versalis

Annual Report 2013

Ordinary Shareholders' Meeting of April 18, 2014

Mission

Versalis SpA – a company wholly owned and controlled by Eni SpA and subject to its direction and coordination – manages the production and marketing of petrochemical products (basic chemicals, polyethylene, elastomers and styrenes) and the sale of licences relating to technologies and know-how.

Countries in which Versalis operates

The Versalis Group[1] is present in Italy (Brindisi, Ferrara, Gela[2], Mantua, Porto Marghera, Porto Torres, Priolo, Ragusa, Ravenna and Sarroch), France (Dunkirk), Germany (Oberhausen), Great Britain (Grangemouth, Hythe) and Hungary (Szàzhalombatta), with Research Centres and Units in Italy (Brindisi, Ferrara, Mantua, Novara and Ravenna), sales networks in Italy, Austria, Belgium, the Czech Republic, Croatia, Denmark, France, Germany, Great Britain, Greece, Poland, Portugal, Slovakia, Slovenia, Romania, Spain, Sweden, Switzerland, Turkey, Hungary and China and representative offices in Egypt and Russia.

Boards of Directors and of Statutory Auditors

BOARD OF DIRECTORS(1)

Chairman

Salvatore Sardo

Chief Executive Officer

Daniele Ferrari

Directors

Cristiana Argentino

Davide Calabrò

Rosanna Fusco

(1) Appointed by the Shareholders' Meeting of April 23, 2013 for a three-year period which expires upon approval of the financial statements for the year 2015.

(2) Appointed by the Shareholders' Meeting of April 23, 2013 for a three-year period which expires upon approval of the financial statements for the year 2015.

BOARD OF STATUTORY AUDITORS(2)

Chairman

Carlo Invernizzi

Statutory auditors

Elisabetta Maria Corvi

Alberto Luigi Gusmeroli

Alternate auditors

Patrizia Ferrari

Marco Mencagli

INDEPENDENT AUDITORS(5)

Reconta Ernst & Young SpA

(5) Appointed by the Shareholders' Meeting of April 15, 2010 for a nine-year period which expires upon approval of the financial statements for the year 2018.

1 The Versalis Group is the chemicals subsidiary of Eni.

2 Following the sale of the "Splitter" business unit on February 1, 2009, the plants at the Gela site are managed by Raffineria di Gela SpA (an Eni Group company) under a subcontract.

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Highlights

Workers' safety

The Versalis Group's commitment to safety has led to a further improvement in the accident frequency rate for 2013 which shows a reduction, compared to the previous year, of 48%. Moreover, during the year ten sites achieved the target of one year without any employee accidents. These results are even more satisfactory in relation to the planned shutdown of the Priolo cracking plant, which took 75 days, with the average daily attendance of 1,000 contract workers and a peak of about 1,500. No accidents or injuries occurred to personnel during the project.

Green chemistry

In January 2013 Versalis and Yulex signed a strategic partnership deal for the production of guayule-based bio-rubber and for the construction of an industrial production complex in Southern Europe. The agreement covers the whole of the production chain, from cultivation of the plant through to extraction of the bio-rubber. Versalis will develop material for various applications: after an initial focus on the mass consumption markets and the medical sector, the aim is to optimize the production process to serve the tyre industry. The partnership will use Yulex's agronomic expertise and bio-rubber extraction technologies to widen Versalis' green products portfolio.

In May 2013 a joint venture, known as Newco Tech SpA, was formed between Versalis SpA and Genomatica Inc. for the research and development of processes for the production of butadiene from renewable sources. The goal of the joint venture is to develop an entire supply chain for the on-purpose production of butadiene from biomass originating from "non-food" cultivation. The joint venture will have exclusive ownership of the technology referred to in the agreement in Europe, Asia and Africa. Prospective licensees, including Versalis, will commit the necessary capital to build their own plants, manage the operation, and use and sell the butadiene produced. Versalis intends to be the first to make use of the right to use the license and, therefore, to build the related sales facilities.

In 2013 Matrìca SpA, a company owned jointly by Versalis SpA and Novamont SpA, continued work on the "Port Torres Green Hub" project and at the end of 2013 the industrial upgrading has reached the advanced stage of construction for the two Phase 1 plants. In January 2013 Versalis SpA subscribed to the share capital increase of Novamont SpA by paying in a further €41 million, which is in addition to the € 35 million subscribed and paid in during the year 2012. As a result of this operation, the investment in Novamont increased from the initial 15% to 25%.

Developments in Asia

In November 2013 a shareholders' agreement was signed with the Malaysian oil company Petronas to form a joint venture aimed at the production of elastomers at Petronas's refinery and petrochemical integrated development (RAPID) centre in Malaysia and the subsequent sales and marketing thereof.

Under the above mentioned agreement, Petronas Refinery and Petrochemical Corporation (PRPC), the Petronas company responsible for implementing the RAPID project, will participate in the joint venture with a share of 60%, while Versalis will hold the remaining 40%.

In November 2013 Versalis and Lotte Chemical formed an equal joint venture under the name "Lotte Versalis Elastomers". This joint venture, which is based in Yeosu (South Korea), involves the construction of an industrial production complex in South Korea and will manage the production flows for the main application sectors of the elastomers business, in particular for the automotive and tyre industry, as well as styrene polymers and technical products: all markets with increasing development opportunities in Asia.

In December 2013, the Versalis Group's presence in Asia was strengthened by the incorporation of the company Versalis Pacific (India) Private Ltd, which is 100% controlled by Versalis Pacific Trading (Shanghai) Co. Ltd., this company's aim is to become a market leader in buying and selling products in the Indian area.

Reorganization of corporate activities in the EMEA area

With the definition of the corporate restructuring and the reorganization of corporate activities and staff in the "Europe, Middle East and Africa" area the first stage of the "EMEA Project" has been successfully completed. The new, more streamlined and market-oriented organizational structure will enable Versalis's sales activities in the EMEA area to be more effective and efficient. During 2013 the Project has resulted in the merger by incorporation of the companies Polimeri Europa Iberica, Polimeri Europa Hellas, Polimeri Europa Polska and Polimeri Europa Norden into Versalis International, and the simultaneous opening of Versalis International branches in Spain, Portugal, Greece, Poland, Sweden and Denmark.

The second stage of the project, formally approved in 2013 by the Shareholders' Meeting of Versalis International, will complete the rationalization of the organizational structures with the carve-out of the activities of staff from the companies Polimeri Europa France, Dunastyr, Polimeri Europa UK and Polimeri Europa GmbH. The carve-out for the first three companies took legal, accounting and fiscal effect as of January 1, 2014. The new branches of Versalis International in France, UK, Hungary, Romania, Czech Republic and Slovakia were thus formed on this day. The carve-out of the activities of staff from the company Polimeri Europa GmbH is expected to take place within the first half of 2014.

Polimeri Europa Kimya, sold to Versalis International SA by Versalis SpA, has adopted the new company name "Versalis Kimya Ticaret Limited Sirketi".

The Group has sold its stake in Kelvin Terminals BV.

Extraordinary operations

In view of the growing interest in the field of green chemistry, Versalis acquired from Eni SpA the business unit related to the Donegani Research Institute known as "Catalysis and Sustainable Chemistry", including 38 members of staff, receivables, payables, laboratories and equipment, in order to directly manage research activities for the production of bio-butadiene. The agreement was finalized with the payment in December 2012 of €3 million to the parent company Eni SpA. The purchase of the business unit is effective as of January 1, 2013.

An agreement was reached with the trade unions in December 2013 for the final shutdown of the elastomer plant in Hythe (UK), which will take place within the first half of 2014. This rationalization of production capacity, combined with the new investments in the elastomers business, will enable the Versalis Group to achieve a better production and commercial structure.

During 2013 the polyethylene plants in Gela and Priolo were finally shut down in order to optimize the Group's production and commercial structure.

Technological innovation

In 2013 research and technology activities contributed to the strengthening and renewal of company businesses by constantly improving processes and products. Work also continued on enhancing the value of research by transferring technology to third parties. The overall expenditure on Research and Development was €39 million. 10 patent applications were filed.

Production

Production amounted to 5,817 thousand tons, down by 4.5% compared with 2012. The greatest reductions concern elastomers (due to the crisis in the tyre and automotive sector) and polyethylene, owing to unexpected events at the plants, shutdowns for planned maintenance and the decline in market demand (to which the Group responded by temporarily shutting down the plants for business reasons).

The restart of the Priolo cracking plant was successfully completed in 2013, following the reorganization to optimize production capacity which took over two months. The performance obtained is in line with expectations.

Results

Against the background of the continuing economic crisis, the Versalis Group recorded an increase of €88 million in adjusted operating income in 2013 compared to the previous year. The financial year ended with a net loss of €625 million (€380 million adjusted net of *special items*), a shareholders' equity of €952 million, net capital employed of €2,616 million, net borrowings of €1,664 million and negative net cash flow from operating activities of €271 million.

The parent company Versalis SpA recorded a loss of €551 million which, added to the losses from previous years totalling €1 million and compared with the fully paid-up share capital of €1,553 million and negative reserves of €5 million, meets the limits stipulated in Article 2446 of the Italian Civil Code.

Financial Highlights

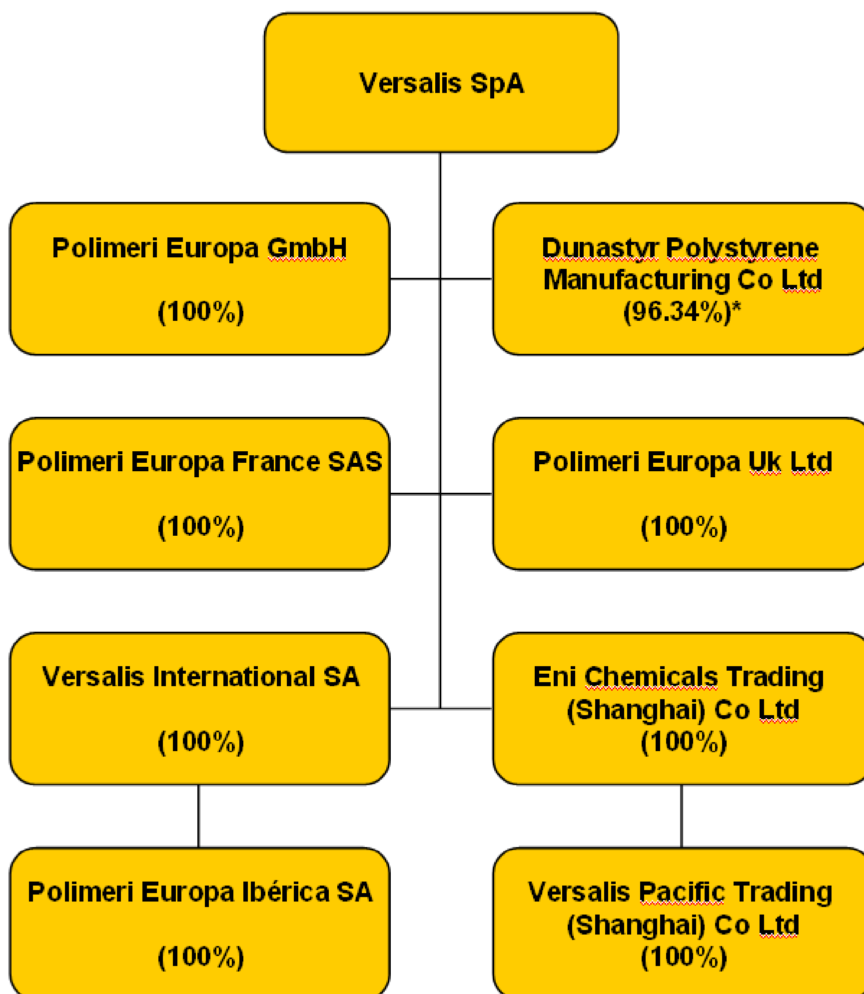
2011	€ million	2012	2013
6,491	Net sales from operations	6,418	5,859
(409)	Operating loss	(686)	(738)
(276)	Adjusted operating loss	(489)	(401)
(320)	Net loss	(573)	(625)
(222)	Adjusted net loss	(426)	(380)
(345)	Net cash flow provided by operating activities	(653)	(271)
200	Capital expenditures	156	291
3,542	Total assets	3,805	4,089
1,157	Shareholders' equity	580	952
1,068	Net borrowings	1,948	1,664
2,225	Net capital employed	2,528	2,616
0.92	Leverage	3.36	1.75

Key operating and sustainability data

2011			2012	2013
5,840	Employees	(number)	5,724	5,745
1.47	Employee accident frequency rate	(accidents/hours worked x 1,000,000)	0.75	0.76
4.60	Contractor accident frequency rate	(accidents/hours worked x 1,000,000)	1.66	0.30
4.12	Direct emission of greenhouse gases	(mm tonnes CO_2 eq)	3.69	3.66
32	Cost of research and development	(amount in millions of euros)	38	39
6,245	Production	(ktonnes)	6,090	5,817
65.3	Plant utilization rate	(%)	67	64.6
111.27	Average price of Brent Dated FOB	(dollars/barrel)	111.58	108.60
906	Average price of Virgin Naphtha FOB Med	(dollars/barrel)	910	874
1.392	Average EUR/USD exchange rate		1.285	1.328

Versalis Group Structure

A chart of the Versalis Group is presented below. The companies are consolidated on a line-by-line basis. The percentage indicated refers to the interest held by the parent company.



