procedure held in October 2005 Eni acquired the operatorship of a six-year exploration license in Block BM Cal-14, covering an area of about 750 square kilometers in the deep waters of the Camamu-Almada basin, about 1,300 kilometers north of Rio de Janeiro.
In March 2005 the exploration license of Block BM-C-3 (Eni s interest 40%) has been converted into an appraisal area. The test phase of the Peroba discovery well containing oil is scheduled within the first half of 2006. Exploration yielded positive results in Block BM-S-4 (Eni s interest 100%) with the drilling of the NFW Belmonte-1A well which found natural gas at a depth of over 5,000 meters. The relevant authorities allowed a third exploration period for this block which will last two years and provides for the drilling of one well.

China Offshore exploration activity yielded positive results in Block 16/19 (Eni s interest 33%) in the South China Sea about 180 kilometers south east of Hong will be started up by means of the production facilities existing in the area. In Block 16/19 the HZ25-3-2 appraisal well confirmed the extension of the reserves of the HZ25-3 oil field.

India In July 2005, Eni has been awarded the right to conduct exploration activities as operator in Blocks 8 and D-6, following an international bid tender. Block 8 (Eni s interest 34%) is located onshore in Rajasthan in the northwest of India, and extends for 1,335 square kilometers. Block D-6 (Eni s interest 40%) is located deepwater in the Indian Ocean, some 130 kilometers west of the Andaman Islands, and covers an area of 13,110 square kilometers. This contract marks the beginning of Eni s upstream activities in India.
In September 2005 Eni and the Indian Oil & Natural Gas Corporation signed a memorandum of understanding establishing mutual cooperation between the companies aimed at finding new exploration and production opportunities. In particular, the companies will exchange information on a range of deep offshore exploration projects in India and in other countries, with an option to exchange equity interests in selected upstream and midstream projects.

Indonesia Offshore exploration activity yielded positive results in the Bukat block (Eni operator with a 41.25% interest) in the Tarakan basin offshore Borneo with the drilling of appraisal wells on the Aster oil discovery made in 2004. The Aster 2 and 3 wells confirmed the presence of additional reserves of high quality hydrocarbons and the exploration potential of the

Kong with the drilling of the HZ25-4-1 well (Eni s interest 100%), which found hydrocarbons at a depth of about 4,000 meters and flowed about 5,000 barrels/day of high quality oil in test production. The HZ25-4 field

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basin. In 2006 and 2007 further appraisal activities are scheduled in order to reach a definition of the field s development plan.

Iran In January 2005, at Assaluyeh on the coast of the Persian Gulf construction of the gas treatment plant for phases 4 and 5 of the development of the gas and condensates South Pars field was completed. The field is operated by Eni with a 60% interest through a buy-back contract. When fully operational in 2006 the treatment plant will produce 20 billion cubic meters/year of natural gas and over 90,000 barrels/day of condensates (33,000 net to Eni). In the short term it will also produce 1 million tonnes/year of LPG.

Kazakhstan As part of the North Caspian Sea PSA for the development of the Kashagan field where Eni is operator, on 31 March 2005 Eni and the other members of the consortium, except for one, purchased British Gas s interest (16.67%) in proportional shares, according to the option exercised in May 2003, and sold half of this newly acquired interest to the national Kazakh company Kazmunaygaz (KMG), new partner in the PSA with an 8.335% interest. Following these two transactions (the sale to KMG was closed in May 2005), Eni increased its interest from 16.67% to 18.52% and continues acting as operator. The outlay for this transaction amounted to dollar 200 million. The development plan of the Kashagan field, considered the most important discovery of the past thirty years, to be implemented in multiple phases, aims at the production of up to 13 billion barrels of oil reserves by means of partial reinjection of gas. Production is expected to start in 2008 at an initial level of 75,000 barrels/day and to increase to 450,000 barrels/day at the end of the first development phase. Production plateau is targeted at 1.2 million barrels/day. The total capital expenditure is estimated at dollar 29 billion (5.4 billion being Eni s share), this amount does not include the capital expenditure for the construction of the infrastructure for exporting production to international markets, for which various options are under scrutiny by the consortium. At 31 December 2005, the total amount of contracts awarded for the development of the field was over dollar 8.8 billion for the completion of the first phase of the field s development plan (sections 1 and 2) which includes the drilling of development wells, the construction of infrastructure for developing the field and for offshore production (drilling, treatment and reinjection of sour gas for maximizing the oil yield) and onshore treatment plants. The most advanced techniques are going to be applied in the construction of the planned plants in order to cope with high pressures in the field and the presence of hydrogen sulphide.

At the Karachaganak field (Eni co-operator with a 32.5% interest) the new gas treatment and injection plants allowed to ship 42,500 barrels/day net to Eni, corresponding to 41.7% of oil and gas produced by the field net to Eni, to the terminal of the North Caspian Pipeline Consortium (Eni s interest 2% corresponding to a transport right of a maximum of 3 million tonnes/year) at Novorossiysk on the Black Sea. The Phase 2M (Maintenance) of the Karachaganak project continued according to plans.

Mozambique In March 2006, following an international bid tender, Eni obtained the exploration license for Area 4, located in the deep offshore of the Rovuma Basin 2,000 kilometers north of Maputo. The block covers an area of 17,646 square kilometers in an unexplored geological basin with great mineral potential according to surveys performed.

Pakistan Eni purchased the Indus M and Indus N exploration permits in the offshore of the Indus Delta with a total area of 5,000 square kilometers. The Rehmat non operated field (Eni s interest 30%) was started-up. In May 2005 in the Gambat permit the Dulyan-1-Reentry well was drilled and confirmed the presence of natural gas. After the completion of production tests, evaluations are underway.

Turkey In November 2005 an agreement has been reached for the preparation of a feasibility study on the development of a new oil pipeline connecting the Turkish port of Samsun, on the Black Sea, with Ceyhan, on Turkey s Mediterranean coast. The new transportation system will include: (i) a new loading terminal in Samsun; (ii) a 560-kilometer long pipeline with transport capacity of 1 million barrels of oil per day; (iii) oil storage facilities to be built in Ceyhan. The construction of a pipeline represents a faster, environmentally safer and more economic alternative to the transportation of oil by ship through the Turkish Straits of the Bosphorus and Dardanelles. It also represents a good route for exporting Eni s production from fields in the Caspian Sea area.

United States Eni purchased 22 exploration blocks in the Gulf of Mexico following its participation to the 194 (March 2005) and 196 (August 2005) Lease Sale.

In Green Canyon Block 562 (Eni operator with an 18.17% interest) in the deep offshore of the Gulf of Mexico production from the K2 oil field started with an initial flow rate of 8,000 boe/day. The field s development includes two additional subsea wells linked to the nearby Marco Polo platform, operated by a partner. Peak production of 7,000 boe per day (net to Eni) is expected in 2007.

Venezuela The development of the Corocoro oil field (Eni s interest 26%) in the West Paria Gulf is underway. The development plan provides for two phases, with the second one depending on the results of the first one in terms of production from wells and reaction of the field to water and gas reinjection. Production is expected to start in 2008 with a peak of about 70,000 barrels/day (17,000 net to Eni) in 2009.

In December 2005 Eni signed a transition agreement with the Venezuelan state company PDVSA under which the parties agreed to negotiate the terms for a transition to the new contractual regime of the empresa mixta , a new company to which titles and mineral assets of the Dación filed will be transferred with PDVSA holding the majority stake. Until the closing of the new contractual regime, Eni s activities will be subject to the terms and conditions of the existing Operating Service Agreement. Negotiations are underway and currently it is not possible to foresee their outcome.

ITALY

In Italy development activities concerned in particular: (i) continuation of the development plan of the onshore Candela and Miglianico fields and the completion of the development of the Naide field; (ii) continuation of drilling and connection of development wells in the Val d Agri; (iii) the optimization of producing fields by means of sidetracking and infilling (the Annabella, Armida, Barbara, Garibaldi gas fields and the Rospo oilfield); (iv) construction of an additional sealine for the optimal management of the fields connected to the Fano terminal; (v) the beginning of the development phase of the Annamaria field.

As part of the development of onshore gas fields in Sicily the following projects are in an advanced phase: (i) Pizzo Tamburino, the first PT1 well is scheduled for the second half of 2006 with expected production of approximately 1,000 boe/day; in 2007 according to the actual production of PT1 a second well PT2 is expected to be connected to PT1; (ii) Fiumetto, the infilling well F4 is going to start production in the first half of 2007 with an expected peak flow of approximately 1,200 boe/day; (iii) Samperi 1, startup is expected in the second half of 2006 peaking at approximately 1,300 boe/day.

Exploration expenditure concerned essentially northern Italy where the drilling of 3 wells began (2 completed before year end, 6 completed in 2004). Exploration yielded positive results with the Mezzocolle 1 well (Eni s interest 100%) containing natural gas in the Imola permit in the central Apennines.

In December 2005 Eni acquired for euro 90 million (including net financial debt transferred of euro 17 million) a 90% interest in Sarcis SpA holding onshore permits/concessions in Sicily from Ente Minerario Siciliano in liquidation.

Capital expenditure

In 2005, capital expenditure of the Exploration & Production segment amounted to euro 4,964 million and concerned mainly development expenditure (euro 3,952 million, euro 4,310 in 2004) directed mainly outside Italy (euro 3,541 million), in particular in Kazakhstan, Libya, Angola and Egypt. Development expenditure in Italy (euro 411 million) concerned in particular the completion of work for plant and infrastructure in Val d Agri and sidetrack and infilling actions in mature areas. Exploration expenditure amounted to euro 656 million (euro 499 million in 2004), of which about 96% was directed outside Italy. Outside Italy exploration concerned in particular the following countries: Norway, Egypt, the United States, Brazil and Indonesia. In Italy exploration concerned essentially Northern Italy. Expenditure for the purchase of proved and unproved property amounted to euro 301 million and concerned: (i) a further 1.85% stake in the Kashagan project with an outlay of dollar 200 million; (ii) 104 exploration blocks and two fields in the pre-development phase in Northern Alaska; (iii) a 40% stake in the OML 120 and OML 121 concessions under development in the Nigerian offshore; (iv) a 50% interest in the WA-313-P and a 53.8% interest in the WA-280-P permits in Australia. Capital expenditure for capital goods amounted to euro 55 million.

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Storage

Natural gas storage activities are performed by Stoccaggi Gas Italia SpA (Stogit) to which such activity was conferred on 31 October 2001 by Eni SpA and Snam SpA, in compliance with article 21 of Legislative Decree No. 164 of 23 May 2000, which provided for the separation of storage from other activities in the field of natural gas.
Storage services are provided by Stogit through eight storage fields located in Italy, based on ten storage concessions[5] vested by the Ministry of Productive Activities.
In 2005 Stogit increased the share of storage capacity used by third parties that reached 56% (53% in 2004). From the beginning of its operations Stogit markedly increased the number of customers served and the share of revenues from third parties: from a nearly negligible amount, the latter accounted for 44% of total revenues in 2005.

(5) Two of these are not yet operational.

		2002	2003	2004	**2005**
Available capacity					
modulation and mineral	(billion cubic meters)	7.1	7.1	7.5	**7.5**
- share utilized by Eni	(%)	66	53	47	**44**
strategic	(billion cubic meters)	5.1	5.1	5.1	**5.1**
Total customers	(units)	20	30	39	**44**
Modulation and mineral service customer	(units)	14	24	29	**35**

Regulatory framework

Decision No. 119/2005 Adoption of guarantees for the free access to natural gas storage services, duties of subjects operating storage activities and rules for the preparation of a storage code

Decision No. 119/2005 defines the criteria for the preparation of a storage code regulating the provision of modulation, mineral and strategic storage services as well as the service for the operating balancing of transport enterprises; services are provided to users for a period no longer than a thermal year following a preset priority rule.
The decision determines the publication and communication duties to the Authority for electricity and gas and to users of storage services.

Decision No. 266/2005 Notice of formal inquiry on Stogit SpA leading to a possible administrative sanction

With Decision No. 266/2005 the Authority for possible administrative sanction (fine under Law No. 481/1995) alleging that Stogit s behavior does not conform with the discipline contained in Decision No. 119/2005 concerning access to and provision of storage services.

Decision No. 50/2006 Criteria for the determination of tariffs for natural gas storage services

On 3 March 2006, the Authority for electricity and gas published a decision containing the criteria for determining storage tariffs for the second regulated period. This decision changes the regulation in force in the first regulated period, introducing maximum allowed revenues affecting the capacity component (space and flow) and confirming the price cap mechanism for the commodity component. It also establishes a single national tariff.
The decision confirms the mechanisms for the evaluation of net capital employed already defined for the first regulated period; the return on capital employed

electricity and gas started an inquiry leading to a is reduced from 8.33% to 7.1% (pre-tax).

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Based on the new tariff regime and keeping into account that all the capacity available in 2006 is considered in the calculation of tariffs, revenues expected in the thermal year from 1 April 2006 to 31 March 2007 amount to about euro 280 million, decreasing 20% from the previous thermal year.

The decision contains also incentives to capital expenditure for the development of storage by recognizing an additional rate of return of 4% on the basic rate for 8 years for capital expenditure increasing capacity and for 16 years for the development of new storage sites.

The decision changes some of the rules contained in Decision No. 119/2005, in particular it confers injection capacity and the attribution to customers of the working gas remaining at the end of the discharge, it also totally modifies the rules for the revenues balancing and use of strategic storage.

Decision No. 56 of 16 March 2006 approved Stogit s tariff proposals for 2006-2007 thermal year.

