ENI SPA
Form 6-K
April 07, 2006
Table of Contents

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 March 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): ________)

Table of Contents

TABLE OF CONTENTS

Table of Contents

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: March 31, 2006

Table of Contents

PRESS RELEASE

Società per Azioni
Rome,
Piazzale Enrico Mattei, 1

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

Registro Imprese di Roma,
c. f. 00484960588

Tel. +39-0659821
Fax +39-0659822141

www.eni.it

Eni: 2005 Consolidated Financial Statements Record net profit of euro 8.8 billion and dividend of euro 1.10 per share confirmed

San Donato Milanese, 31 March 2006 - Eni s Board of Directors approved yesterday Eni s 2005 consolidated financial statements which show a net profit of euro 8,788 million[1] and the draft statutory financial statements of the parent company Eni SpA which show a profit of euro 5,288 million. The Board of Directors resolved to propose to the annual Shareholders Meeting the distribution of a dividend amounting to euro 1.10 per share[2] (pay out 47%), which includes euro 0.45 already distributed as interim dividend in October 2005. The balance of euro 0.65 will be paid on 22 June 2006, 19 June 2006 being the ex-dividend date. Eni s consolidated financial statements and Eni SpA s draft statutory financial statements were submitted to the Board of Statutory Auditors and to Eni s external auditors. Enclosed are the consolidated profit and loss account and balance sheet of Eni and the statutory profit and loss account and balance sheet of Eni SpA.

Galp: new agreement in force

The Board of Directors was informed that on 29 March 2006 the new agreement for the joint control of Galp entered into by Eni, Rede Electrica Nacional (REN) and Amorim Energia on 29 December 2005[3] came in force due to the occurrence of the suspensive clauses.

The earlier agreement between Eni and the Portuguese State, with expected expiration on 31 May 2006, is therefore terminated as well as the rights and obligations therein contained.

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 DepÓsitos (1%), Setgas (0.044%).

Incorporation of EniTecnologie into Eni

The Board approved the merger into the parent company Eni SpA of Eni s wholly-owned subsidiary EniTecnologie with the aim of integrating research and development activities and simplifying Eni s shareholding structure, and increasing efficiency by reducing decision levels and rationalizing staff structures.

(1) This result is the same as the preliminary results announced, for details see Press Release of 1 March 2006.

(2) As a consequence of new tax laws in force from 1 January 2004, dividends do not entitle to a tax credit and, depending on the receiver, are subject to a withdrawal tax on distribution or are partially cumulated to the receiver s taxable income.

(3) For the details of the agreement see Eni press release of 30 December 2005.

Table of Contents

* * *

Contacts

e-mailbox: segreteriasocietaria.azionisti@eni.it

Investor Relations:

Jadran Trevisan
Antonio Pinto - Marco Porro
e-mailbox: investor.relations@eni.it

Eni SpA
Piazza Vanoni, 1
20097 San Donato Milanese (Milan) - Italy
tel.:+39-02520.51651 - fax: +39-02520.31929

Eni Press Office:

Gianni Di Giovanni
Domenico Negrini
Tel.: +39 - 02520.31287
gianni.digiovanni@eni.it
domenico.negrini@eni.it

* * *

This press release is available on Eni s internet site.
Eni s 2005 Annual Report will be available on Eni s internet site at 18:00.

Table of Contents

Attachment

Eni consolidated 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 impairments	(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**

Eni 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**

Table of Contents

Eni SpA profit and loss account

(million euro)

	2004	2005	Change
Net sales from operations	34,017	44,812	10,795
Other income and revenues	376	285	(91)
Operating expenses	(30,262)	(41,033)	(10,771)
Depreciation, amortization and impairments	(907)	(809)	98
Operating profit	**3,224**	**3,255**	**31**
Net financial expense	(56)	(24)	32
Net income from investments	1,394	3,462	2,068
Profit before extraordinary items and income taxes	**4,562**	**6,693**	**2,131**
Net extraordinary (expense) income	(55)	(467)	(412)
Elimination of tax interference	1,076		(1,076)
Profit before income taxes	**5,583**	**6,226**	**643**
Income taxes	(899)	(938)	(39)
Net profit	**4,684**	**5,288**	**604**

Eni SpA balance sheet

(million euro)

	31 Dec. 2004	31 Dec. 2005	Change
Fixed assets			
Property, plant and equipment, net	4,906	4,733	(173)
Intangible assets, net	714	631	(83)
Investments, net	20,825	21,049	224
Accounts receivable financing and securities related to operations	29	29	
Net accounts payable in relation to capital expenditure	(626)	(447)	179
	25,848	**25,995**	**147**
Working capital, net	**1,536**	**549**	**(987)**
Reserve for employee termination indemnities	**(202)**	**(222)**	**(20)**
Capital employed, net	**27,182**	**26,322**	**(860)**
Shareholders equity	**26,204**	**25,440**	**(764)**
Net borrowings	**978**	**882**	**(96)**
Total liabilities and shareholders equity	**27,182**	**26,322**	**(860)**

Table of Contents
Contents

Table of Contents
Contents

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

Table of Contents

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

Contents

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

Contents

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

Contents

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.

Contents

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**

Contents

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

Contents

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 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.

11

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

Contents

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.

March 30, 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) ppointed 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

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.

Contents

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 recognized 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.

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).

Contents

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.

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

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

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

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

Contents

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.

(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

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

Contents

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.

Contents

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

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

23

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

24

Contents

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.

Contents

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.

Contents

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 customer	(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).

Contents

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.

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

Contents

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**

Contents

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**

Contents

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.

33

Contents

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

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

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

36

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.

Contents

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

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;

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

Contents

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

41

Contents

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

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)**

Contents

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)**

Contents

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

45

Contents

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 traders and MTBE sales.

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.

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

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**

Contents

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).

Contents

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.

Contents

.

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.

Contents

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.

Contents

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.

54

Contents

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.

Contents

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.

Contents

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 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 recognized 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.

Contents

(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**

61

Contents

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

Contents

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).

63

Contents

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	(316)	**(127)**	189
Disposals	1,547	**542**	(1,005)
Other cash flow related to capital expenditure, investments and disposals	97	**293**	196
Free cash flow	**6,329**	**8,230**	**1,901**
Borrowings (repayment) of debt related to financing activities	211	**(109)**	(320)
Changes in short and long-term financial debt	(3,743)	**(540)**	3,203
Dividends paid and changes in minority interests and reserves	(3,175)	**(7,284)**	(4,109)
Effect of changes in consolidation and exchange differences	(55)	**33**	88
NET CASH FLOW FOR THE PERIOD	**(433)**	**330**	**763**
Free cash flow	**6,329**	**8,230**	**1,901**

Net borrowings of acquired companies	0	**(19)**	(19)
Net borrowings of divested companies	190	**21**	(169)
Exchange differences on net borrowings and other changes	(64)	**(980)**	(916)
Dividends paid and changes in minority interests and reserves	(3,175)	**(7,284)**	(4,109)
CHANGE IN NET BORROWINGS	**3,280**	**(32)**	**(3,312)**

Cash flow generated by operating activities (euro 14,936 million) and cash from disposals (euro 563 million, including net borrowings transferred of euro 21 million) were offset in part by: (i) financial requirements for capital expenditure and investments (euro 7,560 million including a net borrowing acquired of euro 19 million); the payment of dividends (euro 6,287 million) and the share buy-back program (euro 1,034 million); (ii) currency translation effects (about euro 1,200 million).

Capital expenditure

(million euro)	2004	**2005**	Change	% Ch.
Exploration & Production	4,853	**4,964**	111	2.3
Gas & Power	1,451	**1,152**	(299)	(20.6)
Refining & Marketing	693	**656**	(37)	(5.3)
Petrochemicals	148	**112**	(36)	(24.3)
Oilfield Services Construction and Engineering	186	**349**	163	87.6
Other activities	49	**69**	20	40.8
Corporate and financial companies	119	**112**	(7)	(5.9)
Capital expenditure [(1)]	**7,499**	**7,414**	**(85)**	**(1.1)**

(1) Does not include R&D costs the effects of which are limited to one year amounting to euro 210 million and euro 202 million in 2004 and 2005, respectively.

Capital expenditure amounted to euro 7,414 million, of which 91% related to the Exploration & Production, Gas & Power and Refining & Marketing segments, and primarily related to: (i) the development of oil and gas reserves (euro 3,952 million) in particular in Kazakhstan, Libya, Angola, Italy and Egypt, exploration projects (euro 656 million) and the purchase of proved and unproved property (euro 301 million); (ii) upgrading of Eni s natural gas transport and distribution networks in Italy (euro 825 million); (iii) the continuation of the construction of combined cycle power plants (euro 239 million); (iv) actions for improving flexibility and yields of refineries, including the completion of the construction of the tar gasification plant at the Sannazzaro refinery, and the upgrade of the refined product distribution network in Italy and in the rest of Europe (overall euro 656 million); (v) upgrading of vessels and other equipment and facilities in Kazakhstan and West Africa in the Oilfield services and construction business (euro 346 million).

Dividends paid and changes in minority interests and reserves (euro 7,278 million) related mainly to dividend distribution for fiscal year 2004 of euro 3,384 million and the payment of an interim dividend of euro 1,686 million carried out by Eni SpA, the payment of dividend by Snam Rete Gas SpA (euro 1,171 million of which euro 976 million as an extraordinary dividend) and other consolidated subsidiaries (euro 9 million) and the buy-back program.

From 1 January to 31 December 2005 a total of 47.06 million own shares were purchased for a total expense of euro 1,034 million (on average euro 21.966 per share). From the beginning of the share buy-back plan (1 September 2000) Eni purchased 281.88 million of its own shares, equal to 7.04% of its share capital, for a total expense of euro 4,272 million (on average euro 15.155 per share).

Disposals (euro 563 million, including net borrowings transferred of euro 21 million) concerned mainly the sale of Eni s 100% interest in IP (142 million, excluding transferred cash of euro 53 million), the sale of Eni s 28% in Erg Raffinerie Mediterranee Srl (euro 97 million), 67.05% interest in Società Azionaria per la Condotta di Acque Potabili (euro 100 million including net borrowings transferred of euro 21 million) and 100% of Acquedotto Vesuviano (euro 16 million) as well as other minor interests and real estate.

Contents

Other Information

Transactions with related parties

In the ordinary course of its business, Eni enters into transactions concerning the exchange of goods, provision of services and financing with non consolidated subsidiaries and affiliates as well as other companies owned or controlled by the Italian Government. All such transactions are conducted on an arm s length basis and in the interest of Eni companies. Amounts and types of trade and financial transactions with related parties are described in the Notes to the Financial Statements (Note No. 32).

Court inquiries

The Milan Public Prosecutor is inquiring on contracts awarded by Eni s subsidiary EniPower and on supplies from other companies to EniPower. The media have provided wide coverage of these inquiries. It emerged that illicit payments have been made by EniPower suppliers to a manager of EniPower who has been immediately dismissed. The Court presented EniPower (commissioning entity) and Snamprogetti (contractor of engineering and procurement services) with notices of process in accordance with existing laws regulating administrative responsibility of companies (Legislative Decree No. 231/2001). In its meeting of 10 August 2004, Eni s Board of Directors examined the situation mentioned above and approved the creation by Eni s CEO of a task force in charge of verifying the compliance with Group procedures regarding the terms and conditions for the signing of supply contracts by EniPower and Snamprogetti and the subsequent execution of works. The Board also advised divisions and departments of Eni to fully cooperate in every respect with the Court. From the inquiries performed, that have not yet covered all relationships with contractors and suppliers, no default in the organization and internal controls emerged. For some specific aspects inquiries have been performed by external experts. In accordance with its transparency and firmness guidelines, Eni will take the necessary steps for acting as plaintiff in the expected legal action in order to recover any damage that might derive to Eni by the illicit behavior of its suppliers and of their and Eni s employees.

Within an investigation on two Eni managers, the Public Prosecutor of Rome on 10 March 2005 notified Eni of the seizure of papers concerning Eni s relations with two oil product trading companies.

TSKJ Consortium - Investigations of SEC and other Authorities

In June 2004 the U.S. Securities and Exchange Commission (SEC) notified Eni a request of collaboration on a voluntary basis, which Eni promptly carried out, in order to obtain information regarding the TSKJ consortium in relation to the construction of natural gas liquefaction facilities at Bonny Island in Nigeria. The TSKJ consortium is formed by Snamprogetti (Eni 100%) with a 25% interest and, for the remaining part, by subsidiaries of Halliburton/KBR, Technip and JGC. The investigations of the Commission concern alleged improper payments. Other Authorities are currently investigating this matter. Eni is currently providing its own information to the Commission and to other authorities.

Contents

Subsequent events

Relevant subsequent events concerning operations are found in the operating review.

Business trends

The following are the forecasts for Eni s key production and sales metrics in 2006:

- **production of liquids and natural gas** is forecasted to grow from 2005 (1.74 million boe/day). Increases will be achieved outside Italy mainly in Libya, Angola, Egypt, Nigeria and Norway; in particular natural gas production is expected to increase strongly in Libya due to the build-up of supplies to Italy through the Greenstream pipeline and in Egypt and Nigeria, due to the build-up of supplies to the Bonny (Eni s interest 10.4%) liquefaction plant. Oil production is expected to increase in Nigeria and Norway due to full production of fields started-up in the second half of 2005;
- **sales volumes of natural gas** are expected to increase from 2005 (91.15 billion cubic meters[1]). Sales volumes are expected to increase in markets outside Italy in particular in Turkey, Spain, France and Germany;
- **sold production of electricity** is expected to increase from 2005 (22.77 terawatthour) due to the continuing ramp-up of new production capacity at the Brindisi and Mantova sites, offset in part 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 (38.79 million tonnes), due mainly to planned maintenance at the Sannazzaro, Taranto and Livorno refineries. Eni s refineries are expected to run at full capacity;
- **sales volumes of refined products** on the Agip branded network in Italy are expected to remain stable (8.75 million tonnes in 2005): 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, Germany and Hungary also due to construction/acquisition of service stations.

In 2006, capital expenditure is expected to increase from 2005 (euro 7.4 billion in 2005); main increases are expected in exploration projects and the development of oil and natural gas reserves, upgrading of natural gas transport and import infrastructure, upgrading of refineries.

(1) Include own consumption and Eni s share of sales of affiliates.

Contents

Corporate Governance

Appropriate conduct

Due to the complex scenario in which Eni operates, the Board of Directors has deemed it appropriate to provide a clear definition of the value system that Eni recognizes, accepts and upholds and the responsibilities that Eni assumes within its Group and externally in order to ensure that all Group activities are conducted in compliance with laws, in a context of fair competition, with honesty, integrity, correctness and in good faith, respecting the legitimate interests of shareholders, employees, suppliers, customers, commercial and financial partners and the communities where Eni operates. All those working for Eni, without exception or distinction, are committed to observing these principles within their function and responsibility and to make others observe them. The belief of working for the advantage of Eni cannot be a justification for behaviors contrary to such principles. These values are stated in a Code of Conduct whose observance by employees is evaluated by the Board of Directors, based on the annual report of the Guarantor for the Code of Conduct. The Code of Conduct is published in Eni s internet site.

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

In accordance with the request of Borsa Italiana SpA, in particular the Guidelines for the preparation of the yearly report on corporate governance of 12 February 2003, follows information on Eni s corporate governance system. In preparing this report account has been taken also of the Guide to the preparation of the report on corporate governance published by Assonime and Emittenti Titoli SpA in March 2004.

Eni s organizational structure

Eni s organizational structure follows the traditional model of companies in which management is exclusively entrusted to the Board of Directors, which is the central element of Eni s corporate governance system. Monitoring functions are entrusted to the Board of Statutory Auditors and accounting control is entrusted to external auditors appointed by the Shareholders Meeting.

On 1 June 2005 the Board of Directors entrusted the Chairman with powers to conduct strategic international relations and appointed Paolo Scaroni Chief Executive Officer (CEO) entrusted with all managing powers except those that cannot be delegated and those reserved to the Board. According to article 25 of Eni s by-laws, the Chairman and the CEO are the representatives of the company.