(*) The remaining shareholders are Versalis International SA (1.83%) and Polimeri Europa GmbH (1.83%)

Operating Review

During 2013 expectations of economic recovery in Europe gradually diminished in the face of a gradual reduction of growth rates and a continuing deterioration of the macroeconomic situation, particularly in Italy.

Following the end of the so-called “spread crises”, triggered by doubts about the sustainability of the sovereign debt of several Euro-zone countries, the economy has shown no progress, despite attempts by various governments to ease the fiscal squeeze on businesses and consumers. The economic situation is blocked firstly by the credit crunch and secondly by the crisis of confidence of both businesses and consumers, restricting investment in durable goods, with consumption still falling in many sectors compared to the already low levels of 2012.

The weakness of the European macroeconomic situation has resulted in limited demand throughout almost the entire petrochemical chain. Consumption decreased in the main industrial sectors compared to 2012, although by less than the previous year. European domestic demand for Petrochemicals showed negative growth rates for the Ethylene-Polyethylene chain (-2%), Styrenes (-5%) and Elastomers (-2%), with the automotive and tyre industries still in recession. Consequently, the plants’ operating rates have continued to be unsatisfactory, with many operators ready to reduce production capacity by shutting down plants that are obsolete and running at a loss.

In terms of prices, the relative stability of prices of petroleum feedstock compared to the extreme volatility of 2012 and the recovery of the Euro after the spread crisis have helped producers to recover unit profit margins in the main production cycles, particularly in cracking and Polyethylene, even though low utilization rates have continued to penalise the final result. In contrast, in the Elastomers industry the temporary overcapacity of Asian production has reduced the opportunities for European exports, which is compounded with weak European demand.

The strong recovery in the US and the stabilization of the Chinese economy has however created a solid foundation for expected growth in Europe for 2014. Signs of improvements have been clearly visible during the last quarter, particularly in Europe. Many sectors have started to report positive growth rates, although a continuation of measures to balance production capacity in 2014 is likely. However, there is still a high risk of a widening in the gap between European and Italian economic growth, with a further weakening of Italian SMEs.

Against this background, in 2013 the Versalis Group recorded a net loss of €625 million (€573 million in 2012) and an adjusted operating loss of €401 million (€489 million in 2012). The improvement in adjusted operating loss can be attributed to the dynamics of the contribution margin, which has improved by approximately €69 million compared to the previous year, with unit margins for products increasing by 30% on average due to the improved market scenario, particularly for Intermediates (cracking and derivatives) and for Polyethylene. Positive signs of recovery have also been recorded for Styrenes, which have benefited from an increase in the margin for polystyrene and styrene monomers, while the elastomer margins remain negative as they are still suffering the effects of the crisis in the automotive industry.

Measures to improve the management of the business have continued. These have focused not only on the optimization of production and sales processes, but also on structural measures to reduce production capacity in those businesses most susceptible to cost competition (Ethylene-Polyethylene), through the shutdown of the Polyethylene plants in Priolo and Gela and reductions at the Priolo cracker plant.

Revenues and production

The Versalis Group manufactures and sells petrochemical products (intermediates, polyethylene, styrenes and elastomers). In the Intermediates Business Unit, the main objective is to ensure the adequate availability of monomers to cover the needs of the downstream business. In particular olefins (ethylene and butadiene) are integrated with the polyethylene and elastomer business, and aromatics are integrated with the phenol / hydrogenated derivatives and styrenes business.

The Versalis Group is among the leading European manufacturers of polystyrene and polyethylene, used mainly for flexible packaging, and is one of the world leaders in elastomers, covering almost all the major sectors of application (in particular the automotive industry).

The **net sales** from operations of the Versalis Group for the year ended on December 31, 2013 amounted to € 5,859 million compared with € 6,418 million in 2012 (-8.7%), a reduction caused mainly by continuing weak demand reflecting the negative impact of the economic recession. Average unit prices are lower by 3.2% compared to 2012. Sales volumes have dropped by 4.3% compared to the previous year. For ***monomers***, the prices of olefins have been affected by the sharp decline in butadiene prices (-23%) caused by the crisis in European consumption, while a slight increase has been recorded for benzene (+1%) and derivatives (+1.4%). Volumes were on average 4.2% lower compared to the previous year, due to lower consumption in the polymers business.

For ***polymers*** an improvement was recorded in the prices of styrenes (+7.5%), which benefited from a partial recovery in European demand in the last quarter of 2013 due to reduced product availability. The average prices of polyethylene also increased slightly (+1.1%), while the demand for elastomers by the tyre and automotive sectors in Europe remains weak, with repercussions on product prices. With regard to sales volumes, a sharp decline has been recorded for elastomers (-9.7%) due to the aforementioned drop in market demand, for polyethylene (-3%), following the shutdown of the Priolo LDPE plant, and for styrenes (-2.9%), due to the increased availability of expandable polystyrene.

Production amounted to 5,817 thousand tons, reduced by 4.5% compared to 2012, with marked reductions in elastomers (-11%) and more limited reductions in styrenes (-2.8%), polyethylene (-6%) and intermediates (-3.7%). The main drops in production were recorded at the Priolo site (-8.4%) due to the programmed shutdown of the Olefins cracking plant in September and October, compounded by the final shutdown of the polyethylene plant in mid-August, reduced volumes of EVA/LDPE at the Ragusa site (-12.5%) due to accidental factors and at the Dunkirk site (-5.3%) due both to the continued weakness of the polyethylene market and the programmed shutdown during the second half of the year. Production increased at the Sarroch site (+11.6%), due to greater production of benzene and xylene, which in 2012 was affected by the programmed shutdown for maintenance, and at the Ferrara site (+5.7%).

The **average utilization rate of the plants** is 65.3%, a decrease compared to the 2012 rate (66.7%) as a result of lower production volumes.

Revenue				
(€ million)	2011	2012	2013	Ch. %
Intermediates	2,948	3,050	**2,709**	(11.2)
Polymers [(a)]	3,338	3,188	**2,933**	(8.0)
Other income [(b)]	205	180	**217**	20.6
	6,491	**6,418**	**5,859**	**(8.7)**

Production				
(ktonnes)	2011	2012	2013	Ch. %
Intermediates	3,624	3,595	**3,462**	(3.7)
Polymers	2,621	2,495	**2,355**	(5.6)
	6,245	**6,090**	**5,817**	**(4.5)**

[(a)] From 2013 styrene monomer has been aggregated in the Polymers Business Unit. The related data from the Intermediates Business Unit for the periods under comparison have been reclassified accordingly.
[(b)] Third party products sold under agency agreements via foreign trading companies and other income for services.

Business review

Intermediates Business Unit

Revenues from intermediates (€2,709 million) decreased by €341 million compared with 2012 (-11.2%), mainly due to the reduction in volumes sold (-4.2%) and in average unit prices (-1.9%), but with different trends for the different product lines. In ***olefins*** sales volumes of ethylene decreased (-4%), due both to the programmed shutdown at Priolo and the lower consumption in the polymer business, with prices slightly lower than in 2012. However, a sharp decline was recorded for sales volumes of butadiene (-38%) due to the crisis in the elastomer market and the economic downturn which reduced average sales prices by 23%. In **aromatics**, the reduction in the quantities of benzene sold (-7.4%) was offset by the increase in volumes of xylene (+7.5%), with average prices generally stable. Revenues declined for ***derivatives*** which, against an increase of 1.4% in average unit prices, recorded lower sales volumes for phenol/derivatives (-3.6%) due to the programmed shutdown at the Mantua site.

Production of intermediates (3,462 thousand tons) decreased by 3.7% compared to 2012 (3,595 thousand tons), with lower volumes in olefins (-5.7%), hit by the programmed shutdown of the Priolo cracking plant, and in derivatives (-2.4%). Production of butadiene also decreased (-10.3%) due to the programmed shutdown of the Brindisi and Ravenna plants. The volumes of aromatics produced, however, increased by 3% compared to 2012, due to increased production of xylene.

Polymers Business Unit

Polymer **revenues** (€2,933 million) decreased by €255 million compared with 2012 (-8%), mainly due to the reduction in volumes sold (-9.7%) and in average unit prices (-19%) for the elastomers business. During 2013 the revenues from this business were badly affected by low demand in the tyre and automotive sectors, the main market sectors for rubber commodities, although during the latter part of the year there were some weak signs of improvement in Europe.

Control of supply in Europe (closures and unexpected occurrences) and lower imports have enabled operators to increase the spreads on major products slightly, with an increase in the average prices of

styrenes (+7.5%) and polyethylene (+1%), demand for which has remained weak despite the improvement during the latter part of the year (volumes down by 3%).

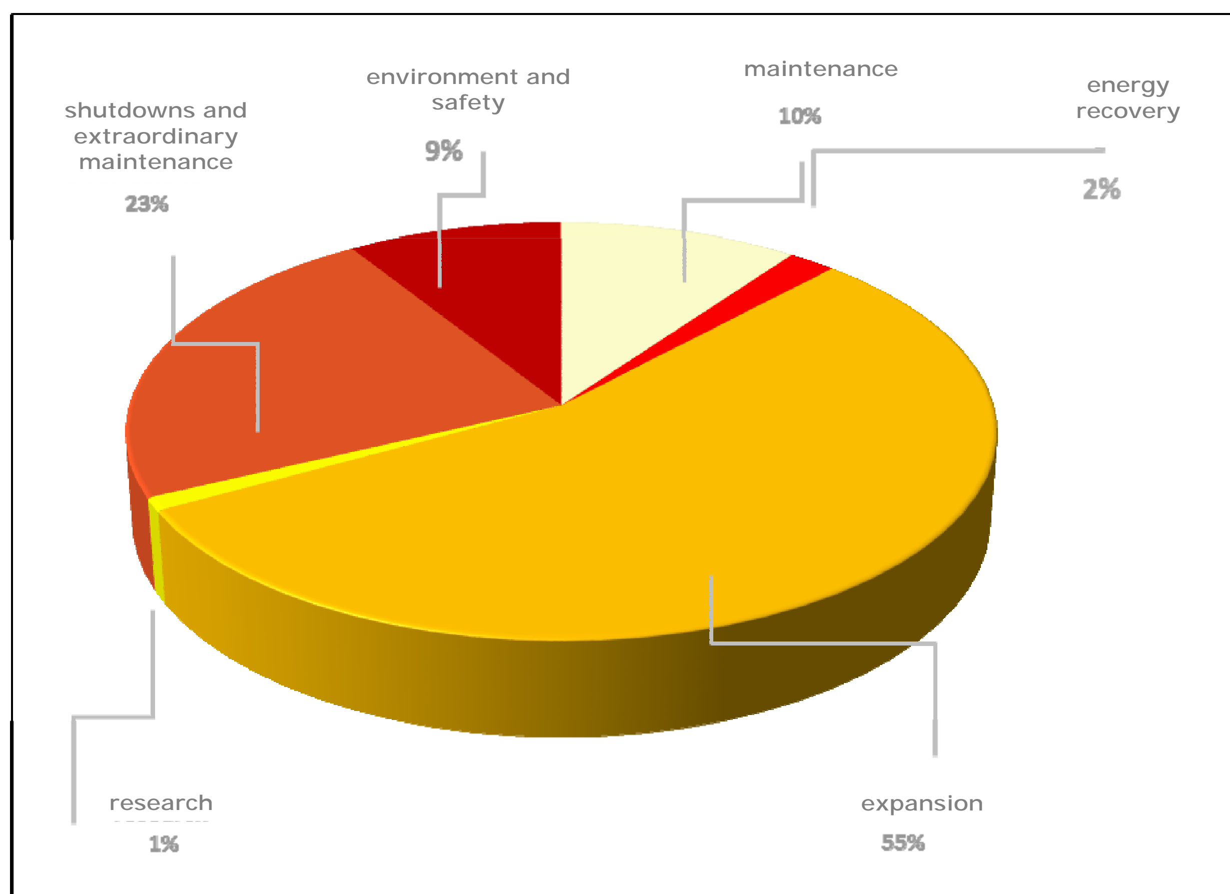
Production of polymers (2,355 thousand tons) fell by 140 thousand tons compared to the previous year (-5.6%). In particular, production has decreased at the site in Ravenna and at the UK sites (Hythe and Grangemouth) due to market dynamics, at the Gela site (polyethylene) due to the interruption of the supply of ethylene by Raffineria di Gela SpA, and at the Oberhausen site due to unforeseen events affecting the LDPE line. The polyethylene plant in Priolo was finally closed in mid-August.

