ENI SPA
Form 6-K
October 06, 2005
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 September 2005

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

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: September 30, 2005

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 First Half Results
(submitted to limited review)

FOR IMMEDIATE RELEASE

Eni First Half 2005:

net profit confirmed at euro 4.3 billion (+29% vs 1H2004)

interim dividend of euro 0.45 per share

Rome, September 21, 2005 - Eni, the international oil and gas company, today announces the results for the first half of 2005 and an interim dividend of euro 0.45 per share.

First Half 2005 results Eni s Board of Directors approved today the consolidated Report on the First Half of 2005. Operating profit was euro 8,041 million and net profit was euro 4,343 million, up 40.1% and 29.1% from the first half of 2004, respectively. Results are in line with those announced on July 29, 2005 with the consolidated Report on the Second Quarter of 2005[1].

For the same period, the parent company Eni SpA reported a net profit of euro 3,778 million, down 1.4% from a year ago.

Interim dividend As announced on February 28, 2005, starting from 2005 Eni will pay an interim dividend. Accordingly Eni s Board of Directors resolved today to pay an interim dividend for fiscal year 2005 amounting to euro 0.45 per share[2] to shares outstanding at the ex-dividend date (October 24, 2005), with payments starting on October 27, 2005. Eni s external auditors provided their opinion as required by Article 2433-bis of the Italian Civil Code.

Eni s consolidated Report on the First Half of 2005 has been submitted to the Board of Statutory Auditors and external auditors.

Eni s summarized Group results, balance sheet and cash flow statement for the first half of 2005 are attached to this press release.

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

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(1) Eni s consolidated Report on the Second Quarter of 2005 is available on the Eni web site at www.eni.it.

(2) Following new Italian tax laws in force from January 1, 2004, dividends are not entitled to a tax credit and are either subject to a withdrawal tax or partially cumulated to the receiver s taxable income, depending on the receiver fiscal status.

Table of Contents

Other information presented according to the instructions of Borsa Italiana SpA for press releases relating to the approval of financial results[3]

Post balance sheet events

Following the approval of the Italian Antitrust Authority granted on August 25, 2005, on September 6, 2005 Eni divested 100% of the share capital of its subsidiary Italiana Petroli SpA (IP) to Api - Anonima Petroli Italiana SpA. Proceeds to Eni were euro 190 million, subject to an adjustment for the change in IP s net equity between December 31, 2004 and August 31, 2005. As part of the sale transaction, the parties signed: (i) a five-year fuel supply agreement under which IP will purchase from Eni certain 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.

Bonds maturing in the 18-month period starting on June 30, 2005

(nominal amount in million euro)

Issuing company	
Eni Coordination Center SA	258
Enifin SpA	129
Eni USA Inc	248
Eni Finance Inc	17
Eni Investments Plc	10
	662

Bonds issued in the first half of 2005 (guaranteed by Eni SpA)

Issuing company	**Nominal amount** (million)	**Currency**	**Amount** (million euro)	**Maturity**	**Rate**	**%**
Eni Coordination Center SA	100	USD	83	2015	fixed	4.800
Eni Coordination Center SA	75	USD	62	2015	fixed	4.450
Eni Coordination Center SA	3,000	JPY	22	2021	fixed	1.955
Eni Coordination Center SA	5,000	JPY	37	2013	fixed	1.150
Eni Coordination Center SA	100	EUR	100	2017	fixed	3.750
Eni Coordination Center SA	100	EUR	100	2010	fixed	2.876
Eni Coordination Center SA	50	CHF	32	2010	fixed	2.043
			436			

(3) Information unchanged from Eni s press release of July 29, 2005 relating to results for the second quarter 2005 have been omitted.

Table of Contents

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This press release is available on the Eni web site at www.eni.it. Eni s consolidated Report on the First Half of 2005 is available at the same web site starting from 6:00 p.m. CET.

About Eni
Eni is one of the leading integrated energy companies in the world operating in the oil and gas, power generation, petrochemicals, oilfield services construction and engineering industries. In 2004, Eni reported net profit under IFRS of euro 7,059 million. Eni is present in 70 countries and is Italy s largest company by market capitalization.

Table of Contents

Attachment

Summarized Group Results

(million euro)

		First half			
2004		**2004**	**2005**	**Change**	**% Ch.**
54,274	Net sales from operations	26,406	32,495	6,089	23.1
1,346	Other income and revenues	555	322	(233)	(42.0)
(38,737)	Operating expenses	(18,875)	(22,228)	(3,353)	(17.8)
(4,753)	Depreciation, amortization and writedowns	(2,348)	(2,548)	(200)	(8.5)
12,130	**Operating profit**	**5,738**	**8,041**	**2,303**	**40.1**
(113)	Net financial expense	(62)	(176)	(114)	(183.9)
852	Net income from investments	574	413	(161)	(28.0)
12,869	**Profit before income taxes**	**6,250**	**8,278**	**2,028**	**32.4**
(5,464)	Income taxes	(2,699)	(3,763)	(1,064)	(39.4)
7,405	**Profit before minority interest**	**3,551**	**4,515**	**964**	**27.1**
(346)	Minority interest	(186)	(172)	14	7.5
7,059	**Net profit**	**3,365**	**4,343**	**978**	**29.1**

Summarized Group Balance Sheet

(million euro)

	Dec. 31, 2004	**June 30, 2005**	**Change**
Fixed assets			
Property, plant and equipment, net	38,959	41,768	2,809
Compulsory stock	1,386	1,467	81
Intangible assets, net	2,479	2,402	(77)
Investments, net	4,191	4,436	245
Accounts receivable financing and securities related to operations	852	919	67
Net accounts payable in relation to capital expenditure	(1,081)	(1,044)	37
	46,786	**49,948**	**3,162**
Working capital, net	**(750)**	**(2,637)**	**(1,887)**
Employee termination indemnities and other benefits	**(893)**	**(921)**	**(28)**
Capital employed, net	**45,143**	**46,390**	**1,247**
Shareholders equity including minority interests	**34,683**	**36,844**	**2,161**
Net borrowings	**10,460**	**9,546**	**(914)**
Total liabilities and shareholders equity	**45,143**	**46,390**	**1,247**

- 4 -

Table of Contents

Summarized Group Cash Flow Statement

(million euro)