In accordance with internationally accepted principles of corporate governance, the Board of Directors established committees with consulting and proposing functions.

The Board of Directors

Competencies

In its meetings of 1 June and 11 October 2005, in addition to exclusive competencies entrusted to it by art. 2381 of the Civil Code, the Board of Directors has reserved the following tasks:

1. to define corporate governance rules for the Company and Group companies, including the appointment, definition of functions and regulations of Board Committees;
2. to define guidelines for the internal control system, based on indications provided by the relevant Board Committee, and to monitor the effectiveness and modes of managing main corporate risks;
3. to examine and approve the main features of corporate and Group organization, checking the effectiveness of the organization and administration setup prepared by the CEO;
4. to determine on proposal of the CEO strategic guidelines and objectives at the Company and Group level;
5. to examine and approve multi-annual strategic, industrial and financial plans at the Company and Group level;
6. to examine and approve yearly budgets of Divisions, of the Company and the consolidated Group budget;
7. to evaluate and approve quarterly accounts and related disclosures and any other period accounts and related disclosures provided for by the law and to compare quarterly results with planned results;
8. to evaluate the general trends in operations with specific attention to possible conflicts of interest;
9. to examine and approve strategically relevant agreements;
10. to receive from Directors entrusted with specific powers timely reports describing the activities performed under such powers and the most relevant transactions, according to a specific previously agreed definition, and any atypical or unusual relations and transactions with related parties;
11. to receive from Board Committees periodic reports on activities performed, according to previously agreed definitions and timetables;
12. to attribute, modify and revoke powers to Directors, defining their limits and modes of execution, determining the compensation related to such powers, after consultation with the Board of Statutory Auditors. To deliver guidelines to empowered Directors and to recall to itself transactions included in the delegated power;
13. to approve, based on the indications of the relevant Committee, the adoption and implementation of share incentive plans and to define the compensation criteria of top managers;
14. to appoint, revoke and delegate powers to general
15. to decide major sale and purchase transactions of the Company and to provide a pre-emptive evaluation of those concerning Group companies, in particular:
a) sale and purchase transactions, as well as conferral of real estate, investments, companies of amounts exceeding euro 50 million;
b) capital expenditure in tangible and intangible assets with great significance for the Group in terms of strategic impact and risks, and however all those of amounts exceeding euro 100 million, as well as any portfolio and exploration initiatives of the Exploration & Production segment in new areas;
c) the provision of loans from Eni or its subsidiaries to third parties;
d) the provision from Eni of personal and real guarantees to third parties in the interest of Eni or its subsidiaries of amounts exceeding euro 50 million;
e) the provision of loans from Eni or its subsidiaries to affiliates, as well as of real and personal guarantees on their bonds of amounts exceeding euro 50 million and, in any case, if the amount is not proportional to the stake held in the affiliate;
f) purchase and sale agreements for goods and services not intended as capital expenditure of amounts exceeding euro 1 billion and of a duration longer than 20 years;
16. to examine and decide any proposal of the CEO concerning voting and appointment of members of the Board of Directors and the Board of Statutory Auditors of major subsidiaries;
17. to formulate all the proposals of decisions to be presented to the Shareholders Meeting.

In accordance with article 27 of Eni s by-laws, the Chairman chairs Shareholders Meetings, convenes and chairs Board of Directors meetings and oversees the implementation of decisions made by it.

In accordance with article 23, paragraph 3 of Eni s by-laws, the Chairman and the CEO report timely to the Board of Statutory Auditors, at least quarterly and at each Board meeting, on activities performed and major transactions of Eni and its subsidiaries.

In accordance with article 2391 of the Italian Civil Code, Directors inform other Directors and the Board of Statutory Auditors of any interest they may have, directly or on behalf of third parties, in any transaction of Eni.

Appointment

In accordance with article 17 of Eni s by-laws, the Board managers, on proposal of the CEO and in agreement with the Chairman;

of Directors is made up by 3 to 9 members. The shareholders meeting determines the number within said limits. As per article 6, paragraph 2, letter d) of Eni s by-laws the Minister for Economy and Finance, in agreement with the Minister of Productive Activities, may appoint one member of the Board without voting right in addition to those appointed by the shareholders meeting. The Minister for Economy and Finance chose not to appoint such member.

The present Board of Directors is made up by 9 members appointed by the Shareholders Meeting of 27 May 2005 for a three-year term, their mandate expires with the Meeting convened to examine financial statements for fiscal year 2007. The appointment of the Board of Directors calls for a list vote. Only shareholders who, alone or with others represent at least 1% of voting shares at an ordinary meeting have the right to present lists for the appointment of directors, as well as the Board of Directors. Each shareholder can present or participate in presenting only one list. Companies controlling a shareholder and joint controlled companies cannot present, nor participate in presenting other lists, meaning by controlled companies the companies described in article 2359, paragraph 1 of the Civil Code. The lists must be deposited at Eni s headquarters at least ten days before the date set for the Shareholders Meeting on first call (20 days in case of the Board of Directors presenting a list) and published on national newspapers and must include a resume of each candidate.

Composition

The current Board of Directors is formed by the Chairman, Roberto Poli, the CEO, Paolo Scaroni, and directors, Alberto Clô, Renzo Costi, Dario Fruscio, Marco Pinto, Marco Reboa, Mario Resca, and Pierluigi Scibetta.

Roberto Poli, Paolo Scaroni, Dario Fruscio, Marco Pinto, Mario Resca and Pierluigi Scibetta were candidates included in the list of the Ministry of Economy and Finance; Alberto Clô, Renzo Costi and Marco Reboa were in the list presented by institutional investors coordinated by Fineco Asset Management SpA. The Secretary of the Board of Directors is Piergiorgio Ceccarelli, the Group s senior vice president for Corporate Affairs.

Based on information received, follows information on positions held in other Board of Directors or Boards of Statutory Auditors of listed companies, financial or insurance or large companies by members of Eni s Board

ROBERTO POLI
Chairman of Poli e Associati SpA; Board member of Mondadori SpA, Fininvest SpA, Merloni Termosanitari SpA and G.D. SpA; general partner of Brafin SapA.

PAOLO SCARONI
Chairman of Alliance UniChem; Board member of Il Sole 24 Ore; member of the Supervisory Board of ABN AMRO Bank, Board member of the Columbia University s Business School.

ALBERTO CLô
Board member of ASM Brescia SpA, De Longhi SpA, Italcementi SpA and Società Autostrade SpA.

RENZO COSTI
Board member of Editrice Il Mulino SpA.

DARIO FRUSCIO
Chairman of Italia Turismo SpA, Board member of Sviluppo Italia SpA.

MARCO REBOA
Board member of Seat PG SpA. Interpump SpA, IMMSI SpA, Intesa Private Banking, Statutory auditor of Autogrill SpA and Galbani SpA.

MARIO RESCA
Chairman of McDonald s Italia SpA and Italia Zuccheri SpA, Board member of Mondadori SpA, Special manager of the Cirio Del Monte Group, under special management.

PIERLUIGI SCIBETTA
Board member of Gestore del Mercato Elettrico SpA, Nucleco SpA and Istituto Superiore Prevenzione e Sicurezza Lavoro (ISPESL).

On 1 June 2005, Eni s Board of Directors, in accordance with the provisions of the Code, evaluated the statements presented by Board members and established that the Chairman and non executive Board members Alberto Clô, Renzo Costi, Dario Fruscio, Marco Pinto, Marco Reboa, Mario Resca, and Pierluigi Scibetta are independent as they do not have any economic relationship with Eni and Eni Group companies, with the CEO and with the Ministry of Economy and Finance, Eni s major shareholder, such as to bias their autonomous judgment nor are they close relatives of the CEO.

of Directors. The professional curriculum of Directors is available on Eni s internet site.

Director Marco Pinto is an employee of the Ministry for Economy and Finance. The CEO of Eni is an employee of Eni and holds the position of General Manager.

On 30 March 2006, the Board verified that its members were independent on the basis of their own statements and that they possess the honorability required by articles 147 ter and 147 quinquies of Legislative Decree No. 58 of 24 February 1998 and included in Law No. 262 of 28 December 2005 (law for the protection of savings) and acknowledged that its members continued being independent as verified on 1 June 2005 and possessing the honorability required by Law.
Eni s by-laws do not indicate a specific frequency of meetings. In 2005 the Board of Directors met 21 times (18 in 2004) for an average length of four hours per meeting. The public is informed of: (i) the dates of meetings convened for the approval of interim results, (ii) the dates of general Shareholders Meetings, (iii) the dates when the amount of interim dividends and final dividends are announced and related payment dates.

Functioning

The Board of Directors defined the rules for the calling of its meetings; in particular, the Chairman convenes Board meetings, and, in concert with the CEO, defines agenda items. Notice is sent by mail, fax or e-mail within five days of the meeting s date, at least 24 hours in advance in case of urgency. Eni s by-laws allow meetings to be held by video or teleconference, provided that all participants can be identified and are allowed to participate in real time. The meeting is deemed held in the location where Chairman and Secretary are present. Board members receive in advance adequate and thorough information on all issues subject to Board evaluation and resolutions, except for urgent cases and those for which confidentiality is deemed necessary. During meetings directors can meet managers of Eni and its subsidiaries in order to obtain information on the features and the organization of their businesses.
In 2005 on average 88% of Board members participated to Board meetings and 85% of independent non executive Board members.

Compensation

Board members compensation is determined by the Shareholders Meeting, while remuneration levels of the Chairman and CEO are determined by the Board of Directors, based on proposals of the Compensation Committee and after consultation with the Board of Statutory Auditors.
On 27 May 2005 the Shareholders Meeting determined the annual compensation of the Chairman (euro and of Board members (euro 115,000). It also determined a variable compensation up to a maximum of euro 80,000 for the Chairman and euro 20,000 for each Board member to be paid in accordance with Eni s positioning as compared to the eight largest international oil companies for market capitalization in terms of total return to shareholders in the reference year. The variable portion of compensation is paid to the Chairman for euro 80,000 or euro 40,000 and to each Board member for euro 20,000 or euro 10,000, respectively, if Eni s return to shareholders is rated first or second, or third or fourth in said rating. Below fifth position no variable compensation is paid. In the meeting of 30 March 2005, the Board confirmed that Eni in 2004 rated fourth in the mentioned positioning.
With reference to the powers delegated to the Chairman and CEO, the Board of Directors determined their compensation, made up of a fixed and a variable part. The variable part of the compensation of Chairman and CEO, as well as the variable part of the compensation of Eni s top management (General Managers of divisions and managers holding positions directly reporting to the Chairman and CEO) is related to the achievement of specific economic and operating objectives (profitability, leverage, efficiency, strategic projects) and share price objectives (price of Eni shares, comparative total return to shareholders). With reference to Eni s performance in 2004, 47% of the remuneration of the Chairman and of the CEO was variable, 43% of that of the top management[1].
On 30 March 2006, Eni s Board of Directors on proposal of the Compensation Committee and in analogy with what decided in its meeting of 14 July 2005 for the Chairman and the CEO, determined to extend to the other directors the insurance against professional risks included in agreements for Eni managers. Similar extension was decided also for Statutory Auditors and the Magistrate of the Court of Accounts delegated to the financial control of Eni. Total cost for Eni of this extension is about euro 14,000.
Pursuant to article 78 of Consob Decision No. 11971 of 14 May 1999, compensation of directors and statutory auditors of Eni and general managers of Eni s divisions, who held the position in 2005 including a fraction of the year, are reported in the table below.
Pursuant to Consob decisions:
- Compensation in respect of positions held at Eni SpA are set by the Shareholders Meeting and the remuneration of the chairman and the CEO is

265,000)	determined by the Board of Directors, in agreement

(1) These percentages were determined excluding the fixed part of the remuneration of the CEO, appointed on 1 June 2005 and of top managers hired in 2005 who did not receive the variable part of the remuneration.

Contents

with the Board of Statutory Auditors, in accordance with article 2389, paragraph 3 of the Italian civil code;
- Non cash benefits refer to all fringe benefits, including insurance policies;
- Bonuses and other incentives include the variable part of the chairman s compensation and the variable part of the salary of the CEO and of the general managers of Eni s divisions;
- Other compensation include the salary of the previous and the current managing director and of the general managers of Eni s divisions, in addition to compensations due in respect of positions on the Board of Statutory Auditors in Eni s subsidiaries. Indemnities paid upon termination are also included.

(thousand euro)

Name	Position	Term of office	Expiry date of the position (1)	Compensation for service at Eni SpA	Non-cash benefits	Bonuses and other incentives (2)	Other compensations	Total
Board of Directors								
Roberto Poli	Chairman	01.01-31.12	30.05.08	831	8	40		879
Vittorio Mincato	CEO	01.01-27.05		230		1,386 (3)	9,649 (4)	11,265
Paolo Scaroni	CEO	01.06-31.12 (5)	30.05.08	252	62		588	902
Mario Giuseppe Cattaneo	Director	01.01-27.05		57		10		67
Alberto Clô	Director	01.01-31.12	30.05.08	123		10		133
Renzo Costi	Director	01.01-31.12	30.05.08	122		10		132
Dario Fruscio	Director	01.01-31.12	30.05.08	117		10		127
Guglielmo Moscato	Director	01.01-27.05		59		10		69
Mario Resca	Director	01.01-31.12	30.05.08	121		10		131
Marco Pinto	Director	28.05-31.12	30.05.08	68				68
Marco Reboa	Director	28.05-31.12	30.05.08	68				68
Pierluigi Scibetta	Director	28.05-31.12	30.05.08	68				68
Board of Statutory Auditors (6)								
Andrea Monorchio	Chairman	01.01-27.05		51				51
Paolo Andrea Colombo	Chairman (7)	01.01-31.12	30.05.08	107			67	174
Luigi Biscozzi	Auditor	01.01-27.05		38			51	89
Filippo Duodo	Auditor	01.01-31.12	30.05.08	91			55	146
Edoardo Grisolia (8)	Auditor	28.05-31.12	30.05.08	48				48
Riccardo Perotta	Auditor	01.01-31.12	30.05.08	92			59	151
Giorgio Silva	Auditor	28.05-31.12	30.05.08	48			13	61
General Managers								
Stefano Cao	Exploration & Production	01.01-31.12				397	797	1,194
Luciano Sgubini	Gas & Power	01.01-31.12				311	2,286 (9)	2,597
Angelo Taraborrelli	Refining & Marketing	01.01-31.12				229	566	795
				2,591	**70**	**2,423**	**14,131**	**19,215**

(1) The term of position ends with the Meeting approving financial statements for the year ending 31 December 2007.

(2) Based on performance achieved in 2004.

(3) Based on performance achieved in 2004 and pro rata performance related to the first five-month period of 2005.

(4) In addition to salary also includes indemnities paid upon termination and further compensation determined by the Board of Directors.

(5) Appointed as director on 28 May 2005.

(6) The Other Compensation amounts refer to compensation obtained as chairman or as auditor of subsidiaries.

(7) Appointed as Chairman on 28 May 2005. Previously Auditor.

(8) Compensation for the service is paid to the Ministry of Economy and Finance.

(9) In addition to salary also includes indemnities paid upon termination.

Stock compensation

Stock grants

With the aim of improving motivation and loyalty of Eni managers through the linking of compensation to the attainment of preset individual and corporate objectives, making management participate in corporate risk and motivating them towards the creation of shareholder value and increasing at the same time their contribution to the management of the Company, starting in 2003 Eni offers its own shares purchased under its buy-back program (treasury shares) for no consideration to those managers of Eni SpA and its subsidiaries as defined in Article 2359 of the Civil Code[2]

(2) Does not include listed subsidiaries, which have their own stock grant and stock option plans.

Contents

who have achieved corporate and individual objectives. Assignments vest within 45 days after the end of the third year from the date of the offer.
In application of its stock grant plan, on 31 December 2005 a total of 3,127,200 grants were outstanding for the assignment of an equal amount of treasury shares (equal to 0.08% of current capital stock) subdivided as follows: (i) a total of 1,018,400 grants (fair value euro 11.20 per share) related to 2003; (ii) a total of 912,400 grants (fair value euro 14.57 per share) related to 2004; (iii) a total of 1,196,400 grants (fair value euro 20.08 per share) related to 2005.