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Gas & Power

(million euro)		2004	2005
Revenues (1)		17,302	**22,969**
Operating profit		3,428	**3,321**
Replacement cost operating profit		3,416	**3,194**
Adjusted operating profit		3,448	**3,531**
Capital expenditure		1,451	**1,152**
Employees at period end	(units)	12,843	**12,324**

(1) Before elimination of intersegment sales.

Natural gas sales (91.15 billion cubic meters) were up 8.8% due to increased demand for power generation in Italy and the acquisition of new customers combined with growth in markets in the rest of Europe as a result of the expansion strategy pursued by Eni

The agreement signed by Eni, Amorim Energia and Rede Eléctrica Nacional shareholders of Galp with 33.34, 13.312 and 18.30% respectively confers stability to the shareholding structure of the Portuguese energy company and sets the stage for future developments aimed at enhancing Eni s investment. The Portuguese Government is expected to sell part of its Galp holding through a public offer before the end of 2006

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As part of its strategy of international expansion in LNG, Eni purchased 6 billion cubic meters/year for 20 years of the regasification capacity of the Cameron terminal on the coast of Louisiana in the USA with start-up planned for 2008-2009. This will allow Eni to sell in the United States part of its natural gas reserves in North Africa and Nigeria

Eni continues its development in power generation aimed at reaching 5.5 gigawatt of installed capacity by 2009; at year-end 2005 installed capacity was 4.5 gigawatt. The new combined cycle power plants will absorb over 6 billion cubic meters/year of natural gas from Eni s portfolio of supplies

Eni defined the plans for the upgrade of transport capacity of pipelines carrying natural gas from Algeria and Russia. When fully operational in the 2009-2010 thermal year these upgrades will allow an increase in import capacity of about 13 billion cubic meters/year. All the new capacity will be made available to third parties

NATURAL GAS

Supply of natural gas

In 2005, Eni s Gas & Power division supplied 82.56 billion cubic meters of natural gas, with a 6.47 billion cubic meters increase from 2004, up 8.5%, in line with the increase in sales. Natural gas volumes supplied outside Italy (71.83 billion cubic meters) represented 87% of total supplies (85% in 2004).

Volumes supplied outside Italy (71.83 billion cubic meters) increased 7.04 billion cubic meters from 2004, or 10.9% due to the reaching of full volumes from Libya (3.29 billion cubic meters) and higher purchases from Algeria (0.72 billion cubic meters). Imports of LNG destined to Italy increased by 0.18 billion cubic meters due to the partial resumption of supplies from Sonatrach after the accident occurred in early 2004 at the Skikda liquefaction plant. Also purchases from Croatia increased (0.08 billion cubic meters) due to the

Supply of natural gas (billion cubic meters)	2003	2004	**2005**	Change	% Ch.
Italy	**12.16**	**11.30**	**10.73**	**(0.57)**	**(5.0)**
Russia for Italy	18.92	20.62	**21.03**	0.41	2.0
Russia for Turkey	0.63	1.60	**2.47**	0.87	54.4
Algeria	16.53	18.86	**19.58**	0.72	3.8
Netherlands	7.41	8.45	**8.29**	(0.16)	(1.9)
Norway	5.44	5.74	**5.78**	0.04	0.7
Libya		0.55	**3.84**	3.29	n.m.
Croatia	0.65	0.35	**0.43**	0.08	22.9
United Kingdom	1.98	1.76	**2.28**	0.52	29.5
Algeria (LNG)	1.98	1.27	**1.45**	0.18	14.2
Others (LNG)	0.72	0.70	**0.69**	(0.01)	(1.4)
Hungary	3.56	3.57	**3.63**	0.06	1.7
Other supplies Europe	0.04	0.12	**1.18**	1.06	n.m.
Outside Europe	1.14	1.20	**1.18**	(0.02)	(1.7)
Outside Italy	**59.00**	**64.79**	**71.83**	**7.04**	**10.9**
Total supplies	**71.16**	**76.09**	**82.56**	**6.47**	**8.5**
Withdrawals from storage	0.84	0.93	**0.84**	(0.09)	(9.7)
Network losses and measurement differences	(0.61)	(0.53)	**(0.78)**	(0.25)	47.2

Available for sale	**71.39**	**76.49**	**82.62**	**6.13**	**8.0**

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start-up of supplies from the Marica field, in the Adriatic offshore in November 2004. Supplies from the Netherlands declined (0.16 billion cubic meters). Supplies in Italy (10.73 billion cubic meters) declined by 0.57 billion cubic meters, or 5.0%, from 2004, due to a decline in production of the Exploration & Production segment.
In 2005, a total of 0.84 billion cubic meters of natural gas were withdrawn from storage, net of volumes input into sites of Stoccaggi Gas Italia SpA in Italy and of Gaz de France in France, as compared to 0.93 billion cubic meters in 2004.

TAKE-OR-PAY
In order to meet the medium and long-term demand for natural gas, in particular of the Italian market, Eni entered into long-term purchase contracts with producing countries that currently have a residual average term of approximately 15 years. Existing contracts, which in general contain take-or-pay clauses, will ensure a total of about 67.3 billion cubic meters of natural gas per year (Russia 28.5, Algeria 21.5, Netherlands 9.8, Norway 6 and Nigeria LNG 1.5) by 2008. The average annual minimum quantity (take-or-pay) is approximately 85% of said quantities. Despite the fact that increasing volumes of natural gas available to Eni are currently being sold outside Italy, the expected development of Italian demand and supply of natural gas in the medium and long-term and the evolution of regulations in this segment represent a risk element in the management of take-or-pay contracts.
In 2005 Eni withdrew about 3.8 billion cubic meters more than its minimum offtake obligation.

Sales of natural gas

In 2005 natural gas sales (91.15 billion cubic meters, including own consumption and Eni s share of sales of affiliates[1]) were up 7.34 billion cubic meters from 2004, or 8.8%. This increase concerned all areas, in particular markets in the rest of Europe (up 3.15 billion cubic meters, or 11.2%), the Italian market (up 2.39 billion cubic meters, or 4.8%) and natural gas supplies for

(1) Including also Nigeria LNG Ltd (Eni s interest 10.4%).

Natural gas sales (billion cubic meters)	2003	2004	**2005**	Change	% Ch.
Italy	**50.86**	**50.08**	**52.47**	**2.39**	**4.8**
Wholesalers (distribution companies)	15.36	13.87	**12.05**	(1.82)	(13.1)
Gas release		0.54	**1.95**	1.41	261.1
End customers	35.50	35.67	**38.47**	2.80	7.8
Industries	13.17	12.39	**13.07**	0.68	5.5
Power generation	15.03	15.92	**17.60**	1.68	10.6
Residential	7.30	7.36	**7.80**	0.44	6.0
Rest of Europe	**17.54**	**21.54**	**23.44**	**1.90**	**8.8**
Outside Europe	**1.09**	**1.17**	**1.17**	**..**	**..**

Total sales to third parties	**69.49**	**72.79**	**77.08**	**4.29**	**5.9**
Own consumption	1.90	3.70	**5.54**	1.84	49.7
Total sales to third parties and own consumption	**71.39**	**76.49**	**82.62**	**6.13**	**8.0**
Sales of natural gas of Eni s affiliates (net to Eni)	**6.94**	**7.32**	**8.53**	**1.21**	**16.5**
Europe	6.23	6.60	**7.85**	1.25	18.9
Outside Europe	0.71	0.72	**0.68**	(0.04)	(5.6)
	78.33	**83.81**	**91.15**	**7.34**	**8.8**

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power generation at EniPower s power stations (up 1.84 billion cubic meters, or 49.7%).

Natural gas sales in Italy (52.47 billion cubic meters) were up 2.39 billion cubic meters from 2004, or 4.8%, reflecting an increase in sales to end users, also due to a cold winter, that concerned power generation (up 1.68 billion cubic meters or 10.6%), industries (up 0.68 billion cubic meters or 5.5%) and the residential and commercial segment (up 0.44 billion cubic meters or 6%). These increases were offset in part by lower sales to wholesalers (down 1.82 billion cubic meters or 13.1%) related to the so called gas release[2] carried out in accordance with certain decisions of the Antitrust Authority.

Natural gas sales in the rest of Europe (23.44 billion cubic meters) were up 1.9 billion cubic meters, or 8.8%, due to increases registered in: (i) supplies to the Turkish market via the Blue Stream gasline (up 0.86 billion cubic meters); (ii) sales under long-term supply contracts to importers to Italy (up 0.57 billion cubic meters), also due to reaching full supplies from Eni s Libyan fields; (iii) France, related to the increase in supplies to industrial customers and to wholesalers (up 0.5 billion cubic meters); (iv) Germany and Austria related to increased supplies (up 0.3 billion cubic meters) to Eni s affiliate GVS (Eni s interest 50%) and other operators.

Own consumption[3] was 5.54 billion cubic meters, up 1.84 billion cubic meters from 2004, or 49.7%, reflecting primarily higher supplies to EniPower due to the coming on stream of new generation capacity.

Sales of natural gas by Eni s affiliates, net to Eni and net of Eni s supplies, were 8.53 billion cubic meters and related to: (i) GVS (Eni s interest 50%) with 3.29 billion cubic meters; (ii) Galp Energia (Eni s interest 33.34%) with 1.56 billion cubic meters; (iii) Unión Fenosa Gas (Eni s interest 50%) with 1.52 billion cubic meters; (iv) volumes of natural gas (1.45 billion cubic meters) treated at the Nigeria LNG Ltd liquefaction plant (Eni s interest 10.4%) in Nigeria sold to US and European markets. As compared to 2004 sales increased 1.21 billion cubic meters, up 16.5%, in particular due to higher sales by Unión Fenosa Gas.

Transmission and regasification of natural gas

Eni transported 85.10 billion cubic meters of natural gas in Italy, an increase of 4.69 billion cubic meters from 2004, or 5.8%, due to increasing demand related to power generation and higher consumption in the residential and commercial segment due to a cold winter.

(2) In June 2004 Eni agreed with the Antitrust Authority to sell a total volume of 9.2 billion cubic meters of natural gas (2.3 billion cubic meters/year) in the four thermal years from 1 October 2004 to 30 September 2008 at the Tarvisio entry point into the Italian network.

(3) In accordance with article 19, paragraph 4 of Legislative Decree No. 164/2000, the volumes of natural gas consumed in operations by a company or its subsidiaries are excluded from the calculation of ceilings for sales to end customers and from volumes input into the Italian network to be sold in Italy.

Natural gas volumes transported (1) (billion cubic meters)	2003	2004	**2005**	Change	% Ch.
Eni	**51.74**	**52.15**	**54.88**	**2.73**	**5.2**
On behalf of third parties	**24.63**	**28.26**	**30.22**	**1.96**	**6.9**
Enel	9.18	9.25	**9.90**	0.65	7.0

Edison Gas	7.49	8.00	**7.78**	(0.22)	(2.7)
Others	7.96	11.01	**12.54**	1.53	13.9
	76.37	**80.41**	**85.10**	**4.69**	**5.8**

(1) Include amounts destined to domestic storage.

Natural gas volumes transported on behalf of third parties (30.22 billion cubic meters) increased by 1.96 billion cubic meters, up 6.9%.
In 2005 Eni s LNG terminal in Panigaglia regasified 2.49 billion cubic meters of natural gas (2.07 billion cubic meters in 2004) discharging 79 tanker ships (68 in 2004). The increase in volumes regasified can be attributed to higher availability of liquefied natural gas on the market.

Development projects

LNG United States

As part of its strategy of expansion in the LNG business, on 1 August 2005, Eni signed an agreement with the US company Cameron LNG Llc (belonging to the Sempra Energy group) to purchase a share of the regasification capacity of the Cameron liquefied natural gas terminal under construction in Louisiana expected to be completed in 2008-2009. The share of regasification capacity purchased amounts to 6 billion cubic meters per year for a period of 20 years, which corresponds to about 40% of the overall initial capacity of the terminal (15.5 billion cubic meters per year). This transaction will enable Eni to sell part of its natural gas reserves from North African and Nigerian fields in the United States.

LNG Egypt

In January 2005, the first LNG shipment was made from the Damietta liquefaction plant (Eni s interest 40% through its 50% interest in Unión Fenosa Gas) that is targeted to produce about 7 billion cubic meters/year. The partners in the project (Unión Fenosa Gas, the Egyptian company EGAS and oil producers Eni and BP) are negotiating terms and conditions for an expansion of the plant consisting in the construction of a second train with the same capacity of the first one. Eni will supply about 3 billion cubic meters/year of natural gas to the first train for twenty years. Further volumes will be supplied to the second train under an intent protocol signed in March 2005 with the Egyptian Government.

Galp

On 29 December 2005, Eni, Amorim Energia (a privately held Portuguese company in which Sonangol, the national oil company of Angola, holds a minority stake) and Rede Electrica Nacional (REN) entered an eight-year long agreement for the joint management of purchase on 28 March 2006 of a 1% stake in Galp by Caixa (a primary Portuguese financial institution) which also confirmed its participation in the agreement it had signed on 29 December 2005; (iii) the change in the powers of the Portuguese State in Galp (golden share) resulting from the approval by Galp s Shareholders Meeting held on 29 March 2006 of new by-laws consistent with the agreement between Eni, Amorim Energia, REN and Caixa.
At the present date shareholders of Galp are: Eni (33.34%), the Portuguese State (17.711%), Parpublica (12.293%), REN (18.30%), Amorim Energia (13.312%), Iberdrola (4%), Caixa Geral de Depositos (1%), Setgas (0.044%).
Key guidelines of the agreement are as follows: (i) the establishment of a new set of corporate governance rules setting, among others, percentages of share capital voting rights necessary to make relevant decisions; (ii) an industrial plan targeting the achievement of a leading market position in natural gas, refining and petroleum products marketing in the Iberian Peninsula, an increase in the weight of upstream activities in Galp s asset portfolio and access to the Portuguese electricity sector; (iii) placement of part of the stake held by the Portuguese State in Galp through an initial public offering by year-end of 2006; (iv) spin-off of certain regulated asset of Galp (natural gas transport network, storage sites and the Sines LNG regasification plant) ideally by the end of 2006; those assets are agreed to be sold to REN; (v) transfer of REN s stake in Galp to Amorim Energia within an 18-month period from the effective date of the agreement; (vi) a five-year lock-in period.
When effective, the agreement will replace the existing agreement between Eni and the Portuguese State.