	First half		
	2004	**2005**	**Change**
Net profit before minority interest	3,551	4,515	964
Adjustments to reconcile to cash generated from operating income before changes in working capital:			
- amortization and depreciation and other non monetary items	2,361	2,392	31
- net gains on disposal of assets	(471)	(21)	450
- dividends, interest, extraordinary income (expense) and income taxes	2,799	3,844	1,045
Cash generated from operating income before changes in working capital	**8,240**	**10,730**	**2,490**
Changes in working capital related to operations	1,214	328	(886)
Dividends received, taxes paid, interest (paid) received during the year	(2,047)	(2,624)	(577)
Net cash provided by operating activities	**7,407**	**8,434**	**1,027**
Capital expenditure	(3,680)	(3,070)	610
Investments	(72)	(48)	24
Disposals	988	268	(720)
Other cash flow related to capital expenditure, investments and disposals	(163)	(166)	(3)
Free cash flow	**4,480**	**5,418**	**938**
Borrowings (repayment) of debt related to financing activities	160	89	(71)
Changes in short and long-term financial debt	(1,309)	(1,514)	(205)
Dividends paid and changes in minority interests and reserves	(3,101)	(3,782)	(681)
Effect of change in consolidation and exchange differences	23	87	64
NET CASH FLOW FOR THE PERIOD	**253**	**298**	**45**
Free cash flow	**4,480**	**5,418**	**938**
Net borrowings of acquired companies			0
Net borrowings of divested companies	6	21	15
Exchange differences on net borrowings and other changes	(633)	(743)	(110)
Dividends paid and changes in minority interests and reserves	(3,101)	(3,782)	(681)
CHANGE IN NET BORROWINGS	**752**	**914**	**162**

Table of Contents
Contents

Table of Contents
Contents

Mission

Eni is one of the most important integrated energy companies in the world operating in the oil and gas, power generation, petrochemicals, oilfield services construction and engineering industries. In these businesses it has a strong edge and leading international market positions.

Eni s objective is to create new value to meet its shareholders expectations through the continuous improvement of cost efficiency and the quality of its products and services and through the attention to the needs of its employees and the commitment to a sustainable growth pattern also encompassing the careful assessment of the environmental impact of its activities and the development of innovative and efficient technologies.

To achieve this objective Eni relies on the managerial and technical capabilities as well as the continuous development of its workforce, and on an increasingly lean and entrepreneurial organization.

BOARD OF DIRECTORS [1]
Chairman
Roberto Poli [2]
Managing Director
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 CONTROL OF ENI SpA S FINANCE ACCOUNTING
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 Other Information section of the Report of the

(5) Appointed by the Board of Directors on January 30,
(6) 2001
(7) Appointed by the Board of Directors on April 14, 2004

(1) Directors.

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

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

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

Appointed by the Board of Directors on November 14, 2000

(8) Appointed by the Shareholders Meeting held on May 27, 2005 for a three-year period, expiring at the date of approval of the financial statements for the 2004 financial year

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

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

Appointed by the Shareholders Meeting of May 28, 2004 for a three-year period

September 21, 2005

Report on the First Half of 2005

Contents

Report of the Directors and accounts for the first half of 2005

Eni means Eni SpA and its consolidated subsidiaries

Contents

highlights

Eni s first half net profit was euro 4,343 million, an increase of euro 978 million from the first half of 2004, or 29%. Adjusted net profit at replacement cost, that does not include the positive effect of higher profit in stock of euro 167 million and the negative euro 581 million effect of special items, was euro 4,406 million, an increase of 46%

Taking into account the results achieved, Eni s Board of Directors resolved to distribute an interim dividend for the fiscal year 2005 of euro 0.45 per share. The ex-dividend date is October 24, 2005, payment starts on October 27, 2005

Liquid and natural gas production increased to 1.7 million boe/day, up over 5%, from the first half of 2004, resulting from the full production of fields started-up in late 2004, in particular in Libya and Angola. This increase reaches 9.4% without taking into account the price effect on Production Sharing Agreements (63,000 boe/day)

On August 4, 2005, in Libya one year after the start-up of the Wafa onshore field, the first well in the offshore Bahr Essalam gas field came onstream within the integrated Western Libyan Gas project for the development of natural gas reserves (Eni s interest 50%). When fully operational in 2006 the two fields will produce 10 billion cubic meters/year, of these 8 billion (4 net to Eni) are due to be exported on European markets through the Greenstream pipeline (Eni s interest 75%) that started operations in October 2004

As part of its strategy of expansion in areas with high mineral potential, Eni acquired the exploration license for 104 blocks onshore and offshore Northern Alaska for a total acreage of 1,718 square kilometers and, following an international bid tender, the exploration license for two blocks located onshore and offshore India for a total acreage of 14,445 square kilometers

An agreement signed with the Indian Oil & Natural Gas Corporation aimed at identifying business opportunities in exploration and production of hydrocarbons is intended to accelerate the development of Eni s activities in a country with high exploration potential

As part of its strategy of international expansion in LNG, Eni acquired for a period of 20 years regasification capacity of 6 billion cubic meters/year of the Cameron regasification terminal on the Louisiana coast of the United States with start-up expected in 2008. This transaction will ensure access to a key consumption area and will allow Eni to exploit its natural gas reserves in Africa

On September 6, following the approval of the Italian Antitrust Authority, Eni divested 100% of the share capital of Italiana Petroli SpA (IP), a retail fuel distribution company, to Api SpA for euro 190 million

Contents

Main financial data

(million euro)

2004		First half 2004	First half 2005	Change	% Ch.
54,274	Net sales from operations	26,406	**32,495**	6,089	23.1
12,130	Operating profit	5,738	**8,041**	2,303	40.1
7,059	Net profit	3,365	**4,343**	978	29.1
12,081	Net cash flow from operating activities	7,407	**8,434**	1,027	13.9
7,329	Capital expenditure	3,680	**3,070**	(610)	(16.6)
34,683	Shareholders equity including minority interest	32,014	**36,844**	4,830	15.1
10,460	Net borrowings at period end	12,978	**9,546**	(3,432)	(26.4)
45,143	Net capital employed	44,992	**46,390**	1,398	3.1

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

Main operating data

2004		First half 2004	First half 2005	Change	% Ch.
	Daily production of:				
1,034	oil (thousand barrel)	1,021	**1,104**	83	8.1
590	natural gas (1) (thousand boe)	603	**610**	7	1.2
1,624	**hydrocarbons** (1) (thousand boe)	**1,624**	**1,714**	**90**	**5.5**
73.43	Sales of natural gas to third parties (billion cubic meters)	40.24	**40.58**	0.34	0.8
3.70	Own consumption of natural gas (billion cubic meters)	1.68	**2.59**	0.91	54.2
77.13		41.92	**43.17**	1.25	3.0
	Sales of natural gas of Eni s affiliates				
7.32	(net to Eni) (billion cubic meters)	3.65	**4.54**	0.89	24.4
84.45	**Total sales and own consumption of natural gas** (billion cubic meters)	**45.57**	**47.71**	**2.14**	**4.7**
28.26	Natural gas transported on behalf of third parties in Italy (billion cubic meters)	14.09	**16.33**	2.24	15.9
13.85	Electricity production sold (terawatthour)	6.08	**10.55**	4.47	73.5
53.54	Sales of refined products (million tonnes)	27.07	**24.81**	(2.26)	(8.3)
9,140	Service stations at period end (in Italy and outside Italy) (units)	10,677	**9,139**	(1,538)	(14.4)
7,118	Petrochemical production (thousand tonnes)	3,679	**3,579**	(100)	(2.7)
5,299	Sales of petrochemicals products (thousand tonnes)	2,619	**2,673**	54	2.1
48,968	Employees at period end (units)	55,557	**48,210**	(7,347)	(13.2)

(1) Includes natural gas production volumes consumed in operations (38,000, 36,000 and 42,000 boe/day in 2004, the first half of 2004 and the first half of 2005, respectively).