Investments

Net investment in tangible and intangible assets amounted to €291 million during the year; this is analysed by business unit and nature of expenditure in the table and subsequent graph below.

Investments				
(€ million)	**2011**	**2012**	**2013**	*Ch. %*
Olefins	74	64	133	107.8
Aromatics	28	23	7	(69.6)
Derivatives	10	2	4	100.0
Styrenes	5	4	9	125.0
Elastomers	7	13	47	261.5
Polyethylene	46	15	18	20.0
Green Chemistry			9	
Industrial Services	41	39	80	105.1
Staff and financial expenses	6	5	5	0.0
Syndial Grants	(16)	(16)	(24)	46.6
Grants, refunds from third parties and change in advances	(1)	(2)		(100.0)
Investments in property, plant and equipment	**200**	**147**	**288**	**96.4**
Investments in intangible assets		**9**	**3**	**(66.7)**
	200	**156**	**291**	**87.0**

Net investment by type



The main investments for the year related to the following:

- work on strategic projects started at the Dunkirk sites; development of the elastomer business in Ferrara and Ravenna and reorganization of the sites at Porto Marghera and Priolo (totalling €100.8 million);
- work to ensure plant compliance with safety and environmental regulations (€51.2 million), including work to improve safety in accordance with Regional Technical Committee requirements in Priolo (€16.1 million), work to improve the safety of the pier in Porto Torres (€4.6 million) and work to ensure compliance with the IPPC (Integrated Pollution Prevention and Control) Directive at the Brindisi, Mantua and Sarroch sites (€4.9 million);
- long-term maintenance work on the butadiene plants in Brindisi and Ravenna, the polyethylene plant in Oberhausen and the Priolo ethylene plant for a total of €58.6 million;
- recoiling work on 4 furnaces at the Priolo ethylene plant using new technology (€3.6 million);
- minor maintenance work and improvements in the reliability of the plants at various facilities (€21.7 million);
- minor work on expanding and recovering energy at various facilities (€29.3 million);
- inter-company project with Ecofuel SpA for the extraction of Butene 1, selective hydrogenation of Refinate 2 and buried tanks (€26 million);
- recoiling work on the furnaces at the Brindisi, Dunkirk and Porto Marghera ethylene plants (€7.9 million);
- work on the buildings and utility networks at the Porto Torres site in preparation for the Green Chemistry project (€9.8 million);
- research activities (€1.3 million).

Financial review Versalis Group

Profit and Loss Account

2011	(€ million)	2012	2013	Change	Ch. %
6,491	Net sales from operations	6,418	5,859	(559)	(8.7)
92	Other income and revenues	103	149	46	44.7
(6,768)	Operating expenses	(7,005)	(6,620)	385	(5.5)
1	Other operating (expense) income	(9)	(1)	8	n.s.
(225)	Depreciation, depletion, amortization and impairments	(193)	(125)	68	(35.2)
(409)	**Operating loss**	**(686)**	**(738)**	**(52)**	**7.6**
(21)	Net financial income (expense)	(51)	(53)	(2)	n.s.
1	Net income (expense) from investments	2		(2)	(100.0)
(429)	**Loss before income taxes**	**(735)**	**(791)**	**(56)**	**7.6**
109	Income taxes	162	166	4	2.5
25.4	*Tax Rate (%)*	*22.0*	*21.0*	*(1.1)*	*(4.8)*
(320)	**Net profit (loss)**	**(573)**	**(625)**	**(52)**	**9.1**

The amounts indicated in 2012 have been adjusted to account for the effects produced by the retroactive application of the new accounting standard IAS 19 "Employee benefits".

Net loss

In 2013 the Versalis Group recorded a **net loss** of €625 million, €52 million more than in 2012.

The €52 million deterioration in operating results was mainly due to the 8.7% decrease in sales revenues, resulting from the decline in quantities sold and the reduction in elastomer and olefin prices due to the negative trend of the automotive and tyre markets and the greater availability of Asian products, which has hampered European exports.

The effects of the above situation were attenuated by (i) the reduction in quantities purchased and prices of petroleum feedstock in Euro compared to 2012; (ii) the reduction in quantities purchased and prices of utilities compared to 2012; (iii) the appreciation of the euro against the dollar, which had a positive effect on the cost of procuring virgin naphtha; (iv) the general reduction in fixed costs due to savings and rationalization; (v) the decrease in net write-downs of tangible assets; (vi) the increase in revenues due to royalties and the sale of carbon dioxide emission rights.

Adjusted net loss

2011	(€ million)	2012	2013	Change	Ch. %
(320)	**Net loss**	**(573)**	**(625)**	**(52)**	**9.1**
(40)	Exclusion of inventory holding (gains) losses	63	213	150	n.s.
138	Exclusion of *special items*	84	32	(52)	(61.9)
(222)	**Adjusted net loss [(a)]**	**(426)**	**(380)**	**46**	**(10.8)**

[(a)] For a definition and reconciliation of the adjusted net profit, which excludes inventory (gains) losses and special items, see the paragraph "*NON-GAAP Measures*".

The special items of the **operating loss** refer to the cost of provisions for disposals and restructuring for the closure of the Hythe (UK) site (€56 million), the results of the impairment test on the petrochemical complexes (€41 million), the cost of redundancy incentives (€23 million), the cost of environmental provisions (€5 million), provisions for future expenses for antitrust fines (€4 million), and the reclassification of exchange

rate differences and derivatives (€5 million).

The **adjusted net loss** fell by €46 million as more fully described in the section "Non-GAAP measures" below.

Analysis of profit and loss account items

Net sales from operations

2011	(€ million)	2012	2013	Change	Ch. %
1,754	Olefins	1,792	1,487	(305)	(17.0)
835	Aromatics	819	791	(28)	(3.4)
359	Derivatives (*)	440	431	(9)	(2.0)
1,062	Elastomers	979	716	(263)	(26.9)
780	Styrenes (*)	774	800	26	3.4
1,496	Polyethylene	1,434	1,418	(16)	(1.1)
205	Corporate and services	180	216	36	20.0
6,491		**6,418**	**5,859**	**(559)**	**(8.7)**

[a] From 2013 styrene monomer has been aggregated in the Styrenes Business Unit. The related data from the Derivatives Business for the periods under comparison have been reclassified accordingly.

Net sales from operations fell by €559 million due to the reduction in sales (-7.2%), caused by an overall slowdown in demand and crisis of confidence in the market and the reduction in average unit sales prices.

Other income and revenues

Other **income and revenues** increased by €46 million compared with 2012 due mainly to increased income from the sale of carbon dioxide emission rights for €15 million (the lower emissions are due to reduced production), €14 million compensation related to accidents which occurred in previous years, higher recharges of costs made to Syndial (€6 million) and to other companies working at the production sites (€4 million) and, lastly, from the sale of licences, totalling €6 million, connected with the strategic agreements relating to the Group's expansion in Asia.

Operating expenses

2011	(€ million)	2012	2013	Change	Ch. %
4,909	Production costs – raw, ancillary and consumable materials and goods	5,049	4,629	(420)	(8.3)
1,402	Service costs	1,511	1,463	(48)	(3.2)
23	Operating leases and other	25	25		
11	Net provisions for contingencies	19	64	45	236.8
48	Other expenses	35	66	31	n.s.
375	Payroll and related costs	366	373	7	1.9
6,768		**7,005**	**6,620**	**(385)**	**(5.5)**

The amounts indicated in 2012 have been adjusted to account for the effects produced by the retroactive application of the new accounting standard IAS 19 "Employee benefits".

Purchases, services and other operating costs decreased by €385 million (a decrease of 5.5%), as shown in the table above.

The decrease of 8.3% in the **cost of raw, ancillary and consumable materials and goods and inventory changes** was primarily due to the decrease in the average unit price in euro of virgin naphtha compared to 2012 and a decrease in the quantities purchased, following the reduction in production due to falling demand for products in the chemical sector.

Service costs decreased by 3.2% mainly due to the reduction in operating costs and utility costs (electricity -8.8%, methane -6.9%, steam -6.0%) connected with lower production. These effects were only partially offset by the higher costs of planning and managing the works (related to the shutdown of the Priolo cracker plant for the aforementioned production reorganization of the plant) and increased costs for ecological treatment.

The increase of €45 million in **net provisions for risks and charges** was mainly due to the allocation of €56 million to the disposals and restructuring provision for the closure of the Hythe (UK) site and the net provision of €7 million for environmental charges and risks, offset by the lower amount of €16 million allocated for risks associated with antitrust litigation (more extensively discussed in the section "Litigation").

Payroll and related costs have increased by € 7 million (1.9%) mainly due to the increased cost of redundancy incentives, only partially offset by the expenses for benefit and defined contribution plans.

Other operating (expense) income

Other operating expenses of €1 million (€9 million in 2012) are related to derivatives used to hedge the price risk of virgin naphtha which, although not held for speculative purposes, are classified as "hedges" under IFRS standards.

Depreciation, amortization and impairment

2011	(€ million)	2012	2013	Change	Ch. %
73	Tangible assets	77	80	3	3.9
5	Intangible assets	5	4	(1)	(20.0)
78	**Depreciation, depletion and amortization**	**82**	**84**	**2**	**2.4**
147	**Impairments**	**111**	**41**	**(70)**	**(63.1)**
225		**193**	**125**	**(68)**	**(35.2)**

Depreciation and amortization increased by €2 million compared with 2012, owing to newly-commissioned investments in property, plant and equipment.

The **impairment** of €41 million stem from the results of impairment tests and refers mainly to the cracker and polyethylene plants in Brindisi (€16 million), the sites in Porto Marghera (€10 million), Hythe (€7 million) and Sarroch (€7 million). Versalis Group's non-financial fixed assets have been grouped into Cash Generating Units (CGUs) and the impairment loss was determined by comparing the carrying amount of each CGU with its value in use (determined by discounting to present value the expected cash flows deriving from use of the assets over a period coinciding with the remaining average useful life of the CGU). The CGUs of the cracker and polyethylene plants in Brindisi, Porto Marghera, Hythe, Sarroch, the Priolo Polyethylene plant and the Ferrara polyethylene plant show a negative profitability. Therefore, the impairment relates to investments made during the year at such sites and essentially refers to work carried out in order to maintain plant efficiency (including long-term maintenance) and compliance with environmental and safety standards. These values are net of utilization of government grants relating to the Gas Phase plant in Brindisi (€10 million) and the contractual guarantees provided by Syndial concerning plants subject to devaluation (€2 million).

For further details see Note No. 7 "Property, plant and equipment" in the Notes to the consolidated financial statements.

Net financial expenses

2011	(€ million)	2012	2013	Change	Ch. %
(27)	Finance income (expense) related to net borrowings	(39)	(48)	(9)	23.1
5	Income (expense) on derivative contracts	(2)	(9)	(7)	n.s.
(2)	Exchange differences	(8)	4	12	n.s.
(1)	Other finance income (expense)	(5)	(4)	1	n.s.
4	Capitalized finance expense	3	4	1	33.3
(21)		**(51)**	**(53)**	**(2)**	**3.9**

The amounts indicated in 2012 have been adjusted to account for the effects produced by the retroactive application of the new accounting standard IAS 19 "Employee benefits".

Net financial expenses increased by €2 million, due essentially to: (i) the increase of €9 million in the interest charges on financial debt following the new economic conditions stipulated with the financing partner Eni SpA, effective from January 1, 2013 and in line with market conditions; (ii) increased expenses from the fair value measurement of non-speculative commodity derivatives on exchange rate risks of €7 million, partially offset by the improvement in net exchange rate differences on commercial transactions of €12 million.

These derivative instruments do not meet the conditions specified by IAS 39 in order to be classified as "hedges" and therefore the related changes in fair value are recognized in the income statement.