Germany

In January 2005, Eni agreed a long term contract for the supply of 1.2 billion cubic meters/year of natural gas to the German company Wingas starting in 2006. The gas will be delivered at Eynatten at the German-Belgian border.

France

In July 2005 Eni signed a long term agreement with French company EDF for the supply of 860 million cubic meters/year of natural gas starting in October 2006.

Galp Energia (Galp). The agreement came in force on 29 March 2006 after the occurrence of all the suspensive conditions, among which: (i) the authorization of the European Commission issued on 24 March 2006; (ii) the

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Blue Stream

In November 2005 the first section of the compressor station at Dzhubga on the Russian coast of the Black Sea started operating. This station is made up of three turbocompressors and three turbogenerators and will allow to increase volumes transported. The Blue Stream gasline owned by Blue Stream Pipeline Co in which Eni and Gazprom hold equal shares transports natural gas produced in Russia to Turkey across the Black Sea by means of two underwater pipelines each about 390-kilometer long reaching a depth of 2,150 meters. In 2005 the pipeline carried 5.03 billion cubic meters of natural gas (50% were Eni s share). Volumes transported and marketed will increase progressively in future years and are targeted to about 16 billion cubic meters per year (8 billion net to Eni).

Upgrade of import gaslines

Eni has defined a program for the upgrade of transport gaslines from Algeria and Russia.
The transport capacity of the TTPC gasline from Algeria will increase by 6.5 billion cubic meters/year of which 3.2 billion cubic meters starting on 1 April 2008 and 3.3 billion cubic meters/year starting on 1 October 2008 with an expected expenditure of euro 345 million. A corresponding capacity on the TMPC downstream gasline is already available. TMPC crosses underwater the Sicily channel.
The first section of the upgrade was assigned to third parties in November 2005.
The transport capacity of the TAG gasline from Russia will be increased by 6.5 billion cubic meters/year of which 3.2 billion cubic meters starting on 1 October 2008 and 3.3 billion cubic meters/year starting on 1 April 2009 with an expected expenditure of euro 275 million. The first section of the upgrade was assigned to third parties in February 2006.
Considering also the full capacity from 2006 of the Greenstream gasline from Libya (8 billion cubic meters/year) and the upgrade underway of the TAG gasline in the light of the build-up of the fourth import contract from Russia (up 4 billion cubic meters/year from 2007), from 2009 a total of about 25 billion cubic meters/year of new import capacity will be available. Except for the 4 billion cubic meters/year of the Russian contract, 14.4 billion cubic meters of this new capacity have already been sold on the market and 6.6 billion cubic meters/year will be sold under non discriminating procedures.

cooperation agreeing also to cease the previous agreement signed in May 2005. (See Eni s Report on the first half of 2005, Operating review, Gas & Power). Negotiations are underway.

Sale of the water business

In March 2005, after receiving the authorization of the Italian Antitrust Authority, Italgas divested its majority interest (67.05%) in Società Azionaria per la Condotta di Acque Potabili to Amga SpA and Smat SpA for a cash consideration of euro 85 million (euro 15.57 per share).
In May 2005, after receiving the authorization of the Italian Antitrust Authority, Italgas divested its 100% interest in Acquedotto Vesuviano SpA to Gori SpA for a cash consideration of euro 20 million.
The above transactions are part of Eni s strategy of concentrating its resources in its core natural gas business.

Purchase of Siciliana Gas

On 28 December 2005 Eni signed an agreement for the purchase of 50% of Siciliana Gas SpA and one share of Siciliana Gas Vendite SpA held by Ente Siciliano per la Promozione Industriale (ESPI) in liquidation (Sicily s industrial development agency) for euro 98 million. On 1 February 2006 the Italian Antitrust Authority approved the transaction. With this purchase Eni becomes the sole owner of Siciliana Gas SpA and through this company also of 100% of Sicliana Gas Vendite SpA.
Siciliana Gas SpA has been operating in Sicily since 1979 and holds the rights for the distribution of gas to 76 Sicilian municipalities, including Agrigento, Enna, Trapani and Gela (of these 70 concessions are operating) through a 2,600-kilometer long network and with 186 employees. It owns Siciliana Gas Vendite SpA operating in the sale of natural gas to end users with approximately 215,000 customers and sales volumes of about 190 million cubic meters per year and 50 employees.

Toscana Energia SpA

On 24 January 2006, Eni, Italgas and the local authorities partners of Fiorentina Gas SpA and Toscana Gas SpA signed a framework agreement for developing an alliance in the area of natural gas distribution and sale. As part of the agreement, the partners incorporated

Agreement between Eni and Gazprom/Gazexport
In October 2005 Eni and Gazprom agreed to promote a new set of agreements aimed at widening their

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Toscana Energia SpA (Eni s interest 48.7% the remaining 51.3% interest being held by municipalities and local banks) to which they contributed in kind their interests in Fiorentina Gas and Toscana Gas. These two companies operate in natural gas distribution to 97 municipalities through a 7,900-kilometer long network serving 1.6 million customers.
They will be merged in Toscana Energia within two years under the framework agreement. The local authorities partners will play a role of strategic guidance and control, while Italgas is the industrial partner and has operating and management responsibilities.
The agreement provides also for the establishment of a regional sales company (600,000 customers, 1.1 billion cubic meters sold in 147 Tuscan municipalities) under Eni s control, through the merger of Toscana Gas Clienti SpA (Eni s interest 46.1% through Italgas) and Fiorentina Gas Clienti SpA (Eni s interest 100%).

Regulatory framework

Actions by the Antitrust Authority and the Authority for electricity and gas

TTPC
On 15 February 2006, the Antitrust Authority informed Eni of the closing of an inquiry started in February 2005 to ascertain an alleged abuse of dominant position. The events leading to the opening of the procedure relate to behaviors of Trans Tunisian Pipeline Co Ltd (TTPC), wholly owned by Eni, concerning its decision to consider expired certain ship-or-pay contracts signed on 31 March 2003 by TTPC with four shippers, who had been assigned new transport capacity on TTPC s pipeline, due to the non occurrence of certain suspensive clauses. Therefore TTPC decided to not proceed to the planned upgrade of the pipeline by 2007.
In January 2006 Eni submitted to the Antitrust Authority a proposal containing the actions it intends to perform in order to favor competition on the Italian natural gas market and mitigate the effects if its alleged abuse of dominant position, concerning in particular the upgrade of the TTPC pipeline in Tunisia for the import of natural gas to Italy from Algeria: 3.2 billion cubic meters/year from 1 April 2008 and further 3.3 billion cubic meters/year from 1 October 2008.
With the decision notified on 15 February 2006 the Antitrust Authority stated that Eni s behavior through its subsidiary TTPC represented an abuse of dominant position under article 82 of the European Treaty. It therefore fined Eni. The original fine amounted to euro 390 million and was reduced to euro 290 million in consideration of Eni s commitment to perform actions favoring competition as mentioned above.
Eni intends to file a claim against this decision of the Antitrust Authority with the Regional Administrative Court of Lazio.

Determination of reference prices for non eligible customers at 31 December 2002 - Decision No. 248/2004 and Decision No. 298/2005 of the Authority for electricity and gas

With Decision No. 248 of 29 December 2004, the Authority for electricity and gas changed the indexing mechanism concerning the raw material component in tariffs paid by end customers that were non eligible customers at 31 December 2002 on the basis of Legislative Decree No. 164/2000. Decision No. 248/2004 introduced the following changes: (i) establishment of a cap set at 75% for the changes in the raw material component if Brent prices fall outside the 20-35 dollar/barrel interval; (ii) change of the relative weight of the three products making up the reference index of energy prices whose variations when higher or lower than 5% as compared to the same index in the preceding period determine the updating of raw material costs; (iii) substitution of one of the three products included in the index (a pool of crudes) with Brent crude; (iv) reduction in the value of the variable wholesale component of selling price by euro 0.26 cents per cubic meter in order to foster the negotiation of prices consistent with average European prices in gas import contracts starting from 1 October 2005. Decision No. 248/2004 also obliges suppliers of natural gas to provide new conditions consistent with the said decision to wholesalers under contracts that do not contain price adjustment clauses in case of changes in the pricing mechanisms.
Eni filed a claim against Decision No. 248/2004, requesting its suspension with the Regional Administrative Court of Lombardia. With a judgment

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published on 6 October 2005, this Court annulled Decision No. 248/2004 of the Authority for electricity and gas. However the Council of State in response to a counter claim of the Authority suspended the Court s decision.
On the basis of this suspension, on 29 December 2005 the Authority published Decision No. 298/2005 containing the conditions for the updating of prices for the January-March 2006 quarter based on the criteria of Decision No. 284/2004. The decision of the Council of State on this matter is pending.

Opening of an inquiry on prices

With Decision No. 107/2005 the Authority for electricity and gas started a formal inquiry against Eni and other gas importers alleging their failure to comply with the Authority information requirements contained in its Decision No. 188/2004 of 27 October 2004, by which it required natural gas importers, among which Eni, to give information concerning: (i) dates and supplier for each supply contract for the import of natural gas; (ii) FOB purchase prices; (iii) price updating formulas; and (iv) volumes supplied and FOB purchase average prices on a monthly basis for each supplying contract relating to the period October 2002-September 2004.
Eni appealed this decision with the Regional Administrative Court of Lombardia that with Decision No. 89/2005 of 22 March 2005 cancelled the obligation for Eni to communicate dates and supplier for each contract and FOB purchase prices. With a letter dated 14 May 2005 and taking into account the Regional Court s decision, Eni gave the Authority only part of the information required; in particular information concerning volumes supplied and FOB purchase average prices on a monthly basis was not provided because it would allow to calculate information on FOB prices the presentation of which was annulled by the Regional Administrative Court s decision. With Decision No. 107/2005 the Authority for electricity and gas confirmed Eni s failure to comply with the Authority information requirement and opened an inquiry that is still ongoing. Law 481/1995 states that, when its decisions are disregarded, the Authority may impose a fine ranging from a minimum of euro 25,000 to a maximum of euro 150 million. With an appeal of December 2005, the Authority requested to the Council of State a change in the decision allowing it to know also FOB prices. Eni acted against this claim. The hearing to discuss it has not yet been scheduled.

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Inquiry of the Authority for electricity and gas on behaviors of operators selling natural gas to end customers
With Decision No. 225 of 28 October 2005, the Authority for electricity and gas started an inquiry on the behaviors of companies selling natural gas to end customers aimed at acquiring new customers or re-acquiring customers transferred to other sellers, with particular reference to hurdles posed by companies to customers wishing to leave one distributor or to the entry of competitors on the market. The inquiry aims at identifying any measure the Authority should take in this area and is expected to close before 31 July 2006.

Eni SpA - GNL Italia SpA
On 18 November 2005 the Antitrust Authority notified Eni and its subsidiary GNL Italia the opening of an inquiry, in accordance with article 14 of Law No. 287/1990, concerning an alleged abuse of dominant position in the assignment and use of the total continuos regasification capacity of the Panigaglia terminal (owned by GNL Italia) in thermal years 2002-2003 and 2003-2004, as evidenced by an inquiry of the Authority for electricity and gas which referred Eni to the Antitrust Authority. The inquiry is due to be closed on 31 October 2006.

Decision No. 137/2002 of the Authority for electricity and natural gas - Access to transport services and Network Code of Snam Rete Gas
The Authority for electricity and natural gas with decision No. 137/2002 defined the criteria for regulating access to national natural gas transport networks, in particular the issue of priority. Eni filed a claim against this decision with the Regional Administrative Court of Lombardia, that was partially accepted with a decision of December 2004. The Authority filed a claim against this decision with the Council of State and informed Eni on 19 February 2005. The hearing for the discussion of this case has not yet been scheduled.

Inquiry of the Authority for electricity and gas on the use of storage capacity conferred in 2004/2005 and 2005/2006
With decision No. 37 of 23 February 2006, the Authority for electricity and gas started an inquiry on a few natural gas selling companies, among which Eni, with reference to the use of storage capacity in years 2004-2005 and 2005-2006. For the 2004-2005 thermal capacity as characterized by higher offtake than actually necessary given the weather of the period than the volumes considered necessary to satisfy the requirements for which the company conferred priority.

Legislative Decree No. 164/2000
Legislative Decree No. 164/2000 imposed thresholds to operators until 31 December 2010 in relation to a percentage share of domestic consumption set as follows: (i) 75%, from 1 January 2002, for imported or domestically produced natural gas volumes input in the domestic transmission network destined to sales; this percentage decreases by 2 percentage points per year until it reaches 61% in 2009; (ii) 50% from 1 January 2003 for sales to final customers. These ceilings are calculated net of volumes consumed in operations and in the case of sales also net of losses. The decree also provides for a periodical control of the respect of said ceilings. This control is performed each year by the Antitrust Authority by comparing the allowed three-year average percentage share of domestic consumption for both input volumes and sales volumes with the one actually achieved by each operator. In particular 2005 closes the second three-year regulated period for natural gas volumes input in the domestic transmission network, for which the allowed percentage is 71% of domestic consumption of natural gas and the first three-year regulated period for sales volumes. Eni s presence on the Italian market complied with said limit.