Main market indicators

2004	First half 2004	First half 2005	Change	% Ch.

2004		2004	2005	Change	% Ch.
38.22	Average price of Brent dated crude oil (1)	33.66	**49.55**	15.89	47.2
1.244	Average EUR/USD exchange rate (2)	1.227	**1.285**	0.06	4.7
30.72	Average price in euro of Brent dated crude oil	27.43	**38.56**	11.13	40.6
4.02	Average European refining margin (3)	3.74	**5.52**	1.78	47.6
2.1	Euribor - three-month euro rate (%)	2.1	**2.1**	..	..

(1) In USD/barrel. Source: Platt s Oilgram.

(2) Source: ECB.

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

Contents

exploration & production

Mineral right portfolio and exploration activities

As of June 30, 2005, Eni s portfolio of mineral rights consisted of 921 exclusive or shared interests[1] for exploration and development in 34 countries on five continents, for a total net acreage of 234,381 square kilometers (234,180 at December 31, 2004). Of these, 41,341 square kilometers concerned production and development (41,997 at December 31, 2004). Outside Italy net acreage (205,828 square kilometers) increased by 5,283 square kilometers resulting from acquisitions in Pakistan, Egypt, Norway and the United States, offset in part by releases in Congo, Tunisia and Brazil.

In Italy (28,553 square kilometers) total acreage declined by 5,082 square kilometers due to releases.

In the first half of 2005, a total of 28 new exploratory wells were drilled (9 of which represented Eni s share), as compared to 31 in the first half of 2004 (12 represented Eni s share). Overall success rate was 25.8% (40.2% of which represented Eni s share), as compared to 48% (56.1% of which represented Eni s share) in the first half of 2004. Main discoveries were made in Australia, Indonesia, Pakistan, Nigeria and Egypt.

Production

		First half			
2004		2004	2005	Change	% Ch.
1,624	**Daily production of hydrocarbons** [(1) (2)] (thousand boe)	**1,624**	**1,714**	**90**	**5.5**
271	Italy	271	**267**	(4)	(1.5)
380	North Africa	371	**449**	78	21.0
316	West Africa	301	**326**	25	8.3
308	North Sea	334	**288**	(46)	(13.8)
349	Rest of world	347	**384**	37	10.7
577.9	**Production sold** (million boe)	**286.8**	**301.4**	**14.6**	**5.1**

(1) Includes Eni s share of production of joint ventures accounted for with the equity method from January 1, 2005 (formerly accounted for proportionally).

(2) Includes natural gas production consumed in operations (38,000, 36,000 and 42,000 boe/day in 2004, the first half of 2004 and 2005, respectively).

In the first half of 2005, daily liquid and natural gas production was 1,714,000 boe, up 90,000 boe from the first half of 2004, or 5.5%. This increase was 9.4% without taking into account the price effect on PSAs[2]. Production increases were registered

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(1) Of these, 1 exploration and development right held in joint venture and accounted for with the equity method from January 1, 2005 (previously accounted for proportionally) and 5 exploration rights held through affiliates for activities in Saudi Arabia, Russia and Spain.

(2) In PSAs the national oil company awards the execution of exploration and production activities to the international oil company (contractor). The contractor bears the mineral and financial risk of the initiative and, when successful, recovers capital expenditure and costs incurred in the year (cost oil) by means of a share of production. This production share varies along with international oil prices. In certain PSAs changes in international oil prices affect also the share of production to which the contractor is entitled in order to remunerate its expenditure (profit oil).

in particular in Libya, Angola, Iran, Kazakhstan, Algeria, Italy (oil) and Australia. These increases were partly offset by: (i) lower production entitlements (down 63,000 boe) in PSAs related to 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 27,000 boe). The share of production outside Italy was 84% (83% in the first half of 2004).

Daily production of oil and condensates (1,104,000 barrels) was up 83,000 barrels from the first half of 2004, or 8.1%, due to increases registered in: (i) Angola, due to the full production of fields in the Kizomba A area in Block 15 (Hungo and Chocalho, Eni s interest 20%) and the start-up of the Bomboco field located in area B of Block 0 (Eni s interest 9.8%); (ii) Libya, due to full production at the Wafa (Eni s interest 50%) and Elephant fields (Eni s interest 23.33%); (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 (Eni operator with a 60% interest) fields; (iv) Kazakhstan, in the Karachaganak field (Eni co-operator with a 32.5% interest) due to increased production related to the entry into service of new facilities resulting in higher exports from the Novorossiysk terminal on the Russian coast of the Black Sea; (v) Algeria, due to full production at the Rod and satellite fields (Eni operator with a 63.96% interest); (vi) Italy, due to increased production in the Val d Agri reflecting the full production of the fourth treatment train of the oil center; (vii) Australia, due to full production at the Bayu Undan field (Eni s interest 12.04%). 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.

Daily production of natural gas (610,000 boe) was up 7,000 boe from the first half of 2004, or 1.2%, reflecting primarily increases registered in Libya, due to full production at the Wafa field (Eni s interest 50%), offset in part by the declines registered in particular in Italy and the United Kingdom due to declining mature fields and the effect of the divestment of assets effected in 2004.

Liquid and gas production sold amounted to 301.4 million boe. The 8.8 million boe difference over production was due essentially to own consumption of natural gas (7.6 million boe).

Main exploration and development projects

ALASKA In August 2005, Eni acquired 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 the pre-development phase holding commercial reserves of 60 million barrels of oil and an exploration potential in excess of 110 million barrels.

ANGOLA Between January and May 2005 in area B of Block 0 former Cabinda (Eni s interest 9.8%) production started at the Bomboco and North Sanha oil, condensate and LPG offshore fields. 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

Contents

50%. Peak production of oil, condensates and LPG is expected at 100,000 barrels/day (11,000 barrels/day net to Eni) in 2007.

The Kissanje and Dikanza oil fields in the deep offshore of Angola started production in July 2005. They are part of phase B of the development of discoveries in the Kizomba area in Block 15 (Eni s interest 20%). These two fields produce through a TLP (Tension Leg Platform) installed on Kissanje and an underwater system on Dikanza, production is then transferred on an FPSO unit with a treatment capacity of 250,000 barrels/day and a storage capacity of over 2 million barrels. Peak production at 43,000 barrels of oil per day net to Eni is targeted at 2007.

INDIA In July 2005, Eni has been awarded two exploration permits in India in Blocks 8 and D-6 both as operator, following an international bid tender. Onshore Block 8 (Eni s interest 34%) is located in Rajasthan in the northwest of India, and extends for 1,335 square kilometers. Offshore 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 is the first exploration contract awarded to Eni 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.

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 and was developed through the installation of two offshore platforms and of two 100-kilometer long underwater pipelines with a 32" diameter linking it to the coast. The treatment plant now produces 20 billion cubic meters/year of natural gas and over 90,000 barrels/day of condensates. In the short term it will also produce 1 million tonnes/year of LPG. The contract provides that the field s liquid production be used to compensate costs incurred and to provide return on invested capital. A production peak of over 50,000 barrels/day of liquids (condensates, butane, propane) net to Eni is expected in 2006.

