



# The competitive environment

## A changing market

The Energy market is even more challenging on the back of the uncertainty of the macro-economic scenario, mainly in Europe, recent trends in demand even more hinged on emerging countries and discoveries of high potential basins for hydrocarbon production. In this scenario, Eni's strategic plan is focused on upstream growth and managing the current difficult phase in the European downstream businesses, at the same time evaluating selective and sustainable growth opportunities in Extra European markets.

### Industrial challenges

#### Discover new resources: access to emerging mineral potential and unconventional oil/gas (shale gas/tight oil)

The oil&gas industry has become more reliant on exploration in frontier areas to find large mineral potentials in harsh and unknown environments. The energy revolution following the development of new technologies to produce shale gas has been extended to tight oil, with an unexpected production growth in the oil mature region onshore the USA. The oil&gas companies are striving to improve each one's competitive position in these plays also in basins outside the USA.

#### Develop, manage and preserve oil and gas reserves

The oil&gas industry has delivered poorly on project execution. At the same time it has been facing hurdles in the complex activity of mitigating natural field declines. Increased blow out risk considering the relevant role of "difficult oil", located in harsh environments and requiring the adoption of complex technologies. Increased political risk reflecting the high portion of resources located in less stable countries than the OECD ones. The evolution in the geo-political contest requires all the actors involved to rethink the relationships with the host Countries' Authorities and communities, in order to develop long-term standing relationships.

#### Dynamism of emerging economies and partnerships with National Oil Companies of producing and consuming Countries

Emerging economies are expected to grow steadily with a higher share of global oil and gas demand coming from these areas. A leading role at an international scale will be played by the National Oil Companies of big consuming countries, through relevant acquisitions and partnerships signed with producing countries. New forms of relationship are underway in the energy industry in order to review agreements and cooperation models with the NOCs.

#### Increasing competitive and regulatory pressure in the European energy market

The European economic downturn negatively effected demand for gas and refined products, in a trading environment characterized by oversupply and liquidity, excess capacity in the refining business and mounting competitive pressure in the gas market. The Authorities in Europe aim at increasing competitiveness and liquidity in the gas market, as well as at changing the indexation mechanism in the regulated tariffs to residential customers. Increasing take-or-pay risk.

#### Increasing requirements to conduct sustainable operations

Our primary engagement is intended to grant safety to the Company's employees, minimize the use of natural resources in operations through the development of lower energy and water intensive processes and reducing ghg emissions. Pressing for transparency in operations and respect of the highest ethical standards.

Eni's actions

- Growth in conventional exploration, with significant discoveries in Mozambique, Ghana and in the Norwegian Arctic;
- Upgrade the non-conventional portfolio in the shale and tight gas plays in Europe, Pakistan, Algeria and China; opportunities in Indonesian Coal Beth Methane and in Congolese tar sand;
- Evaluate options to position in oil shale plays;
- Develop technologies to explore frontier and harsh areas.

- Increase operated production;
- Strengthen construction and commissioning organization;
- Leverage Eni's strength in managing producing fields, controlling maintenance activities and in reservoir management;
- Asset integrity, operational excellence and people safety;
- Cooperation model with host Countries.

- Enhanced partnership with Asian NOCs (Kogas, CNPC);
- Signed new agreements in the downstream business in emerging basins, such as Malaysia and South Korea.

- Renegotiate long-term gas supply contracts in Europe;
- Mitigate the take-or-pay risk;
- Strengthen the position in gas and LNG markets outside Italy;
- Relaunch efficiency programmes at European industrial sites;
- Select new initiatives in green refinery and bio-chemistry;
- Retention and enhancement of the customer base.

- Develop technologies to minimize the environmental and ecosystem footprint and water consumption;
- Focus on the social impact and economic development of the basins in which Eni operates;
- Adoption of anti-corruption procedures and Code of Ethics;
- Governance framework.

Performance of the year	2016 target
Discovered resources <b>3.64</b> bboe	<b>1</b> bboe/y
Hydrocarbon production growth rate up <b>7%</b>	up <b>4%</b> on yearly average
Operated production <b>2.9</b> mboe/d	<b>5.2</b> mboe/d
Personnel outside Italy <b>51,034</b>	up <b>15%</b>
Renegotiation of supply contracts Benefit from price-revisions	Renegotiation of gas supply portfolio Increase contract indexation to spot prices
Take-or-pay risk Reduced Minimum Take through renegotiations	Reduce the financial risk
Efficiency in the refining activity around <b>€150</b> million	<b>€200</b> million
GHG emission /production <b>0.225</b> ton CO <sub>2</sub> eq/toe	down <b>30%</b> from 2010
Oil spills from accident <b>3.3</b> boe/mln boe	<b>2.4</b> boe/mln boe



define strategies to seize the opportunities in the energy sector