Stock options

Eni offers to managers of Eni SpA and its subsidiaries as defined in Article 2359 of the Civil Code[3] who hold positions of significant responsibility for achieving profitability or strategic targets, the opportunity to acquire a shareholding in the company as an element of remuneration through the assignment of options for the purchase of Eni s treasury shares.
Options provide grantees with the right to purchase Eni shares in a 1 to 1 ratio after three years from the date of the grant and upon a five-year vesting period, at a price corresponding to the higher of the arithmetic average of official prices recorded on the Mercato Telematico Azionario in the month preceding the date of the grant and the average cost of the treasury shares as of the day prior to the assignment (strike price). Strike price for the 2005 assignment was euro 22.512 per share.
Grantees are able to make use of an advance from a Group finance company to purchase shares, on condition that at the same time they sign an irrevocable order for selling the shares through the mentioned company.
At 31 December 2005 outstanding options were 13,379,600 carrying an average strike price of euro 17.705 per share.
The weighted-average remaining contractual life of options outstanding at December 31, 2003, 2004 and 2005 is 5.6 years, 6.6 years and 7.6 years respectively.
All stock options granted are considered fixed.
The following is a summary of stock option activity for the years 2003, 2004 and 2005:

.

	2003		2004		2005	
(euro)	Number of shares	Weighted average exercise price (a)	Number of shares	Weighted average exercise price (a)	Number of shares	Weighted average exercise price (a)
Options as of 1 January	**3,518,500**	**15.216**	**8,162,000**	**14.367**	**11,789,000**	**15.111**
New options granted	4,703,000	13.743	3,993,500	16.576	4,818,500	22.512
Options exercised in the period			(354,000)	14.511	(3,106,400)	15.364
Options cancelled in the period	(59,500)	15.216	(12,500)	14.450	(121,500)	16,530
Options outstanding as of 31 December	**8,162,000**	**14.367**	**11,789,000**	**15.111**	**13,379,600**	**17.705**
of which exercisable at 31 December	**73,000**	**14.802**	**-**	**-**	**1,540,600**	**16.104**

(a) Below quoted market price.

The fair value of stock options granted during the years ended 31 December 2003, 2004 and 2005 of euro 1.50, euro 2.01 and euro 3.33 respectively, was calculated applying the Black-Scholes method and using the following assumptions:

2003	2004	**2005**

Risk-free interest rate	(%)	3.16	3.21	**2.51**
Expected life	(year)	8	8	**8**
Expected volatility	(%)	22	19	**21**
Expected dividends	(%)	5.35	4.5	**3.98**

(3) Does not include listed subsidiaries, which have their own stock grant and stock option plans.

Contents

Stock grant for Eni s CEO and general managers

The table below sets out stock grants assigned to Eni s CEO and general managers.

		Grants outstanding at beginning of the period		Grants assigned during the period		Grants exercised during the period		Grants outstanding at end of the period	
Name		Number of grants	Average maturity in months	Number of grants	Average maturity in months	Number of grants	Average market price at date of exercise	Number of grants	Average maturity in months
Vittorio Mincato (1)	CEO	104,800	19	40,200	38	145,000	19.951	-	-
Stefano Cao	General Manager of the E&P Division	40,500	20	16,000	38	12,800	23.785	43,700	21
Luciano Sgubini	General Manager of the G&P Division	40,500	20	16,000	38	56,500	22.784	-	-
Angelo Taraborrelli	General Manager of the R&M Division	17,500	20	16,000	38	5,400	23.785	28,100	24

(1) Retired on 27 May 2005.

Stock options for Eni s CEO and general managers

The table below sets out assignments of options to Eni s CEO and general managers. During 2005 no options expired.

		CEO (1) Paolo Scaroni	CEO (2) Vittorio Mincato	General Manager for the E&P Division Stefano Cao	General Manager for the G&P Division Luciano Sgubini	General Manager for the R&M Division Angelo Taraborrelli
Options outstanding at the beginning of the period:						
- number of options		-	499,000	182,000	170,000	96,500
- average exercise price	(euro)	-	15.090	15.185	15.086	15.379
- average maturity in months		-	67	79	79	81
Options granted during the period:						
- number of options		699,000	-	75,500	60,500	50,000
- average exercise price	(euro)	22.509	-	22.509	22.509	22.509
- average maturity in months		96	-	96	96	96
Options exercised at the end of period:						
- number of options		-	499,000	56,000	230,500	23,500
- average exercise price	(euro)	-	15.090	15.216	17.035	15.216
- average market price at date of exercise	(euro)	-	19.980	22.784	22.964	22.784
Options outstanding at the end of the period:						
- number of options		699,000	-	201,500	-	123,000
- average exercise price	(euro)	22.509	-	17.920	-	18.308
- average maturity in months		91	-	82	-	83

(1) Appointed on 1 June 2005.

(2) Retired on 27 May 2005.

Share ownership
At 31 December 2005 the total number of shares owned by the directors, statutory auditors and the three general managers of Eni SpA was 232,625 equal to approximately 0.006% of Eni s share capital outstanding at 31 December 2005.

Board committees

In order to carry out its tasks more effectively, the Board of Directors has instituted three advisory Committees: the Internal Control Committee and Compensation Committee, formed exclusively by independent, non-executive Board members, except for Marco Pinto, a member of both committees, and the International Oil Committee in which also the CEO participates.

In the meeting of 1 June, the Committees were formed as follows:
Internal Control Committee: Marco Reboa (Chairman), Alberto Clô, Renzo Costi, Marco Pinto and Pierluigi Scibetta.
Compensation Committee: Mario Resca (Chairman), Renzo Costi, Marco Pinto and Pierluigi Scibetta.
International Oil Committee: Alberto Clô (Chairman), Dario Fruscio, Marco Reboa and Paolo Scaroni.
The Code suggests the creation of a Nominating Committee in the companies with shares held widely by the public, especially when the Board notices that shareholders find it difficult to prepare proposals for appointments. This committee has not been formed in consideration of the shareholding characteristics of Eni and of the fact that Directors are appointed on the basis of candidate lists submitted by shareholders or by the Board of Directors.

Internal Control Committee
The Internal Control Committee, established by the Board of Directors in 1994, holds functions of supervision, counsel and proposal in the area of monitoring general management issues.
In its meeting of 1 June 2005, the Board appointed Marco Reboa as chairman of this committee.
In its meeting of 29 June 2005 the Board approved its new regulation (available on Eni s internet site) also in order to adequate its role to the Board s resolution of 22 March 2005 that appointed the Board of Statutory Auditors to perform the functions attributed by the Sarbanes-Oxley Act and SEC rules to audit committees of US issuers, within the limits set by Italian legislation, from 1 June 2005.
In the course of 2005 the Internal Control Committee convened 14 times, with an average participation of 87% of its members, and has accomplished the following: (i) reviewed the audit programs prepared by Eni SpA s and Group companies internal audit functions and their progress; (ii) reviewed and evaluated results of Eni SpA s and Group companies internal auditing procedures; (iii) monitored the actions taken and their effects aimed at eliminating the defaults shown by audit reports; (iv) examined the results of audit procedures applied to the framework agreement between Eni and Gazprom/Gazexport of 16 June 2005; (v) met with top level representatives of administrative functions in the main subsidiaries, chairmen of boards of statutory auditors and partners responsible for external audit functions at Eni SpA and its subsidiaries; (vi) met the partners responsible of Eni s external auditors for an analysis of Eni s 2005 Half Year Report; (vii) examined the conditions necessary to avail itself of the exemption from the Sarbanes-Oxley Act and the relevant regulations concerning the Audit Committee; (viii) reviewed the committee s regulation; (ix) examined the report presented by the Watch Structure; (x) examined the reports prepared in accordance with audit document No. 260 concerning the communication of facts and events on auditing activities to those responsible for governance; (xi) monitored the appointment of additional functions to Eni s external auditors and companies belonging to the network of the external auditors, expressing its opinion; (xii) reviewed the situation of appointments conferred in 2004 by Eni and its consolidated subsidiaries and affiliates to external auditors registered with Consob and related subjects; (xiii) reviewed the situation of appointments of external auditors of main group companies, the relevant accounts and the opinions contained in the reports of external auditors of Eni s Italian subsidiaries; (xiv) examined the organizational structure of the internal audit functions with specific focus on operating audits; (xv) examined the information flows to the Internal Control Committee from the various functions of Eni and its subsidiaries as well as from external auditors.

Compensation Committee
The Compensation Committee, established by the Board of Directors in 1996, is entrusted with proposing tasks with respect to the Board relating to the compensation of the Chairman and CEO as well as of the Board Committees members; examining the indications of the CEO and presenting proposals on: (i) equity based incentive plans; (ii) criteria for the compensation of top managers of the Group; (iii) objectives and results evaluation of performance and incentive plans.
In its meeting of 29 June 2005 the Board approved its new regulation (available on Eni s internet site) and appointed Mario Resca as Chairman.
In 2005, the Compensation Committee met 7 times with an average participation of 96% of its members, and accomplished the following: (i) reviewed the objectives of the 2005 Group Incentive Plan and the performance of 2004; (ii) drafted a proposal to be submitted to the Board of Directors for determining the variable part of the remuneration of the Chairman and CEO based on 2004 performance; (iii) drafted a proposal based on

companies to examine the essential features of 2004 financial statements with specific reference to extraordinary transactions and relations among functions entrusted with controlling

which the Board of Directors requested the Shareholders Meeting to authorize it to

Contents

use treasury shares for servicing stock option and stock grant plans for 2005 (see Stock compensation above); (iv) drafted a proposal submitted to the Board of Directors concerning compensation related to the termination of employment of Eni s former Managing Director Vittorio Mincato; (v) examined the compensation to be attributed to Eni s new CEO Paolo Scaroni, employed by Eni with the function of General Manager, in order to draft a proposal to submit to the Board of Directors; (vi) examined the benchmarks for top management remuneration and reviewed the criteria of the remuneration policy for Group managers, as well as the stock option and stock grant plans in order to draft a proposal to submit to the Board of Directors.

International Oil Committee

The International Oil Committee established by the Board of Directors in 2002, is entrusted with the monitoring of trends in oil markets and the study of their aspects.

In its meeting of 1 June 2005, the Board approved its new regulation (available on Eni s internet site) and appointed Alberto Clô as Chairman of the Committee.

In 2005 the International Oil Committee met 3 times with a 100% participation of its members. The meetings concerned: (i) a plan of activities aimed at analyzing the trends of the oil and gas industry; (ii) an in-depth analysis of China in terms of market prospects and effects on competition in the oil industry; (iii) an analysis of the structure and dynamics of oil and gas markets on which to base the energy scenarios for Eni s strategic plan.

Board of Statutory Auditors and other control entities

Board of Statutory Auditors

The Board of Statutory Auditors, in accordance with article 149 of Legislative Decree No. 58/1998, monitors: (i) the respect of laws and of Eni s memorandum of association; (ii) the respect of the principles of proper administration; (iii) the adequacy of the company s organizational structure for the parts concerning administration and accounting, internal controls and administration and accounting systems as well as its reliability in presenting information properly; (iv) the adequacy of regulations imposed to subsidiaries according to article 114, paragraph 2 of the mentioned monitoring of the proper implementation of corporate governance rules envisaged by the codes of conduct published by the Italian stock exchange and the associations the company belongs to and declares to respect.

The Board of Directors in its meeting of 22 March 2005, in accordance with SEC Rule 10A-3 for foreign companies listed at the New York Stock Exchange, selected the Board of Statutory Auditors to fulfill the role of the audit committee in US companies under the Sarbanes-Oxley Act and other applicable laws, within the limits set by the Italian legislation from 1 June 2005.

On 15 June 2005 the Board of Statutory Auditors approved the regulations for carrying out the functions attributed to the audit committee under US laws. This regulation is published on Eni s internet site.

The Board of Statutory Auditors comprises five auditors and two substitute auditors, appointed by the Shareholders Meeting for a three-year term.

On 27 May 2005, Eni s Shareholders Meeting appointed the following statutory auditors for three years and however until the Shareholders Meeting approving financial statements for fiscal year 2007: Paolo Andrea Colombo (Chairman), Filippo Duodo, Edoardo Grisolia, Riccardo Perotta and Giorgio Silva. Francesco Bilotti and Massimo Gentile are alternate auditors. A curriculum of these auditors is published on Eni s internet site. The same Meeting also determined the yearly compensation for the Chairman of the Board of Statutory Auditors and each Auditor amounting to euro 115,000 and euro 80,000 respectively.

Paolo Andrea Colombo, Filippo Duodo, Edoardo Grisolia and Francesco Bilotti were candidates in the list presented by the Ministry of Economy and Finance; Riccardo Perotta, Giorgio Silva and Massimo Gentile were candidates in the list presented by institutional investors coordinated by Fineco Asset Management SpA.

Statutory Auditors are appointed in accordance with Eni s by-laws with a list vote; at least two auditors and one substitute are chosen from minority candidates. Chairman of the Board is the first candidate of the list that received the highest number of votes. Auditors are autonomous and independent even from the shareholders who elected them. The lists of candidates include a resume of each candidate and are deposited at the company s headquarters at least 10 days before the date of the Shareholders Meeting on first call and are published on national newspapers.

decree. The law on the protection of savings entrusted the Board of Statutory Auditors also with the

Article 28 of Eni s by-laws, consistently with the provisions contained in the Decree of the Minister of Justice No. 162 of 30 March 2000, states that at least two auditors and one substitute auditor are chosen among chartered auditors and must have performed auditing activities for at least three years and that auditors not provided with these requirements must be chosen among those provided with the level of professionalism described in Decree No. 162/2000. For the purposes of said Decree, the by-laws define as related subjects commercial law, corporate economy and finance, engineering and geology. Eni s auditors are all chartered auditors.

Article 28 of Eni s by-laws also prohibits the appointment as statutory auditor of persons that are statutory auditors or members of the supervisory board or members of the control committee of at least five companies listed in regulated markets not subsidiaries of Eni SpA.

Statutory auditors receive in advance of meetings of the Board of Directors adequate and thorough information on all issues subject to Board evaluation and resolutions. Eni s by-laws allow meetings held by teleconference. In 2005 the Board met 22 times with an average participation of 83% of its members.

Based on information received follows information on positions held in other Boards of Directors and Boards of Statutory Auditors of listed companies by members of Eni s Board of Statutory Auditors.

PAOLO ANDREA COLOMBO
Chairman of Partecipazioni italiane SpA; director of Mediaset SpA and SIAS SpA; Chairman of the Board of Statutory Auditors of Saipem SpA and Sirti SpA; auditor of Banca Intesa SpA, Lottomatica SpA and Ansaldo STS.

FILIPPO DUODO
Auditor of Benetton Group SpA.

RICCARDO PEROTTA
Chairman of the Board of Statutory Auditors of Snam Rete Gas SpA and Auditor of Mediaset SpA and Gewiss SpA.

External Auditors

As provided for by Italian laws, external auditors must be a chartered company and are appointed by the Shareholders Meeting. Eni s external auditors, PricewaterhouseCoopers SpA, were appointed by the Shareholders Meeting of 28 May 2004 for a three-year term ending with the Meeting approving financial statements for 2006. revision of audits performed by other auditors that however represent a negligible part of Eni s consolidated assets and revenues.

Eni s external auditors and the companies belonging to their network are not to be appointed to other functions not related to auditing, except in exceptional cases for tasks not prohibited by Consob and the Sarbanes-Oxley Act as approved by the Boards of Directors of Eni Group companies, subject to authorization of the respective Boards of Statutory Auditors. Eni s Board of Statutory Auditors must be informed of the auditing tasks entrusted to external auditors.

Other auditing

The accounts of the parent company Eni SpA are subject also to the review of the Italian Court of Accounts, in the person of the Magistrate delegated to control, Luigi Schiavello (alternate Angelo Antonio Parente).