KAZAKHSTAN Within the North Caspian Sea PSA for the development of the Kashagan field, on March 31, 2005 Eni and the other members of the consortium, except for one, acquired 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, new partner in the PSA with an 8.335% interest. Eni therefore increased its interest from 16.67% to 18.52% and continues acting as operator. The outlay for this transaction amounted to dollar 200 million. At June 30, 2005, the total amount of contracts awarded for the development of the field was approximately dollar 7 billion.

Within the Karachaganak project (Eni co-operator with a 32.5% interest) the proper functioning of the new gas injection plants in the first half of 2005 allowed, among other things, to ship to the North Caspian Pipeline Consortium (Eni s interest 2%) a large amount of the oil production from the field, that was supplied as C blend to the Novorossiysk terminal on the Black Sea. The Phase 2M (maintenance) of the Karachaganak project continued according to plans.

NIGERIA In April 2005, the Okpai power station (Independent Power Plant, Eni s interest 20%) started operations, with a generation capacity of 450 megawatts on two gas and one steam turbines. The project entailed also the construction of a 54-kilometer long

aerial transmission line with a capacity of 130 kilowatthour. The power station is fed with gas from the Kwale fields in permit OML 60 (Eni operator with a 20% interest) which will supply up to 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 reach zero gas flaring.

In August 2005, Eni finalized its entry as operator in Blocks OML 120 and OML 121.

UNITED STATES 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 approximately 6,000 boe per day (net to Eni) is expected in 2007.

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

Capital expenditure

In the first half of 2005, capital expenditure of the Exploration & Production segment amounted to euro 2,220 million (euro 2,486 million in the first half of 2004) and concerned mainly development expenditure (euro 1,885 million) directed mainly outside Italy (euro 1,724 million), in particular in Kazakhstan, Libya, Angola and Egypt. Development expenditure in Italy (euro 162 million) concerned primarily the continuation of drilling development wells, 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 186 million, of which about 97% was directed outside Italy. Outside Italy exploration concerned in particular the following countries: Norway, Indonesia, Brazil, Egypt and Nigeria. In Italy exploration concerned essentially the onshore of Sicily and Central Italy. Eni also acquired a further 1.85% interest in the Kashagan development project with an outlay of dollar 200 million.

As compared to the first half of 2004, capital expenditure declined by euro 266 million, down 10.7%, due essentially to the completion of relevant projects (in particular South Pars in Iran and the onshore section of the Western Libyan Gas Project) and to the effect of the 4.7% appreciation of the euro over the dollar.

Contents

gas & power

natural gas

Supply of natural gas

(billion cubic meters)

		First half			
2004		**2004**	**2005**	**Change**	**% Ch.**
11.30	***Italy***	**5.64**	**5.34**	**(0.30)**	**(5.3)**
20.62	Russia	11.24	**11.12**	(0.12)	(1.1)
1.60	Russia via Blue Stream	0.87	**1.05**	0.18	20.7
18.86	Algeria	9.96	**10.73**	0.77	7.7
8.45	Netherlands	4.6	**4.37**	(0.23)	(4.9)
5.74	Norway	3.12	**3.07**	(0.05)	(1.7)
3.57	Hungary	2.09	**2.11**	0.02	1.0
0.55	Libya		**1.87**	1.87	..
1.76	United Kingdom	0.88	**1.12**	0.24	27.3
1.27	Algeria (LNG)	0.72	**0.76**	0.04	5.6
1.00	Other (LNG)	0.42	**0.48**	0.06	..
0.68	Croatia	0.33	**0.42**	0.09	27.3
0.08	Other purchases via pipeline	0.08	**0.30**	0.22	..
0.12	Other purchases Europe	0.02	**0.03**	0.01	..
1.20	Outside Europe	0.58	**0.58**	0.00	0.0
65.42	***Outside Italy***	**34.91**	**38.01**	**3.10**	**8.9**
76.72	**Total supplies**	**40.42**	**43.36**	**2.93**	**7.3**
0.93	Withdrawals from storage	1.63	**0.16**	(1.47)	(90.2)
(0.52)	Network losses and measurement differences	(0.26)	**(0.34)**	(0.08)	30.8
77.13	**Available for sale**	**41.92**	**43.17**	**1.25**	**3.0**

In the first half of 2005, Eni s Gas & Power segment supplied 43.36 billion cubic meters of natural gas, with a 2.93 billion cubic meters increase from the first half of 2004, up 7.3%, in line with volumes sold. Natural gas volumes supplied outside Italy (38.01 billion cubic meters) represented 88% of total supplies (83% in the first half of 2004).

Supplies outside Italy amounted to 38.01 billion cubic meters, the 3.10 billion cubic meter increase from the first half of 2004 (up 8.9%) concerned primarily the reaching of full volumes from Libya (1.87 billion cubic meters) and higher purchases from Algeria (0.77 billion cubic meters). The main declines concerned purchases from the Netherlands (down 0.23 billion cubic meters) and Russia (down 0.12 billion cubic meters).

Supplies in Italy (5.34 billion cubic meters) declined by 0.3 billion cubic meters, or 5.3%, from the first half of 2004, due to the decline in production of the Exploration & Production segment.

In the first half of 2004, a total of 0.16 billion cubic meters of natural gas were withdrawn from the storage sites of Stoccaggi Gas Italia SpA as compared to 1.63 billion cubic meters in the first half of 2004.

Contents

Take-or-pay

In order to meet the medium and long-term demand of 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 16 years. Existing contracts, which in general contain take-or-pay clauses, will ensure a total of about 67.6 billion cubic meters of natural gas per year (Russia 28.5, Algeria 21.5, Netherlands 9.8, Norway 6 and Nigeria LNG 1.8) 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 are 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.

Sales of natural gas

(billion cubic meters)

		First half			
2004		**2004**	**2005**	**Change**	**% Ch.**
50.39	***Italy***	**27.90**	**27.46**	**(0.44)**	**(1.6)**
14.18	Wholesalers	9.23	**7.09**	(2.14)	(23.2)
0.54	Gas release		**1.07**		
35.67	End customers	18.67	**19.30**	0.63	3.4
12.39	*Industrial users*	*6.46*	***6.23***	*(0.23)*	*(3.6)*
15.92	*Thermoelectric*	*7.61*	***8.4***	*0.79*	*10.4*
7.36	*Residential and commercial*	*4.6*	***4.67***	*0.07*	*1.5*
21.87	***Rest of Europe***	**11.76**	**12.56**	**0.80**	**6.8**
1.17	***Outside Europe***	**0.58**	**0.56**	**(0.02)**	**(3.4)**
73.43	**Total sales to third parties**	**40.24**	**40.58**	**0.34**	**0.8**
3.70	Own consumption	1.68	**2.59**	0.91	54.2
77.13	**Sales to third parties and volumes consumed by Eni**	**41.92**	**43.17**	**1.25**	**3.0**
7.32	**Sales of natural gas of Eni s affiliates** (Eni s share)	**3.65**	**4.54**	**0.89**	**24.4**
6.60	Europe	3.33	**4.18**	0.85	25.5
0.72	Outside Europe	0.32	**0.36**	0.04	12.5
84.45	**Total sales of natural gas**	**45.57**	**47.71**	**2.14**	**4.7**

In the first half of 2005 natural gas sales (47.71 billion cubic meters, including own consumption and Eni s share of sales of affiliates and relevant companies[3]) were up

(3) At present the only relevant company is Nigeria LNG Ltd (Eni s interest 10.4%).