Transport of natural gas

Decision No. 166/2005 of the Authority for electricity and gas
With Decision No. 166 of 29 July 2005, the Authority for electricity and gas approved criteria for the definition of tariffs for the transport of natural gas on the national and regional network of gas pipelines for the second four-thermal-year regulated period (1 October 2005-30 September 2009). The new tariff structure confirms the breakdown of the tariff into two components: capacity and commodity in a ratio of 70 to 30 and the entry-exit model for the determination of the capacity component on the national pipeline network, already present in the previous tariff regime established by Decision No. 120/2001.

year and for the period from 1 October 2005 to 31 December 2005 the Authority considers the use of modulation storage

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The major new elements of the new regime are as follows:

- a reduction of the rate of return of capital employed in transport activities from 7.94% to 6.7% (pre-tax);
- a new set of incentives for new capital expenditure. In the previous regime, the return on upgrade and capacity expansion expenditure was 7.47% for one year only included in the calculation of the capacity component of the transport tariff and 4.98% for 6 years in the calculation of the commodity component. The new tariff structure provides an additional rate of return depending on the type of expenditure on the return rate acknowledged to capital employed: from a minimum of 1% for safety measures that do not increase transport capacity, applied for 5 years, to a maximum of 3% for expenditure that increases capacity at entry points into the national network, applied for 15 years. The additional return is part of the determination of the maximum allowed revenues in the calculation of the capacity component of the tariff and therefore is not influenced by changes in volumes transported;
- the updating by means of a price cap mechanism of the allowed revenues the transport undertaking is entitled to and the annual recalculation of the portion relating to capital costs. This price cap mechanism applies to operating costs and amortization charges (previously it applied to the allowed revenues). The annual rate of recovery of productivity was confirmed at 2%; this is used to reduce the
- the reduction from 4.5% to 3.5% of the preset annual rate of change of productivity recovery for the updating of the commodity component of the tariff;
- the elimination from the tariff of the fixed connection fee, substituted by an amount proportional to measurement, aimed at favoring measuring and data collection;
- confirmation of the tariff reduction for start-ups (construction/upgrade of combined cycle plants for electricity generation) and for offtake in low season periods (from 1 May to 31 October) already contained in Decisions No. 5/2005 and 6/2005 which updated the previous tariff regime.

The companies active in the field of gas transport submit their tariff proposals to the Authority before 31 March of each year.

Budget Law for 2006
Law No. 266/2005 (budget law for 2006) extended from 1 July 2007 to 31 December 2008 the deadline (determined by Legislative Decree No. 293/2003 amended and converted into Law No. 290/2003) beyond which companies operating in production, import, distribution and sale of natural gas and electricity are no longer allowed to own more than 20% of the share capital of companies managing national networks for the transmission of natural gas and electricity. At 31 December 2005 Eni holds a 50.05% interest in Snam Rete Gas.

effect of changes in the consumer price index on the updating of the preceding year s allowed revenues;

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New tax criteria for the determination of amortizations for companies operating in transport and distribution of natural gas

The criteria for the determination of the annual share of amortizations of natural gas transport and distribution assets deductible in the determination of income taxes have been changed starting in 2005 onwards by Law Decree No. 203 of 30 September 2005, converted into Law No. 248 of 2 December 2005 and Law No. 266 of 23 December 2005 (budget law for 2006). Due to these changes, the share of amortizations that was previously calculated based on rates set by a decree of the Minister of Finance of 31 December 1988, is now determined by dividing the relevant asset gross book value in accordance with the useful lives determined by the Authority for electricity and gas and reducing the amount obtained after tax by 20%. The alignment of the fiscal lives of natural gas transport and distribution assets to their useful lives entails the anticipation of the payment of income taxes given the postponement of the deductibility of amortization without impacting on net income of companies involved (mainly Snam Rete Gas and Italgas), except for the financial charges related to this cash anticipation.

Distribution activities

Change of Decision No. 237/2000 and new tariff criteria

Decision No. 104 of 25 June 2004 postponed to 30 September 2004 the duration term of the first regulated period for natural gas distribution activity and the validity of the basic tariff options approved by the Authority for thermal year 2004.

With Decision No. 170 of 29 September 2004 the Authority defined gas distribution tariffs for the second regulated period from 1 October 2004 to 30 September 2008, setting at 7.5% the rate of return on capital employed of distribution companies, as compared to the 8.8% rate set for the previous distribution tariff regime. The rate of productivity recovery one of the components of the annual updating mechanism was set at 5% of operating expenses and amortization charges (as compared to the 3% rate applied to total expenses and charges in the preceding regulated period). Municipalities may request a contribution lower than 1% of revenues of distribution companies destined to cover supply costs of certain categories of customers.

The Regional Administrative Court of Lombardia in a defined criteria that: (i) do not foresee that allowed revenues for distribution companies for the second regulated period are calculated keeping into account expenditure made and to be made after those considered for the approval of allowed revenues for thermal year 2003-2004; (ii) foresee a constant rate of productivity recovery for the whole regulated period in the updating of allowed revenues. The Authority filed a claim with the Council of State, that, on 8 March 2005 suspended the Regional Administrative Court s decision while waiting for the judgment.

Accepting the Administrative Court s decision: (i) with Decision No. 122 of 21 June 2005, the Authority integrated and changed Decision No. 170/2004 defining a new determination mechanism for distribution tariffs that take into account the expenditure made by distributing companies; (ii) with Decision No. 171 of 3 August 2005 the Authority also defined the application modes of the individual regime contained in Decisions No. 170 and 173/2004.

Regasification activities

Decision No. 197/2005 of the Authority for electricity and gas (regasification tariffs)

With its Decision No. 197/2005 the Authority for electricity and gas rejected the tariff proposal for the thermal year 1 October 2005-30 September 2006 of GNL Italia for regasification services provided at its Panigaglia terminal. The Authority determined other tariffs stating that GNL Italia s tariffs were inconsistent with the criteria set by Decision No. 178/2005, against which GNL Italia had filed a claim in December 2005 with the Regional Administrative Court of Lombardia. The continuos or spot regasification tariff contains a specific component related to the contractually involved regasification capacity, a specific component related to volumes regasified and two components related to the energy associated to the volumes regasified. The first component has a 30% discount when the service is provided spot as compared to continuous service.

decision published on 16 February 2005 accepted the distributors claim against it and cancelled Decision No. 170/2004 of the Authority in the part where it

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POWER GENERATION

Eni s electricity business is managed by EniPower and its subsidiaries that own power stations located at Eni s sites in Ferrera Erbognone, Ravenna, Livorno, Taranto, Mantova, Brindisi and Ferrara with installed capacity of 4.5 gigawatts at 31 December 2005 (up 1.3 gigawatt from 2004).

Eni is completing a plan for expanding its power generation capacity, targeted at an installed capacity of 5.5 gigawatt in 2009 with production amounting to 30 terawatthour from 2008, corresponding to over 10% of electricity generated in Italy at that date. Planned capital expenditure amounts to approximately euro 2.4 billion, of these works for euro 1.8 billion have already been completed.

New installed generation capacity employs the CCGT technology (combined cycle gas fired), which allows to obtain high efficiency and low environmental impact. In particular, Eni estimates that given the same amount of energy (electricity and heat) produced, the use of the CCGT technology on a production of 30 terawatthour will allow to reduce emissions of carbon dioxide by approximately 11 million tonnes, as compared to emissions caused by conventional power stations.

The development plan has been completed at all sites except for Ferrara (Eni s interest 51%), where in partnership with Swiss company EGL AG construction is underway of two new 390 megawatt combined cycle units which will bring installed capacity to 840 megawatt with startup expected in 2007.

In 2005, electricity production sold was 22.8 terawatthour, up 8.9 terawatthour, or 64.4% from 2004, due the entry into service of the new power units at Mantova (up 3.9 terawatthour) and Brindisi (up 1.9 terawatthour) and to the full commercial operation of the Ravenna (up 1.6 terawatthour) and Ferrera Erbognone (up 1.1 terawatthour) plants. Eni also purchased 4.8 terawatthour from third parties in Italy and outside Italy. Sales of steam amounted to 10.7 million tonnes, increasing by 620,000 tonnes, up 6.2% from 2004.

Approximately 57% of sales were directed to end users, 28% to the Electricity Exchange, 8% to GRTN/Terna (under CIP 6/92 contracts and imbalances in input) and 7% to wholesalers. All the steam produced was sold to end users.

Capital expenditure

In 2005, capital expenditure in the Gas & Power segment totaled euro 1,152 million (euro 1,451 million in 2004) and related in particular to: (i) development and maintenance of Eni s transmission network in Italy (euro 643 million); (ii) the continuation of the construction of combined cycle power plants (euro 239 million); (iii) development and maintenance of Eni s distribution network in Italy (euro 182 million) (iv) development of Eni s transport network outside Italy (euro 48 million). As compared to 2004, capital expenditure declined by euro 299 million, down 20.6%, due essentially to the completion of the Greenstream gasline and of the power generation development plan.

		2003	2004	**2005**	Change	% Ch.
Purchases						
Natural gas	(million cubic meters)	940	2,617	**4,384**	1,767	67.5

Other fuels	(thousand toe)	847	695	**563**	(132)	(19.0)
Sales						
Electricity production sold	(terawatthour)	5.55	13.85	**22.77**	8.92	64.4
Electricity trading	(terawatthour)	3.10	3.10	**4.79**	1.69	54.5
Steam	(thousand tonnes)	9,303	10,040	**10,660**	620	6.2

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Refining & Marketing

(million euro)		2004	2005
Revenues [1]		26,089	**33,732**
Operating profit		1,080	**1,857**
Replacement cost operating profit		687	**793**
Adjusted operating profit		923	**1,214**
Capital expenditure		693	**656**
Employees at period end	(units)	9,224	**8,894**

(1) Before elimination of intersegment sales.

Despite a market characterized by declining domestic consumption of fuels, the market share of Agip branded service stations increased by 0.2 percentage points to 29.7% due to an improved performance also related to the success of the Do-It-Yourself campaign that as of 31 December boasted 3.8 million clients

Eni divested its total interest in Italiana Petroli SpA, a company distributing fuels in Italy through a lease concession network under the IP brand

Despite a decline in consumption, sales of fuels in the rest of Europe (3.67 million tonnes) increased by 6% due to the development strategy pursued by Eni in selected markets with interesting growth prospects where Eni leveraged on its well known brand and the proximity of its own production and logistic structures

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Refinery throughputs on own account (38.79 million tonnes) increased by 2.9% despite the standstill of the Gela refinery in the first months of the year due to the damage caused to the docking infrastructure by a severe sea storm

Supply and trading

In 2005, a total of 66.48 million tonnes of oil were purchased (67.05 in 2004), of which 37.30 million tonnes from Eni s Exploration & Production segment[1], 14.85 million tonnes under long-term contracts with producing countries, and 14.33 million tonnes on the spot market. Some 24% of oil purchased came from West Africa, 19% from North Africa, 17% from countries of the former Soviet Union, 16% from the Middle East, 14% from the North Sea, 7% from Italy and 3% from other areas. Some 31.07 million tonnes were resold, representing a decrease of 1.32 million tonnes from 2004, down 4.1%. In addition, 3.58 million tonnes of intermediate products were purchased (3.10 in 2004) to be used as feedstocks in conversion plants and 16.21 million tonnes of refined products (18.8 in 2004) sold as a complement to own production on the Italian market (4.97 million tonnes) and on markets outside Italy (11.24 million tonnes).

(1) The Refining & Marketing segment purchased approximately two thirds of the Exploration & Production segment s oil and condensate production and resold on the market those crudes and condensates that are not suited to processing in its own refineries due to their characteristics or geographic area.

Supply of oil (million tonnes)	2003	2004	**2005**	Change	% Ch.
Eni production outside Italy	29.38	31.70	**32.86**	1.16	3.7
Eni production in Italy	4.18	4.03	**4.44**	0.41	10.2
Total Eni production	**33.56**	**35.73**	**37.30**	**1.57**	**4.4**
Spot markets	12.20	11.42	**14.33**	2.91	25.5
Long-term contracts	17.60	19.90	**14.85**	(5.05)	(25.4)
	63.36	**67.05**	**66.48**	**(0.57)**	**(0.9)**

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Refining

In 2005 refining throughputs on own account in Italy and outside Italy were 38.79 million tonnes, up 1.10 million tonnes from 2004, or 2.9%, due to higher processing at Eni s wholly-owned refineries of Taranto, Livorno and Sannazzaro also as a result of fewer maintenance standstills. These increases were offset in part by the impact of the maintenance standstill of the Porto Marghera refinery and lower processing at the Gela refinery following the damage caused by a sea storm to the docking infrastructure in December 2004. Processing on third party refineries increased, especially at the Milazzo refinery (Eni s interest 50%). Total throughputs on wholly owned refineries (27.34 million tonnes) increased 0.59 million tonnes from 2004, or 2.2%, with full balanced capacity utilization. About 32.3% of all oil processed came from Eni s Exploration & Production segment (33% in 2004).

Distribution of refined products

In 2005 sales volumes of refined products (51.63 million tonnes) were down 1.91 million tonnes from 2004, or 3.6%, mainly due to the divestment of activities in Brazil in August 2004 (down 1.51 million tonnes), lower sales volumes to oil companies and traders outside Italy (down 305,000 tonnes), declining wholesale sales volumes in Italy (220,000 tonnes) and lower sales on the Agip branded network (130,000 tonnes) related to lower domestic consumption. These declines were offset in part by higher retail and wholesale sales in the rest of Europe (357,000 tonnes) due to Eni s development strategy.