Significant differences in corporate governance practices as per Section 303A.11 of the New York Stock Exchange Listed Company Manual

Corporate governance standards followed by Italian listed companies are set forth in the Civil Code and in the Legislative Decree No. 58 of 24 February 1998, Single text containing the provisions concerning financial intermediation (Testo unico delle disposizioni in materia di intermediazione finanziaria, the TUF), as well as by the Self-discipline Code of listed companies (the Code) issued by the Committee for corporate governance of listed companies. As discussed below, Italian corporate governance standards differ for certain aspects from NYSE standards.

The civil code and the TUF assign specific binding and irrevocable powers and responsibilities to company s corporate bodies. The Code, based on this regulatory framework, provides recommendations on corporate governance intended to reflect generally accepted best practices. Although these recommendations are not binding, Borsa Italiana SpA requests listed companies to publish an Annual Report on corporate governance which contains, besides a general description of the corporate governance system adopted, also any recommendation that was not followed and the reasons for this choice. Eni adopted the self-discipline code.

Eni s organizational structure follows the traditional Italian model of companies which provides for two main separate corporate bodies, the Board of Directors and the Board of Statutory Auditors to whom are respectively

Financial statements of Eni subsidiaries are audited, mainly by PricewaterhouseCoopers. In order to express its opinion on Eni s consolidated financial statements PricewaterhouseCoopers took the responsibility of the entrusted management and monitoring duties. This model differs from the US unitary model which provides for the Board of Directors as the sole

corporate body responsible for management and, through an audit committee established within the same Board, for monitoring.
Below is a description of the most significant differences between corporate governance practices followed by US domestic companies under the NYSE standards and those followed by Eni.

INDEPENDENT DIRECTORS
NYSE Standards Under NYSE standards listed US companies Boards must have a majority of independent directors. A director qualifies as independent when the Board affirmatively determines that such director has no certain material relationship (commercial, industrial, banking, consultancy, etc.) with the listed company (and its subsidiaries), either directly, or indirectly. In particular, a director is not deemed independent if he/she or an immediate family member has a certain specific relationship with the issuer, its auditors or companies that have material business relationships with the issuer (e.g. he/she is an employee of the issuer or a partner/employee of the auditor). In addition, a director cannot be considered independent in the three-year cooling-off period following the termination of any relationship that compromised a director s independence.
Eni Standards In Italy, the Code recommends that the Board of Directors includes an adequate number of independent non-executive directors in the sense that they: a) do not entertain, directly or indirectly or on behalf of third parties, nor have recently entertained business relationships with the company, its subsidiaries, the executive directors or the shareholder or group of shareholders who controls the company of a significance able to influence their autonomous judgement; b) neither own, directly or indirectly or on behalf of third parties, a quantity of shares enabling them to control the company or exercise a considerable influence over it nor participate in shareholders agreements to control the company; and c) are not immediate family members of executive directors of the company or of persons in the situations referred to in points a) and b). The independence of directors is periodically reviewed by the Board of Directors keeping into account the information provided by the directors themselves. The Code also recommends that to evaluate independence in the case of earlier business dealings, reference should be made to the previous financial year and for work relationships and functions of executive director, to the three preceding financial years.

between the issuer and the director are such to impair the director s independence.
In 2005, Eni s Board of Directors judged that the Chairman and its non-executive members comply with the independence standards, as provided for by the Code. Director Marco Pinto is an employee of the Ministry of Economy and Finance.

MEETINGS OF NON EXECUTIVE DIRECTORS
NYSE Standards Non-executive directors, including those who are not independent, must meet at regularly scheduled executive sessions without management. Besides, if the group of non-executive directors includes directors who are not independent, independent directors should meet separately at least once a year.
Eni Standards Neither Eni s non-executive directors nor Eni s independent directors must meet separately, under the Code s corporate governance rules.

AUDIT COMMITTEE
NYSE Standards Listed US companies must have an audit committee that satisfies the requirements of Rule 10A-3 under the Securities Exchange Act of 1934 and that complies with the further provisions of the Sarbanes-Oxley Act and of Section 303A.07 of the NYSE Listed Company Manual.
Eni Standards In its meeting of 22 March 2005, Eni s Board of Directors, making use of the exemption provided by Rule 10A-3 for non-US private issuers, has identified the Board of Statutory Auditors as the body that, starting from 1 June 2005, is performing the functions required by the SEC rules and the Sarbanes-Oxley Act to be performed by the audit committees of non-US companies listed on the NYSE (see paragraph Board of Statutory Auditors earlier). Under Section 303A.07 of the NYSE listed Company Manual audit committees of US companies have further functions and responsibilities which are not mandatory for non-US private issuers and which therefore are not included in the list of functions shown in the paragraph referenced above.

NOMINATING/CORPORATE GOVERNANCE COMMITTEE
NYSE standards US listed companies must have a nominating/corporate governance committee (or equivalent body) composed entirely of independent directors that are entrusted, among others, with the responsibility to identify individuals qualified to become

The Code provides for a qualitative evaluation, that considers the whole of the relationships held, in order to check as the case may be if the existing relationships

board members and to select or recommend director nominees for submission to the shareholders meeting, as well as to develop and recommend to the Board of Directors a set of corporate governance guidelines.

Eni Standards This provision is not applicable to non-US

Contents

private issuers. The Code allows listed companies to have within the Board of Directors a committee for directors nominees proposals, above all when the Board of Directors detects difficulties in the shareholders submission of nominees proposals, as could happen in publicly-owned companies. Eni has not set up a nominating committee, considering the nature of its shareholding as well as the circumstance that, under Eni by-laws, directors are appointed by the Shareholders Meeting based on lists presented by shareholders or by the Board of Directors.

Shareholders Meetings

The Shareholders Meeting is the institutional meeting point of shareholders and the management of the company. During meetings shareholders can request information on issues in the agenda and on the general management of the company. Information is provided within the limits of confidentiality of price sensitive information.

The ordinary Shareholders Meeting performs the functions described in article 2364 of the Civil Code and the extraordinary Shareholders Meeting the ones described in article 2365, besides the others provided for by other laws.

With the aim of facilitating the attendance of shareholders, calls for meetings are published on Italian and foreign newspapers, Eni s by-laws allow vote by correspondence and the collection of powers of attorney in articles 13 and 14. On 4 December 1998 Eni approved a regulation for its meetings, available on Eni s internet site, in order to guarantee an efficient deployment of meetings, in particular the right of each shareholder to express his opinion on the items in the agenda.

Eni s shareholders

Eni SpA s share capital at 31 December 2005 amounted to euro 4,005,358,876, fully paid and was represented by 4,005,358,876 ordinary shares of nominal value euro 1 each. Shares are not divisible and give right to one vote. Shareholders can exercise the rights provided by the law.

Based on information available and received in accordance with Consob Decision No. 11971/1999, as of 31 December 2005, shareholders holding more than 2% of Eni s share capital were:

Shareholders	Shares held	% of capital
Ministry of Economy and Finance	813,443,277	20.31
Cassa Depositi e Prestiti SpA	400,288,338	9.99
Eni SpA (own shares)	278,013,975	6.94

Shareholders by area

Shareholders	Number of shareholders	Number of shares [(1)]	% of capital
Italy	261,174	2,543,555,459	63.52
UK and Ireland	963	93,619,599	2.34
Other EU	3,977	495,123,921	12.36
USA and Canada	1,552	192,803,507	4.81
Rest of world	1,783	304,605,396	7.61
Own shares at the dividend date		244,488,113	6.11
Other	n.a.	130,263,881	3.25
Total	**269,449**	**4,004,459,876**	**100.00**

(1) At the dividend payment date, 23 June 2005 (ex-dividend date was 20 June 2005).

Contents

Shareholders by amount of shares held

Shareholders	Number of shareholders	Number of shares [1]	% of capital
>10%	1	813,443,277	20.31
3%-10% [2]	3	680,861,792	17.00
2%-3%			
1%-2%	7	406,360,994	10.15
0.5%-1%	9	271,287,295	6.77
0.3%-0.5%	14	208,487,474	5.21
0.1%-0.3%	44	300,548,130	7.51
≤0.1%	269,371	948,718,920	23.69
Own shares at the dividend date		244,488,113	6.11
Other	n.a.	130,263,881	3.25
Total	**269,449**	**4,004,459,876**	**100.00**

(1) At the dividend payment date, 23 June 2005 (ex-dividend date was 20 June 2005).

(2) Shareholders Banca d Intermediazione Mobiliare Imi and Banca Primavera informed that they reduced their interests below the 2% threshold (from 3.60 to 1.50% and from 3.41 to 0.48%, respectively).

Special powers of the State - golden share

Under article 6.1 of Eni s by-laws only the Italian State can hold shares representing more than 3% of Eni s share capital. When this limit is exceeded, exceeding shares do not entail voting rights.

Eni s by-laws in article 6.1, modified by the Board of Directors in its meeting of 15 April 2005, attribute to the Minister for Economy and Finance, in agreement with the Minister of Productive Activities, the following special powers to be used in compliance with the criteria indicated in the Decree of the President of the Council of Ministers of 10 June 2004: (a) opposition to the acquisition of material interests representing 3% of the share capital of Eni SpA having the right to vote at ordinary Shareholders Meetings. This must be communicated, if the transaction is considered of prejudice to vital interests of the State, at least ten days after the communication that Eni s directors are expected to make to the Minister when the new shareholder is entered in the record; (b) opposition to shareholders agreements or other arrangements (as defined by article 122 of Legislative Decree No. 58 of 24 February 1998) involving 3% or more of the share capital of Eni SpA having the right to vote at ordinary Shareholders Meetings; (c) veto power duly motivated by the case of prejudice to the interests of the State with respect to Law No. 266 of 23 December 2005 (Budget Law) in article 1 paragraphs from 381 to 384 in order to favor the process of privatization and the diffusion of investments in companies held also by the State, introduced the option to include in the by-laws of companies formerly owned by the State, as Eni SpA, regulations against takeovers, which in particular provide for the issue of shares and financial instruments also at nominal value with the right to vote at ordinary and extraordinary Shareholders Meetings in favor of one or more shareholders identified also in terms of the number of shares held. The introduction of these norms, also subject to approval by the EU, will cause the cancellation of the above mentioned special powers of the State contained in article 6.2 of Eni s By-laws.

Law on the protection of savings

As concerns corporate governance aspects, the law on the protection of savings in force from 12 January 2006 among other things:

- sets new independence and honorability requirements for directors of listed companies;
- introduces the list vote for the election of directors as a protection of minority shareholders and delegates to Consob the power to regulate the appointment of a statutory auditor by minority shareholders. The law states that shareholders representing at least 2.5% of share capital can present a list. Eni s by-laws establish the list vote for directors and statutory auditors and set

shareholders resolutions to dissolve Eni SpA, to cause a transfer, merger or demerger, to transfer the registered office of Eni SpA outside Italy, to change the corporate purposes or to amend or modify any of the special powers described in this section; (d) appointment of a Board member without voting right.

this threshold at 1% of share capital;

- delegates to Consob the determination of the limits to the number of memberships of Boards of Directors and Boards of Statutory Auditors that directors and

auditors of listed companies can hold in other listed companies;
- states that the chairman of the Board of Statutory Auditors must be elected among the candidates of the minority list. Eni s by-laws will be amended to implement this new rule;
- introduces the function of a Manager responsible for the preparation of financial reporting documents subject to authorization of the Board of Statutory Auditors to be appointed in accordance with the company s by-laws, that must be amended within twelve months from the entry into force of the law.

Internal controls

Eni is aware that financial information plays a crucial role in the functioning of capital markets and in the creation and maintenance of satisfying relationships between the company and its increasingly wide area of stakeholders. Eni is also aware that investors trust in listed companies is one of the essential elements for the functioning of global economy. Investors must be able to rely on the absolute moral integrity of the persons responsible of key positions in companies and on their respect of corporate codes of conduct, procedures and rules.

Eni s Code of Conduct identifies the fundamental values for the deployment of its activities in the completeness and transparency of information, the formal and substantial legitimacy of behavior of its employees at any organizational level and the clarity and truthfulness of its accounting, in accordance with laws and regulations in force.

As concerns internal controls, Eni s policy consists in disseminating at all levels a culture characterized by the awareness of the existence of controls and a control oriented mentality. Employees must have a positive attitude towards controls since the latter provide a positive contribution to the improvement of efficiency. The responsibility for establishing an efficient system of internal controls is shared by all levels of the organization, therefore all Eni employees in the functions they perform are responsible for the definition and proper functioning of controls. Within their competence, all managers must be part of corporate control systems and are expected to inform their employees. The Code of Conduct also states that accounting transparency is based on the truthfulness, accuracy and completeness of the information contained in official records that must reflect the supporting materials, easily traceable and ordered according to logical methods, that favor the identification reconstruction of transactions. The internal audit function and external auditors have free access to data, documents and information required for the performance of audit tasks.

Eni s internal control system on financial information has been designed with the aim of providing investors and markets with truthful, complete and timely information. The Board of Directors determines the guidelines for the internal audit process and verifies the adequacy and functioning of the management of major corporate risks. In performing these tasks, the Board of Directors is assisted by the Internal Control Committee; in particular the regulation of the Internal Control Committee states that the Committee assists the Board in the performance of the tasks related to: (i) defining the guidelines for the company s internal control systems; (ii) periodically checking their effectiveness and proper working; (iii) controlling that the main risks are recognized and managed properly .

As concerns the administrative and accounting procedures for the preparation of statutory and consolidated financial statements and any other form of financial reporting that is to be prepared by the Manager in charge of the preparation of financial reporting documents according to art. 154 bis of Legislative Decree 58/1998 included in the law on the protection of savings, Eni already approved regulations for the preparation of financial statements of Group companies and the collection of information necessary for quarterly and yearly reports in accordance with generally accepted accounting standards, ensuring also uniformity of behavior, an essential element for the provision of proper information on the Group.

These procedures concern in particular: (i) the Group s general accounting plan, which includes also statutory and reclassified tables[4] (profit and loss account, balance sheet, statements of cash flows) and tables connecting each account to a single line item in the aforementioned tables; (ii) Group norms for the preparation of annually and quarterly consolidated financial statements which define: (a) principles of consolidation; (b) scope of consolidation; (c) criteria for recognition of assets, liabilities, revenues and

(4) Summarized tables are used in the directors operating and financial reviews.

expenses; (d) statements of profit and loss account, balance sheet and cash flow; (e) principles for the preparation of the directors report and notes to the financial statements; (f) principles for the preparation of financial statements on Form 20-F[5]; (g) principles for the preparation of quarterly reports.

Group norms are published in a section of Eni s intranet site called Lince, which contains all these norms and guidelines on administrative, financial, fiscal, and corporate matters and is accessible to most Eni employees.

Quarterly reports and consolidated financial statements are prepared by means of the unified integrated reporting system MASTRO (Management and Statutory Reporting Object) which represents the information platform for Eni companies included in consolidation. The system is provided with safety measures and automatic controls that ensure consistency of information input by individual companies and at Group level.

From 2003 Eni implemented a comprehensive project for monitoring and updating its control on financial reporting in order to check its compliance with the norms of Section 404 of the Sarbanes-Oxley Act applicable to Eni as foreign private issuer in force from 2006. This deadline has been considered as an opportunity for improving the existing system and within this process Eni published a regulation on disclosures controls and procedures.

A relevant role in Eni s internal control system is played by the Internal Audit function, directly reporting to the CEO[6].

Among the tasks entrusted to the internal audit function are: (i) updating the risk assessment system in order to plan auditing, control and monitoring activities as defined by the Model for organization, management and control according to Legislative Decree No. 231/2001 ; (ii) implementing the auditing and monitoring plan and performing any required activities not included in the plan; (iii) keeping proper relations and information flows with the Internal Control Committee and the Board of Statutory Auditors; (iv) performing the necessary activities for the appointment of external auditors, (v) keeping relations with external auditors.

The Internal Control Committee and the Board of Statutory Auditors evaluate the auditing plan and the results of auditing activities. The watch structure created under Legislative Decree No. 231/2001 approves the auditing plan and evaluates the results of auditing activities.