2.14 billion cubic meters from the first half of 2004, or 4.7%, reflecting primarily higher sales in markets in the rest of Europe (up 1.61 billion cubic meters, including sales of affiliates, or 11%) and higher own consumption of natural gas for power generation at EniPower s power stations (up 0.91 billion cubic meters, or 54.2%), whose effects were offset in part by lower sales in Italy (down 0.44 billion cubic meters, or 1.6%).

In a more and more competitive market, natural gas sales in Italy (27.46 billion cubic meters) were down 0.44 billion cubic meters from the first half of 2004, or 1.6%, reflecting primarily a decline in sales to wholesalers (down 2.14 billion cubic meters) and to industries (down 0.23 billion cubic meters), also related to the fact that part of supplies (1.07 billion cubic meters) to operators in these sectors in particular wholesalers was carried out in accordance with certain decisions of the Antitrust Authority (so called gas release)[4]. These declines were offset in part by higher sales to the thermoelectric segment (up 0.79 billion cubic meters, or 10.4%).

Natural gas sales in the rest of Europe (12.56 billion cubic meters) were up 0.80 billion cubic meters, or 6.8%, due to increases registered in: (i) sales under long-term supply contracts with importers to Italy (0.4 billion cubic meters), also due to reaching of full supplies from Libyan fields; (ii) Germany (0.24 billion cubic meters) related in particular to increased supplies to Eni s affiliate GVS (Eni s interest 50%) and the start-up of supplies to Wingas; (iii) supplies to the Turkish market via the Blue Stream gasline (0.18 billion cubic meters); (iv) France (0.15 billion cubic meters) related to the beginning of gas marketing activities.

Own consumption[5] was 2.59 billion cubic meters, up 0.91 billion cubic meters from the first half of 2004, or 54.2%, reflecting primarily higher supplies to EniPower due to the coming onstream of new generation capacity.

Sales of natural gas by Eni s affiliates, net to Eni and net of Eni s supplies, were 4.54 billion cubic meters, up 0.89 billion cubic meters from the first half of 2004, or 24.4%, related in particular to Unión Fenosa Gas and concerned: (i) GVS with 1.90 billion cubic meters; (ii) Unión Fenosa Gas (Eni s interest 50%) with 0.80 billion cubic meters; (iii) volumes of natural gas (0.74 billion cubic meters) treated at the Nigeria LNG Ltd (Eni s interest 10.4%) liquefaction plant in Nigeria, destined to US and European markets; (iv) Galp Energia (Eni s interest 33.34%) with 0.71 billion cubic meters.

Transmission

In the first half of 2005, volumes of natural gas input in the national grid (28.46 billion cubic meters) increased by 0.71 billion cubic meters from the first half of 2004, up 2.6%, due to increases in consumption registered in the thermoelectric

(4) 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 October 1, 2004 to September 30, 2008 at the Tarvisio entry point into the Italian network.

(5) 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.

Contents

segment, related to the entry into service of combined cycle power plants, and to the industrial segment.

Eni transported 16.33 billion cubic meters of natural gas on behalf of third parties in Italy, up 2.24 billion cubic meters from the first half of 2004, or 15.9%.

Natural gas volumes transported (1)

(billion cubic meters)

		First half			
2004		**2004**	**2005**	**Change**	**% Ch.**
52.15	**On behalf of Eni**	**27.75**	**28.46**	**0.71**	**2.6**
28.26	**On behalf of third parties**	**14.09**	**16.33**	**2.24**	**15.9**
9.25	Enel	4.84	**5.43**	0.59	12.2
8.00	Edison Gas	3.96	**4.18**	0.22	5.6
11.01	Others	5.29	**6.72**	1.43	27.0
80.41		**41.84**	**44.79**	**2.95**	**7.1**

(1) Volumes include amounts input to domestic storage.

Development projects

LNG United States

As part of its strategy of expansion of the LNG business, on August 1, 2005, Eni signed an agreement with the US company Cameron LNG Llc (belonging to the Sempra Energy group) to purchase a share in the regasification capacity of the Cameron liquefied natural gas terminal in Louisiana; construction is planned to start late in 2005 and expected to be completed in 2008. The share of regasification capacity purchased amounts to 6 billion cubic meters per year for a period of 20 years, which corresponds to 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 North African and Nigerian reserves on the US natural gas markets.

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 to be sold principally on the Spanish market. The partners in the project (Unión Fenosa Gas and Egyptian companies EGPC and EGAS) are planning an expansion of the plant that provides for the construction of a second train with the same capacity of the first one. Eni will supply about 3 billion cubic meters/year 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.

Germany

In January 2005, Eni agreed a 14 year contract, starting in 2006, for the supply of 1.2 billion cubic meters/year of natural gas to the German company Wingas. The gas will be delivered at Eynatten at the German-Belgian border.

Contents

Sale of the water business

In March 2005, after receiving the authorization of the Antitrust Authority, the agreement for the sale of Italgas s majority interest (67.05%) in Società Azionaria per la Condotta di Acque Potabili to Amga SpA and Smat SpA was finalized for euro 85.1 million (euro 15.57 per share). The sale contract had been signed on December 13, 2004.

In May 2005, after receiving the authorization of the Antitrust Authority, the agreement for the sale of Italgas s 100% interest in Acquedotto Vesuviano SpA to Gori SpA was finalized for euro 20 million. The sale contract had been signed on March 10, 2005.

The above transactions are part of Eni s strategy of concentrating its resources in its core natural gas business.

Agreement between Eni and Gazprom/Gazexport

On May 10, 2005, the Russian companies Gazprom and Gazexport (a 100% subsidiary of Gazprom) closing a negotiation started in 2004, signed an agreement, finalized on June 16, 2005 which provides the following:

(a) extension to 2027 at unchanged contractual conditions of some supply contracts due to expire in 2017 for a total volume of 10.5 billion cubic meters/year;

(b) for the three-year period 2009-2011 (when oversupply is expected on Italian markets) a decrease in take-or-pay penalties within the limits of additional volumes sold on Italian markets by Gazexport related to the upgrade of the TAG pipeline from 2008;

(c) a reduction of 2 billion cubic meters/year in contract volumes of a supply contract and the sale to Gazexport of the relevant transport capacity of the TAG pipeline currently used by Eni;

(d) the option for Gazexport to purchase from Eni directly or through a subsidiary owned for over 50% of its share capital up to a maximum of 25% of the share capital of Promgas SpA (a company owned in equal shares by Eni and Gazexport) leaving however joint control to the two parent companies at a price determined according to its fair market value, which will keep into account the agreed restructuring of the present contract structure under which Eni will cease to act as broker for Promgas for gas supplies to Edison and will only provide transport services through the TAG gasline.