Net income (expense) from investments

The **net income from investments** in 2013 includes amounts of less than €1 million, as shown in the table below:

2011	(€ million)	2012	2013	Change	Ch. %
	Share of profit (loss) of equity-accounted investments	2		(2)	n.s.
1	Net gains on disposals of equity instruments				n.s.
1		**2**		**(2)**	**(100.0)**

Income taxes

2011	(€ million)	2012	2013	Change
	Profit before income taxes			
(425)	Italy	(613)	(606)	7
(4)	Abroad	(122)	(185)	(63)
(429)		**(735)**	**(791)**	**(56)**
	Income taxes			
(119)	Italy	(171)	(151)	20
10	Abroad	9	(15)	(24)
(109)		**(162)**	**(166)**	**(4)**
	Tax Rate (%)			
28.0	Italy	27.9	24.9	(3.0)
n.s.	Abroad	n.s.	8.1	n.s.
25.4		**22.0**	**21.0**	**(1.0)**

Deferred tax assets were recognized given that their recovery was considered probable both taking account of the expected future profitability resulting from the Group's four-year plan, of Versalis SpA's participation in Eni SpA's National Tax Consolidation and in virtue of the fact that the deferred taxes recognized in the tax losses are not subject to time limits for their recoverability.

The reported tax rate decreased by 1 percentage point. For a description of the principal reasons thereof, please see the section "Income taxes" in the notes on the consolidated financial statements.

The adjusted tax rate, given by the ratio between taxes and the loss before income taxes net of inventory gains/losses and of special items, amounted to 14.8% (19.3% in 2012).

Non-GAAP measures

Reconciliation of reported operating profit and reported net profit to adjusted results

The Versalis management assesses the company's performance on the basis of adjusted operating profit and adjusted net profit, which are arrived at by excluding special items and inventory gains (losses) from

operating profit and from reported net profit. The tax effect of items excluded from adjusted net profit is determined on the basis of the nature of each excluded item, with the exception of financial income/financial expenses to which the Italian statutory tax rate of 27.5% is conventionally applied. Adjusted operating profit and adjusted net profit are not envisaged by the IFRS. Management believes that these performance measures facilitate a comparison of base business performance across periods and allow financial analysts to evaluate the company's performance on the basis of their forecasting models. The management uses the Group's adjusted net profit when calculating the Group's return on average capital employed (Group ROACE).

The following is a description of some of the items that are excluded from calculation of adjusted results.

The **inventory gains (losses)** is given by the difference between the current cost of products sold and that resulting from application of the weighted average cost required by the IFRSs.

Income or charges are classified as **Special items** where significant, when: (i) they derive from infrequent or unusual events and transactions, being identified as non-recurring events; (ii) they derive from events or transactions which are not considered to be representative of the normal course of business, such as environmental provisions, restructuring charges, write downs or write-ups in the value of assets and gains or losses on disposals even if similar events occurred in the past or are likely to occur in the future, or (iii) exchange rate differences and derivatives related to commercial and not financial operations, as is the case in particular for derivatives set up to manage the exchange risk implicit in commodity pricing formulas. In this case these are reclassified from adjusted financial income and expenses to adjusted operating profit/(loss).

In compliance with Consob Resolution No. 15519 of July 27, 2006, components of income deriving from non-recurring events or operations are to be disclosed separately, where significant, in the directors' report and in the financial statements. The valuation component of derivative instruments on commodities, which lack the formal requisites to be classified as hedging, is also classified among special items (including the ineffective portion of the hedge derivatives).

2011	(€ million)	2012	2013	Change
(409)	**Operating loss**	**(686)**	**(738)**	**(52)**
(40)	**Exclusion of inventory holding (gains) losses**	**63**	**213**	**150**
173	**Exclusion of special items**	**134**	**124**	**(10)**
(276)	***Adjusted* operating loss**	**(489)**	**(401)**	**88**
(18)	Net finance income (expense) (*)	(41)	(45)	(4)
	Net income (expense) from investments (*)	2		(2)
72	Income taxes (*)	102	66	(36)
(24.5)	*Tax rate (%)*	*(19.3)*	*(14.8)*	*4.52*
(222)	***Adjusted* net loss**	**(426)**	**(380)**	**46**

(*) Excluding special items

Details of special items:

2011	(amount in millions of euros)	2012	2013
	Other special items		
1	- provision for environmental and restructuring risks	1	**61**
147	- impairment of property, plant and equipment	111	**41**
15	- provision for redundancy incentives	14	**23**
	- provision for revocation expenses	15	
10	- provision for antitrust fines	3	**4**
3	- exchange rate differences and derivatives	(10)	**(5)**
2	- costs for services recharged by Eni Group companies for redundancy incentives		
1	- gains on disposal of assets		
179	**Special items of operating loss**	**134**	**124**
(3)	**Finance (income) expense**	**10**	**8**
	of which:		
(3)	- reclassification of exchange rate differences and derivatives in operating loss	10	**5**
	- financial expenses on Antitrust sanctions		**3**
(1)	**Expense (income) from investments**		
	of which:		
(1)	- gains on disposals		
(37)	**Income taxes**	**(60)**	**(100)**
	of which:		
(48)	- taxes on special items of operating loss	(41)	**(34)**
11	- taxes on exclusion of inventory losses	(19)	**(66)**
138	**Total special items of net loss**	**84**	**32**

Reclassified Balance Sheet

The reclassified balance sheet aggregates the amount of asset and liability amounts derived from the statutory balance sheet according to function, under 3 basic areas operating, investing and financing. Management believes that the reclassified balance sheet provides useful information in assisting investors to assess the Company's capital structure and to analyse its sources of funds and investments in fixed assets and working capital. Management uses the summarized balance sheet to calculate key ratios such as return on capital employed (ROACE) and the proportion of net borrowings to shareholders' equity (leverage).

Reclassified Balance Sheet (*)

(€ million)	31.12.2012	31.12.2013	Variation
Fixed assets			
Property, plant and equipment	893	1,060	167
Intangible assets	69	67	(2)
Investments	101	163	62
Receivables and securities held for operating activities		101	101
Net payables related to capital expenditure	(15)	(31)	(16)
	1,048	**1,360**	**312**
Net working capital			
Inventories	1,251	1,145	(106)
Trade receivables	851	752	(99)
Trade payables	(861)	(1,006)	(145)
Tax receivables (payables) and provisions for deferred tax	336	474	138
Provisions for risks and charges	(110)	(159)	(49)
Other current assets and liabilities	92	124	32
	1,559	**1,330**	**(229)**
Provisions for employee benefits	**(79)**	**(74)**	**5**
NET CAPITAL EMPLOYED	**2,528**	**2,616**	**88**
Shareholders' equity	**580**	**952**	**372**
Net borrowings	**1,948**	**1,664**	**(284)**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**2,528**	**2,616**	**88**

(*) See 'Reconciliation of reclassified balance sheet, income statement and cash flow statement to statutory schemes".

Fixed assets

Property, plant and equipment amounted to €1,060 million, showing an increase of €167 million due essentially to the additions for the period (€288 million), partially offset by the depreciation for the period (€80 million) and by the results of the impairment tests (€41 million).

Intangible assets amounted to €67 million, showing a decrease of €2 million essentially due to the amortization charge of €4 million, partially offset by the capital expenditure during the period of €3 million.

Investments amounted to €163 million, showing an increase of €62 million due mainly to the subscriptions to the share capital increase of Novamont SpA (€41 million) and Matrìca SpA (€2 million) as well as the establishment of the joint ventures Lotte Versalis Elastomers (€21 million) and NewCo Tech (€6 million). These effects have been partially offset by the effect of the merger into Versalis International SA of the non-consolidated investments in Polimeri Europa Polska (€5 million), Polimeri Europa Hellas SA (€1 million), Polimeri Europa Norden (€1 million) and the impairment of the investment in NewCo Tech (€2 million).

Financial receivables and securities held for operating activities of €101 million refer mainly to the bridge loan granted to Matrìca SpA, joint venture with Novamont SpA, to meet the financial requirements of Phase 1 of the "Green Hub" project in Porto Torres.

The increase of €16 million in **net payables related to capital expenditures** was caused mainly by the greater capital investments made during the last quarter of 2013 compared to the same period in 2012.

Net working capital

The decrease of €106 million in **inventories** is attributable: (i) to the decrease of €107 million in inventories of finished products resulting from the reduction of stock and the drop in prices; (ii) a decrease of €2 million in inventories of work in process and semi-finished products; partially offset against the increase of €3 million in inventories of raw materials, supplies and consumables. These amounts include net allowances for impairment losses for the period of €1 million (net impairments of €13 million in 2012) for the adjustment to market value of the remaining stock.

The decrease of €99 million in **trade receivables** resulted mainly from lower sales and from the bad debt provision of €13 million.

The increase of €145 million in **trade payables** is due primarily to purchases of raw materials and services received but not yet invoiced, only partially offset by the reduction in quantities purchased of petroleum feedstock (virgin naphtha) in the last quarter of 2013 compared with the same period in the previous year.

The increase in **tax assets and net provisions for taxes** of €138 million is mainly due to: (i) the recording of deferred tax assets of €136 million; (ii) the decrease of €23 million of payables to the parent company Eni SpA for participation in the national tax consolidation, due to the repayment of the excessive advance payments received in 2012. These effects were partially offset by the decrease of €26 million in the VAT receivables of the Group following the collection of prior year receivables.

The increase of €49 million in **provisions for risks and charges** was due primarily to the accrual of €56 million to the disposal and restructuring provision for the closure of the Hythe (UK) site, the net provision of €17 million for redundancy incentives and the net provision of €5 million for environmental charges; these were partially offset by the net utilization of €23 million for settlement and litigation risks (related to the antitrust litigation), the utilization of the reserve for losses in Polimeri Europa Elastoméres France SA under liquidation (€2 million), the utilization of the OIL insurance provision (€1 million) and the net utilization of other provisions for future charges (€2 million).

The increase of €32 million in **other current net assets** is mainly due to the increase of €17 million in receivables for the sale of licences, the increase of €11 million in other receivables from third parties and the increase of €10 million in other receivables from companies in the Eni Group, partially offset by the reduction of €7 million in advances to suppliers.

The **Provisions for employee benefits** amounted to €74 million, representing a decrease of €5 million with respect to the previous year due mainly to the coming into force, on January 1, 2013, of the new provisions relating to IAS 19 that have resulted in the elimination of the so-called "corridor method" and the recognition of the total amount of the actuarial gains and losses against the shareholders' equity.

Return On Average Capital Employed (ROACE)

The Return On Average Capital Employed on an adjusted basis, is calculated as the ratio of net adjusted profit before non-controlling interests, plus net finance charges on net borrowings net of the related tax effect and net average capital employed. The tax rate applied on finance charges is the Italian statutory fixed rate of 27.5%. The capital invested used in the calculation of net average capital invested is obtained by deducting inventory holding gains (losses) in the period, net of the related tax effect. As a result of the negative net income recorded in the year, the ROACE on adjusted data is not significant, as was also the case in previous years.

Statement of Comprehensive Loss

(€ million)	2012	2013
LOSS FOR THE PERIOD	**(573)**	**(625)**
Other items of comprehensive loss:		
Valuations of defined-benefit plans for employees	(15)	2
Foreign currency translation differences	4	(1)
Tax effect relative to the other components of the comprehensive loss that cannot be reclassified to the profit and loss account	4	(1)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	**(580)**	**(625)**

Shareholders' equity

(€ million)		
Shareholders' equity at December 31, 2012		**580**
Total comprehensive loss for the year	(625)	
Paid in by shareholders	1,000	
Retroactive effect of the new provisions of IAS 19	1	
Exchange differences and other variations	(1)	
Business combination under common control	(3)	
Total change		**372**
Shareholders' equity at December 31, 2013		**952**

Shareholders' equity amounted to €952 million, representing an increase of €372 million. The change was due essentially to the capital injection of €1,000 million which took place on April 23, 2013, partially offset by the comprehensive loss for the year of €625 million.

Leverage and net borrowings

Leverage measures the degree of company indebtedness and is calculated as the ratio between net borrowings and shareholders' equity. The Versalis management uses leverage to assess the degree of solidity and efficiency of the asset structure in terms of relative proportion of sources of financing between own and third-party assets, and to carry out benchmark analysis with the industry standards.

(€ million)	31.12.2012	31.12.2013	Change
Short-term debt	1,208	1,042	(166)
Medium/long-term debt	800	702	(98)
Cash and cash equivalents	(60)	(80)	(20)
Net borrowings	**1,948**	**1,664**	**(284)**
Shareholders' equity	**580**	**952**	**372**
Leverage	**3.36**	**1.75**	**(1.61)**

The reduction of **net borrowings** by €284 million was primarily the result of the €1,000 million capital injection by Eni SpA, which covered the financial requirements of €718 million related to the net cash flow from operating activities (-€271 million) and the net cash flow from investing activities (-€447 million). For further information see the comment on the Reclassified Cash Flow Statement.