Legislative Decree No. 231/2001

In the meetings of 15 December 2003 and 28 January 2004 the Board of Directors approved a Model for organization, management and control according to Legislative Decree No. 231/2001 which defines and regulates the administrative responsibility of persons, companies and partnerships, according to article 11 of Law No. 300 of 29 September 2000 and established a watch structure. The principles of the 231 model are published on Eni s internet site. The criteria for the preparation of this model are those included in a guidebook prepared by Confindustria. The model was transmitted to all Group companies for application.

Investor relations and information processing

In concert with the launch of its privatization process, Eni adopted a communication policy, confirmed by the Code of Conduct, aimed at promoting an ongoing dialogue with institutional investors, shareholders and the markets to ensure systematic dissemination of exhaustive complete, transparent, selective and prompt information on its activities, with the sole limitation imposed by the confidential nature of certain information. Information made available to investors, markets and the press is provided in the form of press releases, regular meetings with institutional investors and the financial community and the press, in addition to general documentation released and constantly updated on Eni s internet site. Investor and shareholder relations are handled by special Eni functions.

Relations with investors and financial analysts are held by the Investor Relations office. Information is available on Eni s web site and can be requested to the investor.relations@eni.it mailbox.

---

(5) Eni shares in the form of ADRs are listed at the New York Stock Exchange, that requires Eni to file Form 20-F with the SEC. In this form the company has to prepare financial statements in accordance with accounting principles generally accepted in the United States. For facilitating comparisons Eni also includes this information in the notes to its consolidated financial statements.

(6) Until 30 June 2005, this function reported directly to the Chairman. The Chairman and the CEO jointly supervise this activity and make decisions related to the appointment of the manager responsible for this function and his direct collaborators.

Contents

Relations with the press are held by the Relations with the press unit.
Relations with shareholders are held by the Corporate Secretary office. Information is available on Eni s web site and can be requested to the segreteriasocietaria.azionisti@eni.it mailbox and the toll-free number 800940924 (Outside Italy 80011223456).
Information regarding periodic reports and major events/transactions is promptly released to the public, also through the internet site. A specific section of Eni s site contains all press releases, procedures concerning corporate governance, presentations provided in meetings with the press and financial analysts, notices to shareholders and bond holders and information concerning shareholders and bond holders meetings, including proceeds thereof. Documents available to the public free of charge are mailed on request.
On 28 February 2006, Eni s Board of Directors updated the Procedure for the disclosure of information to the market concerning Group activities approved on 18 December 2002 and published on Eni s internet site. The procedure acknowledges Consob guidelines and the Guidelines for information to the market issued in June 2002 by the Ref Forum on company information and those included in the laws implementing the European directive on market abuse, defines the requirements for disclosure to the public of price sensitive events (materiality, clarity, homogeneity, information symmetry, consistency and timeliness) and the information flows for acquiring data from Group companies and providing adequate and timely information to the Board and the market on price sensitive events. It also contains sanctions applied in case of violation of its rules in accordance with the crimes identified and sanctioned by the new law on the protection of savings.
Eni s Code of Conduct defines confidentiality duties upheld by Group employees relating to the treatment of sensitive information.

Internal dealing

On 28 February 2006 the Board of Directors approved a procedure concerning the creation and updating a register of persons with a right to access privileged information at Eni, as provided for by art. 115 of Legislative Decree No. 58 of 24 February 1998 which states that listed issuing companies and the subjects who the persons that, due to their professional activity or functions performed have access to information as described in article 114 (privileged information) . The procedure implementing Consob Decision No. 11971/1999, as amended, defines: (i) terms and procedures for the recording and possible cancellation of the persons that, due to their professional activity or functions performed on behalf of Eni, have access to privileged information; (ii) terms and procedures of information of said persons of their recording or cancellation and relevant reasons. The procedure is in force from 1 April 2006.
In the same meeting the Board approved the Internal dealing procedure for the identification of relevant persons and the communication of transactions involving financial instruments issued by Eni SpA and its listed subsidiaries, which substitutes the Internal Dealing Code approved by the Board on 18 December 2002.
The procedure implements the provisions of article 114, paragraph 7 of Legislative Decree No. 58 of 24 February 1998 which states that subjects performing administration, control or management activities for a listed issuer and managers having regular access to privileged information as per paragraph 1 and having the power to make operating decisions that can affect the development and future situation of the issuer and whoever holds shares corresponding to at least 10% of the company s share capital and any other person controlling the issuer are obliged to inform Consob and the market of any transaction involving financial instruments issued by the issuer, also when performed by others on their behalf. This communication is due also by spouses not legally separated, children, parents, relatives living with the subject and in the other cases indicated by Consob in implementation of Directive 2004/72/CE of the European Commission. Eni s procedure: (i) identifies relevant persons: (ii) defines the transactions involving financial instruments issued by Eni SpA; (iii) determines the terms and conditions for the disclosure to the public of such information; (iv) reports the sanctions introduced by the law for the case of non compliance. The procedure in force from 1 April 2006 is published on Eni s internet site.

Transactions with related parties

In the ordinary course of its business, Eni enters into transactions concerning the exchange of goods, have a control relation with them, or acting in their name, must establish and regularly update a register of

provision of services and financing with related parties as defined by IAS 24. These include non consolidated

Contents

subsidiaries and affiliates as well other companies owned or controlled by the Italian Government. All such transactions are conducted on an arm s length basis and in the interest of Eni companies.

Directors, general managers, managers with strategic responsibilities disclose every six months any transactions with Eni SpA and its subsidiaries that require disclosure under IAS 24.

Amounts and types of trade and financial transactions with related parties are described in Note 32 to the consolidated Financial Statements.

Follow the tables included in the Handbook for the preparation of the report on corporate governance issued by Assonime and Emittente Titoli SpA in March 2004.

Contents

Structure of the Board of Directors and its Committees

Board of Directors							Internal Control Committee		Compensation Committee		International Oil Committee	
Members		executive	non executive	independent	% attendance (1)	other appointments (2)	members	% attendance (1)	members	% attendance (1)	members	% attendance (1)
Chairman												
Roberto Poli			X	X	100	6			X (3)	100		
CEO												
Paolo Scaroni	01.06-31.12	X			100	5					X	100
Vittorio Mincato	01.01-27.05	X			100						X	100
Directors												
Alberto Clô (*)			X	X	86	4	X	79			X	100
Renzo Costi (*)			X	X	71		X	71	X (4)	83		
Dario Fruscio			X	X	71						X	100
Marco Pinto	28.05-31.12		X		100		X	86	X	100		
Marco Reboa (*)	28.05-31.12		X	X	92	7	X	100			X	100
Mario Resca			X	X	81	3			X	100		
Pierluigi Scibetta	28.05-31.12		X	X	100	1	X	100	X	100		
Mario Giuseppe Cattaneo (*)	01.01-27.05		X	X	88		X	100				
Guglielmo Moscato	01.01-27.05		X	X	88		X	100			X	100

	Board of Directors	Internal Control Committee	Compensation Committee	International Oil Committee
Number of meetings in 2005	21	14	7	3
01.01-27.05	8	7	2	2
28.05-31.12	13	7	5	1

(*) Designated by the minority list.

(1) For the directors appointed by the Shareholders Meeting of 27 May 2005, the percentage was determined based on the numbers of meetings held during membership.

(2) Appointments as director or statutory auditor in other listed companies, also outside Italy.

(3) From 1 January to 27 May.

(4) From 1 January to 27 May and from 14 June to 31 December.

The Code suggests the creation of a Nomination Committee in the companies with shares held widely by the public, especially when the Board notices that shareholders find it difficult to prepare proposals for appointments. This committee has not been formed in consideration of the shareholding characteristics of Eni and of the fact that Directors are appointed on the basis of candidate lists submitted by shareholders or by the Board of Directors.

Contents

Board of Statutory Auditors

Members		% attendance [1] Meetings of the Board of Directors	% attendance [1] Meetings of the Board of Statutory Auditors	Number of other appointments [2]
Chairman				
Paolo Andrea Colombo [3]		90.4	91	8
Andrea Monorchio	01.01-27.05	87.5	78	
Auditors				
Filippo Duodo		90.4	82	1
Edoardo Grisolia	28.05-31.12	69.2	69	
Riccardo Perotta [*]		85.7	91	3
Giorgio Silva [*]	28.05-31.12	100.0	77	
Luigi Biscozzi [*]	01.01-27.05	87.5	78	
Number of meetings in 2005		21	22	
01.01-27.05		8	9	
28.05-31.12		13	13	

(*) Designated by the minority list.

(1) For the auditors appointed by the Shareholders Meeting of 27 May 2005, the percentage was determined based on the numbers of meetings held during membership.

(2) Appointments as director or statutory auditor in other listed companies.

(3) Chairman from 28 May 2005, formerly statutory auditor.

For presenting a list, the shareholder or group of shareholders must hold at least 1% of voting shares in an ordinary shareholders meeting.

Contents

Other information to be disclosed under the Self-discipline Code

	Yes	No
System of delegated powers and transactions with related parties		
The Board of Directors delegated powers defining:		
a) limitations	X	
b) exercise	X	
c) periodicity of information	X	
The Board of Directors reserved examination and approval of relevant transactions (including transactions with related parties)	X	
The Board of Directors defined guidelines for identifying relevant transactions	X	
Such guidelines are described in the report	X	
The Board of Directors defined procedures for examination and approval of transactions with related parties		X (*)
Such procedures are described in the report		X (*)
Procedures for the latest appointment of Directors and Statutory Auditors		
Lists of candidate directors were deposited at least 10 before the date set for appointment	X	
Lists were accompanied by sufficient information on candidates	X	
Candidates to the role of director disclosed information that qualified them as independent	X	
Lists of candidate auditors were deposited at least 10 before the date set for appointment	X	
Lists were accompanied by sufficient information on candidates	X	
Meetings		
The company approved regulations of meetings	X	
The regulations are attached to the report (indication of where to find it online is provided)	X	
Internal Control		
The company appointed persons responsible for internal control	X	
Such persons do not report to managers of operating divisions	X	
Internal office responsible of internal control (art. 9.3 of the code)	Internal Audit	
Investor relations		
The company appointed an investor relations manager	X	
Information on investor relations manager (telephone, address, e-mail) and unit	Investor Relations (**)	

(*) Procedures will be prepared after the publication by Consob of the general principles as per art. 2391 bis of the Civil Code introduced by Legislative Decree No. 310 of 28 December 2004.

(**) Eni SpA - Piazza Vanoni, 1 - San Donato Milanese (Milan) 20097 Italy - Tel. 02 52051651 - Fax 02 52031929.

Contents

Commitment to sustainable development

INTRODUCTION

Eni is aware that the creation of value in the medium-long term requires an effective management of relations with stakeholders. Since 2001 Eni has been supporting the Global Compact initiative of the United Nations, aimed at promoting corporate policies and practices oriented to sustainability by sharing and implementing ten basic principles concerning human rights, labor standards, environmental protection and the fight against corruption. In 2005 Eni continued to promote corporate practices in line with these principles. With respect to transparency, Eni supported the introduction of the tenth principle and upheld the Extractive Industries Transparency Initiative (EITI) that unites governments, international financial institutions, energy companies and Non Governmental Organizations (NGO) with the aim of making revenue flows from extractive industries transparent.

Contents

HUMAN RESOURCES AND ORGANIZATION

Foreword

The centrality of persons, their safeguard and enhancement are a crucial value in Eni s culture and one of the key factors for the creation of sustainable value in the long term.
Eni s main objectives for its human resources are the following:
(i) to guarantee safety and health of employees and contractors;
(ii) to plan human resources management and development initiatives oriented to the medium and long term consistent with the features of the industry but adequate to the promotion of individual career paths;
(iii) to attract the best resources at domestic and international level through intense relations with universities and research centers, actively contributing to the education and training of young generations;
(iv) to develop and share know-how through the systematization and dissemination of knowledge and best practices for operating processes;
(v) to manage international human resources with homogeneous tools in the respect of local laws and cultures;
(vi) to obtain significant results in the field of industrial relations both locally and internationally;
(vii) to attain the greatest effectiveness from internal communication and training activities.

Workforce

At 31 December 2005, Eni s employees were 72,258 with an increase of 1,910 employees from 31 December 2004, or 2.7%, reflecting a 2,479 increase in employees hired and working outside Italy and a 569 decline in employees hired in Italy.
Employees hired in Italy were 40,192 (55.6% of all Group employees), of these 37,493 were working in Italy, 2,480 outside Italy and 219 on board of vessels. As compared to 2004, the 569 unit decline in employees was due mainly to changes in consolidation (723 employees, due to the divestment of the water business, IP and technical services at Porto Marghera) offset in part by

Employees at year-end (units)	2003	2004	**2005**	Change	% Ch.
Exploration & Production	7,492	7,477	**7,491**	14	0.2
Gas & Power	12,982	12,843	**12,324**	(519)	(4.0)
Refining & Marketing	13,277	9,224	**8,894**	(330)	(3.6)
Petrochemicals	7,050	6,565	**6,462**	(103)	(1.6)
Oilfield Services Construction and Engineering	25,583	25,819	**28,684**	2,865	11.1
Other activities	6,380	4,983	**4,638**	(345)	(6.9)
Corporate and financial companies	2,657	3,437	**3,765**	328	9.5
	75,421	**70,348**	**72,258**	**1,910**	**2.7**

the positive balance of persons leaving their job and new hirings and net transfers from unconsolidated subsidiaries.

The process of improvement in the quality mix of employees continued in 2005 with the hiring of 2,099 persons, of which 727 with open-end contracts. A total of 1,372 persons were hired with this type of contract and with apprenticeship contracts, most of them with university qualifications (800 persons of which 509 are engineers) and 533 persons with a high school diploma. During the year 2,027 persons left their job at Eni, of these 1,438 had an open-end contract and 589 a fixed-term contract.

Employees hired and working outside Italy at 31 December 2005 were 32,066 (44.4% of all Group employees), with a 2,479 persons increase due to the positive balance of new hirings with open-end contracts and persons leaving their job in Saipem and Snamprogetti (2,639 employees) and the negative balance (160 persons) of persons leaving the job and new hirings with open-end contracts in the rest of the Group.

Organization

Studies have been started for the restructuring of the orientation and control functions of the corporate department, now responsible for orienting and coordinating service subsidiaries. Following the merger of EniData SpA and Italgas Più SpA into Eni, all operating activities have been integrated.

Human resources management and development

The major initiatives of 2005 in the area of human resources management and development were:

(i) introduction of change management plans in order to support the improvement of internal control systems;

(ii) implementation of a plan for the rejuvenation of managers at all levels;

(iii) introduction of an innovative operating tool for the support of incentive policies for junior managers aimed at enhancing professionalism and guaranteeing internal fairness and competitivity with reference markets;

(iv) introduction of apprenticeship contracts in all operating units of the Group aimed at training and developing industry-typical skills through training on the job and skilled qualification supplied by internal experts and technicians;

(v) enhancement of the tools for the evaluation of the development potential of resources, coupling the appraisals made at (hierarchical and functional) line level with those performed by external experts. These activities were addressed to key managers, developing young managers and newly recruited graduates. The appraisal reports collected have been included in the management reviews at division and company level and allowed to implement consistent mobility, development and training programs;

(vi) at international level an in-depth analysis has been started of pension schemes existing in other countries, as a basis for an eventual standardization in the light of local and industry-wide situations;

(vii) updating of the procedures for the management of internationally assigned employees consistent with the best practices applied worldwide;

(viii) continuation of training initiatives directed to high potential international resources.

Equal opportunities and management of diversity

In compliance with national laws and following the recommendations of the European Union for the protection of the dignity of persons, Eni is committed to promote actions aimed at the identification and related elimination of obstacles to equal opportunities in access

to jobs and careers.
Within its policy for equality of opportunities, Eni applies all the laws and regulations that protect

90

Contents

handicapped persons and other socially disadvantaged groups and promotes actions for favoring their entry into the company.
With over 45% of its employees of non Italian nationality, Eni has always considered diversity as an element that generates value and the ability in managing it as a key factor for success. In the countries where it operates Eni promotes the development of skills of local human resources and the construction of a shared culture by means of training initiatives oriented to the understanding of intercultural diversity, intercultural communication and multicultural teamwork, initiatives that have been performed also within the European Works Council with the active participation of workers unions.