The finalization of the agreement and relevant contracts is subject to the approval of the Italian Antitrust Authority on the sale of transport capacity under (c).

Regulatory framework

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

TTPC

On February 1, 2005, the Antitrust Authority opened a procedure against Eni 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 March 31, 2003 by TTPC with four shippers, who were entitled to new

Contents

capacity on TTPC s pipeline, due to the non occurrence of suspensive clauses. Therefore TTPC decided to not proceed to the planned upgrade of the pipeline by 2007.

On July 28, 2005 Eni submitted to the Antitrust Authority a proposal containing the actions it intends to perform in order to favor the opening of the Italian natural gas market, subject to the recognition by the Authority of their ability to improve competition. The proposal concerns:

(i) the upgrade of the TTPC pipeline for the import of natural gas to Italy from Algeria. The plan, prepared in agreement with the Algerian national company Sonatrach entails an increase in transit capacity[6] of 3.2 billion cubic meters/year from 2008 and further 3.3 billion cubic meters/year from 2012. The expenditure for the first upgrade required is estimated at euro 330 million and will be borne entirely by Eni. The new capacity has been conferred to importers to Italy under a non discriminating sale procedure. The efficacy of the relevant transport contracts is subject to suspensive clauses that need to take place before October 30, 2005. The TTPC pipeline, 742-kilometer long, made up of two lines with a diameter of 48 inches each 371-kilometer long, transports natural gas across Tunisia from Oued Saf Saf where Algerian natural gas enters into Tunisia, to Cap Bon on the Mediterranean coast where it links with the Trans Mediterranean Pipeline Co (TMPC) pipeline. It has a transit capacity of 27 billion cubic meters/year and three compression stations. An integral part of the agreement is represented by the corporate and contractual restructuring of TMPC, a company owned by Eni and Sonatrach in equal shares, owner of the underwater pipeline crossing the Sicily Channel from Cap Bon to Mazara del Vallo, entry point into the Italian national gasline network. The TMPC pipeline is 775-kilometer long, made up of five lines each 155-kilometer long with diameters ranging from 20 and 26 inches and a transit capacity of 28 billion cubic meters/year;

(ii) upgrade of the Trans Austria Gasleitung (TAG) pipeline for the import into Italy of Russian gas. The plan, agreed in June 2005 with the national Austrian company ÖMV, entails an increase in transit capacity of 3.2 billion cubic meters/year from 2008. The new capacity will be available to importers to Italy under a non discriminating sale procedure expected to start in September 2005. The expected expenditure amounts to euro 130 million (euro 115 million paid by Eni). The TAG pipeline, 1,018-kilometer long, made up of two lines, each about 380-kilometer long and a third line 258-kilometer long, with diameters ranging from 36 to 42 inches, crosses Austria from Baumgarten, the delivery point at the border of Austria and Slovakia, to Tarvisio, point of entry into the Italian national network. It has a transit capacity of approximately 32.5 billion cubic meters/year and three compression stations;

(iii) a 2 billion cubic meters/year reduction of contract volumes in one of the 4 take-or-pay contracts entered with Gazexport for the purchase of Russian gas for the remaining term (2006-2027) and the provision to Gazexport of the relevant transport capacity currently assigned to Eni as shipper on the TAG pipeline that would become available following the mentioned reduction in contract volumes purchased and transported by Eni. This would allow Gazexport to sell its gas directly without the intervention of Eni.

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(6) Transit capacity is the maximum daily flow at the entry points of the gasline that is transported to the next transport infrastructure.

Contents

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 importing operators stating their failure to comply with the Authority information requirement expressed in its Decision No. 188/2004 of October 27, 2004, by which it required natural gas importing operators, 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) updating price 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 March 22, 2005 cancelled the obligation on part of Eni to communicate dates and supplier for each contract and FOB purchase prices.

With a letter dated March 14, 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 the part of information the presentation of which was annulled by the Regional Administrative Court s decision. With Decision No. 107/2005 the Authority for electricity and gas stated Eni s failure to comply with the Authority information requirement. The inquiry was to be concluded by July 30, 2005.

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.

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

In order to dampen the inflationary pressures related to the increase in international oil prices in the second half of 2004, the Authority, with Decision No. 248 of December 29, 2004, changed the indexing mechanism concerning the raw material component in tariffs paid by end customers that were non eligible customers at December 31, 2002 according to Decision No. 195/2002. The decision 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 adjustment 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 the selling price by euro 0.25 cents per cubic meter in order to foster the negotiation of prices consistent with average European prices in gas import contracts starting from October 1, 2005.

Decision No. 248/2004 also imposes the obligation to provide new conditions consistent with the said decision to suppliers of natural gas to wholesalers under contracts that do not contain price adjustment clauses in case of changes in the adjustment rules of supply conditions.

Eni filed a claim against Decision No. 248/2004, requesting its suspension. On January 25, 2005 the Regional Administrative Court of Lombardia accepted the claim and

Contents

on March 22, 2005 the Council of State rejected the Authority s claim requesting the annulment of the suspension. With a judgment of June 28, 2005, the Regional Administrative Court of Lombardia annulled Decision No. 248/2004 of the Authority for electricity and gas. The Authority decided to make a counterclaim to the Council of State (Decision No. 184 of September 5, 2005) and on September 7 wrote a letter to the Italian Parliament and Government inviting them to contribute to its counterclaim with the Council of State and to provide and authentic interpretation of Law 239/2004 (on the reorganization of the energy sector) for the definition of public service.

Decision No. 166/2005 of the Authority for electricity and gas

With Decision No. 166 of July 29, 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 (October 1, 2005-September 30, 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.

The major new elements of the new regime are the following:

- a reduction of the rate of return of capital employed in transport activity 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 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 maximum amount of revenues the transport undertaking is entitled to (allowed revenues) 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 entire allowed amount). The annual rate of recovery of productivity was confirmed at 2%; this is used to reduce the effect of changes in the consumer price index in the updating of the preceding year s allowed revenues;
- 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 cost of connection, substituted by an amount proportional to measurement, aimed at favoring measuring and data collection;

Contents

- 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 May 1 to October 31) 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 March 31 of each year.

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

Decision No. 104 of June 25, 2004 postponed to September 30, 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 September 29, 2004 the Authority defined gas distribution tariffs for the second regulated period from October 1, 2004 to September 30, 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 adjustment mechanism of tariffs 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 decision published on February 16, 2005 accepted the distributors claim and cancelled Decision No. 170/2004 of the Authority in the part where it defines 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 March 8, 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 June 21, 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 August 3, 2005 the Authority also defined the application modes of the individual regime contained in Decisions No. 170 and 173/2004.

