

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 €8,788 million, a €1,729 million increase from 2004, or 24.5%, driven by a €4,428 million increase in operating profit (up 35.7%) – of which €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 (€532 million), a provision to the risk reserve concerning the fine imposed on 15 February 2006 by the Antitrust

Authority¹ and the estimated impact of the application of Decision No. 248/2004 of the Authority for Electricity and Gas² affecting natural gas prices to residential customers and wholesalers (€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 (€320 million).

The increase in operating profit was offset in part by higher income taxes (up €2,606 million). Return on capital employed (ROACE)³ was 19.5%, compared with 16.6% in 2004.

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

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

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

Adjusted net profit, that excludes an inventory holding gain of €759 million after taxes, and a €1,222 million special charge after taxes, increased by €2,606 million or 39.2% to €9,251 million.

Operating profit for the year was €16,827 million, up €4,428 million from 2004, or 35.7%, reflecting primarily the increases reported in the following segments:

- Exploration & Production (up €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 €320 million were recorded in 2004;
- Refining & Marketing (up €777 million, or 71.9%) primarily reflecting a higher inventory holding gain (up €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 (€195 million).

These increases were partly offset by:

- lower operating profit in the Gas & Power segment (down €107 million, or 3.1%) due primarily to a €290 million charge pertaining to a fine imposed by the Italian regulator and the €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 terawatt-hour, or 64.4% and a higher inventory holding gain was recorded (up €115 million);
- higher operating losses recorded by the Other activities segment (down €507 million, or 128.4%) due primarily to higher environmental and other provisions (€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 €73,728 million, up €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 segment were €22,477 million, up €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 €22,969 million, up €5,667 million, or 32.8%, reflecting primarily increased natural gas prices and increased sales volumes of natural gas (4.29 billion

cubic meters, or 5.9%) and higher sold production of electricity (up 8.92 terawatt-hour, or 64.4%).

Revenues generated by the Refining & Marketing segment were €33,732 million, up €7,643 million, or 29.3%, reflecting primarily higher international prices for oil and refined products, offset in 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 €6,255 million, up €924 million, or 17.3%, reflecting primarily the 12% increase in average selling prices and the 3.6% increase in sales volumes.

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

Revenues generated by the Corporate and financial companies segments were €977 million, up €126 million, or 14.8%. In 2005 the Corporate started supplying certain central services amounting to €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 (€27 million); (ii) general services such as activities related to real estate rentals and maintenance, fleet of cars, company's aircrafts, etc (€21 million); (iii) communication and advertisement (€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 €25 million.

Other income and revenues for 2005 (€798 million) declined by €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 €373 million, and the fact that starting in 2005 derivative contracts on commodities were accounted for under IFRS No. 32 and 39⁴.

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 (€51,918 million) were up €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 (€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 2006 by the Antitrust Authority and the estimated impact of the application of Decision No. 248/2004 of the Authority for electricity and gas

from 1 January 2005 (€515 million); (iv) a €87 million increase in insurance charges⁵ 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 and contractual obligations (€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 (€3,351 million) were up €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** (€5,509 million) were up €911 million, or 19.8%, from 2004 mainly in the Exploration & Production segment (up €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 €50 million). In the Gas & Power segment amortization charges increased by €47 million due to the coming on stream of the Greenstream gasline and new power generation capacity.

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

Operating profit by segment

	(million euro)	2004	2005	Change	% Ch.
Exploration & Production		8,185	12,574	4,389	53.6
Gas & Power		3,428	3,321	(107)	(3.1)
Refining & Marketing		1,080	1,857	777	71.9
Petrochemicals		320	202	(118)	(36.9)
Oilfield Services Construction and Engineering		203	307	104	51.2
Other activities ⁽¹⁾		(395)	(902)	(507)	(128.4)
Corporate and financial companies		(363)	(391)	(28)	(7.7)
Unrealized profit in inventory ⁽¹⁾		(59)	(141)	(82)	
Operating profit		12,399	16,827	4,428	(35.7)
Operating profit		12,399	16,827	4,428	35.7
Exclusion of inventory holding (gain) loss		(448)	(1,210)	(762)	
Replacement cost operating profit		11,951	15,617	3,666	30.7
Exclusion of special items		631	1,941	1,310	
Adjusted operating profit		12,582	17,558	4,976	39.5