The impact of the divestment of 100% of IP effective from 1 September 2005, on retail sales volumes (down 750,000 tonnes) was partly offset by higher sales volumes to the divested company (up 650,000 tonnes) as Eni continues to supply fuels under a five-year contract signed concurrently with the divestment.

Petroleum products availability (million tonnes)	2003	2004	**2005**	Change	% Ch.
Italy					
Refinery intake in wholly-owned refineries	25.09	26.75	**27.34**	0.59	2.2
Refinery intake for third parties	(1.72)	(1.50)	**(1.70)**	(0.20)	13.3
Refinery intake in non owned refineries	8.43	8.10	**8.58**	0.48	5.9
Consumption and losses	(1.64)	(1.64)	**(1.87)**	(0.23)	14.0
Products available	**30.16**	**31.71**	**32.35**	**0.64**	**2.0**
Purchases of finished products and change in inventories	5.86	5.07	**4.85**	(0.22)	(4.3)
Finished products transferred to foreign cycle	(5.19)	(5.03)	**(5.82)**	(0.79)	15.7
Consumption for power generation	(1.07)	(1.06)	**(1.09)**	(0.03)	2.8
Products sold	**29.76**	**30.69**	**30.29**	**(0.40)**	**(1.3)**
Outside Italy					
Products available	**3.36**	**4.04**	**4.33**	**0.29**	**7.2**
Purchases of finished products and change in inventories	12.12	13.78	**11.19**	(2.59)	(18.8)

Finished products transferred from Italian cycle	5.19	5.03	**5.82**	0.79	15.7
Products sold	**20.67**	**22.85**	**21.34**	**(1.51)**	**(6.6)**
Sales in Italy and outside Italy	**50.43**	**53.54**	**51.63**	**(1.91)**	**(3.6)**

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Retail sales in Italy

Sales volumes of refined products on retail markets in Italy (10.05 million tonnes) were down 0.88 million tonnes from 2004, or 8.1%, reflecting primarily the divestment of IP. Sales volumes on the Agip branded network (8.76 million tonnes) were down 130,000 tonnes, or 1.5%, due mainly to a decline in domestic consumption (down 1.9%) in particular of gasoline and LPG, whose effects were offset in part by an improved performance. Market share of the Agip network was up 0.2 percentage points from 29.5 to 29.7%. Average throughput of gasoline and diesel fuel of the Agip network was substantially unchanged at 2,509,000 liters (down 0.7%).

At 31 December 2005, Eni s retail distribution network in Italy consisted of 4,349 Agip branded service stations, 2,895 less than at 31 December 2004 (7,244 service stations), due to the divestment of IP (2,915 service stations). Excluding the effect of IP s sale, the Agip branded network increased by 20 units from 31 December 2004 as a result of the positive balance of acquisitions/releases of lease concessions (27 units), the opening of 12 new service stations and an increase in highway service stations (2 service stations) offset in part by the closure of 21 less efficient service stations.

Sales volumes of BluDiesel a high performance and low environmental impact diesel fuel on the Agip branded network amounted to 1 billion liters, a decline of about 13% from 2004 due mainly to the increasingly high sensitivity of consumers to the price of fuels in light of their remarkable increase in the year. At 2005 year-end service stations selling BluDiesel were over 4,000 (about 3,900 at 2004 year-end) corresponding to approximately 92% of Eni s Agip branded network.

Sales volumes of BluSuper a high performance and low environmental impact gasoline sold on the Agip branded network since June 2004 amounted to 150 million liters. At 2005 year-end service stations selling BluSuper were 1,719 (about 1,000 at 2004 year-end) corresponding to approximately 39% of Eni s network.

In 2005 Eni continued its Do-It-Yourself campaign which allows customers accessing self-service outlets with an electronic card to obtain price discounts or gifts (under agreements with Vodafone and Coop) in proportion to the total amount of purchased fuel. Further bonuses are offered to the most faithful customers. At year-end the number of cards distributed was about 3.8 million; turnover on cards increased by 9% from 2004. The amount of fuel purchased with the card was about 37% of all fuel sold on Agip branded service stations joining the

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campaign, corresponding to about 30% of the whole Agip branded network.

Divestment of Italiana Petroli

Following the approval of the Italian Antitrust Authority granted on 25 August 2005, on 6 September 2005 Eni divested 100% of the share capital of IP to api - anonima petroli italiana SpA for euro 190 million, subject to an adjustment for the change in IP s net equity between 31 December 2004 and 31 August 2005. As part of the sale transaction, the parties signed: (i) a five-year fuel supply agreement under which IP will purchase from Eni given amounts of fuel each year; (ii) an 18-month long agreement for the supply of lubricants and fuel transport services from storage sites to service stations.

Retail sales outside Italy

Sales volumes of refined products on retail markets in the rest of Europe were 3.67 million tonnes, up 0.20 million tonnes from 2004, or 5.8%, in particular in Germany, Spain and the Czech Republic, due to the purchase/construction of service stations and to an improved performance, whose effects were offset in part by a decline in the demand for fuels. At 31 December 2005, Eni s retail distribution network in the rest of Europe consisted of 1,933 service stations, 37 more than at 31 December 2004, due in particular to

Sales of refined products in Italy and outside Italy (million tonnes)	2003	2004	**2005**	Change	% Ch.
Retail marketing	10.99	10.93	**10.05**	(0.88)	(8.1)
- Agip	*8.99*	*8.88*	***8.75***	*(0.13)*	*(1.5)*
- IP	*2.00*	*2.05*	***1.30***	*(0.75)*	*(6.6)*
Wholesale marketing	10.35	10.70	**10.48**	(0.22)	(2.1)
	21.34	**21.63**	**20.53**	**(1.1)**	**(5.1)**
Petrochemicals	2.79	3.05	**3.07**	0.02	0.7
Other sales [(1)]	5.63	6.01	**6.69**	0.68	11.3
Sales in Italy	**29.76**	**30.69**	**30.29**	**(0.4)**	**(1.3)**
Retail marketing rest of Europe	3.02	3.47	**3.67**	0.2	5.8
Retail marketing Africa and Brazil	1.18	0.57		(0.57)	(100.0)
Wholesale marketing	6.01	5.30	**4.50**	(0.80)	(15.1)
	10.21	**9.34**	**8.17**	**(1.17)**	**(12.5)**
Other sales [(1)]	10.46	13.51	**13.17**	(0.34)	(2.5)
Sales outside Italy	**20.67**	**22.85**	**21.34**	**(1.51)**	**(6.6)**

	50.43	**53.54**	**51.63**	**(1.91)**	**(3.6)**

(1) Includes bunkering, sales to oil companies and MTBE sales.

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the acquisition of lease concessions in Spain, France and Germany. Average throughput (2,427,000 liters) was up 1.4%.

Wholesale sales
Sales volumes on wholesale markets in Italy were 10.48 million tonnes, down 0.22 million tonnes from 2004, or 2.1%, reflecting mainly a decline in domestic consumption and lower sales of fuel oil to the power generation segment, due to the progressive substitution of fuel oil with natural gas as feedstock for power plants.
Sales on wholesale markets outside Italy (4.50 million tonnes) declined by 0.80 million tonnes, or 15.1%, due mainly to lower LPG sales resulting from the divestment of activities in Brazil, offset in part by higher sales in the rest of Europe, in particular in Central-Eastern Europe, while they declined in Germany and Spain.
Other sales (22.93 million tonnes) increased by 0.36 million tonnes, or 1.6%, due mainly to higher sales in Italy related to supplies to IP (up 650,000 tonnes) offset in part by lower sales to oil companies and traders outside Italy (down 305,000 tonnes).

Capital expenditure
In 2005, capital expenditure in the Refining & Marketing segment amounted to euro 656 million (euro 693 million in 2004) and concerned: (i) refining and logistics (euro 349 million), in particular plant efficiency and flexibility improvement actions among which the completion of the tar gasification plant at the Sannazzaro refinery; (ii) the upgrade of the distribution network and the construction of new service stations in Italy (euro 154 million); (iii) the upgrade of the distribution network and to a lower extent the purchase of service stations in the rest of Europe (euro 71 million). As compared to 2004, capital expenditure declined by euro 37 million, or 5.3%, due essentially to the completion of the mentioned plant in Sannazzaro.

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Petrochemicals

(million euro)		2004	2005
Revenues [1]		5,331	**6,255**
Operating profit		320	**202**
Replacement cost operating profit		277	**183**
Adjusted operating profit		263	**261**
Capital expenditure		148	**112**
Employees at period end	(units)	6,565	**6,462**

(1) Before elimination of intersegment sales.

Sales - production - prices

In 2005 sales of petrochemical products (5,376,000 tonnes) were up 189,000 tonnes, or 3.6% from 2004, reflecting primarily higher sales of intermediates (up 13%), olefins (up 8.8%) and aromatics (up 6%) related to positive demand, higher product availability and the fact that intermediate sales, in particular acetone and phenol, declined in the first quarter of 2004 following a standstill due to an accident occurred at the Porto Torres dock. These increases were offset in part by a decline in: (i) elastomers (down 4.5%) related mainly to the standstill of the polychloroprene rubber plant in Champagnier, France; (ii) styrene (down 2.6%) related to standstills and shutdowns; (iii) polyethylenes (down 2.3%) due to weak demand for LDPE and LLDPE.

At 31 December 2005, Eni s sales network covered 17 countries, with Italy accounting for 51% of sales, the rest of Europe for 44% and the rest of the world for 5% (54%, 40% and 6%, respectively in 2004).

Production (7,282,000 tonnes) was up 164,000 tonnes from 2004, or 2.3%, in particular in basic petrochemicals. Nominal production capacity declined 1.8% from 2004 due mainly to revisions of the nominal capacity of the Gela cracker and the shutdown of the DMC and ABS plants in Ravenna. The average plant utilization rate calculated on nominal capacity was up 3

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percentage points from 75.2 to 78.4 due mainly to fewer maintenance standstills.
About 35.8% of total production was directed to Eni s own production cycle (36.7% in 2004). Oil-based feedstocks supplied by Eni s Refining & Marketing segment covered 23% of requirements (22% in 2004).
The prices of Eni s main petrochemical products increased on average by 12% in all business areas. The most relevant increases were in: (i) olefins (up 24.3%) in particular butadiene (up 40.1%) and propylene (up 27.1%), ethylene (up 16.4%) was affected by a decline in the third quarter; (ii) elastomers (up 18%) in particular styrene-butadiene rubbers (up 24.8%), polybutadiene rubbers (up 23.5%) and EPR rubbers (up 18%) due to the transfer on prices of the increased cost of raw materials; (iii) polyethylene (up 13.9%) with increases in all products, in particular EVA (up 17.4%); (iv) intermediates (up 5.7%) in particular acetone (up 10.4%) recovering higher propylene costs; (v) aromatics (up 5.6%) due to increases in xylenes (up 12.8%) and declines in benzene (down 4.1%); (vi) styrenes (up 4%) due to increases in ABS/SAN (up 9.2%) and compact polystyrene (up 6.4%), while expandable polystyrene declined (down 3.3%).

Business areas

Basic petrochemicals

Sales of basic petrochemicals (3,022,000 tonnes) increased by 256,000 tonnes from 2004, up 9.3%, due to increases registered in all businesses.
In olefins (up 8.8%) sales of ethylene (up 10.7%), propylene (up 5.8%) and butadiene (up 33.6%) increased due to high demand from the Far East. In aromatics (up 6%) sales of the most remunerative products (paraxylene up 13.5% and metaxylene up 35.1%) increased supported by a particularly lively market. In intermediates (up 13%) phenol sales increased 16.7% and acetone sales increased 11.1% related to a positive trend in demand and the fact that in the first quarter of 2004 sales declined due to a standstill for an accident occurred at the Porto Torres dock.
Basic petrochemical production (4,450,000 tonnes) increased by 214,000 tonnes from 2004 (up 5.1%) due to increases registered in all businesses (olefins up 3.8%, aromatics up 8.4%, intermediates up 7%). Increased olefin production derived mainly from the Brindisi (up 19.9%), Dunkirk (up 12%) and Priolo (up 8.1%) crackers. Declines concerned Gela (down 26.7%) where only one line was active and Porto Marghera (down 13.2%) due to a planned maintenance standstill.

Styrene and elastomers

Styrene sales (581,000 tonnes) decreased by 16,000 tonnes from 2004, down 2.6%, due mainly to lower ABS/SAN availability (down 23.6%) related to the shutdown of the Ravenna plant in April 2005 and lower availability of products due to technical accidents caused by power cutoffs at the Mantova plant in the last quarter of 2005. This decline was offset in part by the 2.8% increase in expandable polystyrene sales pushed by the strong increase in demand especially in Eastern Europe, in particular for increased consumption in the segment of thermal insulation and industrial packaging.
Elastomer sales (422,000 tonnes) decreased by 19,000 tonnes from 2004, down 4.5%, due mainly to the

Product availability (thousand tonnes)	2003	2004	**2005**	Change	% Ch.
Basic petrochemicals	4,014	4,236	**4,450**	214	5.1
Styrene and elastomers	1,634	1,606	**1,523**	(83)	(5.2)
Polyethylene	1,259	1,276	**1,309**	33	2.6
Production	**6,907**	**7,118**	**7,282**	**164**	**2.3**
Consumption of monomers	(2,651)	(2,616)	**(2,606)**	10	(0.4)
Purchases and change in inventories	1,010	685	**700**	15	2.2
	5,266	**5,187**	**5,376**	**189**	**3.6**

Sales (thousand tonnes)	2003	2004	**2005**	Change	% Ch.