Health

Activities for the protection of health aim at improving general work conditions and are developed according to three main principles:
(i) protection of employees health;
(ii) prevention of accidents and professional diseases;
(iii) promotion of healthier behaviors and life styles in workplaces.
In 2005 over approximately euro40 million have been invested in the protection of health.
In Italy, health surveillance is performed in each operating unit through a network of health centers and by means of medical examinations, controls and monitoring campaigns for the major physical, chemical and biological risk agents. The health of employees outside Italy is protected likewise, in many cases integrating the typical activities of medicine on the workplace and first aid with the activities dedicated to primary health care extended also to family members and in many cases also to local communities.
Eni has a network of 339 own health care centers located in its main operating areas of these 241 centers are outside Italy and are managed by local staff (322 doctors and 384 nurses). A set of international agreements with the best local and international health centers guarantees efficient service and timely reactions to emergencies.
In 2005 Eni boosted its E-medicine program aimed at increasing the quality of health care provided to employees and to health operators in Italy and outside Italy, that integrates computerized technologies and advanced telecommunication systems. The program (ii) telemedicine, a project oriented mainly to health care outside Italy, but open also to Italian industrial sites, based on contacts with highly qualified health centers worldwide and capable of providing real time consultation. This project is operating in Congo and Nigeria and in 2005 has been extended to four sites in Libya.
(iii) e-learning, this project provides access to continuous training programs in the field of health to Eni s health operators in Italy and outside Italy by means of remote learning devices.
For its employees Eni started a program of prevention, both through information campaigns and by means of screening procedures and direct actions accessed on a voluntary basis. The areas concerned are:
(i) prevention of cancer;
(ii) prevention of cardiovascular diseases;
(iii) prevention of certain infective diseases.
In the first area, following the guidelines of the Italian national health plan and based on agreements with the Italian League against cancer and with a number of hospitals, Eni started an early diagnosis plan for employees in all its Italian sites. At 31 December 2005 a total of 46 sites were taking part in the program with about 4,000 employees subjected to tests for cancer prevention, for a total of about 9,000 interventions.
Eni continued its campaign for the prevention of strokes in cooperation with the Additional Health Fund of Eni employees to which about 7,000 employees participated. A program for the identification of heart failure risk has been launched with the cooperation of the medical fund managed by workers unions.
In the area of prevention of infective diseases, Eni continued its campaign for vaccination against flu that is widely followed by employees.
Outside Italy Eni promoted specific information campaigns for the protection of its employees, their families and local communities, such as those for the prevention of malaria (in Nigeria and Azerbaijan) and the prevention of HIV transmission (in Nigeria and Congo). In 2004 Saipem issued a corporate HIV-AIDS Policy that aims at implementing a Program for the prevention of sexually transmitted diseases and HIV-AIDS. Among the guidelines of this program, such as health measures for preventing risk situations, we wish to stress the following principles:

includes three projects:
(i) health card, on line access to health data of employees by means of an electronic card provided first to groups of employees outside Italy, that will be progressively extended to all employees;

- no discrimination of HIV positive employees both on the work place and in social situations;
- respect for the privacy of all persons involved, according to laws in force and deontological ethics.

For employees hired in Italy and working outside Italy, Eni has a specific program that includes:
- an initial medical examination;
- vaccinations and administration of prophylactic drugs as suggested by international health organizations and indicated for each individual situation;
- detailed information on life and work conditions in the host country, including specific environmental risks and local medical-epidemiological issues;
- health care outside Italy through agreements with local public and private health centers or provided by Eni s own health centers.

Safety

Eni is strongly committed to adopting a preventive approach to safety in order to reduce the occurrence of accidents and their consequences. Operations are managed with a special focus on the safety of workers, contractors and local communities. In line with international best practice, safety, prevention and work hygiene include:
(i) identification of dangers, evaluation and reduction of risks related to the deployment of work activities;
(ii) development and implementation of monitoring measures;
(iii) investigation and analysis of accidents and near misses in order to learn from them and increase the ability to prevent and mitigate risks.

In 2005, expenditure for safety on the workplace amounted to euro391 million, 57% of which were for new capital expenditure and the remaining share was dedicated to current expenses.

Training and development

Eni considers training one of the strong points of the management of human resources.

The number of hours dedicated to training and the number of employees participating in training initiatives are evidence of Eni s significant commitment in Italy and outside Italy.

In 2005 in Italy a total of 1,178,943 training hours were provided to a total of 24,876 employees (1,322 managers, 5,023 junior managers, 12,265 employees and 6,266 workers) for a total of 103,151 participations.

In 2005 expenditure for training amounted to euro22 million.

Given the strategic value attributed to training and development, Eni established its own internal training structure capable of providing an optimal match between the company s strategies and the development of skills with the aim of matching the quality of human resources with corporate strategies, covering the whole cycle of knowledge, from the planning of requirements for critical skills to the construction of partnerships with universities for the creation of integrated academic courses, up to the selection of new talents and their training along their whole professional life cycle. Eni Corporate University was established to cover the fields of orientation, personnel selection, training and knowledge management and represents the institutional contact center with the network of academics in Italy and in the world for the development and dissemination of Eni s corporate culture.

92

An important part of Eni Corporate University s activity is performed by the Scuola Mattei, a post-graduate school for economics, energy and the environment open to students form all over the world.

Industrial relations

Industrial relations within a consolidated and structured system represented and efficient and consistent support to the Group s strategic choices and to the completion of reorganization processes underway. With Italian workers unions Eni defined four-year agreements concerning bonuses to be paid to workers in relation to company revenues (from 2004 to 2007) in the main segments where Eni is active. As for the renewal of expiring collective contracts (for the segments of energy and oil, chemicals and gas-water) negotiations between workers unions and companies organizations are underway.

Internationally, the yearly meeting of Eni and the International Federation of Chemical, Energy, Mine and General Workers Union, promoted by the agreement on international industrial relations and on corporate social responsibility, highlighted some of Eni s best practices in Kazakhstan and Egypt.

RESPONSIBILITY TOWARDS THE ENVIRONMENT

Foreword

Eni is aware of the strategic relevance of the prevention of and protection from risks of environmental contamination for the creation of sustainable value and as a contribution to sustainable development.
In this context Eni is committed to finding innovative solutions in the field of energy and environmental sustainability and intends to play an active role by:
(i) selecting initiatives to respond to climate change in the respect of the mechanisms and criteria of the Kyoto Protocol;
(ii) supplying markets with fuels with low carbon intensity, expanding in natural gas;
(iii) developing the integration of natural gas and power generation;
(iv) developing more efficient technologies for hydrogen production and for the geological separation and confinement of CO_2.
Eni is committed to reducing its energy consumption and related emissions in the atmosphere, to reducing its consumption of water and its creation of waste.
In the area of ground protection Eni is actively promoting the clean-up of its operating sites and the reclaiming of the inactive ones with the aim of remediating industrial areas.

Strategies for the environment

Implementation of the Kyoto protocol and use of flexible mechanisms and participation in the emission trading

For the mitigation of climate change from 1 January 2005 in Europe and in Italy the European Scheme of Emission Trading (ETS) has been started that is targeted to industrial installations with high CO_2 emissions. Eni is part in this scheme with 61 plants in Italy and 2 outside Italy, which collectively represent about a third of all greenhouse gas emissions generated by Eni s plants worldwide. In order to play an active role in the ETS Eni:
(i) prepared a methodological and organizational protocol for the accounting of greenhouse gas emissions;
(ii) implemented a database for a precise evaluation of emissions;
(iii) evaluated the compliance of existing monitoring and reporting systems in plants in order to identify improvement requirements;
(iv) defined a system for balancing emissions from individual plants and business units in order to guarantee the payback of emission rights due.
Eni is also upgrading its ongoing program for the reduction of energy consumption and related CO_2 emissions.
In addition to participating to the ETS system (for more detailed information on emission trading see Note 24 to Eni s financial statements below), Eni is developing a portfolio of projects for the reduction of emissions based on the flexible mechanisms devised by the Kyoto Protocol (clean development mechanism - CDM and on joint implementation - JI). Eni presented to the CDM Executive Board its power generation unit of Kwale in Nigeria that exploits associated gas formerly flared and generates a reduction in greenhouse gas emissions corresponding to 1.5 million tonnes CO_2/year. At the same time, Eni is carrying out other CDM projects and is studying opportunities in JI in the most promising countries for this kind of project.

Contents

In the medium and long term, Eni s main development plans concern CO_2 confinement in geological formations and the development of biomasses as energy sources.

Development of low environmental impact energy sources
Eni is committed to developing activities in the field of natural gas and enhancing relevant transport infrastructure. Natural gas can represent a strategic response to the problems posed by the interrelations of energy/development/environment. With the same volumes of energy employed, the amount of carbon dioxide produced by burning natural gas is 25-30% less than that produced by burning oil-based fuels and 40-50% less than that produced by burning coal.
As a support to its general commitment to a reduction in greenhouse gas emissions, in the past few years Eni has started a significant program of expansion in the field of natural gas and intends to increase its role in gas marketing in Europe and in the area of LNG, also aimed at better exploiting its natural gas reserves in West and North Africa, the Far East and Central America. In this context Eni developed a few advanced projects, among which:
(i) the Blue Stream gasline (Eni s interest 50%), completed in 2002 that links Russia to Turkey across the Black Sea and represents the technologically most advanced pipeline in ultra deep waters, with its pipes laid at a maximum depth of 2,150 meters;
(ii) the Greenstream gasline (Eni s interest 75%) completed in 2005 and linking Libya to Italy.

Power generation by means of combined cycle plants
Through its subsidiary EniPower, Eni is a leading operator on the Italian market of power generation and is carrying out a relevant capital expenditure plan for enhancing its generation capacity through combined cycle plants. These plants are fired with natural gas and generate at the same time electricity and heat, allowing relevant energy savings and reducing environmental impact.

Protection of the territory

Eni s commitment to the protection of the territory covers three main lines: (i) protection of biodiversity, (ii) research and development of new monitoring, prevention and intervention techniques, (iii) environmental reclamation and clean-up of polluted sites.

Biodiversity

A key factor for sustainable development is represented by the evaluation of the impact of industrial activities in terms of environmental pressure exerted and the safeguard of biodiversity, i.e. of all species of plants and animals from bacteria to higher organisms, of their genetic makeup, their habitats, their ecosystems and the functions they deploy.
Eni is working on biodiversity in various areas in Italy and outside Italy.
An example of how Eni is tackling this problem is represented by the AgriBioDiversity project carried out by Eni with a partner in Val d Agri in Southern Italy. The project, started in 2003, aims at defining a monitoring

technique for the evaluation of the impact of hydrocarbon exploration and production and the definition of best practices for the protection of biodiversity. The most significant interventions of 2005 concerned: (i) monitoring of local fauna; (ii) mapping of genetic resources in the area; (iii) estimate of the ecological footprint of humans and socio-economic pressure on biodiversity.

R&D

Eni started a number of projects for implementing significant techniques for preventing soil pollution and reclaiming polluted sites. A number of Eni companies are directly involved in the field of decontamination of the soil and water bodies, with interventions ranging from the characterization of the contamination level of the site to the evaluation of health and environment risks and clean-up where necessary. The expertise acquired in this field allowed it to carry out research projects on innovative monitoring and reclaiming techniques (e.g. phytoremediation, reactive permeable barriers, wind bioventing and bioaugmentation).

Environmental remediation and clean-up

At the end of the life of works (closure of an oil well, of a building yard, of the laying of pipes, etc.) Eni is committed to bring the interested area to its pristine condition and where necessary to cleaning up and remediating the area.
Eni is remediating and reclaiming soil and ground water also in areas that it purchased and where it had not operated directly. In 2005 expenditure for remediation and reclaiming of active and inactive sites amounted to euro 392 million, with a 51.6% increase from the previous year.

RESPONSIBILITY TOWARDS STAKEHOLDERS

Foreword

The effort of integrating with the most diverse social and cultural local entities is part of Eni s tradition. In addition to providing significant development opportunities to the populations it comes in contact with, in particular through the creation of jobs and the transfer of know-how, Eni promotes cultural initiatives capable of stimulating their economic and social fabric and favoring sustainable growth processes.

Development plans aimed at local communities follow a cycle that includes subsequent phases of planning, implementation and revision, of monitoring the results achieved, the difficulties encountered, performances and the ability to attain the objectives set.

In its strategy of interventions for local communities Eni privileges programs and projects in the following areas:

(i) **HEALTH**: supporting local health systems, providing basic assistance, infrastructure and training and fighting the diffusion of diseases;

(ii) **SOCIAL DEVELOPMENT**: building social infrastructure and promoting projects capable of attaining autonomous development and integration in the socio-cultural context;

(iii) **EDUCATION AND TRAINING**: contributing to the education and training of youth by means of basic education and technical, scientific, economic and management training;

(iv) **ENVIRONMENT**: contributing to the protection of the environment by adopting innovative solutions and promoting actions for the conservation and protection of ecosystems;

(v) **CULTURE**: favoring cultural exchange and the enhancement of the historical and artistic heritage by sponsoring institutions and activities in this area.

In 2005 Eni s expenditure in initiatives for local communities amounted to about euro 49 million.

Stakeholder consultation and community involvement

Eni intends to evaluate the overall impact of its activities at local level and to improve the consultation with the areas where it is present and with their social representatives also by adopting innovative management tools for identifying, analyzing and consulting its stakeholders: local authorities, communities, development agencies, non governmental organizations and other members of society. In some significant countries Nigeria, Ecuador, Kazakhstan and Norway Eni introduced this operating mode in order to increase the level of participation in its business activities and to better evaluate their consequences on the economic and social fabric of these areas.

As a guarantee of local sustainability Eni extends to its programs in favor of local communities the rigorous, homogeneous and transparent reference principles and standards that it applies to the management of its business. Crucial elements of this approach are correct behaviors, the selection of qualified partners and the control on the definition and realization of each project. Furthermore, being convinced that development initiatives can represent a significant tool for contributing to the diffusion of legality, Eni included the principle of transparency, intended as a rigorous control of project governance, in its guidelines for investments in favor of local communities.

Contents

A few cooperation projects for development

A tight cooperation with local realities in all their components (communities, institutions, authorities, non governmental organizations active in the area) allowed in some contexts the activation of highly integrated social development programs. We present here a few examples (the full description is available on Eni s website).

Pakistan

In cooperation with the local ONG Thardeep Rural Development Program (TRDP) Eni is carrying out a rural development project in Pakistan in the area of the Bhit natural gas field in the Kirthar region mainly focused on the issues of health, primary education, professional training and microcredit.
The program aims at promoting the autonomous growth of communities by creating local development committees called Village Development Organizations. Since the inception of the project in 2002, a total of 313 committees have been set up, of these 13 in 2005. The presence of women is significant as 121 of these committees are managed by women.
An important factor for the achievement of the program s objectives is a constant cooperation with international organizations working at development programs in Pakistan, such as the Save The Children Fund, the UNDP, the Pakistan Poverty Alleviation Fund, the WHO and the World Food Programme. This cooperation and the acquisition of knowledge by the communities are key elements for the success of projects.
Among the numerous interventions performed by Eni in Pakistan worth mentioning are: the construction of a center for mothers and children at Jhangara and some rural health centers, as well as the provision of mobile clinics (49 in 2005) and ambulances. In 2005 nearly 32,000 persons made recourse to these centers, 12,000 in Jhangara. From the program s inception in 2002, about 94,000 persons attended the health centers. A new school building was erected as an integration to the program started in 2002, which has seen the construction of 9 schools in remote areas, two female professional training centers and a center for IT training at Jhangara. The development program includes also the installation of pumping systems and the supply of water for irrigation in an areas subject to frequent and severe

Venezuela

Eni is carrying out an integrated development program in DaciÓn in cooperation with SOCSAL (Servicio de Apoyo Local) aimed at monitoring and following up the activities performed by NGOs carrying out projects. Strong impulse to the sustainability of the projects was given by the strengthening of the local cooperative structure and by the complete transfer to local communities of the management of the rotational fund used for financing agricultural activities. The know-how acquired led also to the construction of greenhouses for plants destined to reforestation and to commercial use. As concerns continuous training and technical support of farmers provided by the FundaciÓn Técnico Agropecuaria del Guanape (FUNTAG) NGO in 2005 for the fourth consecutive year the Ministry of Agriculture certified that the area is free from animal diseases. A health care program also continued at the DaciÓn dispensary that was restructured by Eni and now has been acknowledged as the reference center for the area by the local health authorities. This center provided medical assistance to over 300 persons in 2005. Eni also sponsored the extension of the national vaccination campaign to two nearby municipalities which was addressed to over 20,000 persons.