Leverage, the ratio of net borrowings to shareholders' equity, went down from 3.36 in 2012 to 1.75 in 2013. The decrease was essentially due to the effect of the above mentioned capital injection.

Reconciliation of Statutory net profit/(loss) and shareholders' equity of Versalis SpA with consolidated net profit/(loss) and shareholders' equity

	Profit/(loss) for the year		Shareholders' equity	
(€ million)	2012	2013	31.12.2012	31.12.2013
As recorded in annual Financial Statements of Versalis SpA	**(593)**	**(551)**	**544**	**997**
Difference between the equity value of individual accounts of consolidated subsidiaries, with respect to the corresponding carrying amount in the statutory accounts of the parent company	23	**(51)**	(4)	**(63)**
Consolidation adjustments:				
- elimination of tax adjustments and compliance with accounting policies	8	**(29)**	56	**29**
- deferred taxation	(11)	**6**	(16)	**(11)**
As recorded in the Consolidated Financial Statements	**(573)**	**(625)**	**580**	**952**

Reclassified Cash Flow Statement

The Cash Flow Statement derives from the statutory statement of cash flows. It enables investors to understand the link existing between changes in cash and cash equivalents (deriving from the statutory cash flow statement) and in net borrowings (deriving from the reclassified cash flow statement) occurring between the beginning and the end of the period. The measure enabling such a link is represented by the free cash flow, which is the excess or deficit of cash remaining after capital expenditure requirements. The free cash flow, which is a non-GAAP performance measure, ends alternatively with: (i) changes in cash and cash equivalents for the period after adding/deducting cash flows relative to financial debts/receivables (issuance/repayment of debt and receivables related to financing activities), shareholders' equity (dividends paid, purchase of own shares, capital issuance) and the effect of changes in the consolidation area and of exchange rate differences; (ii) change in net borrowings for the period by adding/deducting cash flows relating to shareholders' equity and the effect on net financial debt of changes in the consolidation area and of exchange rate differences.

Reclassified Cash Flow Statement (*)

2011	(€ million)	2012	2013	Variation
(320)	**Net loss for the period**	**(573)**	**(625)**	**(52)**
	Adjustments to reconcile net loss to net cash provided by operating activities:			
224	- depreciation, amortization and other non-monetary items	189	120	(69)
(1)	- net gains on disposal of assets			
(87)	- dividends, interest, taxes and other charges	(127)	(125)	2
(66)	Changes in working capital	(220)	399	619
(95)	Dividends received, taxes (paid) received, interest (paid) received	78	(40)	(118)
(345)	**Net cash flow provided by operating activities**	**(653)**	**(271)**	**382**
(200)	Investment in fixed assets	(156)	(291)	(135)
(9)	Investments and purchase of consolidated subsidiaries and businesses	(60)	(74)	(14)
2	Disposals of investments in consolidated subsidiaries		1	1
	Financial investments		(100)	(100)
(26)	Other cash flow related to investing activities	(9)	17	26
(578)	**Free cash flow**	**(878)**	**(718)**	**160**
586	Change in short-term and long-term debt	894	(262)	(1,156)
	Cash flow from capital and reserves		1,000	1,000
8	**NET CASH FLOW FOR THE PERIOD**	**16**	**20**	**4**

Change in net borrowings

2011	(€million)	2012	2013	Variation
(578)	**Free cash flow**	**(878)**	**(718)**	**160**
(2)	Exchange differences on net borrowings and other variations	(2)	2	4
	Cash flow from capital and reserves		**1,000**	1,000
(580)	**CHANGE IN NET BORROWINGS**	**(880)**	**284**	**1,164**

* See 'Reconciliation of reclassified balance sheet, income statement and cash flow statement to statutory schemes".

The €1,000 million capital injection by Eni SpA covered: (i) the **net cash flow** used by **operating activities** of €271 million and (ii) the financial requirement of €718 million, generated primarily by investment in fixed assets (€291 million), equity investments (€74 million) and loans granted to the joint venture company Matrìca SpA (€100 million). The capital injection also resulted in a reduction of €262 million in borrowings, generating a net cash flow for the period of €20 million.

Reconciliation of the reclassified financial statements used in the Directors' Report to the statutory financial statements

Reclassified Consolidated Balance Sheet

Items of the Reclassified Consolidated Balance Sheet (where not expressly indicated, the item derives directly from the statutory FS) (amount in millions of euros)	Reference to the notes to the statutory FS	31.12.2012 Partial amounts from the statutory FS	31.12.2012 Amounts from reclassified FS	**31.12.2013** Partial amounts from the statutory FS	**31.12.2013** Amounts from reclassified format
Fixed assets					
Property, plant and equipment			893		1,060
Intangible assets			69		67
Equity-accounted investments			49		148
Other investments			52		15
Receivables and securities held for operating activities					101
Net payables related to capital expenditures, made up of:			(15)		(31)
- payables related to capital expenditures	(see note 15)	(15)		(31)	
Total fixed assets			**1,048**		**1,360**
Net working capital					
Inventories			1,251		1,145
Trade receivables			851		752
Trade payables			(861)		(1,006)
Tax receivables (payables) and provisions for tax made up of:			336		474
- income tax payables	(see note 16)	(1)		(2)	
- other tax payables	(see note 17)	(9)		(10)	
- deferred tax liabilities	(see note 22)	(18)		(20)	
- payables for tax consolidation	(see note 15)	(33)		(10)	
- current tax assets	(see note 4)	15		25	
- other current tax assets	(see note 5)	9		10	
- deferred tax assets	(see note 11)	294		427	
- receivables for Group VAT	(see note 2)	79		54	
Provisions for risks and charges			(110)		(159)
Other current assets and liabilities made up of:			92		124
- other receivables	(see note 2)	180		201	
- other (current) assets	(see note 6)	2		3	
- other receivables and other assets	(see note 12)	1		4	
- advances, other payables	(see note 15)	(78)		(75)	
- other tax (current) liabilities	(see note 18)	(6)		(3)	
- other payables and other liabilities	(see note 23)	(7)		(6)	
Total net working capital			**1,559**		**1,330**
Provisions for employee benefits			**(79)**		**(74)**
NET CAPITAL EMPLOYED			**2,528**		**2,616**
Shareholders' equity			**580**		**952**
Net borrowings					
Total debt, made up of:					
- long-term debt	(see note 19)	800		702	
- current portion of long-term debt	(see note 19)	3		2	
- short-term debt	(see note 13)	1,205		1,040	
less:					
Cash and cash equivalents	(see note 1)	(60)		(80)	
Total net borrowings			**1,948**		**1,664**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY			**2,528**		**2,616**

The amounts indicated in 2012 have been adjusted to account for the effects produced by the retroactive application of the new accounting standard IAS 19 “Employee benefits”.

Items of Reclassified Cash Flow Statement and confluence/reclassification of items in the statutory format	2012		**2013**	
(amounts in millions of euros)	Partial amounts from atatutory format	Amounts from reclassified format	Partial amounts from statutory format	Amounts from reclassified format
Net loss		**(573)**		**(625)**
Adjustments to reconcile net loss to net cash provided by operating activities:				
Depreciation, amortization and other non-monetary items		189		120
- depreciation and amortization	82		84	
- net impairment of tangible and intangible assets	111		41	
- share of profit (loss) of equity-accounted investments	(2)			
- currency translation differences from alignment	(1)		(2)	
- net change in provision for employee benefits	(1)		(3)	
Net gains on disposal of assets				
Dividends, interest, income taxes and other charges		(127)		(125)
- interest income				
- interest expense	36		41	
- income taxes	(163)		(166)	
Changes in working capital		(220)		399
- inventories	(102)		107	
- trade receivables	24		95	
- trade payables	(118)		147	
- provisions for risks and charges	27		51	
- other assets and liabilities	(51)		(1)	
Dividends received, taxes paid, interest (paid) received during the period		78		(40)
- dividends received	3			
- interest received				
- interest paid	(35)		(38)	
- income taxes received including tax credits rebated	110		(2)	
Net cash flow provided by operating activities		**(653)**		**(271)**
Capital expenditures		(156)		(291)
- tangible assets	(147)		(288)	
- intangible assets	(9)		(3)	
Investments and purchase of consolidated subsidiaries and businesses		(60)		(74)
- non consolidated investments	(60)		(71)	
- investments and purchase of consolidated subsidiaries and businesses			(3)	
Disposals				1
- tangible assets				
- investments			1	
Other cash flow related to capital expenditures, investments and disposals		(9)		
- financial investments: financial receivables			(100)	(100)
- change in payables and receivables relating to investments	(9)		17	17
Free cash flow		**(878)**		**(718)**
Change in short-term and long-term debt		894		(262)
- proceeds from long-term finance debt	358			
- payments from long-term finance debt	(4)		(101)	
- change in short-term finance debt	540		(161)	
Dividends paid and changes in non-controlling interests and reserves:				**1,000**
- net contributions (refunds) of own capital from/to third parties			**1,000**	
Net cash flow for the period		**16**		**20**

Financial review - Versalis SpA

Profit and Loss Account

2011	(€ million)	2012	2013	Change	Ch. %
5,296	Net sales from operations	5,220	4,766	(454)	(8.7)
86	Other income and revenues	97	155	58	59.8
(5,589)	Operating expenses	(5,738)	(5,383)	355	(6.2)
1	Other operating (expense) income	(9)	(1)	8	(88.9)
(201)	Depreciation, depletion, amortization and impairments	(139)	(88)	51	(36.7)
(407)	**Operating loss**	**(569)**	**(551)**	**18**	**(3.2)**
(17)	Net finance income (expense)	(45)	(46)	(1)	2.2
36	Net income (expense) from investments	(150)	(103)	47	(31.3)
(388)	**Loss before income taxes**	**(764)**	**(700)**	**64**	**(8.4)**
119	Income taxes	171	149	(22)	(12.9)
(269)	**Net loss**	**(593)**	**(551)**	**42**	**(7.1)**

The amounts indicated in 2012 have been adjusted to account for the effects produced by the retroactive application of the new accounting standard IAS 19 "Employee benefits".

Net loss

The financial statements of Versalis SpA show a net loss for the period of €551 million (€593 million in 2012), determined by the operating loss of €551 million, net financial expenses of €46 million and net investment expenses of €103 million, partially offset by income from income taxes of €149 million.

The operating result improved by €18 million, mainly as a consequence of the following factors:

- reduction in the quantities purchased and the prices in euro of petroleum feedstock;
- reduction in the quantities purchased and the prices of utilities compared to 2012;
- appreciation of the euro against the dollar which has a positive effect on the cost of procuring virgin naphtha;
- the general reduction in fixed costs due to savings and rationalization;
- the decrease in net write-downs on property, plant and equipment;
- the increase in revenues due to the sale of licences and the carbon dioxide emission rights sold.

The effects of these factors were partly offset by the 8.7% decrease in sales revenues, following the decline in quantities sold and the drop in elastomer and olefin prices, due to the negative performance of the automotive and tyre markets and to the greater availability of Asian products which has penalised European exports.

Analysis of profit and loss account items

The reasons for the most significant variations in Versalis SpA's income statement items are commented upon in the Notes to the separate Statutory financial statements of Versalis SpA, unless expressly indicated below.

Net sales from operations

2011	(€ million)	2012	2013	Variation	Var. %
1,315	Olefins	1,334	1,127	(207)	(15.5)
835	Aromatics	819	791	(28)	(3.4)
606	Derivatives	630	431	(199)	(31.6)
796	Elastomers	723	523	(200)	(27.7)
446	Styrenes	537	755	218	40.6
1,107	Polyethylene	989	963	(26)	(2.6)
191	Corporate and services	188	176	(12)	(6.4)
5,296		**5,220**	**4,766**	**(454)**	**(8.7)**

Net sales from operations fell by €454 million following the reduction in sales (-8.7%), caused by an overall decrease in demand, the crisis of confidence in the market, and the decrease in average unit sales prices.

Other income and revenues

Other income and revenues rose by €58 million compared with 2012 due mainly to the following: €17 million compensation relative to accidents which had occurred in previous years, €15 million of income from the sale of carbon dioxide emission rights of (the lower emissions are due to reduced production levels), €15 million of income from the sale of licences of connected with the strategic agreements for the Group's expansion in Asia and, lastly, €6 million and €4 million respectively from the higher costs charged to Syndial and to other companies working at the production sites.

Operating expenses

2011	(€ million)	2012	2013	Change	Ch. %
3,953	Production costs – raw, ancillary and consumable materials and goods and inventory changes	3,996	3,685	(311)	(7.8)
1,268	Service costs	1,380	1,326	(54)	(3.9)
18	Operating leases and other	19	18	(1)	(5.3)
11	Net provisions for contingencies	22	7	(15)	(68.2)
36	Other expenses	32	49	17	53.1
303	Payroll and related costs	289	298	9	3.1
5,589		**5,738**	**5,383**	**(355)**	**(6.2)**

Operating expenses decreased by €355 million, a fall of 6.2%, as shown in the table above.