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

Exploration & Production

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

Operating profit for 2005 was €12,574 million, up €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 (€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 (€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 €3,194 million, down €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 (€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 (€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 (€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 €138 million, up €77 million, reflecting primarily an increase in sold production of electricity (8.92 terawatt-hour, 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 €793 million, up €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 €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 (€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 €183 million, down €94 million from 2004, or 33.9%, reflecting primarily: (i) higher special charges (€92 million) recorded in connection with the restructuring of the Champagner 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 polyethylene. 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 €307 million, up €104 million, or 51.2% over 2004. The oilfield services and construction business reported an operating profit of €306 million, up €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 €1 million, an increase of €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.

Other Activities

These activities reported an operating loss of €902 million, down €507 million, or 128% over 2004, due essentially to a €504 million increase in Syndial's operating loss referring to: (i) higher provisions for environmental liabilities of €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 (€71 million) and litigations (€40 million); (iii) higher asset impairments (up €56 million from €19 million to €75 million); impairments in 2005 related in particular to the Scarlino and Porto Torres plants, up €44 million and €19 million, respectively.

Corporate and financial companies

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

Net financial expense

In 2005 **net financial expense** (€366 million) was up €210 million from 2004, or 135%, due to charges 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 €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 €914 million and concerned primarily: (i) Eni's share of income of affiliates accounted for under the equity method (€737 million), in particular affiliates in the Gas & Power (€358 million) and Refining & Marketing (€194 million) segments; (ii) gains on disposal (€179 million) relating in particular to the sale of 100% of IP (€132 million) and a 2.33% stake in Nuovo Pignone Holding SpA (€24 million); (iii) dividends received by affiliates accounted for under the cost method (€33 million).

The €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 €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 (€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 SA and other minor assets were recorded for a total of €437 million, as compared to the €179 million gain recorded in 2005.

Income taxes

Income taxes were €8,128 million, up €2,606 million from 2004, or 47.2% and reflected primarily higher income before taxes (€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 €459 million and concerned primarily Snam Rete Gas SpA (€321 million) and Saipem SpA (€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.

(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

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 €2,700 million, €1,500 million and €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 €49,692 million, representing an increase of €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 in part by depreciation, amortization and impairment charges for the period (€5,781 million) and by a €1,756 million decrease in net working capital. The

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 (€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 (€45,698 million) represented 50.4% of gross property, plant and equipment (49.4% at 31 December 2004).

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

33.34% of Galp Energia SGPS SA (€896 million), 50% of Unión Fenosa Gas SA (€459 million), 50% of Blue Stream Pipeline Co BV (€280 million), 49% of Greek natural gas secondary distribution companies EPA Thessaloniki and Thessaly (€191 million), 50% of Raffineria di Milazzo ScpA (€172 million), 50% of EnBW - Eni Verwaltungsgesellschaft mbH (€168 million), 33.33% of United Gas Derivatives Co (€128 million), 12.04% of Darwin LNG Pty Ltd (€126 million), 49% of Super Octanos CA (€113 million), 10.4% of Nigeria LNG Ltd (€100 million), 20% of Fertilizantes Nitrogenados de Oriente CEC (€92 million), 89% of Trans Austria Gasleitung GmbH (€88 million), 35.2% of Supermetanol CA (€88 million) and 50% of Unimar Llc (€84 million).