Inquiry of the Authority for Electricity and Gas on Italgas Più SpA (now merged in Eni SpA) and Italgas SpA

With Decision No. 88/2005, the Authority for Electricity and Gas started an inquiry on Italgas Più SpA (now merged in Eni SpA) concerning: (i) the minimum contractual conditions of sale service (Decision No. 229/2001) related to belated emission of invoices as compared to periods set by the Authority for Electricity and Gas; (ii) wrong statements on the number of services requested by Italgas Più customers to Italgas SpA (connections and similar services) from August 26 to September 5, 2004.

Contents

On August 12, 2005 the Authority for Electricity and Gas presented the following results: (i) violation of article 5 of Decision No. 229/2001 concerning the belated emission of invoices from August 26 to September 5, 2004. The Authority considers such behavior unacceptable in light of the electronic migration of data ongoing in that period and the tools used by the Company inadequate to inform customers, although it acknowledges the effort of the Company at diminishing the negative effects of belated invoicing by providing longer terms for payment, but this event can only influence the amount of the fine that will be imposed to the Company. The Authority stresses also the need to provide proper information to customers on the right to pay by installments under Decision No. 229/2001; (ii) confirmation of wrong statements worsened by the fact that it has hindered the Authority s control activity.

The final decision is expected before the end of September.

With Decision No. 82/2005 the Authority started a similar procedure against Italgas SpA for alleged wrong statements on the number of services requested by Italgas Più SpA.

Contents

power generation

In the first half of 2005, electricity production sold was 10.55 terawatthour, up 4.47 terawatthour, or 73.5% from the first half of 2004, due to the full commercial operation of the Ravenna (up 1.74 terawatthour) and Ferrera Erbognone (up 0.99 terawatthour) plants and the entry into service of the first new power unit at Mantova (up 1.32 terawatthour).

A total of 2.22 terawatthour of purchased electricity were resold to eligible customers, with an increase of 0.66 terawatthour, up 42.3%. Sales of steam amounted to 5,376,000 tonnes, increasing by 445,000 tonnes, up 9%, due to increased production volumes at Ravenna, Mantova and Ferrera Erbognone.

		First half			
2004		**2004**	**2005**	**Change**	**% Ch.**
13.85	Electricity production sold (terawatthour)	6.08	**10.55**	4.47	73.5
3.10	Electricity trading (terawatthour)	1.56	**2.22**	0.66	42.3
10,040	Steam (thousand tonnes)	4,931	**5,376**	445	9.0

Capital expenditure

In the first half of 2005, capital expenditure in the Gas & Power segment totaled euro 521 million (euro 771 million in the first half of 2004) and related in particular to: (i) development and maintenance of Eni s transmission network in Italy (euro 304 million); (ii) the continuation of the construction of combined cycle power plants (euro 124 million) in particular at Brindisi and Mantova; (iii) development and maintenance of Eni s distribution network in Italy (euro 59 million). As compared to the first half of 2004, capital expenditure declined by euro 250 million, down 32.4%, due essentially to the completion of the Greenstream gasline for the import into Italy of gas produced in Libyan fields.

Contents

refining & marketing

Supply and trading

In the first half of 2005, a total of 31.89 million tonnes of oil were purchased (32.51 million in the first half of 2004), of which 18.30 million tonnes from Eni s Exploration & Production segment, 7.07 million from producing countries under long-term contracts and 6.52 million on the spot market. The geographic sources of oil purchased were the following: 25.4% came from West Africa, 17.9% from North Africa, 17.4% from countries of the former Soviet Union, 15.4% from the Middle East, 13.9% from the North Sea, 7.4% from Italy and 2.6% from other areas. Some 15.37 million tonnes were resold, representing a decrease of 0.46 million tonnes, down 2.9% from the first half of 2004. In addition, 1.54 million tonnes of intermediate products were purchased (1.58 million tonnes in the first half of 2004) to be used as feedstocks in conversion plants and 8.25 million tonnes of refined products (10.58 million tonnes in the first half of 2004) sold as a complement to Eni s own production in the Italian market (2.59 million tonnes) and in markets outside Italy (5.66 million tonnes).

Refining

In the first half of 2005 refining throughputs on own account in Italy and outside Italy were 18.20 million tonnes, in line with the first half of 2004, in particular processing increased at Taranto and Livorno and on third parties refineries. These increases were offset by the maintenance standstill of the Porto Marghera refinery

Petroleum products availability

(million tonnes)

		First half			
2004		**2004**	**2005**	**Change**	**% Ch.**
	Italy				
26.75	Products processed in wholly-owned refineries	12.70	**12.71**	0.01	0.1
(1.50)	Products processed for third parties	(0.81)	**(0.78)**	0.03	(3.7)
8.10	Products processed in not owned refineries	4.19	**4.12**	(0.07)	(1.7)
(1.64)	Products consumed in operations and losses	(0.91)	**(0.83)**	0.08	(8.8)
31.71	**Products available**	**15.17**	**15.22**	**0.05**	**0.3**
5.07	Purchases of finished products and change in inventories	2.61	**2.58**	(0.03)	(1.1)
(5.03)	Finished products transferred to foreign cycle	(2.38)	**(2.55)**	(0.17)	7.1
(1.06)	Consumption for power generation	(0.51)	**(0.54)**	(0.03)	5.9
30.69	**Products sold**	**14.89**	**14.71**	**(0.18)**	**(1.2)**
	Outside Italy				
4.04	**Products available**	**1.97**	**2.00**	**0.03**	**1.5**
13.78	Purchases of finished products and change in inventories	7.83	**5.55**	(2.28)	(29.1)
5.03	Finished products transferred from Italian cycle	2.38	**2.55**	0.17	7.1
22.85	**Products sold**	**12.18**	**10.10**	**(2.08)**	**(17.1)**
53.54	**Sales in Italy and outside Italy**	**27.07**	**24.81**	**(2.26)**	**(8.3)**

Contents

and lower processing at the Gela refinery following the damage caused by a sea storm to the docking infrastructure in December 2004.

Total refining throughputs on wholly owned refineries was 12.71 million tonnes, in line with the first half of 2004, with a balanced capacity utilization rate of 100%.

Distribution of refined products

In the first half of 2005 sales of refined products (24.81 million tonnes) were down 2.26 million tonnes from the first half of 2004, or 8.3%, mainly due to the divestment of activities in Brazil in August 2004 (down 1.51 million tonnes), a decline in sales to oil companies and traders outside Italy (down 0.74 million tonnes) and declining retail and wholesale sales in Italy (down 0.18 million tonnes).

Retail sales in Italy

Sales of refined products on retail markets in Italy (5.22 million tonnes) were down 110,000 tonnes from the first half of 2004, or 2.1%, reflecting primarily a decline in domestic consumption of gasoline and LPG (down 2.3%). Eni s retail market share increased slightly from 35.9% in the first half of 2004 to 36%; the increase in market share of Agip branded service stations (from 29% to 29.4%) was offset in part by the decline registered by IP branded service stations.

At June 30, 2005, Eni s retail distribution network in Italy consisted of 7,229 service stations (of these 4,341 were Agip branded and 2,888 IP branded), 15 less than at December 31, 2004 (7,244 units), due to closures (31 service stations), the positive balance (10 units) of acquisitions/releases of lease concessions and the opening of 6 new service stations.