Basic petrochemicals	2,704	2,766	**3,022**	256	9.3
Styrene and elastomers	1,171	1,038	**1,003**	(35)	(3.4)
Polyethylene	1,391	1,383	**1,351**	(32)	(2.3)
	5,266	**5,187**	**5,376**	**189**	**3.6**

standstill of the Champagnier plant (polychloroprene rubbers) and the decline in SBR (down 12.7%) and TPR (down 2.5%) rubber due to a decline in demand related to the crisis in the shoe manufacturing industry. These declines were offset in part by an increase in sales of EPR rubber (up 19.6%) and latex (up 7.5%), due to lively demand.
Production of styrene (1,048,000 tonnes) declined by 70,000 tonnes from 2004, due mainly to plant shutdowns and standstills.
Elastomers production (475,000 tonnes) decreased by 13,000 tonnes or 2.5%, due to plant standstills and a declining demand for SBR rubber (down 4.8%) and BR (down 4.2%), while demand for EPR rubber (up 13.7%) and latex (up 11%) increased in line with the increase in demand.

Polyethylene
Sales of polyethylene (1,351,000 tonnes) decreased by 32,000 tonnes from 2004, down 2.3%, due to a decline in demand for all products, in particular LDPE (down 3.4%) and LLDPE (down 1.9%), also due increasing competition from imported products.
Production (1,309,000 tonnes) increased by 33,000 tonnes or 2.6%, due mainly to increases in LLDPE (up 8%), due to the flexibility at the Brindisi plant that produced mainly LLDPE in its high pressure line, while HDPE production declined (down 6%).

Capital expenditure

In 2005, capital expenditure amounted to euro 112 million (euro 148 million in 2004) and concerned in particular actions for upkeeping (euro 37 million), extraordinary and periodical maintenance (euro 27 million), actions for environmental protection and for complying with safety and environmental regulations (euro 25 million) and for improving the efficiency of plants and streamlining (euro 23 million).

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Oilfield Services Construction and Engineering

	(million euro)	2004	2005
Revenues [1]		5,696	**5,733**
Operating profit		203	**307**
Capital expenditure		186	**349**
Employees at period end	(units)	25,819	**28,684**

(1) Before elimination of intersegment sales.

Purchase of Snamprogetti by Saipem

On 24 February 2006, Saipem agreed to purchase the entire share capital of Snamprogetti owned by Eni SpA. The transaction was closed on 27 March 2006. The deal will create a new leader with worldwide clout in oilfield services both onshore and offshore with 30,000 personnel, of which 6,500 engineers. The integration of the companies will boost their role in the development of Eni s oil & gas core business.

Activity for the year

Orders acquired and order backlog

Orders acquired in 2005 amounted to euro 8,188 million. About 89.5% of new orders acquired was represented by work to be carried out outside Italy, and 10.8% by work originated by Eni companies. Eni s order backlog was euro 9,964 million at 31 December 2005 (euro 8,521 million at 31 December 2004). Projects to be carried out outside Italy represented 87.9% of the total order backlog, while orders from Eni companies amounted to 7% of the total.

The engineering order backlog increased by euro 1,236 million due in particular to the recovery ongoing in reference markets.

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Orders acquired and order backlog	(million euro)	2003	2004	**2005**
Orders acquired		**5,876**	**5,784**	**8,188**
Oilfield Services Construction		4,298	4,387	**4,735**
Engineering		1,578	1,397	**3,453**
Originated by Eni companies	(%)	11	14	**11**
To be carried out outside Italy	(%)	91	90	**89**
Order backlog		**9,405**	**8,521**	**9,964**
Oilfield Services Construction		5,225	5,306	**5,513**
Engineering		4,180	3,215	**4,451**
Originated by Eni companies	(%)	10	8	**7**
To be carried out outside Italy	(%)	81	84	**88**

CEPAV Uno and CEPAV Due

Eni holds interests in the CEPAV Uno (50.36%) and CEPAV Due (52%) consortia that in 1991 signed two contracts with TAV SpA to participate in the construction of the tracks for high speed/high capacity trains from Milan to Bologna (under construction) and from Milan to Verona (in the design phase).

As part of the project for the construction of the tracks from Milan to Bologna, an addendum to the contract between CEPAV Uno and TAV SpA was signed on 27 June 2003, redefining certain terms and conditions. Works completed at the end of 2005 corresponded to

The final project will be examined by TAV, presented to the Conferenza dei Servizi and to CIPE for approval. Infrastrutture SpA, a company established by the Italian Government in order to collect resources for financing the works contemplated by the mentioned law, is collecting the resources for the whole work and for the preliminary activities for the signature of the contract.

As concerns the arbitration procedure requested by the consortium against TAV for the recognition of damage related to TAV s belated completion of its tasks, in September 2004 a technical survey was requested by the arbitration committee. The date for the final decision

71% of the total contractual price in line with the contractual obligations.
As concerns the Milan-Verona portion, in December 2004 CEPAV Due presented the final project, prepared in accordance with Law No. 443/2001 on the basis of the preliminary project approved by the CIPE.

was set at 30 October 2006.

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Capital expenditure

In 2005, capital expenditure in the Oilfield Services, Construction and Engineering segment amounted to euro 349 million, up 87.6% from 2004 and concerned mainly oilfield services and construction (euro 346 million), in particular: (i) maintenance and upgrade of equipment; (ii) vessels and logistical support means for specific contracts, in particular Kashagan; (iii) upgrade of operating structures in Kazakhstan and West Africa; (iv) the purchase of the Margaux tanker ship and the beginning of its conversion into an FPSO unit that will operate in Brazil on the Golfinho field.

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Financial Review

Profit and loss account

(million euro)	2004	**2005**	Change	% Ch.
Net sales from operations	57,545	**73,728**	16,183	28.1
Other income and revenues	1,377	**798**	(579)	(42.0)
Operating expenses	(41,592)	**(51,918)**	(10,326)	(24.8)
Depreciation, amortization and writedowns	(4,931)	**(5,781)**	(850)	(17.2)
Operating profit	**12,399**	**16,827**	**4,428**	**35.7**
Net financial expense	(156)	**(366)**	(210)	(134.6)
Net income from investments	820	**914**	94	11.5
Profit before income taxes	**13,063**	**17,375**	**4,312**	**33.0**
Income taxes	(5,522)	**(8,128)**	(2,606)	(47.2)
Profit before minority interest	**7,541**	**9,247**	**1,706**	**22.6**
Minority interest	(482)	**(459)**	23	4.8
Net profit	**7,059**	**8,788**	**1,729**	**24.5**
Net profit	**7,059**	**8,788**	**1,729**	**24.5**
Exclusion of inventory holding (gain) loss	(281)	**(759)**	(478)	..
Net profit at replacement cost (1)	**6,778**	**8,029**	**1,251**	**18.5**
Exclusion of special items	(133)	**1,222**	1,355	..
Adjusted net profit (1)	**6,645**	**9,251**	**2,606**	**39.2**

(1) Adjusted operating profit and net profit are before inventory holding gains or losses and special items. For an explanation of these measures and a reconciliation of adjusted operating profit and net profit to reported operating profit and net profit see page 61.

In 2005 Eni reported a net profit of euro 8,788 million, a euro 1,729 million increase from 2004, or 24.5%, driven by a euro 4,428 million increase in operating profit (up 35.7%) of which euro 762 million are a higher inventory holding gain recorded in particular in the Exploration & Production segment, relative to an increase in realizations in dollars (Brent up 42.3%) and higher sales volumes of oil and natural gas (up 38.3 million boe, or 6.7%). These positives were offset in part by higher environmental provisions (euro 532 million), a provision to the risk reserve concerning the fine imposed on 15 February 2006 by the Antitrust Authority[1] and the estimated impact of the application of Decision No. 248/2004 of the Authority for Electricity and Gas[2] affecting natural gas prices to residential customers and wholesalers (euro 225 million) in force from 1 January 2005 and the recording in 2004 of net gains on the sale of assets by the Exploration & Production segment (euro 320 million).

The increase in operating profit was offset in part by higher income taxes (up euro 2,606 million).

Return on capital employed (ROACE)[3] was 19.5%, compared with 16.6% in 2004.

(1) For information on the Antitrust fine see Operating review - Gas & Power - Regulatory framework - TTPC .

(2) For information on Decision No. 248/2004 see Operating review - Gas & Power - Regulatory framework - Actions by the Antitrust Authority and the Authority for electricity and gas .

(3) For the definition of ROACE see Glossary below.

Adjusted net profit, that excludes an inventory holding gain of euro 759 million after taxes, and a euro 1,222 million special charge after taxes, increased by euro 2,606 million or 39.2% to euro 9,251 million.
Operating profit for the year was euro 16,827 million, up euro 4,428 million from 2004, or 35.7%, reflecting primarily the increases reported in the following segments:

- Exploration & Production (up euro 4,389 million, or 53.6%) primarily reflecting higher realizations in dollars (oil up 41.3%, natural gas up 15.6%) combined with increased production volumes sold (up 38.3 million boe, or 6.7%), offset in part by higher operating costs and amortization charges and the fact that net gains on the divestment of assets for euro 320 million were recorded in 2004;
- Refining & Marketing (up euro 777 million, or 71.9%) primarily reflecting a higher inventory holding gain (up euro 671 million), stronger realized refining margins (margins on Brent were up 1.4 dollar/barrel, or 33%) and higher operating profit in distribution activities in Italy, offset in part by higher environmental provisions (euro 195 million).

These increases were partly offset by:

- lower operating profit in the Gas & Power segment (down euro 107 million, or 3.1%) due primarily to a euro 290 million charge pertaining to a fine imposed by the Italian regulator and the euro 225 million estimated adverse impact of Decision No. 248/2004 of the Italian Authority for Electricity and Gas affecting natural gas prices to residential customers and wholesalers. A decrease in natural gas and electricity sales margins also adversely impacted the Gas & Power operating profit. On the positive side, sales volumes of natural gas were up 6.13 billion cubic meters or 8%, sold production of electricity was up 8.92 terawatthour, or 64.4% and a higher inventory holding gain was recorded (up euro 115 million);
- higher operating losses recorded by the Other activities segment (down euro 507 million, or 128.4%) due primarily to higher environmental and other provisions (euro 439 million).

Net sales from operations

(million euro)	2004	**2005**	Change	% Ch.
Exploration & Production	15,346	**22,477**	7,131	46.5
Gas & Power	17,302	**22,969**	5,667	32.8
Refining & Marketing	26,089	**33,732**	7,643	29.3
Petrochemicals	5,331	**6,255**	924	17.3
Oilfield Services Construction and Engineering	5,696	**5,733**	37	0.6
Other activities	1,279	**1,358**	79	6.2
Corporate and financial companies	851	**977**	126	14.8
Consolidation adjustment	(14,349)	**(19,773)**	(5,424)	(37.8)
	57,545	**73,728**	**16,183**	**28.1**

Eni s **net sales from operations** (revenues) for 2005 were euro 73,728 million, up euro 16,183 million from 2004, or 28.1%, reflecting primarily higher product prices and volumes sold in all of Eni s main operating segments.
Revenues generated by the Exploration & Production cubic meters, or 5.9%) and higher sold production of electricity (up 8.92 terawatthour, or 64.4%).
Revenues generated by the Refining & Marketing segment were euro 33,732 million, up euro 7,643 million, or 29.3%, reflecting primarily higher international prices for oil and refined products, offset in

segment were euro 22,477 million, up euro 7,131 million, or 46.5%, reflecting primarily higher prices realized in dollars (oil up 41.3%, natural gas up 15.6%) combined with increased production volumes sold (38.3 million boe, or 6.7%).

Revenues generated by the Gas & Power segment were euro 22,969 million, up euro 5,667 million, or 32.8%, reflecting primarily increased natural gas prices and increased sales volumes of natural gas (4.29 billion

part by: (i) lower volumes sold on Italian retail and wholesale markets (down 1.1 million tonnes); (ii) the effect of the sale of LPG and refined product distribution activities in Brazil in August 2004; (iii) lower trading activities (down 1.3 million tonnes).

Revenues generated by the Petrochemical segment were euro 6,255 million, up euro 924 million, or 17.3%, reflecting primarily the 12% increase in average selling prices and the 3.6% increase in sales volumes.

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Revenues generated by the Oilfield Services Construction and Engineering segment were euro 5,773 million, up euro 37 million, or 0.6%, primarily reflecting an increased activity level.

Revenues generated by the Corporate and financial companies segments were euro 977 million, up euro 126 million, or 14.8%. In 2005 the Corporate started supplying certain central services amounting to euro 76 million to a merged subsidiary, Italgas Più belonging to the Gas & Power segment. Other increases in revenues were essentially related to: (i) IT services (euro 27 million); (ii) general services such as activities related to real estate rentals and maintenance, fleet of cars, company s aircrafts, etc (euro 21 million); (iii) communication and advertisement (euro 12 million) relating in particular to the advertising campaign to relaunch the Italgas Più brand.

Other income and revenues

(million euro)	2004	**2005**	Change
Income from contractual obligations	43	**114**	71
Income from rentals	93	**102**	9
Income from damage payments	87	**89**	2
Gains on commodity derivative financial contracts	61		(61)
Gains on divestment of tangible and intangible assets	407	**71**	(336)
Other income (*)	686	**422**	(264)
	1,377	**798**	**(579)**

(*) Each amount in this line item is lower than euro 25 million.