Central Asia

Eni completed a few very significant infrastructure projects in Kazakhstan in the North Caspian (the region of the Kashagan field) and at Uralsk/Aksai (the region of the Karachaganak field) focused on the construction of health centers, schools and social structures.
In the North Caspian area Eni is deploying a wide range of infrastructural projects in the Atyrau/Mangistau area which in 2005 concerned: (i) the construction of a primary school for 80 children; (ii) the restructuring of 3 schools, a polyclinic and an orphanage; (iii) the provision of 17 ambulances to health centers; (iv) the installation of gas distribution networks in various districts.
In the Karachaganak area, at Uralsk in 2005 Eni s interventions concerned: (i) the beginning of construction of a prenatal clinic; (ii) the completion of the surgical unit at the regional hospital and the construction of two schools and of the third section of a gas pipeline from Karachaganak to Chingirlau; (iii) the start-up of a business center aimed at promoting small and medium sized enterprises; the promotion of a mobile art school where a first exhibition of local art has

draughts.

been organized.

Contents

West Africa

In the Republic of Congo Eni started a project for the diagnosis and therapy of HIV/AIDS infections by means of mother-child transmission at the Hopital des Armeés of Pointe Noire in the Kouilou region. Within this project, carried out in cooperation with the Clinica delle malattie infettive of the University of Genova, a molecular biology and serology laboratory was opened with advanced equipment for the diagnosis of transmission. In addition to the restructuring of the building, the construction of rooms and of a radiology division, Eni worked also on an information campaign addressed to women. This center provides voluntary, anonymous and free screening, drug treatment, assistance during childbirth and prophylaxis for the infants in their first six months of life. The center can screen a population of 100,000 for three years and provide follow-up to 500 patients. At Pointe Noire doctors from Genova provide training to local medical and technical staff.

During the year, as evidence of its commitment to the fight against AIDS in some of the areas where it is present, Eni continued to support Unicef s program for the prevention of the transmission of the HIV virus from mothers to babies in Nigeria, in rural areas of the Niger Delta.

Promotion of culture and relations with the world of research

Eni s commitment to the world of culture was confirmed by the continuation of its traditional sponsorships of Italian musical institutions: Teatro alla Scala in Milan, Teatro La Fenice in Venice, Accademia di Santa Cecilia in Rome, Teatro Carlo Felice in Genova, Teatro Regio in Turin, Teatri Comunali at Ferrara and Bologna. Relations with musical and artistic institutions were evidenced also by the sponsorship of exhibitions and concerts, such as the Ravenna and Spoleto festivals and the FAI concerts.

Contents

RISK MANAGEMENT

Foreword

The main risks identified and managed by Eni are the following:
(i) market risks deriving from the exposure to the fluctuations of interest rates, of exchange rates between the euro and the US dollar and the other currencies used by the company, as wells as the volatility of commodity prices;
(ii) the credit risk deriving from the possible default of a counterparty;
(iii) the liquidity risk deriving from the risk that suitable sources of funding for the Group s business activities may not be available;
(iv) the operation risk deriving from the occurrence of accidents, malfunctioning, failures with damage to persons and the environment affecting operating and financial results;
(v) country risk in oil & gas activities.

Market risk

Market risks include exchange rate risk, interest rate risk, commodity risk. Their management follows a set of guidelines and procedures that concentrate the treasury function in two captive finance companies operating in the Italian and international financial markets.
In particular, the financial company operating on the domestic market (Enifin) manages all the transactions concerning currencies and derivative financial contracts. The commodity risk is managed by each business unit while Enifin manages the negotiation of hedging derivatives. In order to minimize market risk related to changes in interest rates, exchange rates and commodity prices, Eni enters into derivative financial and commodity hedging contracts for the purpose of reducing its exposure to market risk. Eni does not enter into derivative transactions on a speculative basis.
Eni s Board of Directors has defined a policy that requires the Treasury Department of Eni SpA to determine the maximum level of foreign exchange rate and interest rate risks that can be assumed by Eni s finance companies. Such policy also defines the eligible counterparties in derivative transactions. Eni s Treasury Department is responsible for monitoring compliance with Eni s policy, as well as the correlation between the indicators adopted for measuring the tolerable risk level on a side and composition of the portfolios and market conditions on the other side. Eni s operating subsidiaries are required to reduce foreign exchange rate risk to a minimum level by coordinating their operations with such finance companies.
As far as interest rate and foreign exchange rate risks are concerned, calculation and measurement techniques followed by Eni s finance companies are in accordance with established banking standards (such standards are established by the Basel Committee). However, the tolerable level of risk adopted by such companies is more conservative than the recommended one.
Eni s guidelines for the management of commodity risk contain maximum limits to the price risk deriving from trading activities. Coordination in this area is entrusted to a commodity risk assessment team, while the treasury department controls the respect of said limits and the development and updating of methodologies followed.

Exchange rate risk

Exchange rate risk derives from the fact that Eni s operations are conducted in currencies other than the euro (in particular the US dollar) and by the time lag existing between the recording of costs and revenues denominated in currencies other than the functional currency and the actual time of the relevant monetary transaction (transaction exchange rate risk). An appreciation of the US dollar versus the euro generally has a positive impact on Eni s results of operations.

Interest rate risk
Variations in interest rates affect the market value of financial assets and liabilities of the company and the level of financial changes.

Commodity risk
Eni s results of operations are affected by changes in the prices of products and services sold. A decrease in oil prices generally has a negative impact on Eni s results of operations and vice versa.

Credit risk

Credit risk is the potential exposure of the Group to loss in the event of non-performance by a counterparty. The credit risk arising from the Group s normal commercial operations is controlled by individual operating units within Group-approved guidelines. Eni s financial companies follow guidelines approved by Eni s treasury department on the choice of highly credit-rated counterparties in their use of financial and commodity instruments, including derivatives. Eni has not experienced material non-performance by any counterparty. As of 31 December 2005 Eni has no significant concentrations at credit risk.

Liquidity risk

Liquidity risk is the risk that suitable sources of funding for the Group s business activities may not be available. The Group has access to a wide range of funding at competitive rates through the capital markets and banks. The Group believes it has access to sufficient funding and has also both committed and uncommitted borrowing facilities to meet currently foreseeable borrowing requirements.

Operation risks

Eni s activities present industrial and environmental risks and are therefore subject to extensive government regulations concerning environmental protection and the European Union Seveso II directive for classification as high risk sites.

The broad scope of Eni s activities involves a wide range of operational risks such as those of explosion, fire or leakage of toxic products, production of non biodegradable waste.

All these events could possibly damage or even destroy wells as well as related equipment and other property, cause injury or even death to persons or cause environmental damage. In addition, since exploration and production activities may take place on sites that are ecologically sensitive (tropical forest, marine environment, etc.), each site requires a specific approach to minimize the impact on the related ecosystem, biodiversity and human health.

Eni adopted the most stringent standards for the evaluation and management of industrial and environmental risks, complying with local and international rules and standards. Business units evaluate through specific procedures the related industrial and environmental risks in addition to taking into account the regulatory requirements of the countries where these activities are located.

Since 2003, Eni has introduced a Model of management system, a general procedure to be applied in all its operating sites, based on an annual cycle of planning, implementation, control, review of results and definition of new objectives. The model is directed towards the prevention of risks, the systematic monitoring and control of HSE performance in a continuous improvement cycle subject also to audits by internal and independent experts. At 31 December 2005 six system audits had been performed and four are planned for 2006.

Any environmental emergency is managed by business units locally with their own organization under preset reaction plans to foreseeable events aimed at limiting damage and at activating adequate responses.

Eni has two emergency rooms (at Milan and Rome) provided with real time monitoring systems for the collection of data on georeferenced maps for all Eni sites and logistics worldwide. In addition to its own emergency teams, Eni entered international agreements in order to maximize its ability to react in all its operating sites.

At year-end 2005 Eni employed over 2,000 full time equivalent employees in HSE activities, prevention of environmental risk, safety and health.

industrial security in most countries. For example, in Europe, Eni operates industrial plants such as refineries and petrochemical complexes that meet the criteria of

Country risk

Substantial portions of Eni s hydrocarbons reserves are located in countries outside the EU and North America,

Contents

certain of which may be politically or economically less stable than EU or North American countries.

At 31 December 2005, approximately 73% of Eni s proved hydrocarbons reserves were located in such countries. Similarly, a substantial portion of Eni s natural gas supplies comes from countries outside the EU and North America. In 2005, approximately 60% of Eni s domestic supply of natural gas came from such countries. Negative developments in the economic and political framework of these countries can compromise temporarily or permanently Eni s ability to operate economically and to have access to oil and natural gas reserves.

Eni monitors constantly the political, social and economic risk of the approximately 100 countries where it invested or intends to invest with special attention to the evaluation of upstream investments. Country risks are mitigated by means of appropriate guidelines for risk management that Eni defined in its procedure for project risk assessment and management.

Contents

INNOVATION

Foreword

Eni continued its strong commitment to technological innovation as a support to its growth and expansion process with the aim of providing to its core business key technologies required for acquiring competitive advantages and making them sustainable and timely reacting to any opportunities or threats identified in long term scenarios.
Technical excellence, based not only on the continuing commitment in R&D but also on the promotion and dissemination of experience, professionalism and know-how, represents for Eni a basic factor for the competitivity and environmental and economic sustainability of its operations.
In 2005, Eni invested euro 204 million in research and development (euro 257 million in 2004), of these 32% were directed to Eni s corporate department, 25% to the Exploration & Production segment, 24% to the Petrochemical segment and 13% to the Refining & Marketing segment.
At 31 December 2005, a total of 1,420 persons were employed in research and development activities.
In 2005 a total of 26 applications for patents were filed.
The main research lines aimed at innovation concerned:
(i) Reduction of exploration and development costs:
- Geosciences
- High resolution geophysical prospecting techniques
- Field simulation models
- While drilling prospecting techniques
- Methods for increasing field productivity
- Advanced drilling systems
- Production in hostile environments
- Sulphur management
(ii) Feedstocks enhancement:
- Conversion of heavy crudes and refinery fractions into light products
- Long distance gaslines
- Conversion of gas into liquid products
(iii) Performance and product differentiation:
- Advanced process control
- Innovative polymerization catalysis
(iv) Environmental protection:
- New formulas for fuels and lubricants
- Clean catalytic processes
- Advanced techniques for hydrogen production
- GHG management by means of carbon sequestration
- Innovative techniques for monitoring air and water quality, biodiversity and for the reclamation of polluted soils.

Main initiatives in innovation

Among the main initiatives in the field of innovation for sustainable development the following are worth mentioning:

Drilling of Advanced Wells
Lean profile Technology
Eni developed and applied at industrial level a series of innovative technologies that allow to drill highly complex wells with greater operating efficiency. In particular, lean profile drilling, developed and patented by Eni, is applied in deep vertical and deviated wells especially in high pressure and high temperature environments allowing a reduction in time and costs and in environmental impact as it reduces the use of

products for mud and cement and the resulting waste by about 30-40%.
Wells obtained with this technique are high quality and low risk. The technique basically consists in reducing to a minimum the tolerance between the diameter of wells and their lining columns while keeping the production casing unchanged. The application underway in Val d Agri is a record lean drilling in highly deviated wells (a 13"3/8 casing in a 14"3/4 hole with inclination up to 60°).

High Resolution Geophysical Prospecting Techniques
In the area of seismic imaging, the further developments of the proprietary 3D Common Reflection Surface (CRS) Stack technology found various industrial applications with much higher efficiency than conventional techniques.
New depth imaging techniques based on proprietary algorithms can generate depth images with such high resolution that they allow a very precise physical characterization of reservoirs.
A new 3D resistivity modeling interpretive technique has been developed for the petrophysical measurement of wells (electrical logs), especially suited for the identification of complex mineralization situations, such as thin strata of sand and clay. Initial field applications proved that this new approach contributes to the production of more accurate estimates of reserves in place.

Sulphur management
Integrated research program on H_2S and sulphur management in E&P
In 2006 the integrated research program called H_2S and sulphur management in E&P operations will be completed. The program was aimed at identifying innovative solutions for the treatment of very sour gas. In particular significant progress was achieved in an innovative technology for H_2S bulk removal and in a new system for the massive storage of sulphur.

Natural gas transport - The TAP Project
Among the reliable technologies for making the transmission via pipeline of relevant amounts of natural gas from production areas to consuming markets economically viable (gas to market), the TAP (high pressure transport) project will contribute to developing the most advanced long distance, high capacity, high
(iii) pressure equal to or higher than 15 Mpa;
(iv) use of high and very high grade steel (e.g. X100).
The TAP technology is expected to allow a decrease in the consumption of natural gas used in compressor stations from 7.5% to 3% of transported volumes.
The project was started in 2002 with a wide range of design, engineering and construction activities and in 2005 two infrastructures for the validation of its assumptions were completed.
The first one is a 10-kilometer long pilot segment in X 80 steel with 48 diameter from Enna to Montalbano integrated in the Snam Rete Gas network that allowed to test and validate the industrial application of the concepts.
The second infrastructure consists of two pilot pipes, with a 48 inch diameter in high resistance X100 steel installed in Perdasdefogu in Sardinia. It was started up in September 2005 under pressures of 140 bar. Testing is expected to last 20 months and will simulate the actual behavior of an industrial infrastructure for a period equivalent to 20 years.
In early 2006 the first technology manual and FEED developed for a hypothetical trunkline in X100 steel with a 48 diameter linking Central Asia to Europe (for a length of 3,500 kilometers) will be available. A further development of this project will be the construction and operation of a commercial line in X100 steel a few kilometers long.

Conversion of gas to liquids - GTL project
This is a key technology for the use of natural gas on a large scale for the production of high quality motor fuels, in particular diesel fuel and therefore it receives special attention by all majors due to its primary strategic value.
Eni s R&D activities in 2005 led to the preparation of the first basic design package for an industrial unit.
In 2006 Eni will continue its development activity at the Sannazzaro pilot plant consolidating the Fischer-Tropsch synthesis and optimizing its integration in the first two phases in order to define the optimal size of the GTL module along with its basic design package.

Conversion of heavy crudes and fractions into light products
Eni Slurry Technology
EST is a process of catalytic hydroconversion in the slurry phase that allows to convert asphaltenes (the hard fraction of heavy crudes) totally, thus reducing to zero

pressure and high grade solutions with relevant targets related to:
(i) distances over 3,000 kilometers;
(ii) natural gas volumes to be transported of about 20-30 billion cubic meters/year;

the production of solid and fluid residues usually deriving from the refining of non conventional oil.
It is a flexible technology that satisfies the needs of upstream and downstream oil and can be adapted to

various kinds of feedstocks to be converted, to different capacities and plants. Among its products are naphtha, kerosene, diesel fuel.
The development of this technology was started at the beginning of the 80s and the decision to test it industrially made possible in 2001 the building of a commercial demonstration plant with a 1,200 barrels/day capacity at Eni s Taranto refinery completed in 2005. It is currently being run for reaching the validation of the technology.
This will provide Eni with an important competitive lever for a more economic use of the full barrel of crude with lower environmental impact.