The decrease of 7.8% in the **cost of raw, ancillary and consumable materials and goods and inventory changes** was primarily due to the decrease (-6.3%) in the average unit price in euro of virgin naphtha compared to 2012 and a decrease of 2.5% in the quantities purchased, following the drop in production due to falling demand for products in the chemical sector.

Service costs decreased by 3.9%, mainly due to the reduction in quantities purchased and the decrease in the cost of utilities (electricity -8.8%, methane -6.9%, steam -6.0%), only partially offset by the increase in capitalized service costs, costs for planning and managing the works and the cost of ecological treatment.

The decrease of €15 million in **net provisions for risks and charges** was determined primarily by the net utilization of €16 million of the risk provision for the antitrust litigation and the net utilization of €1 million for the OIL insurance provision, offset by the net accrual of €4 million to the provision for environmental risks and charges (discussed in greater detail in the section "Litigation").

Payroll and related costs increased by € 9 million (3.1%) mainly due to the increase in the cost of redundancy incentives, only partially offset by expenses for benefit and defined contribution plans.

Other operating (expense) income

Other operating expenses of €1 million (€9 million in 2012) are related to derivatives used to hedge the price risk of virgin naphtha which, although not held for speculative purposes, are classified as "hedges" under IFRS standards.

Depreciation, amortization and impairment

2011	(in millions of euros)	2012	2013	Variation	Var. %
50	Property, plant and equipment	49	50	1	2.0
4	Intangible assets	4	4		
54	**Depreciation and amortization**	**53**	**54**	**1**	**1.9**
147	**Impairment**	**86**	**34**	**(52)**	**(60.5)**
201		**139**	**88**	**(51)**	**(36.7)**

The **impairment** of €34 million stems from the results of impairment tests and refer mainly to the cracker and polyethylene plants in Brindisi (€16 million), the sites in Porto Marghera (€10 million), Sarroch (€7 million) and the Priolo polyethylene plant (€1 million). The Versalis Group's non-financial fixed assets have been grouped into Cash Generating Units (CGUs) and the impairment loss was determined by comparing the carrying amount of each CGU with its value in use (determined by discounting to present value the expected cash flows deriving from use of the assets over a time horizon coinciding with the remaining average useful life of the CGU). The CGUs of the cracker and polyethylene plants in Brindisi, Porto Marghera, Sarroch, the Priolo Polyethylene plant and the Ferrara polyethylene plant show a negative profitability. Therefore, the impairment relates to investments made during the year at such sites and essentially refers to work carried out in order to maintain plant efficiency (including multi-year maintenance) and compliance with environmental and safety standards. These values are stated net of utilization of government grants relating to the Gas Phase plant in Brindisi (€10 million) and of the contractual guarantees provided by Syndial concerning plants subject to write-downs (€2 million).

Net financial expenses

2011	(in millions of euros)	2012	2013	Variation	Var. %
(23)	Financial income (expense) related to net borrowings	(34)	(41)	(7)	20.6
4	Income (expense) on derivative contracts	(2)	(9)	(7)	n.s.
(2)	Exchange differences	(8)	4	12	n.s.
	Other financial income (expense)	(4)	(4)		
4	Financial expenses capitalized	3	4	1	33.3
(17)		**(45)**	**(46)**	**(1)**	**2.2**

Net financial expenses increased by €1 million due essentially to: (i) the increase of €7 million in interest charges on financial debt following the new economic conditions agreed with the financing partner Eni SpA, effective from January 1, 2013 and in line with market conditions; (ii) increased expenses from the fair value measurement of non-speculative commodity derivatives on exchange rate risks of €7 million. These effects are partially offset by the improvement in net exchange rate differences on commercial transactions of €12 million.

The derivative instruments do not possess the formal requisites to be classified as "hedges" in accordance with IAS 39 and therefore the related fair value changes are recorded in the income statement.

Net income (expense) from investments

2011	(in millions of euros)	2012	2013	Variation	Var. %
32	Dividends	41	9	(32)	(78.0)
5	(Additions to) Utilization of provisions for impairment of investments	(111)	(114)	(3)	2.7
(1)	(Additions to) Utilization of provisions to cover losses	(80)	2	82	n.s.
36		**(150)**	**(103)**	**47**	**(31.3)**

The **net expense from investments** decreased by €47 million due to the fact that last year an allocation of €80 million was made to the provision to cover losses relative to the investment in Polimeri Europa France SAS, partially offset by the lower dividend income received of €32 million and by the increased net provisions for the impairment of investments of €3 million.

The net provisions for equity impairments of €114 million refer to the provisions of Polimeri Europa UK (€76 million), Polimeri Europa France (€64 million), NewCo Tech (€1 million), partially offset by the utilization of the provision for impairment losses of Versalis International SA (€27 million).

The dividends of €9 million refer to Polimeri Europa GmbH.

Income taxes

2011	(€ million)	2012	2013	Variation
	Current tax assets			
(76)	IRES	(36)	(28)	8
3	IRAP	1		(1)
1	Additions to provisions for tax disputes			
(72)		**(35)**	**(28)**	**7**
(9)	Deferred taxes	(17)	(5)	12
(38)	Prepaid taxes	(119)	(116)	3
	Impairments (reversals) of deferred tax assets			
(47)		**(136)**	**(121)**	**15**
(119)		**(171)**	**(149)**	**22**

The decrease in income from income taxes of €22 million compared with 2012 was due primarily to lower net prepaid taxes of €15 million, and the lower income resulting from participation in Eni SpA's national tax consolidation of €8 million.

Reclassified Balance Sheet[3]

Reclassified Balance Sheet (*)

(in millions of euros)	31.12.2012	**31.12.2013**	Variation
Fixed assets			
Property, plant and equipment	637	791	154
Intangible assets	60	57	(3)
Investments	173	375	202
Receivables and securities held for operating activities	1	101	100
Net payables related to capital expenditure	(13)	(26)	(13)
	858	**1,298**	**440**
Net working capital			
Inventories	960	900	(60)
Trade receivables	729	645	(84)
Trade payables	(780)	(884)	(104)
Tax receivables (payables) and provisions for deferred tax	339	461	122
Provisions for risks and charges	(180)	(92)	88
Other current assets and liabilities	106	145	39
	1,174	**1,175**	**1**
Provisions for employee benefits	**(71)**	**(68)**	**3**
NET CAPITAL EMPLOYED	**1,961**	**2,405**	**444**
Shareholders' equity	**544**	**997**	**453**
Net borrowings	**1,417**	**1,408**	**(9)**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**1,961**	**2,405**	**444**

(*) For alignment with the statutory format see the paragraph "Reconciliation of the reclassified financial statements used in the directors' report with the statutory financial statements".

Fixed assets

Property, plant and equipment amounted to €791 million, showing an increase of €154 million due essentially to the effect of capital expenditure of €235 million, partially offset by the depreciation charges for the year of of €50 million and impairments of €34 million.

Intangible assets decreased by €3 million essentially as a result of amortization charges of €4 million, partially offset by capital expenditure for the year of €2 million.

Investments amounted to €375 million, representing an increase of €202 million due to: (i) underwriting of the share capital of Polimeri Europa France SAS (€206 million), Polimeri Europa UK Ltd (€119 million), Novamont SpA (€41 million) and Matrìca SpA (€2 million) as well as the establishment of the joint ventures Lotte Versalis Elastomers (€21 million) and NewCo Tech (€6 million); (ii) the revaluation of the investment in Versalis International SA (€27 million). These effects are partially offset by the provision for impairment of the investments in Polimeri Europa France SAS (€143 million), Polimeri Europa UK Ltd (€76 million) and NewCo Tech SpA (€1 million).

Financial receivables and securities held for operating activities amounted to €101 million refer mainly to the loan granted to Matrìca SpA, a joint venture with Novamont SpA, in order to meet the financial requirements of Phase 1 of the "Green Hub" project in Porto Torres.

The increase of €13 million in **net payables related to capital expenditures** was caused mainly by the greater capital investments made during the last quarter of 2013 compared to the same period in 2012.

[3] See the comments on the consolidated economic and financial results for a methodological illustration of the reclassified statements.

The amounts indicated in 2012 have been adjusted to account for the effects produced by the retroactive application of the new accounting standard IAS 19 "Employee benefits".

Net working capital

The decrease of €60 million in **inventories** is attributable to: (i) the decrease of €57 million in inventories of finished products due both to the reduction of stock levels and the drop in prices; (ii) a decrease of €2 million in inventories of work in process and semi-finished products; (iii) the decrease of €1 million in inventories of raw materials, supplies and consumables. These amounts include net allowances for impairment losses of €7 million (utilization of €24 million of the impairment provision in 2012) for adjustment to market value of the remaining stock.

The decrease of €84 million in **trade receivables** derived mainly from lower sales and from the accrual to the provision for bad debts of €17 million.

The increase of €104 million in **trade payables** is due primarily to purchases of raw materials and services received but not yet invoiced, only partially offset by the reduction in the quantities of virgin naphtha purchased.

The increase in **tax assets and net provisions for taxes** of €122 million is mainly due to: (i) the allocation of net deferred tax assets of €126 million; (ii) the decrease of €23 million of payables to the parent company Eni SpA for participation in the national tax consolidation, due to the repayment of the excessive advance payments received in 2012. These effects were partially offset by the decrease of €26 million in the VAT receivables of the Group following the collection of prior year receivables.

The decrease of €88 million in **provisions for risks and charges** was due primarily to the utilisation of €80 million of the provision to cover losses relating to the equity in Polimeri Europa France SAS and the utilization of €27 million of the fund for litigation risks, partially offset by the net accrual of €19 million to the provision for redundancy incentives.

The increase of €39 million in **other net assets** for the year is mainly due to the increase of €17 million in receivables for the sale of licences, the increase of €11 million in other receivables from third parties and the increase of €10 million in other receivables from Eni Group companies.

The **provision for employee benefits** of €68 million decreased by €3 million mainly due to the entry into force, on January 1, 2013, of the new provisions relating to IAS 19 that have resulted in the elimination of the so-called "corridor method" and the recognition of the total amount of the actuarial gains and losses against the shareholders' equity.

Shareholders' equity

(€ million)

Shareholders' equity at December 31, 2012		**544**
Total comprehensive loss for the year	(549)	
Payment by shareholder	1,000	
Effect on reserves of the purchase of the Donegani business	2	
Total change		**453**
Shareholders' equity at December 31, 2013		**997**

Shareholders' equity amounted to €997 million, representing an increase of €453 million. This increase was due essentially to the capital injection which took place on April 23, 2013 for €1,000 million, partially offset by the comprehensive loss for the year of €549 million.

Net borrowings

(€ million)	31.12.2012	31.12.2013	Variation
Short-term debt	851	835	(16)
Medium/long-term debt	601	601	
Cash and cash equivalents	(35)	(28)	7
Net borrowings	**1,417**	**1,408**	**(9)**
Shareholders' equity	**544**	**997**	**453**
Leverage	**2.60**	**1.41**	**(1.19)**

The reduction of €9 million in **net borrowings** was primarily the result of the €1,000 million capital injection by Eni SpA, which covered the financial requirements of €991 million related to the net cash flow from operating activities (-€271 million) and the net cash flow from investing activities (-€720 million). For further information see the comment on the Reclassified Summarized Cash Flow Statement.

Reclassified Cash Flow Statement

The €1,000 million capital injection by Eni SpA covered the financial requirement of €991 million, generated by: (i) the **net cash** used by **operating activities** of €271 million; (ii) charges for capital expenditure (€236 million); (iii) the recapitalizations of consolidated companies (€325 million), net investments in other companies(€70 million) and in business units (€3 million) and (iv) loans granted to the joint venture Matrìca SpA (€100 million). The recapitalization operation also resulted in a reduction of €16 million in borrowings. The net cash flow for the period was -€7 million.