Other income and revenues for 2005 (euro 798 million) declined by euro 579 million, down 42%, principally due to lower gains on asset divestment in relation to the fact that in 2004 gains on the sale of mineral assets were recorded by the Exploration & Production segment for euro 373 million, and the fact that starting in 2005 derivative contracts on commodities were accounted for under IFRS No. 32 and 39[4].

Operating expenses

(million euro)	2004	**2005**	Change	% Ch.
Purchases, services and other	38,347	**48,567**	10,220	26.7
Payroll and related costs	3,245	**3,351**	106	3.3
	41,592	**51,918**	**10,326**	**24.8**

Operating expenses for 2005 (euro 51,918 million) were up euro 10,326 million from 2004, or 24.8%, reflecting primarily: (i) higher prices for oil-based and petrochemical feedstocks and for natural gas; (ii) higher environmental provisions (euro 532 million in 2005), recorded in particular in the Other activities and the Refining & Marketing segment; (iii) a provision to the risk reserve concerning the fine imposed on 15 February from 1 January 2005 (euro 515 million); (iv) a euro 87 million increase in insurance charges[5] deriving from the extra premium due for 2005 and for the next five years (assuming normal accident rates) related to the participation of Eni to Oil Insurance Ltd. These higher charges took account of the exceptionally high rate of accidents in the two-year period 2004-2005; (v) higher charges pertaining to risks on certain legal proceedings

2006 by the Antitrust Authority and the estimated impact of the application of Decision No. 248/2004 of the Authority for electricity and gas and contractual obligations (euro 58 million). These increases were partially offset by the sale of activities in Brazil in August 2004.

(4) According to these new accounting standards gains or losses on derivative financial contracts used to manage exposure to fluctuations in commodity prices are accounted as financial income.
(5) Eni jointly with other oil companies belongs to Mutua Assicurazioni Oil Insurance Ltd; the increase in insurance charges is related to the exceptionally high accident rate of the 2004-2005 period, which caused an extra insurance premium due for 2005, in addition to a provision calculated on the basis of the expected rise in insurance premiums due for the next five-year period assuming a normal rate of accidents.

Labor costs (euro 3,351 million) were up euro 106 million, or 3.3%, reflecting primarily an increase in unit labor cost in Italy, offset in part by a decline in the average number of employees in Italy and the effect of the sale of refined product distribution activities in Brazil.

Depreciation, amortization and writedowns

(million euro)	2004	**2005**	Change	% Ch.
Exploration & Production	3,047	**3,944**	897	29.4
Gas & Power	637	**684**	47	7.4
Refining & Marketing	465	**462**	(3)	(0.6)
Petrochemicals	114	**118**	4	3.5
Oilfield Services Construction and Engineering	184	**176**	(8)	(4.3)
Other activities	45	**31**	(14)	(31.1)
Corporate and financial companies	106	**98**	(8)	(7.5)
Unrealized profit in inventory		**(4)**	(4)	
Total depreciation and amortization	**4,598**	**5,509**	**911**	**19.8**
Writedowns	333	**272**	(61)	(18.3)
	4,931	**5,781**	**850**	**17.2**

In 2005 **depreciation and amortization charges** (euro 5,509 million) were up euro 911 million, or 19.8%, from 2004 mainly in the Exploration & Production segment (up euro 897 million) reflecting primarily: (i) higher development costs for new fields and increased costs incurred to maintain production levels in certain mature fields; (ii) the effects of revised estimates of asset retirement obligations for certain fields; (iii) the impact of oil prices on amortizations in PSAs and buy-back contracts; (iv) higher production; and (v) higher exploration costs (up euro 50 million). In the Gas & Power segment amortization charges increased by euro 47 million due to the coming on stream of the Greenstream gasline and new power generation capacity.

Writedowns (euro 272 million) concerned essentially the Exploration & Production (euro 156 million), the Other activities (euro 75 million) and the Petrochemical segments (euro 29 million).

Operating profit by segment

(million euro)	2004	**2005**	Change	% Ch.
Exploration & Production	8,185	**12,574**	4,389	53.6
Gas & Power	3,428	**3,321**	(107)	(3.1)
Refining & Marketing	1,080	**1,857**	777	71.9
Petrochemicals	320	**202**	(118)	(36.9)
Oilfield Services Construction and Engineering	203	**307**	104	51.2
Other activities (1)	(395)	**(902)**	(507)	(128.4)
Corporate and financial companies	(363)	**(391)**	(28)	(7.7)
Unrealized profit in inventory (1)	(59)	**(141)**	(82)	
Operating profit	**12,399**	**16,827**	**4,428**	**(35.7)**

Operating profit	**12,399**	**16,827**	**4,428**	**35.7**
Exclusion of inventory holding (gain) loss	(448)	**(1,210)**	(762)	
Replacement cost operating profit	**11,951**	**15,617**	**3,666**	**30.7**
Exclusion of special items	631	**1,941**	1,310	
Adjusted operating profit	**12,582**	**17,558**	**4,976**	**39.5**

(1) Unrealized profit in inventory concerned intersegment sales of goods and services.

Exploration & Production

(million euro)	2004	2005	Change	% Ch.
Operating profit	**8,185**	**12,574**	**4,389**	**53.6**
Exclusion of inventory holding (gain) loss				
Replacement cost operating profit	**8,185**	**12,574**	**4,389**	**53.6**
Exclusion of special items	17	**309**	292	
Adjusted operating profit	**8,202**	**12,883**	**4,681**	**57.1**

Operating profit for 2005 was euro 12,574 million, up euro 4,389 million from 2004, or 53.6%, reflecting primarily: (i) higher oil and gas realizations in dollars (oil up 41.3%, natural gas up 15.6%); (ii) higher production volumes sold (up 38.3 million boe, or 6.7%); (iii) lower asset impairment charges (euro 40 million). These positive factors were offset in part by: (i) higher operating costs and amortization charges; (ii) net gains on divestments recorded in 2004 (euro 320 million); (iii) higher insurance charges.

Gas & Power

(million euro)	2004	2005	Change	% Ch.
Operating profit	**3,428**	**3,321**	**(107)**	**(3.1)**
Exclusion of inventory holding (gain) loss	(12)	**(127)**	(115)	..
Replacement cost operating profit	**3,416**	**3,194**	**(222)**	**(6.5)**
Exclusion of special items	32	**337**	305	..
Adjusted operating profit	**3,448**	**3,531**	**83**	**2.4**

Replacement cost operating profit in 2005 was euro 3,194 million, down euro 222 million from 2004, or 6.5%, reflecting primarily: (i) a provision to the risk reserve concerning the fine imposed on 15 February 2006 by the Antitrust Authority (euro 290 million) and the estimated impact of the application of Decision No. 248/2004 of the Authority for Electricity and Gas from 1 January 2005 affecting natural gas prices to residential customer and wholesalers (euro 225 million); (ii) weaker realized margins on natural gas sales related to competitive pressure offset in part by the different trends in the energy parameters to which natural gas sale and purchase prices are contractually indexed; (iii) higher provisions to the risk reserve (euro 46 million). These negative factors were offset in part by: (i) increased natural gas sales volumes (up 6.13 billion cubic meters including own consumption, or 8%) and higher natural gas volumes distributed; (ii) a higher operating profit in natural gas transport activities outside Italy.

Operating profit of power generation activities doubled to euro 138 million, up euro 77 million, reflecting primarily an increase in sold production of electricity (8.92 terawatthour, up 64.4%), offset in part by a decline in realized margins related to the different trend in contractual prices of energy parameters for the determination of selling prices and the cost of fuels.

Refining & Marketing

(million euro)	2004	2005	Change	% Ch.
Operating profit	**1,080**	**1,857**	**777**	**71.9**
Exclusion of inventory holding (gain) loss	(393)	**(1,064)**	(671)	
Replacement cost operating profit	**687**	**793**	**106**	**15.4**
Exclusion of special items	236	**421**	185	

Adjusted operating profit	**923**	**1,214**	**291**	**31.5**

Replacement cost operating profit in 2005 was euro 793 million, up euro 106 million from 2004, or 15.4%, reflecting primarily: (i) higher realized margins in refining (the margin on Brent was up 1.43 dollars/barrel, or 32.9%) combined with higher processing and an improvement in the mix of refined products obtained, the effect of which was offset in part by the impact of the standstill of the Gela refinery in the first part of 2005 owing to

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the damage caused by a seastorm in December 2004; (ii) higher operating profit in distribution activities in Italy; (iii) an increase in operating results of refining and marketing activities in the rest of Europe related to a positive scenario and to increased marketing sales volumes. These positive factors were offset in part by a euro 185 million increase in special charges related in particular to higher environmental provisions and higher insurance costs and the effect of the sale of Agip do Brasil (euro 28 million) in August 2004.

Petrochemicals

(million euro)	2004	**2005**	Change	% Ch.
Operating profit	**320**	**202**	**(118)**	**(36.9)**
Exclusion of inventory holding (gain) loss	(43)	**(19)**	24	
Replacement cost operating profit	**277**	**183**	**(94)**	**(33.9)**
Exclusion of special items	(14)	**78**	92	..
Adjusted operating profit	**263**	**261**	**(2)**	**(0.8)**

Replacement cost operating profit for 2005 was euro 183 million, down euro 94 million from 2004, or 33.9%, reflecting primarily: (i) higher special charges (euro 92 million) recorded in connection with the restructuring of the Champagnier plant in view of its shutdown, provisions for litigation and higher insurance costs; (ii) lower product margins in basic petrochemicals reflecting higher oil-based feedstock purchase costs not fully recovered in selling prices, partly offset by higher margins in elastomers and polyethilene. These negative factors were offset in part by higher sales volumes (up 3.6%) and an improved industrial performance.

Oilfield Services Construction and Engineering
Operating profit for 2005 was euro 307 million, up euro 104 million, or 51.2% over 2004. The oilfield services and construction business reported an operating profit of euro 306 million, up euro 37 million, or 13.8%, achieved in the following areas: (i) Offshore construction area, reflecting higher profitability of certain projects in North Africa upon their completion; (ii) Onshore drilling area, reflecting an higher activity levels; (iii) Offshore drilling area, reflecting higher profitability of the submersible platform Scarabeo 6, in connection with a tariff increase, higher utilization rate of the submersible platform Scarabeo 4 and of the jack-up Perro Negro 5. Such gains were partially offset by higher costs on projects in progress in the LNG area and the fact that for 2004 the Leased FPSO area recorded an income relating essentially to a contract for the recovery of oil spilled from the Prestige tanker.
The engineering business reported an operating profit of

Other Activities
These activities reported an operating loss of euro 902 million, down euro 507 million, or 128% over 2004, due essentially to a euro 504 million increase in Syndial s operating loss referring to: (i) higher provisions for environmental liabilities of euro 328 million reflecting primarily the clean up of the Porto Marghera site and the settlement agreed with certain Italian Authorities for the environmental damages and remediation of the same site, the reclamation of areas belonging to the Mantova plant and the dismantling of inactive plants and tanks in the Porto Torres site; (ii) provisions for contractual risks (euro 71 million) and litigations (euro 40 million); (iii) higher asset impairments (up euro 56 million from euro 19 million to euro 75 million); impairments in 2005 related in particular to the Scarlino and Porto Torres plants, up euro 44 million and euro 19 million, respectively.

Corporate and financial companies
These activities reported an operating loss of euro 391 million, down euro 28 million, or 7.7%, due essentially to an increase in IT costs, up euro 48 million, arising from higher activity levels, and institutional communication costs, up euro 7 million. These negative factors were partly offset by lower environmental provisions.

Net financial expense
In 2005 **net financial expense** (euro 366 million) was up euro 210 million from 2004, or 135%, due to charges

euro 1 million, an increase of euro 67 million over 2004, arising from the higher profitability of certain contracts in addition to the share of earnings from certain projects acquired in early 2005.

pertaining to the evaluation of derivative financial contracts at fair value and to higher interest rate charges on dollar loans (Libor up 2 percentage points), the effects of which were offset in part by a decrease in average net borrowings and the fact that in 2004 a euro 62 million provision to the risk reserve was recorded in connection to the sale of a financing receivable from Albacom to British Telecom.

Net income from investments

Net income from investments in 2005 was euro 914 million and concerned primarily: (i) Eni s share of income of affiliates accounted for under the equity method (euro 737 million), in particular affiliates in the Gas & Power (euro 358 million) and Refining & Marketing (euro 194 million) segments; (ii) gains on disposal (euro 179 million) relating in particular to the sale of 100% of IP (euro 132 million) and a 2.33% stake in Nuovo Pignone Holding SpA (euro 24 million); (iii) dividends received by affiliates accounted for under the cost method (euro 33 million).
The euro 94 million increase in net income from investments was due essentially to improved results of operations of affiliates in the Gas & Power segment, in particular Galp Energia SGPS SA (Eni s interest 33.34%), Unión Fenosa Gas SA (Eni s interest 50%) and Blue Stream Pipeline Co BV (Eni s interest 50%) as well as the fact that in 2004 a euro 41 million impairment was recorded in connection with the divestment of Eni s 35% interest in Albacom. These increases were offset in part by lower gains on disposal (euro 257 million) related to the fact that in 2004 the gains on the sale of 9.054% of the share capital of Snam Rete Gas, of 100% of Agip do Brasil and other minor assets were recorded for a total of euro 437 million, as compared to the euro 179 million gain recorded in 2005.

