the competitive environment

A challenging market

In an extremely complex and dynamic international environment, geopolitical, technological and market factors have interacted rapidly, determining the change of the consolidated business models and making emerge new players and new growth areas (particularly in Asia and in the United States as well as, in the initial phase, in the Sub-Saharan Africa).
In the second half of the year, an unbalanced oil market, with an excess of supply in the context of weak demand, witnessed a fall in oil prices. The gas market, characterized in Europe by continued demand reduction, saw the growth of volumes exchanged in the spot market and continuing renegotiations of the take-or-pay contracts. In this scenario Eni's strategic plan is focused on maximizing the value of its portfolio through the timely development of new fields and anticipated monetization of the discoveries. In the mid-downstream businesses, Eni confirms the strategy aiming at quick economic and financial rebalancing through cost discipline, continuing renegotiation of long-term gas supply contracts, restructuring of inefficient plants and product and marketing innovation.

Industrial challenges

Context of oversupply and reduction of capital expenditure
The huge development of unconventional resources in the USA and the slowdown in the world demand have conditioned the world oil market, creating an increasing oversupply, calming the prices and changing crude oil flows. In this scenario, the majors have strengthen the focus on cost discipline, postponing the development of more expensive projects and increasing assets' disposals.

Intensification of geopolitical risk and focus on the capital expenditure
The intensification of geopolitical risk concerned key countries of our segment. The instability in the North Africa and the Middle East as well as international sanctions towards important oil producing countries such as Iran and Russia caused the reduction of world oil production by almost 3 kboe/d, entirely offset by the production growth in the United States.

Transformation of the businesses of gas marketing and refining in Europe
The gas market was characterized by the downturn in demand in Europe, growth in demand in the emerging countries and affirmation of prices on the spot markets. In addition, there was an increase of renewables in the energy mix, driven by European energy policies with the conditions of privileged access and important subsidies as well as the expansion of coal due to the flows from the United States, in large quantities and at low costs. All these dynamics have deeply changed the mid and downstream businesses in Europe.

Raising awareness of the risks related to the climate change
As part of the energy policy which combines development, environmental protection and energy safety, the natural gas will play a critical role in the transition towards low carbon future. In fact, natural gas constitutes a fossil fuel with minor environmental impact, ideal for offsetting the bounces in the supply typical of solar and wind energy.

Eni's actions and plans	Performance of the year	2015-2018 Targets
- Robust and sustainable cash flow generation; - New explorative initiatives, development of conventional discoveries, with competitive production costs and fast track start-up; - Reduction of capital expenditure; - Application of fast tracking strategy in the development of exploration success and reduction of time to market; - Enhancement of resources; - Increase of disposal programme.	**Cash flow from operations** €15.1 bln	2015-2016 100% capex coverage 2017-2018 +40% vs 2015-2016
	Discovered resources 0.9 bboe	0.5 bboe/y
	Capital expenditure €12.6 bln	€47.8 bln, -17% vs previous plan at constant fixed rate
	Disposal of assets €3.7 bln	€8 bln
- Maximizing hydrocarbon production; - New discoveries in emerging basins and consolidation of Africa presence; - Development of geographic presence in Asia by replaying the successful model carried on in Africa; - Increasing efficiency through cost reduction; - Program of cost reduction, with a strong focus on G&A costs.	**Hydrocarbon production growth** +0.6% hydrocarbon production	+3.5% on yearly average
	OPEX per boe $8.4	-7% vs previous plan
	G&A costs reduction €250 mln	€2 bln by 2018 vs. previous plan
- Focus on contracts renegotiation with major suppliers; - Reduction of refining capacity: rationalizations, reconversions, increased processing flexibility; - Conversion of less profitable business through development of green economy initiatives.	**Renegotiation of gas supply portfolio** 70% of supply contracts aligned to market conditions	100% of supply contracts aligned to market conditions by 2016
	Reduction of Eni's refining capacity down 30% vs 2012	down 50% vs. 2012
	Green economy Memorandum for the conversion of Gela and Porto Marghera plants	Start-up of green production in the four-year plan
- Development of important technological solutions to operate in a safe and sustainable way; - Operational excellence and commitment to ensure the safety of operations; - Management of the business guided by the highest values and ethical principles.	**R&D costs** €186 million	€700 million in the four-year plan
	Gas flared in upstream down 75% vs 2007	down 22% vs 2014
	Produced water re-injected 56%	70%

defining strategies to seize the opportunities in the energy sector