Reformulation of fuels and lubricants:
Clean Diesel Fuel Program

In its effort to improve the quality of its fuels, in 2002 Eni started to sell new virtually sulphur free (less than 10 ppM) products (first BluDiesel and since 2004 BluSuper) anticipating their compliance with EU regulations mandatory from 2009.
With a longer term objective Eni started a clean diesel fuel program that aims at identifying the optimal formula for a diesel fuel with high performance and low particulate emissions using as benchmark GTL Fischer-Tropsch gasoil.

Environmental protection

In the area of environmental protection, with the cooperation of partners from industries and academia, Eni is developing technologies for reducing the environmental impact of offshore and onshore E&P and refining operations.
In this area the following projects are worth mentioning:
- the integrated Green House Gases research program, aimed at verifying the industrial feasibility of the geological sequestration of CO_2 in depleted fields and salty aquifers;
- the Early Warning Monitoring System (EWMS) project, for real time recording of the physical and chemical profiles of Eni s productive activities and of their environmental context through a single computerized platform;
- the hydrogen project, aimed at developing a portfolio of technologies for producing hydrogen at competitive costs, also in medium to small sized plants.

Glossary

FINANCIAL TERMS

Dividend Yield Measures the return on a share based on dividends for the year. Calculated as the ratio of dividends per share of the year and the average reference price of shares in the last month of the year.
Leverage It is a measure of a company s debt, calculated as the ratio between net financial debt and shareholders equity, including minority interests.
ROACE Return On Average Capital Employed, is the return on average capital invested, calculated as the ratio between net income before minority interests, plus net financial charges on net financial debt, less the related tax effect and net average capital employed.
TSR (Total Shareholder Return) Measures the total return of a share calculated on a yearly basis, keeping account of changes in prices (beginning and end of year) and dividends distributed and reinvested at the ex dividend date.

OIL AND NATURAL GAS ACTIVITIES

Average reserve life index Ratio between the amount of reserves at the end of the year and total production for the year.
Barrel Volume unit corresponding to 159 liters. A barrel of oil corresponds to about 0.137 metric tons.
Boe Barrel of Oil Equivalent It is used as a standard unit measure for oil and natural gas. The latter is converted from standard cubic meters into barrels of oil equivalent using a coefficient equal to 0.00615.
Concession contracts Contracts currently applied mainly in Western countries regulating relationships between States and oil companies with regards to hydrocarbon exploration and production. The company holding the mining concession has an exclusive on mining activities and for this reason it acquires a right on hydrocarbons extracted, against the payment of royalties to the State on production and taxes on oil revenues.
Condensates These are light hydrocarbons produced along with gas, that condense to a liquid state at normal temperature and pressure for surface production facilities.
Deep waters Waters deeper than 200 meters.
Development Drilling and other post-exploration activities aimed at the production of oil and gas.
Elastomers (or Rubber) Polymers, either natural or synthetic, which, unlike plastic, when stress is applied, return to their original shape, to a certain degree, once the stress ceases to be applied. The main synthetic elastomers are polybutadiene (BR), styrene-butadiene rubbers (SBR), ethylene-propylene rubbers (EPR), thermoplastic rubbers (TPR) and nitrylic rubbers (NBR).
Enhanced recovery Techniques used to increase or stretch over time the production of wells.
EPC (Engineering, Procurement, Commissioning) a contract typical of onshore construction of large plants in which the contractor supplies engineering, procurement and construction of the plant. The contract is defined turnkey when the plant is supplied for start-up.
EPIC (Engineering, Procurement, Installation Commissioning) a contract typical of offshore construction of complex projects (such as the installation of production platforms or FPSO systems) in which the global or main contractor, usually a company or a consortium of companies, supplies engineering, procurement, construction of plant and infrastructure, transport to the site and all preparatory activities for the start-up of plants.
Exploration Oil and natural gas exploration that includes land surveys, geological and geophysical studies, seismic data gathering and analysis, and well drilling.
FPSO vessel Floating, Production, Storage and Offloading system made up of a large capacity oil tanker including a large hydrocarbon treatment plant. This system, moored at the bow in order to maintain a geostationary position, is in fact a temporary fixed platform linking by means of risers from the seabed the underwater wellheads to the treatment, storage and offloading systems onboard.
Infilling wells Infilling wells are wells drilled in a producing area in order to improve the recovery of hydrocarbons from the field and to maintain and/or increase production levels.
LNG Liquefied Natural Gas obtained through the cooling of natural gas to minus 160 °C at normal pressure. The gas is liquefied to allow transportation from the place of extraction to the sites at which it is transformed and consumed. One ton of LNG corresponds to 1,400 cubic meters of gas.
LPG Liquefied Petroleum Gas, a mix of light petroleum fractions, gaseous at normal pressure and easily liquefied at room temperature through limited

compression.

Mineral Potential (Potentially recoverable hydrocarbon volumes) Estimated recoverable volumes which cannot be defined as reserves due to a number of reasons, such as the temporary lack of viable markets, a possible commercial recovery dependent on the development of new technologies, or for their location in accumulations yet to be developed or where evaluation of known accumulations is still at an early stage.
Mineral Storage Volumes of natural gas required for allowing optimal operation of natural gas fields in Italy for technical and economic reasons.
Modulation Storage Volumes of natural gas required for meeting hourly, daily and seasonal swings of demand.
Natural gas liquids Liquid or liquefied hydrocarbons recovered from natural gas through separation equipment or natural gas treatment plants. Propane, normal-butane and isobutane, isopentane and pentane plus, that used to be defined natural gasoline, are natural gas liquids.
Network Code A Code containing norms and regulations for access to, management and operation of natural gas pipelines.
Offshore/Onshore The term offshore indicates a portion of open sea and, by induction, the activities carried out in such area, while onshore refers to land operations.
Olefins (or Alkenes) Hydrocarbons that are particularly active chemically, used for this reason as raw materials in the synthesis of intermediate products and of polymers.
Over/Under lifting Agreements stipulated between partners regulate the right of each to its share in the production of a set period of time. Amounts different from the agreed ones determine temporary Over/Under lifting situations.
Possible reserves Amounts of hydrocarbons that have a lower degree of certainty than probable reserves and are estimated with lower certainty, for which it is not possible to foresee production.
Probable reserves Amounts of hydrocarbons that are probably, but not certainly, expected to be extracted. They are estimated based on known geological conditions, similar characteristics of rock deposits and the interpretation of geophysical data. Further uncertainty elements may concern: (i) the extension or other features of the field; (ii) economic viability of extraction based on the terms of the development project; (iii) existence and adequacy of transmission
Production Sharing Agreement Contract in use in non OECD area countries, regulating relationships between State and oil companies with regards to the exploration and production of hydrocarbons. The mining concession is assigned to the national oil company jointly with the foreign oil company who has exclusive right to perform exploration, development and production activities and can enter agreements with other local or international entities. In this type of contract the national oil company assigns to the international contractor the task of performing exploration and production with the contractor s equipment and financial resources. Exploration risks are borne by the contractor and production is divided into two portions: cost oil is used to recover costs borne by the contractor, profit oil is divided between contractor and national company according to variable schemes and represents the profit deriving from exploration and production. Further terms and conditions may vary from one country to the other.
Proved reserves Proved reserves are estimated volumes of crude oil, natural gas and gas condensates, liquids and associated substances which are expected to be retrieved from deposits and used commercially, at the economic and technical conditions applicable at the time of the estimate and according to current legislation. Proved reserves include: (i) proved developed reserves: amounts of hydrocarbons that are expected to be retrieved through existing wells, facilities and operating methods; (ii) non developed proved reserves: amounts of hydrocarbons that are expected to be retrieved following new drilling, facilities and operating methods. On these amounts the company has already defined a clear development expenditure program which is expression of the company s determination.
Recoverable reserves Amounts of hydrocarbons included in different categories of reserves (proved, probable and possible), without considering their different degree of uncertainty.
Reserve replacement ratio Measure of the reserves produced replaced by proved reserves. Indicates the company s ability to add new reserves through exploration and purchase of property. A rate higher than 100% indicates that more reserves were added than produced in the period. The ratio should be averaged on a three-year period in order to reduce the distortion deriving from the purchase of property or upstream assets, the revision of

infrastructure and/or markets; (iv) the regulatory framework.

Contents

previous estimates, enhanced recovery, improvement in recovery rates and changes in the value of reserves in PSAs due to changes in international oil prices.

Ship-or-pay Clause included in natural gas transportation contracts according to which the customer for which the transportation is carried out is bound to pay for the transportation of the gas also in case the gas is not transported.

Strategic Storage Volumes of natural gas required for covering lack or reduction of supplies from extra-European sources or crises in the natural gas system.

Take-or-pay Clause included in natural gas transportation contracts according to which the purchaser is bound to pay the contractual price or a fraction of such price for a minimum quantity of the gas set in the contract also in case it is not collected by the customer. The customer has the option of collecting the gas paid and not delivered at a price equal to the residual fraction of the price set in the contract in subsequent contract years.

Upstream/Downstream The term upstream refers to all hydrocarbon exploration and production activities. The term downstream includes all activities inherent to the oil sector that are downstream of exploration and production activities.

Wholesale sales Domestic sales of refined products to wholesalers/distributors (mainly gasoil), public administrations and end consumers, such as industrial plants, power stations (fuel oil), airlines (jet fuel), transport companies, big buildings and households. Do not include distribution through the service station network, marine bunkering, sales to oil and petrochemical companies, importers and international organizations.

Workover Intervention on a well for performing significant maintenance and substitution of basic equipment for the collection and transport to the surface of liquids contained in a field.

Contents

Report of independent auditors

109

BLANK PAGE

110

Contents

Effects of the adoption of IFRS[1]

Starting in 2005 companies with securities listed on a regulated stock market of a Member State of the European Union are required to prepare their consolidated financial statements in accordance with the international accounting principles (IFRS) approved by the European Commission.
At 1 January 2004, date of the first application of the new accounting principles, which corresponds with the first period to be compared, Eni must present a balance sheet which:
- reports all and only the assets and liabilities accounted under the new accounting principles;
- accounts the assets and liabilities as if the new accounting principles had always been applied (retrospective method);
- reclassifies the items indicated under different principles instead of IFRS.

The effect of the adjustments of the initial balance of assets and liabilities to the new accounting principles has been accounted with a corresponding entry to shareholders equity, taking account of the relevant fiscal effects to be recognized as deferred tax liabilities or deferred tax assets.
In application of IFRS 1, the following is the indication of: (i) balance sheet at 31 December 2004 restated under IFRS; (ii) profit and loss account of 2004 restated under IFRS; (iii) the reconciliation between shareholders equity, including minority interest, of 2003 and 2004 reported under Italian GAAP and shareholders equity under IFRS; (iv) the reconciliation between net profit of the Group at 31 December 2004 reported under Italian GAAP and net profit under IFRS.
The reconciliation following the application of IFRS 1 underwent a full audit by PricewaterhouseCoopers SpA.
The international accounting principles are reported in the section Principles of consolidation . The main options provided under IFRS 1 and adopted in the first time application of IFRS concern the non-reopening of the business combinations and the designation of 1 January 2005, as the date of the first application of IAS 32 and 39, concerning the valuation of financial instruments, including derivatives.

Inclusion of Saipem in consolidation

As regards to the information reported in the reports of the year 2005, the following restatements and reconciliations has been modified to include the recent guidelines of the International Accounting Standards Board (IASB), relating to the conception of de facto control and providing the inclusion in the scope of the consolidation of the Saipem SpA and its subsidiaries.
Saipem SpA, in which Eni held a 43.26% share of voting stock as of 31 December 2005, was excluded from consolidation due to a restrictive interpretation of the provisions of IAS 27 Consolidated Financial Statements and Accounting for Investments in Subsidiaries, according to which full consolidation is admissible only if the parent company holds the majority of voting rights exercisable in ordinary shareholders meetings, or failing this, when there exists an agreement among shareholders or other situations that give to the parent company the power to appoint the majority of the Board of Directors. Under this interpretation Saipem SpA, despite being controlled by Eni in accordance with article 2359, paragraph 2 of the Italian Civil Code, was accounted for under the equity method.
IASB is reviewing the requirements of IAS27; in October 2005, IASB Update published a statement indicating that the concept of control as defined by IAS 27 included the situation as described by article 2359, paragraph 2 of the Italian Civil Code, despite the fact that the lack of precise indications allows also for a different interpretation of this standard. IASB declared its intention to provide more detailed indications on the exercise of control in its new version of IAS 27. In consideration of the intention expressed by IASB, Eni included Saipem SpA and its subsidiaries in consolidation under IFRS starting 1 January 2004, with the aim of giving an economic and financial state of the Group more consistent with its commercial situation.

(1) Under the requirements of paragraph 5 of Preface to International Financial Reporting Standards , IFRS (International Financial Reporting Standards) represent the principles and the interpretations adopted by the International Accounting Standards Board (IASB), former International Accounting Standards Committee (IASC) and include: (i) International Financial Reporting Standards (IFRS); (ii) International Accounting Standards (IAS); (iii) the interpretations issued by International Financial Reporting Interpretation Committee (IFRIC) and by Standing Interpretation Committee (SIC) adopted by IASB. The name International Financial Reporting Standards (IFRS) has been adopted by IASB for the principles issued afterwards May 2003.

Contents

Balance sheet at 31 December 2004

The following is the reconciliation to IFRS of balance sheet at 31 December 2004:

(million euro)	2004	Exclusion of joint venture	Pro-forma	Adjustments	IFRS
ASSETS					
Current assets					
Cash and cash equivalent	1,264	(261)	1,003		1,003
Other financial assets for trading or held for sale	1,292	(4)	1,288	(22)	1,266
Trade and other receivables	13,715	(95)	13,620	114	13,734
Inventories	2,658	(135)	2,523	324	2,847
Income tax receivables	702	(28)	674		674
Other current assets	629	(1)	628	(40)	588
Total current assets	**20,260**	**(524)**	**19,736**	**376**	**20,112**
Non-current assets					
Property, plant and equipment	37,616	(293)	37,323	3,263	40,586
Inventories - compulsory stock	662		662	724	1,386
Intangible assets	3,190		3,190	123	3,313
Investments accounted for using the equity method	2,753	313	3,066	90	3,156
Other investments	529		529		529
Other financial assets	932	4	936		936
Deferred tax assets	2,203		2,203	(376)	1,827
Other non-current assets	967	(17)	950	58	1,008
Total non-current assets	**48,852**	**7**	**48,859**	**3,882**	**52,741**
TOTAL ASSETS	**69,112**	**(517)**	**68,595**	**4,258**	**72,853**
LIABILITIES AND SHAREHOLDERS EQUITY					
Current liabilities					
Current financial liabilities	4,115	35	4,150		4,150
Current portion of long-term debt	936	(9)	927		927
Trade and other payables	11,008	(469)	10,539	(6)	10,533
Taxes payable	2,514	(16)	2,498		2,498
Other current liabilities	517	(12)	505		505
Total current liabilities	**19,090**	**(471)**	**18,619**	**(6)**	**18,613**
Non-current liabilities					
Long-term debt	7,674	17	7,691	(84)	7,607
Reserves for contingencies and charges	6,107	(4)	6,103	(367)	5,736
Provisions for employee benefits	820	(5)	815	167	982
Deferred tax liabilities	2,533	(59)	2,474	1,474	3,948
Other non-current liabilities	422	5	427		427
Total non-current liabilities	**17,556**	**(46)**	**17,510**	**1,190**	**18,700**
TOTAL LIABILITIES	**36,646**	**(517)**	**36,129**	**1,184**	**37,313**
SHAREHOLDERS EQUITY					
Minority interests	2,128		2,128	1,038	3,166
Eni shareholders equity	30,338 (1)		30,338	2,036	32,374
TOTAL SHAREHOLDERS EQUITY	**32,466**		**32,466**	**3,074**	**35,540**
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	**69,112**	**(517)**	**68,595**	**4,258**	**72,853**

(1) Net of treasury shares in portfolio at the date for euro 3,229 million (IFRS require that treasury shares be deducted from shareholders equity).