Income taxes

Income taxes were euro 8,128 million, up euro 2,606 million from 2004, or 47.2% and reflected primarily higher income before taxes (euro 4,312 million). The Group tax rate increased 4.5 percentage points to 46.8% (42.3% in 2004). There were three factors behind this increase. Firstly, profit for the year was adversely impacted by higher fiscally non-deductible charges pertaining to provisions to the risk reserve and asset impairment. Secondly, the Group tax rate for the year 2005 benefited from an higher share of non-taxable income pertaining in particular to gains on disposals. The third factor was the higher share of profit before income taxes earned by subsidiaries in the Exploration & Production segment operating in Countries where the statutory tax rate is higher than the Group tax rate.

Minority interests

Minority interests were euro 459 million and concerned primarily Snam Rete Gas SpA (euro 321 million) and Saipem (euro 115 million).

Reconciliation of reported operating profit by segment and net profit to adjusted operating and net profit

Adjusted operating profit and net profit are before inventory holding gains or losses and special items. Information on adjusted operating profit and net profit is presented to help distinguish the underlying trends for the company s core businesses and to allow financial analysts to evaluate Eni s trading performance on the basis of their forecasting models. These financial measures are not GAAP measures under either IFRS or U.S. GAAP; they are used by management in evaluating Group and Divisions performance.
Replacement cost net profit and operating profit reflect the current cost of supplies. The replacement cost net profit for the period is arrived at by excluding from the historical cost net profit the inventory holding gain or loss, which is the difference between the cost of sales of the volumes sold in the period based on the cost of supplies of the same period and the cost of sales of the volumes sold in the period calculated using the weighted-average cost method of inventory accounting.
Certain infrequent or unusual incomes or charges are recognised as special items because of their significance. Special items also include certain amounts not reflecting the ordinary course of business, such as environmental provisions or restructuring charges, and asset impairments or write ups and gains or losses on divestments even though they occurred in past exercises or are likely to occur in future ones.
For a reconciliation of adjusted operating profit and net profit to reported operating profit and net profit see tables below.

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(million euro)	2005 Reported operating and net profit	Exclusion of inventory holding (gain) loss	Replacement cost operating profit and net profit	Exclusion of special items	Adjusted operating profit and net profit
Operating profit					
Exploration & Production	12,574		12,574	309	12,883
Gas & Power	3,321	(127)	3,194	337	3,531
Refining & Marketing	1,857	(1,064)	793	421	1,214
Petrochemicals	202	(19)	183	78	261
Oilfield Services Construction and Engineering	307		307	6	313
Other activities	(902)		(902)	646	(256)
Corporate and financial companies	(391)		(391)	144	(247)
Unrealized profit in inventory	(141)		(141)		(141)
	16,827	**(1,210)**	**15,617**	**1,941**	**17,558**
Net profit	**8,788**	**(759)**	**8,029**	**1,222**	**9,251**

(million euro)	2004 Reported operating and net profit	Exclusion of inventory holding (gain) loss	Replacement cost operating profit and net profit	Exclusion of special items	Adjusted operating profit and net profit
Operating profit					
Exploration & Production	8,185		8,185	17	8,202
Gas & Power	3,428	(12)	3,416	32	3,448
Refining & Marketing	1,080	(393)	687	236	923
Petrochemicals	320	(43)	277	(14)	263
Oilfield Services Construction and Engineering	203		203	12	215
Other activities	(395)		(395)	172	(223)
Corporate and financial companies	(363)		(363)	176	(187)
Unrealized profit in inventory	(59)		(59)		(59)
	12,399	**(448)**	**11,951**	**631**	**12,582**
Net profit	**7,059**	**(281)**	**6,778**	**(133)**	**6,645**

Analysis of special items

(million euro)	2004	**2005**
Environmental provisions	303	**835**
Provisions to the risk reserve	234	**379**
Mineral and other asset impairments	336	**363**
Antitrust fine	5	**290**
Provisions for redundancy incentives	65	**79**
Net gains on E&P portfolio rationalization	(320)	
Other	8	**(5)**
Special items of operating profit	**631**	**1,941**
(Income) expense from investments	(390)	**(137)**

- Gain on the sale of a 9.054% stake of Snam Rete Gas	*(308)*	
- Gain on the sale of Agip do Brasil SA	*(94)*	
- Gain on the sale of IP		***(132)***
Other		**27**
Special items before income taxes	**241**	**1,831**
Income taxes on special items	(374)	**(609)**
Total special items	**(133)**	**1,222**

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Adjusted operating profit and net profit

(million euro)	2004	**2005**	Change	% Ch.
Exploration & Production	8,202	**12,883**	4,681	57.2
Gas & Power	3,448	**3,531**	83	2.4
Refining & Marketing	923	**1,214**	291	31.5
Petrochemicals	263	**261**	(2)	(0.8)
Oilfield Services Construction and Engineering	215	**313**	98	45.6
Other activities	(223)	**(256)**	(33)	(14.8)
Corporate and financial companies	(187)	**(247)**	(60)	(32.1)
Unrealised profit in inventory	(59)	**(141)**	(82)	
Adjusted operating profit	**12,582**	**17,558**	**4,979**	**39.5**
Adjusted net profit	**6,645**	**9,251**	**2,606**	**39.2**

Consolidated balance sheet

(million euro)	31 Dec. 2004	**31 Dec. 2005**	Change
Fixed assets			
Property, plant and equipment, net	40,586	**45,013**	4,427
Compulsory stock	1,386	**2,194**	808
Intangible assets, net	3,313	**3,194**	(119)
Investments, net	3,685	**4,311**	626
Accounts receivable financing and securities related to operations	695	**775**	80
Net accounts payable in relation to capital expenditure	(888)	**(1,196)**	(308)
	48,777	**54,291**	**5,514**
Working capital, net	(1,812)	**(3,568)**	(1,756)
Employee termination indemnities and other benefits	(982)	**(1,031)**	(49)
Capital employed, net	**45,983**	**49,692**	**3,709**
Shareholders equity including minority interests	35,540	**39,217**	3,677
Net borrowings	10,443	**10,475**	32
Total liabilities and shareholders equity	**45,983**	**49,692**	**3,709**
EUR/USD exchange rate at 31 December	**1.362**	**1.180**	**(0.182)**

The depreciation of the euro over other currencies, in particular the US dollar (down 13.4% from 31 December 2004) determined with respect to year-end 2004 an increase of approximately euro 2,700 million, euro 1,500 million and euro 1,200 million, respectively, in net capital employed, net equity and net borrowings, as a result of currency translation effects.
At 31 December 2005, net capital employed totaled euro 49,692 million, representing an increase of euro 3,709 million from 31 December 2004, due mainly to an increase in fixed assets reflecting capital expenditure, an increase in compulsory stock relating essentially to higher international oil and refined products prices and currency translation effects. These increases were offset share of the Exploration & Production, Gas & Power and Refining & Marketing segments on net capital employed was 91% (the same as at 31 December 2004).
At 31 December 2005, Eni s leverage (ratio of net borrowings to shareholders equity including minority interest) was 0.27, compared with 0.29 at 31 December 2004.
Property, plant and equipment (euro 45,013 million) were primarily related to the Exploration & Production (54.4%), Gas & Power (30.6%) and Refining & Marketing (7.9%) segments. Provisions for depreciation, amortization and writedowns (euro 45,698 million) represented 50.4% of gross property, plant and equipment (49.4% at 31 December 2004).

in part by depreciation, amortization and impairment charges for the period (euro 5,781 million) and by a euro 1,756 million decrease in net working capital. The

Investments in unconsolidated subsidiaries and affiliates (euro 4,311 million) consisted primarily of

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33.34% of Galp Energia SGPS SA (euro 896 million),50% of Unión Fenosa Gas SA (euro 459 million), 50% of Blue Stream Pipeline Co BV (euro 280 million), 49% of Greek natural gas secondary distribution companies EPA Thessaloniki and Thessaly (euro 191 million), 50% of Raffineria di Milazzo ScpA (euro 172 million), 50% of EnBW - Eni Verwaltungsgesellschaft mbH (euro 168 million), 33.33% of United Gas Derivatives Co (euro 128 million), 12.04% of Darwin LNG Pty Ltd (euro 126 million), 49% of Super Octanos CA (euro 113 million), 10.4% of Nigeria LNG Ltd (euro 100 million), 20% of Fertilizantes Nitrogenados de Oriente CEC (euro 92 million), 89% of Trans Austria Gasleitung GmbH (euro 88 million), 35.2% of Supermetanol CA (euro 88 million) and 50% of Unimar Llc (euro 84 million).
Accounts receivable financing and securities related to operations (euro 775 million) were made up primarily of loans made by Eni s financial subsidiaries to certain affiliates in relation to capital expenditure projects made on behalf of Eni s subsidiaries operating in particular in the Gas & Power (euro 499 million) and Exploration & Production segments (euro 170 million).
Net equity at 31 December 2005 (euro 39,217 million) was up euro 3,677 million from 31 December 2004, due primarily to net profit before minority interest (euro 9,247 million) and currency translation effects (approximately euro 1,500 million), offset in part by the payment of Eni s 2004 dividends and 2005 interim dividends and Snam Rete Gas extraordinary dividend (euro 6,287 million, of which euro 5,070 million by Eni SpA and euro 1,171 million by Snam Rete Gas SpA) and the purchase of own shares (euro 1,034 million).

Net working capital

(million euro)	31 Dec. 2004	**31 Dec. 2005**	Change
Inventories	2,847	**3,563**	716
Trade accounts receivable	10,525	**14,101**	3,576
Trade accounts payable	(5,837)	**(8,170)**	(2,333)
Taxes payable and reserve for net deferred income tax liabilities	(3,056)	**(4,857)**	(1,801)
Reserve for contingencies	(5,736)	**(7,679)**	(1,943)
Other operating assets and liabilities [(1)]	(555)	**(526)**	29
	(1,812)	**(3,568)**	**(1,756)**

(1) Include operating financing receivables and securities related to operations for euro 492 million (euro 510 million at 31 December 2004) and securities covering technical reserves of Padana Assicurazioni SpA for euro 453 million (euro 474 million at 31 December 2004).

Inventories increased by euro 716 million due mainly to the impact of increased international oil and refined products prices on the evaluation of inventories according to the weighted-average cost method of inventory accounting.
Trade accounts receivable increased by euro 3,576 million due mainly to the impact of increased international oil and refined product prices, growth in sales volumes of oil and natural gas and currency translation effects. This increase related in particular to the Gas & Power (up euro 1,671 million), Refining & Marketing (up euro 1,010 million) and the Exploration & Production (up euro 806 million) segments.
Trade accounts payable increased by euro 2,333 million for the same reasons as trade accounts receivable.
The reserve for contingencies (euro 7,679 million) included the site restoration and abandonment reserve of euro 2,648 million (euro 1,967 million at 31 December 2004), the environmental risk reserve of euro 2,103 million (euro 1,649 million at 31 December 2004), the loss adjustment and actuarial reserve for Padana Assicurazioni SpA of euro 707 million (euro 573 million at 31 December 2004), the reserve for contract penalties and legal matters of euro 534 million (euro 208 million at 31 December 2004), also including a euro 290 million charge pertaining to a fine imposed by the Italian regulator in the natural gas activities, the reserve for the revision of selling prices for certain supply contracts of euro 321 million, the reserve for fiscal disputes of euro 309 million (euro 235 million at 31 December 2004), the

Tax liabilities and the reserve for net deferred income tax liabilities increased by euro 1,801 million reflecting primarily the increase in: (i) income tax liabilities and net deferred tax liabilities (euro 1,434 million); (ii) excise taxes, custom duties payable and other (euro 367 million) reflecting primarily higher activity levels.

reserve for divestments and restructuring of euro 195 million (euro 214 million at 31 December 2004), the reserve for OIL insurance of euro 127 million (euro 91 million at 31 December 2004) and the reserve for losses related to investments of euro 85 million (euro 91 million at 31 December 2004).

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Net borrowings

(million euro)	31 Dec. 2004	**31 Dec. 2005**	Change
Debts and bonds	12,684	**12,998**	314
Cash and cash equivalents	(1,003)	**(1,333)**	(330)
Securities not related to operations	(793)	**(931)**	(138)
Non-operating financing receivable	(251)	**(259)**	(8)
Other items	(194)		194
	10,443	**10,475**	**32**

Net borrowings at 31 December 2005 amounted to euro 10,475 million, a euro 32 million increase with respect to 31 December 2004.

Debts and bonds totalled euro 12,998 million, of which euro 5,345 million were short-term (including the portion of long-term debt due within twelve months for euro 733 million) and euro 7,653 million were long-term.

Bonds outstanding at 31 December 2005 amounted to euro 5,339 million (including accrued interest and discount). Bonds maturing in the next 18 months amounted to euro 436 million (including accrued interest and discount). Bonds issued in 2005 amounted to euro 441 million (including accrued interest and discount).

Debts and bonds for euro 12,998 million were denominated for 72% in euro, for 16% in US dollar, for 8% in pound sterling and the remaining 4% in other currencies.

Reclassified cash flow statement and change in net borrowings

(million euro)	2004	**2005**	Change
Net profit before minority interest	7,541	**9,247**	1,706
Adjustments to reconcile to cash generated from operating income before changes in working capital:			
- amortization and depreciation and other non monetary items	5,092	**6,518**	1,426
- net gains on the disposal of assets	(793)	**(220)**	573
- dividends, interest, extraordinary income (expense)	5,740	**8,471**	2,731
Cash generated from operating income before changes in working capital	**17,580**	**24,016**	**6,436**
Changes in working capital related to operations	(909)	**(2,422)**	(1,513)
Dividends received, taxes paid, interest (paid) received	(4,171)	**(6,658)**	(2,487)
Net cash provided by operating activities	**12,500**	**14,936**	**2,436**
Capital expenditure	(7,499)	**(7,414)**	85
Investments			