Accounts receivable financing and securities related to

operations (€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 (€499 million) and Exploration & Production segments (€170 million). **Net equity** at 31 December 2005 (€39,217 million) was up €3,677 million from 31 December 2004, due primarily to net profit before minority interest (€9,247 million) and currency translation effects (approximately €1,500 million), offset in part by the payment of Eni's 2004 dividends and 2005 interim dividends and Snam Rete Gas extraordinary dividend (€6,287 million, of which €5,070 million by Eni SpA and €1,171 million by Snam Rete Gas SpA) and the purchase of own shares (€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 €492 million (€510 million at 31 December 2004) and securities covering technical reserves of Padana Assicurazioni SpA for €453 million (€474 million at 31 December 2004).

Inventories increased by €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 €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 €1,671 million), Refining & Marketing (up €1,010 million) and the Exploration & Production (up €806 million) segments.

Trade accounts payable increased by €2,333 million for the same reasons as trade accounts receivable.

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

The reserve for contingencies (€7,679 million) included the site restoration and abandonment reserve of €2,648 million (€1,967 million at 31 December 2004), the environmental risk reserve of €2,103 million (€1,649 million at 31 December 2004), the loss adjustment and actuarial reserve for Padana Assicurazioni SpA of €707 million (€573 million at 31 December 2004), the reserve for contract penalties and legal matters of €534 million (€208 million at 31 December 2004), also including a €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 €321 million, the reserve for fiscal disputes of €309 million (€235 million at 31 December 2004), the reserve for divestments and restructuring of €195 million (€214 million at 31 December 2004), the reserve for OIL insurance of €127 million (€91 million at 31 December 2004) and the reserve for losses related to investments of €85 million (€91 million at 31 December 2004).

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 €10,475 million, a €32 million increase with respect to 31 December 2004.

Debts and bonds totalled €12,998 million, of which €5,345 million were short-term (including the portion of long-term debt due within twelve months for €733 million) and €7,653 million were long-term. Bonds outstanding at 31 December 2005 amounted to €5,339 million (including accrued interest and

discount). Bonds maturing in the next 18 months amounted to €436 million (including accrued interest and discount). Bonds issued in 2005 amounted to €441 million (including accrued interest and discount).

Debts and bonds for €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
<i>Adjustments to reconcile to cash generated from operating income before changes in working capital:</i>				
- 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 (€14,936 million) and cash from disposals (€563 million, including net borrowings transferred of €21 million) were offset in part by: (i) financial requirements for capital expenditure and investments (€7,560 million

including a net borrowing acquired of €19 million); the payment of dividends (€6,287 million) and the share buy-back program (€1,034 million); (ii) currency translation effects (about €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 €210 million and €202 million in 2004 and 2005, respectively.

Capital expenditure amounted to €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 (€3,952 million) in particular in Kazakhstan, Libya, Angola, Italy and Egypt, exploration projects (€656 million) and the purchase of proved and unproved property (€301 million); (ii) upgrading of Eni's natural gas transport and distribution networks in Italy (€825 million); (iii) the continuation of the construction of combined cycle power plants (€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 €656 million); (v) upgrading of vessels and other equipment and facilities in Kazakhstan and West Africa in the Oilfield services and construction business (€346 million).

Dividends paid and changes in minority interests and reserves (€7,278 million) related mainly to dividend distribution for fiscal year 2004 of €3,384 million and

the payment of an interim dividend of €1,686 million carried out by Eni SpA, the payment of dividend by Snam Rete Gas SpA (€1,171 million of which €976 million as an extraordinary dividend) and other consolidated subsidiaries (€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 €1,034 million (on average €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 €4,272 million (on average €15.155 per share). Disposals (€563 million, including net borrowings transferred of €21 million) concerned mainly the sale of Eni's 100% interest in IP (142 million, excluding transferred cash of €53 million), the sale of Eni's 28% in Erg Raffinerie Mediterranee Srl (€97 million), 67.05% interest in Società Azionaria per la Condotta di Acque Potabili (€100 million including net borrowings transferred of €21 million) and 100% of Acquedotto Vesuviano (€16 million) as well as other minor interests and real estate.