Reclassified Cash Flow Statement (*)

2011	(amount in millions of euros)	2012	2013	Change
(320)	**Net loss for the period**	**(573)**	**(625)**	**(52)**
	Adjustments to reconcile net loss to net cash provided by operating activities:			
224	- depreciation, depletion, and amortization and other non-monetary items	189	120	(69)
(1)	- net gains on disposal of assets			
(87)	- dividends, interest, taxes and other charges	(127)	(125)	2
(66)	Changes in w orking capital	(220)	399	619
(95)	Dividends received, taxes (paid) received, interest (paid) received	78	(40)	(118)
(345)	**Net cash flow provided by operating activities**	**(653)**	**(271)**	**382**
(200)	Capital expenditures	(156)	(291)	(135)
(9)	Investments and purchase of consolidated subsidiaries and businesses	(60)	(74)	(14)
2	Disposals		1	1
	Financial investments		(100)	(100)
(26)	Cash flow related to capital expenditures, investments and disposals	(9)	17	26
(578)	**Free cash flow**	**(878)**	**(718)**	**160**
586	Change in short-term and long-term debt	894	(262)	(1,156)
	Dividends paid and changes in non-controlling interests and reserves		1,000	1,000
8	**NET CASH FLOW FOR THE PERIOD**	**16**	**20**	**4**

Change in net borrowings

2011	(amount in millions of euros)	2012	2013	Change
(578)	**Free cash flow**	**(878)**	**(718)**	**160**
(2)	Exchange differences on net borrow ings and other changes	(2)	2	4
	Dividends paid and changes in non-controlling interests and reserves		**1,000**	1,000
(580)	**CHANGE IN NET BORROWINGS**	**(880)**	**284**	**1,164**

Reconciliation of the reclassified financial statements used in the Directors' Report to statutory financial statements

Reclassified Balance Sheet

Items of the Reclassified Balance Sheet (where not expressly indicated, the item derives directly from the statutory statement) (amounts in millions of euros)	Reference to notes on the financial statements	31.12.2012 Partial amounts from statutory format	31.12.2012 Amounts from reclassified format	**31.12.2013** Partial amounts from statutory format	**31.12.2013** Amounts from reclassified format
Fixed assets					
Property, plant and equipment			637		791
Intangible assets			60		57
Investments in subsidiaries, partnerships and joint ventures and other investments			173		375
Receivables and securities held for operating activities			1		101
Net payables related to capital expenditures, made up of:			(13)		(26)
- payables related to capital expenditures	(see note 15)	(13)		(26)	
Total fixed assets			**858**		**1,298**
Net working capital					
Inventories			960		900
Trade receivables			729		645
Trade payables			(780)		(884)
made up of:			339		461
- other tax payables	(see note 15)	(8)		(9)	
- payables for tax consolidation	(see note 14)	(33)		(10)	
- current tax assets	(see note 4)	9		12	
- other current tax assets	(see note 5)	1		1	
- deferred tax assets	(see note 10)	291		413	
- receivables for Group VAT	(see note 2)	79		54	
Provisions for risks and charges			(180)		(92)
Other current assets and liabilities made up of:			106		145
- other receivables	(see note 2)	179		206	
- other (current) assets	(see note 6)	1		2	
- other receivables and other assets	(see note 12)	1		4	
- advances, other payables	(see note 15)	(60)		(59)	
- other tax (current) liabilities	(see note 16)	(6)		(2)	
- other payables and other liabilities	(see note 20)	(9)		(6)	
Total net working capital			**1,174**		**1,175**
Provisions for employee benefits			**(71)**		**(68)**
NET CAPITAL EMPLOYED			**1,961**		**2,405**
Shareholders' equity			**544**		**997**
Net borrowings					
Total debt, made up of:					
- long-term debt	(see note 17)	601		601	
- current portion of long-term debt	(see note 17)	4		2	
- short-term debt	(see note 12)	847		833	
less:					
Cash and cash equivalents	(see note 1)	(35)		(28)	
Total net borrowings			**1,417**		**1,408**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY			**1,961**		**2,405**

The amounts indicated in 2012 have been adjusted to account for the effects produced by the retroactive application of the new accounting standard IAS 19 "Employee benefits".

and confluence/reclassification of items in the statutory format (in millions of euros)	amounts from statutory format	reclassified format	amounts from statutory format	reclassified format
Net loss		**(593)**		**(551)**
Adjustments to reconcile net loss to net cash provided by operating activities:				
Depreciation, depletion, and amortization and other non-monetary items		328		196
- depreciation, depletion, and amortization	53		55	
- net impairment of tangible and intangible assets	86		34	
- impairments (writebacks) of investments	191		113	
- currency translation differences from alignment	(1)		(3)	
- net change in provision for employee benefits	(1)		(3)	
Net gains on disposal of assets		(1)		
Dividends, interest, income taxes and other charges		(181)		(122)
- dividend income	(41)		(9)	
- interest expense	31		37	
- income taxes	(171)		(150)	
Changes in working capital		(160)		233
- inventories	(68)		60	
- trade receivables	33		83	
- trade payables	(95)		107	
- change in provisions for contingencies	22		(5)	
- other assets and liabilities	(52)		(12)	
Dividends received, taxes paid, interest (paid) received during the period		130		(27)
- dividends received	41		9	
- interest paid	(30)		(34)	
- income taxes received including tax credits rebated	119		(2)	
Net cash flow provided by operating activities		**(477)**		**(271)**
Capital expenditures		(131)		(236)
- tangible assets	(129)		(235)	
- intangible assets	(2)		(1)	
Investments and purchase of consolidated subsidiaries and businesses		(64)		(399)
- investments	(64)		(396)	
- businesses			(3)	
Disposals and partial sales of investments		5		4
- investments	5		4	
Other cash flow related to capital expenditures, investments and disposal		(13)		
- financial investments: financial receivables				(100)
- change in payables and receivables relating to investments	(13)			11
Free cash flow		**(680)**		**(991)**
Change in short-term and long-term debt		695		(16)
- proceeds from long-term finance debt	300			
- payments of non-current finance debt	(3)			
- change in finance debt	398		(16)	
Dividends paid and changes in non-controlling interests and reserves:				1,000
- net contributions (refunds) of own capital			1,000	
Net cash flow for the period		**15**		**(7)**

Risk factors and uncertainties

Introduction

The main business risks, identified and actively managed by the Versalis Group, are country risk and operational risk. These risks, and the methods of managing them, are described below. For a description of financial risks see the specific section of the notes to the consolidated financial statements.

Country risk

All of the Versalis Group's production plants are located within European Union countries. Purchases and sales are made mainly in Italy and in Europe. Therefore the Group has no significant interests in countries which are politically or economically unstable.

In any case the Versalis Group periodically monitors the political, social and economic risks of the countries in which it operates, paying attention also to any detrimental changes in the legislative framework, in particular those of a fiscal nature, in order to minimize the impact on the Group.

Operational risk

The Versalis Group's business, by nature, involves industrial and environmental risks and is subject, in most of the countries in which the Versalis Group operates, to laws and regulations regarding environmental protection and industrial safety. For example, in Europe the Versalis Group owns and operates industrial facilities that are subject to a high risk of accidents and for which the Versalis Group has adopted standards and procedures that meet the criteria of the European Union's "Seveso II" Directive.

The wide spectrum of the Group's activities involves a vast range of operational risks such as explosions, fires, harmful gas emissions, toxic product leakage and the creation of non-biodegradable waste.

These events could damage or destroy the plants, and cause harm to persons or damage to the surrounding environment. Moreover, as industrial operations may be carried out in ecologically sensitive areas, each site requires a specific approach to minimize the impact on the ecosystem involved, on biodiversity and on the health of the local population.

The Versalis Group has adopted the highest standards for assessing and managing industrial and environmental risks, bringing its conduct into line with industry best practices. The Versalis Group has, over time, obtained the ISO14001 and OHSAS18001 System Certifications (see the paragraph "Environmental Responsibility"). In developing and managing operations the business units apply the laws and regulations of the countries in which they operate and they assess the industrial and environmental risks using specific procedures.

Any environmental emergency is managed by the business units at site level, with an emergency response plan for each possible scenario, detailing the actions to be taken to limit the damage as well as identifying the persons responsible for ensuring that these actions are taken.

As illustrated in the "Environmental responsibility" section of the Directors' report, most of the Versalis Group's products are subject to the REACH legislation which regulates the obligations of registration and authorization of the products themselves, not only by the company, but also by its suppliers, as a condition necessary for their manufacture and commercialisation on the market.

The Versalis Group complies with this legislation and demands the same requirement of its suppliers during the pre-qualification stage for awarding contracts

The integrated approach to health, safety and environmental issues is fostered by the application of an HSE Management System at all levels of the Eni divisions and companies, which bases its methodological approach on the Eni HSE Management System model. This system is based on an annual cycle of planning, implementation, control, review of results and definition of new objectives. It is aimed at the prevention of risks, systematic monitoring, and control of HSE performance within a continuous improvement cycle which also envisages that these processes be audited by internal and external personnel.

Capital management

The Versalis management uses leverage to assess the degree of solidity and efficiency of the asset structure in terms of relative proportion of sources of financing between own and third-party assets, as well as to carry out benchmark analysis with the industry standards. Leverage measures the degree of company indebtedness and is calculated as the ratio between net borrowings and shareholders' equity. The

Management's aim in the medium term is to maintain a solid financial structure epitomized by a leverage ratio of not more than 1.

Fair value of financial instruments

The classification of financial assets and liabilities is indicated below; these are measured at fair value in the Balance Sheet according to the fair value hierarchy defined on the basis of the significance of the inputs used in the measurement process. In particular, on the basis of the features of the inputs used in making the measurements, the fair value hierarchy has the following levels:

- Level 1: prices quoted (and unadjusted) in active markets for identical financial assets or liabilities;
- Level 2: measurements carried out on the basis of inputs, other than the quoted prices as above, which, for the assets and liabilities to be measured, can be observed directly (e.g. prices) or indirectly (e.g. deriving from prices).
- Level 3: inputs not based on observable market data.

In relation to the above, the Versalis Group's financial instruments carried at fair value at December 31, 2013 regard "level 2" derivative contracts.

In carrying out its business, Versalis uses various kinds of financial instruments. The market value of the company's financial instruments is substantially in line with their carrying amounts, for the following reasons:

- receivables recognized as current assets: the market value of trade, financial and other receivable falling due within one year is estimated to be practically equivalent to the respective carrying amount because of the short interval between the origin of the receivable and its due date;
- financial payables recognized as non-current liabilities: the market value of financial payables falling due after one year, including the short-term portion, is estimated to be substantially equal to the carrying amount, because they were entered into at fixed market rates;
- trade, financial and other payables recognised as current liabilities: the market value of trade, financial and other payables falling due within one year is estimated to be practically equivalent to the carrying amount because of the short interval between the origin of the payable and its due date;
- other non-current financial assets and liabilities: other non-current financial assets and liabilities are of an immaterial amount.

Environmental regulations

As regards environmental risk, given the steps already taken, the insurance policies signed and the provisions for risks already accrued, Versalis does not expect to incur any particularly significant negative effects on the financial statements as a result of compliance with environmental legislation. However, we cannot rule out with certainty the risk that Versalis may have to bear further costs or liabilities even of significant proportions, as it is impossible, on the basis of current knowledge, to predict the effects of future developments, taking into account the following aspects among others : (i) the possibility of as yet unknown contamination; (ii) the results of the ongoing surveys and the other possible effects of statements required by Italian Decree No. 471/1999 of the Ministry of Environment; (iii) new developments in environmental regulation; (iv) the effect of possible technological changes relating to future remediation; (v) the possibility of litigation and the difficulty of determining the eventual consequences, also considering the responsibility of other parties and eventual insurance indemnity.

As explained in greater detail in the notes to the financial statements (paragraph "Accounting policies – Grants"), the environmental costs of action to be taken at the manufacturing facilities acquired by the Versalis Group through the business conferral by Syndial SpA (formerly EniChem SpA) are covered by a specific warranty issued by Syndial SpA.

Emission trading

Italian Legislative Decree No. 216 of April 4, 2006 implemented the Emission Trading Directive 2003/87/EC concerning greenhouse gas emissions and Directive 2004/101/EC concerning the use of carbon credits deriving from projects for the reduction of emissions based on the flexible mechanisms devised by the Kyoto Protocol.

In relation to the European Emissions Trading Scheme (ETS), which has been operational since January 1, 2005, on November 27, 2008, the National Committee for Management and Implementation of Directive

2003/87/EC published Resolution 20/2008 assigning the emissions allowances for the 2008-2012 period to the existing plants. It should be noted that, at the request of the European Commission, changes were made by the National Committee for Management and Implementation of Directive 2003/87/EC, which expanded the scope of application of the Directive with respect to the provisions in force for the period 2005-2007, extending it to certain types of combustion plants, including those present in the steam cracking plants (see also the paragraph Commitments for sustainable development in the Directors' Report attached to the consolidated financial statements).

On the basis of the estimates of the emissions made, at December 31, 2013 the Versalis Group presents an overall surplus emissions rights position (a so-called "long position")[4]; therefore, in accordance with the accounting criteria adopted, management shall recognize the income from the surplus rights at the moment of sale thereof.