Divestment of Italiana Petroli

Following the approval of the Italian Antitrust Authority granted on August 25, 2005, on September 6, 2005 Eni divested 100% of the share capital of Italiana Petroli (IP) to Api - Anonima Petroli Italiana SpA for euro 190 million, subject to an adjustment for the change in IP s net equity between December 31, 2004 and August 31, 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 of refined products on retail markets in the rest of Europe were 1.77 million tonnes, up 110,000 tonnes from the first half of 2004, or 6.6%, in particular in Germany, the Czech Republic and Spain. At June 30, 2005, Eni s retail distribution network in the rest of Europe consisted of 1,910 service stations, 14 more than at December 31, 2004, due in particular to purchases of service stations in Germany and France.

Contents

Wholesale sales

Sales on wholesale markets in Italy were 5.07 million tonnes, down 70,000 tonnes from the first half of 2004, or 1.4%, reflecting mainly lower sales of fuel oil to the thermoelectric segment, due to the progressive substitution of fuel oil with natural gas in power plants.

Sales on wholesale markets outside Italy were 2.16 million tonnes, down 0.88 million tonnes, or 28.9%, reflecting mainly the divestment of activities in Brazil.

Sales of petroleum products in Italy and outside Italy

(million tonnes)

		First half			
2004		**2004**	**2005**	**Change**	**% Ch.**
10.93	Retail sales	5.33	**5.22**	(0.11)	(2.1)
10.70	Wholesale sales	5.14	**5.07**	(0.07)	(1.4)
21.63		**10.47**	**10.29**	**(0.18)**	**(1.7)**
3.05	Petrochemicals	1.51	**1.50**	(0.01)	(0.7)
6.01	Other sales (1)	2.91	**2.92**	0.01	0.3
30.69	**Sales in Italy**	**14.89**	**14.71**	**(0.18)**	**(1.2)**
3.47	Retail rest of Europe	1.66	**1.77**	0.11	6.6
0.57	Retail Brazil	0.57	**0.00**	(0.57)	..
5.30	Wholesale sales	3.04	**2.16**	(0.88)	(28.9)
9.34		**5.27**	**3.93**	**(1.34)**	**(25.4)**
13.51	Other sales (1)	6.91	**6.17**	(0.74)	(10.7)
22.85	**Sales outside Italy**	**12.18**	**10.10**	**(2.08)**	**(17.1)**
53.54		**27.07**	**24.81**	**(2.26)**	**(8.3)**

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

Capital expenditure

In the first half of 2005, capital expenditure in the Refining & Marketing segment amounted to euro 216 million (euro 277 million in the first half of 2004) and concerned: (i) refining and logistics (euro 116 million), in particular the construction of the tar gasification plant at the Sannazzaro refinery and plant efficiency and flexibility improvement actions; (ii) the upgrade of the distribution network in Italy (euro 45 million); (iii) the upgrade of the distribution network and the purchase of service stations in the rest of Europe (euro 22 million). As compared to the first half of 2004, capital expenditure declined by euro 61 million, down 22%, due essentially to the completion of actions on refineries concerning the upgrade of fuel characteristics to the new European requirements in force from January 1, 2005.

Contents

petrochemicals

Sales - production - prices

In the first half of 2005, sales of petrochemical products (2,673,000 tonnes) were up 54,000 tonnes, or 2.1% from the first half of 2004, reflecting primarily higher sales of intermediates (up 26%), aromatics (up 9%) and olefins (up 4.5%) related to positive demand and the fact that intermediate sales, in particular acetone and phenol, declined in the first half of 2004 following a standstill due to an accident occurred at the Porto Torres dock. These increases were offset in part by declines in: (i) polyethylenes (down 9%) due to lower LLDPE availability related to the standstill of the Priolo plant and to a decline in demand resulting from expected price declines; (ii) styrene (down 5.7%) related to the shutdown of the Ravenna ABS plant and the standstill for maintenance of the Mantova styrene plant.

Production (3,579,000 tonnes) declined by 100,000 tonnes, down 2.7% from the first half of 2004, due to declines registered in particular in polyethylenes (down 7.2%), styrenes (down 6.4%) and olefins (down 4.4%) due mainly to plant standstills. Nominal production capacity declined by 0.9% from the first half of 2004, due mainly to the shutdown of the ABS line in Ravenna and the standstill for maintenance of the Mantova styrene plant. The average capacity utilization rate decreased by 2.2 percentage points (from 78.5% to 76.3%) due mainly to a reduced utilization rate of polyethylene and polystyrene plants.

About 36% of production was consumed internally (36.5% in the first half of 2004). Oil-based feedstocks supplied by Eni s Refining & Marketing segment covered 21% of requirements in the first half of 2005 (20% in the first half of 2004).

The prices of Eni s principal products increased by 25.1% on average. The more relevant increases concerned olefins (up 33.7%; in particular propylene and butadiene increased by nearly 40%), intermediates (up 29.8%) and polyethylene (up 25.2%).

Product availability

(thousand tonnes)

		First half			
2004		**2004**	**2005**	**Change**	**% Ch.**
4,236	Basic petrochemicals	2,190	**2,164**	(26)	(1.2)
1,606	Styrene and elastomers	804	**779**	(25)	(3.1)
1,276	Polyethylene	685	**636**	(49)	(7.2)
7,118	**Products available**	**3,679**	**3,579**	**(100)**	**(2.7)**
(2,615)	Monomer consumption	(1,344)	**(1,287)**	57	(4.2)
684	Purchases and change in inventories	284	**381**	97	34.2
5,187		**2,619**	**2,673**	**54**	**2.1**

Contents

Sales

(thousand tonnes)

		First half			
2004		**2004**	**2005**	**Change**	**% Ch.**
2,766	Basic petrochemicals	1,382	**1,519**	137	9.9
1,038	Styrene and elastomers	538	**518**	(20)	(3.7)
1,383	Polyethylene	699	**636**	(63)	(9.0)
5,187		**2,619**	**2,673**	**54**	**2.1**

Business segments

Basic petrochemicals

Sales of basic petrochemicals (1,519,000 tonnes) increased by 137,000 tonnes from the first half of 2004, up 9.9%, reflecting increased sales of intermediates (up 26%), aromatics (up 9%; in particular benzene) and olefins (up 4.5%; in particular ethylene), related to positive demand and the fact that in the first half of 2004 intermediate sales, especially phenol and acetone, had declined due to an accident occurred at Porto Torres.

Basic petrochemical production (2,164,000 tonnes) decreased by 26,000 tonnes, down 1.2%, mainly in olefins (down 4.4%), resulting from the standstills of the Porto Marghera cracker related to the standstill of Eni s refinery supplying feedstocks and of the Dunkerque and Gela cracker related to lower demand for monomers from the downstream polyethylene plant. The decline in olefins was offset in part by higher production of intermediates (up 7.9%) and aromatics (up 5.4%).

Styrene and elastomers

Styrene sales (300,000 tonnes) decreased by 18,000 tonnes, down 5.7% from the first half of 2004, reflecting