[4] Provisional data: the definitive data will be available only after the final results have been certified by the Accredited Auditor. This will, however, not affect the company's position which will certainly remain long.

Business outlook

Levels of economic activity in Europe are slowly beginning to show signs of recovery according to the data available in the last months of 2013 and the beginning of 2014. The world economy is gradually coming out of recession, driven by the strength of the United States and the high, though no longer accelerating, demand from the emerging economies.

An improvement in economic activity is expected (from +2.9% in 2013 to +3.6% in 2014) in almost all geographic areas. In the United States, in particular, growth increased from +2% in 2012 to +3% in 2013. Among the emerging countries, China has recorded solid growth, although at the lowest rates for last two decades (although still higher than 7% per year). The deceleration in growth rates represents a sign of the stabilization and maturity of emerging markets, although it must be monitored and interpreted in light of the tapering policies launched by the US Fed in 2014.

The risks of a break-up of the Monetary Union having been neutralized, the health of the Euro-zone economies is improving, with positive macroeconomic data from the last quarter of 2013. The growth estimates for 2014 show an average increase of more than one percentage point, with Germany and the UK leading the list of countries with the highest growth rates (+1.7% and +2.5% respectively). The emergence from the long crisis, however, has limited growth rates in the EU, which have settled at around +1% per year on average compared to the rate of -0.4% in 2013, with several countries reporting limited growth of only 0.5% (including France, Spain and Italy).

Following another year of significant contraction in the real economy (-1.8% in 2013), Italy, in particular, should, according to forecasts, achieve a growth rate of +0.5%, limited by the significant erosion of the Italian industries, which adversely affects employment trends and expected growth of domestic consumption. The severe credit crunch shows no signs of loosening its grip on the economy, severely penalizing the potential for economic recovery. Expectations regarding export trends remain positive, thanks to the greater dynamism expected in foreign markets.

Economic recovery would give new impetus to the European petrochemical industry which is currently in great difficulty, caused on the one hand by excess production capacity in certain business segments and on the other by strong competition from imported products from countries with low-cost raw materials (especially the Middle East). Many groups have taken measures to reduce production capacity by shutting down obsolete and less competitive production units and, at the same time, announcing a diversification of the business portfolio towards products that are less susceptible to cost competition. Along with the expected recovery in demand, the stabilization of commodity prices (partly as a result of the decision by the Chinese to favour domestic demand over export) should help companies to improve profitability margins, as has already occurred in part during 2013.

For Versalis, economic recovery should be beneficial for sales volumes, with positive effects on plants' operating rates given the reduction of capacity in the polyethylene business (due to the shutdown of the Gela and Priolo plants in mid-2013, as mentioned above). A slow recovery is also expected in sales in the synthetic rubber business (elastomers), with the forecast recovery of the automotive and tyre markets, particularly as from the second half of 2014. In terms of profitability, a gradual improvement is expected in various sectors, thanks to a greater stability in the costs of raw materials, the improved balance between supply and demand and the unfolding of the effects of the efficiency measures implemented. These factors are expected to reduce operating losses during 2014.

Other information

Transactions with related parties

The transactions with related parties carried out by Versalis SpA and the companies included in its consolidation area involve mainly the trading of goods, the performance of services, the provision/receipt of funding and the use of financial resources with the parent company Eni SpA and with companies directly or indirectly controlled by the latter, and with its own non-consolidated subsidiaries and associates, and with other State-owned or controlled companies. All of the transactions carried out form part of ordinary operations and took place at arm's length, that is, at conditions that would have been applied by independent parties on the open market. Under the provisions of applicable laws, the company has adopted internal procedures to ensure transparency and the substantial and procedural correctness of the related party transactions carried out by the company itself or by its subsidiaries.

The amounts of the trade, financial and other transactions carried out with related parties and a description of the type of major transactions, as well as the impact thereof on the equity, the economic results and the cash flows, are disclosed in the notes to the financial statements.

Treasury shares and shares in parent company

In accordance with the regulations of Art. 2428 clause 3 points 3 and 4 of the Italian Civil Code, it is hereby confirmed that Versalis SpA and its subsidiaries do not own nor have they been authorized by their respective Shareholders' Meetings to purchase shares in either Versalis SpA or in Eni SpA.

Advances against services received from Syndial

As regards the transfer of the "Production plants, services and utilities of the Porto Torres works" business unit, with effect as from January 11, 2007, in accordance with the agreements signed by the parties, the conferrer Syndial SpA paid the receiver Versalis SpA the sum of €96 million as an advance against the obligation assumed by Versalis SpA to keep the plants received operating for at least five years (that is, until December 31, 2011). During this five-year period, Versalis SpA formally advised Syndial SpA. at the end of each year, that the plants had been in operation and that, therefore, the annual portion of the advance payment was considered effectively earned and due. The agreements also envisage that, had the above plants been definitively shut down, Versalis SpA would have promptly notified Syndial SpA, returning the portion not accrued relating to the period running from the definitive shutdown to December 31, 2011 (€1.6 million per full month or fraction of a month of more than 15 days). On this point, the shutdowns that occurred in June 2011 following the "Memorandum of Understanding for Green Chemistry at Porto Torres" (signed by the Government, the Regional authorities, Eni, Novamont, Versalis SpA, Syndial, Enipower and the trade unions) did not entail the return of the advances.

Moreover, as provided for in the above mentioned agreements, at the end of the first three years (and, therefore, on January 1, 2010) the parties asked the auditing firm KPMG SpA to carry out an audit on the effective amount of the losses recorded at the site. Given that these were found to be higher than was originally envisaged in the business plan, on the basis of which the amount of €96 million was determined, on December 14, 2010 Syndial supplemented the above advance with a payment of €104 million, thus reaching the contractually defined maximum amount.

Considering the evident correlation between the agreements described above and the grant operation, it was decided that, for the purpose of preparing the financial statements, the advance of €96 million and the supplement of €104 million should be accounted for by adopting the principles applicable to the main grant transaction. Given that this grant took place between entities subject to common control, reference was made to the provisions of the OPI1 document issued by Assirevi. This establishes that, applying the principle of consistency of values, any adjustments made must be recorded by means of a contra-entry in a shareholders' equity reserve of the receiving company.

Versalis SpA initially recorded the advance payment of €96 million and the supplement of €104 million received from Syndial SpA under "other payables for advances received", bearing in mind that, being a company subject to the direction and coordination of Eni SpA, any decisions about the early closure of the site are not the exclusive responsibility of the Company's directors. At the end of each year, once it has been established that the annual portion was to be considered definitively accrued, it was charged to a specific shareholders' equity reserve.

Significant events after the reporting date

On February 6, 2014 Versalis and Elevance Renewable Sciences Inc, a US chemical company specialized in high value-added products obtained from vegetable oils, signed a Memorandum of Understanding in order to launch a strategic partnership aimed at developing and industrializing a new technology for production using vegetable oils. This innovative technology is based on the metathesis chemical process applied to vegetable oils, which enables new bio-chemical products to be produced using a specific catalyst.

Versalis and Elevance will cooperate to develop and industrialize new catalysts, taking advantage of the experience that Elevance has matured in this field. Furthermore, the partners will work together to design and build world-scale industrial plants, the first of their kind, at the Versalis site in Porto Marghera, which will use processes involving the metathesis of vegetable oils with ethylene. The project will make use of existing infrastructures at the site and will integrate with Versalis' existing productive streams.

Future production will be targeted to high value-added application sectors such as personal care, detergents, bio-lubricants and chemicals for the petroleum industry.

Versalis will make its expertise in the development of catalysis processes and engineering on an industrial scale available to the partnership, while Elevance will provide its know-how on the use of vegetable oils in the production of specialty chemicals for high value-added applications, drawing upon its experience in similar projects in the US and in Asia.

On February 19, 2014 Versalis signed a bond loan for US$ 408 million in favour of Genomatica Inc., which expires on December 31, 2014. This loan will automatically be converted into preference shares to coincide with the share capital increase of Genomatica, which will be resolved upon by December 31, 2014.

At the end of February 2014 the production lines in the Porto Marghera plant were shut down in order to meet current business needs, as a result of the difficult market situation. The shutdown is expected to last for approximately six months and the production lines are expected to restart in August 2014.

From March 1, 2014, in line with the new business strategy to create a more market-oriented Group, Polimeri Europa UK Ltd has adopted the new name "Versalis UK Ltd" and Polimeri Europa France SAS adopted the new name "Versalis France SAS".

From March 7, 2014, in line with the new business strategy to create a more market-oriented group, Polimeri Europa GmbH has adopted the new name of "Versalis Deutschland".

On March 31, the Shareholders' Meeting of Versalis International SA approved the carve-out of Versalis Deutschland GmbH. The German and Swiss branches of Versalis International SA started to operate with legal effect on April 1, 2014 and with accounting and fiscal effect as from January 1, 2014. The Austrian branch started to operate with legal, accounting and fiscal effect as from April 1, 2014.

Commitment to sustainable development

Introduction

The main commitments undertaken by the Company in terms of sustainable development are indicated below, with particular reference to the following areas: personnel, environment, territorial relationships and local development, and technological innovation.

Personnel

The number of employees working for the Group companies at December 31, 2013 amounted to 5,745.

2011	Employees	2012	2013
4,796	Italy	4,674	**4,665**
1,044	Abroad	1,050	**1,080**
5,840		**5,724**	**5,745**

The increase of 21 staff compared with December 31, 2012 was determined by the following:

- increases:

167 people were recruited, 25% of whom were graduates;

35 people were taken on following Eni SpA's acquisition of the "Catalysis and Sustainable Chemistry" branch.

22 people were taken on following the merger into Versalis International of the formerly non-consolidated companies Polimeri Europa Hellas, Polimeri Europa Polska and Polimeri Europa Norden;

- reductions:

146 employees left the company for ordinary reasons (retirement, resignation and consensual termination);

33 employees were transferred to Matrìca SpA;

9 employees left the Company under ordinary redundancy procedures, in accordance with Law No 223/91;

15 employees, representing the net negative balance resulting from transfers within the Eni Group.

The breakdown by category is as follows:

2011	Employees	2012	2013
106	Managers	111	**113**
3,308	Managers/supervisors and employees	3,341	**3,448**
2,426	Workers	2,272	**2,184**
5,840		**5,724**	**5,745**

The distribution of permanent employees by age group is shown below:

Age group	Total	%
< 30	600	10.5
30-39	1,609	28.2
40-49	1,971	34.5
50-60	1,322	23.2
> 60	206	3.6
	5,708	100.0

As at December 31, 2013 the number of employees in service in the Group companies was 5,708.

Employees	2012	2013
Managers	106	110
Managers/supervisors and employees	3,322	3,429
Workers	2,240	2,169
	5,668	**5,708**

The number of employees in service at the end of the year was up by 40 compared to the beginning of the year. The number of employees in service is obtained by subtracting those employees seconded to other companies from the total number of employees on the payroll and adding those seconded from other companies.

Employees of Versalis SpA and of its subsidiaries seconded to other companies of the Eni Group, to other entities, or on leave, numbered 64, while those seconded to Versalis SpA from other companies of the Eni Group numbered 27.

Training

The training programmes in Italy and in the foreign subsidiaries covered 250,000 man-hours in 2013. This activity was provided mostly using internal resources, but also with the support of Eni Corporate University SpA. Consolidation of the know-how of certain specialist areas was provided by qualified trainers from outside the Eni Group.

The financial resources used included €3 million of direct costs, €2.5 million of which towards Eni Corporate University SpA. Specific examples over the year include:

- ongoing commitment to the institutional training of new recruits, carried out in-house for those just graduated from high school, and also using the services of Eni Corporate University SpA for young graduates, using the editions in English for foreign subsidiaries;

- significant commitment to training and information on environmental, health, safety and quality issues for a total of approximately 100,000 hours, including both classroom lessons and on-the-job training;

- completion in Italy of the "Eni in Safety" project, which is aimed at promoting a new approach aimed at eliminating the behavioural factors at the basis of the majority of accidents in the workplace, through increasing the competence levels of all employees in relation to safety leadership;

- training initiatives aimed at extending to all personnel a full knowledge of compliance requirements, in order to make them aware of the guidelines, regulations and internal procedures designed to ensure observance of the relevant legislation in the conducting of Versalis SpA and Eni SpA's business;

- attendances at refresher and advanced seminars held at Eni Corporate University SpA or other qualified external organizations, for the development and reinforcement of the transversal skills and specialist know-how of resources operating in the various corporate areas.

Incentive and remuneration systems

In keeping with the merit-based policy linked to roles and responsibilities, Versalis SpA consolidated its variable performance-based incentive system for senior managers and managers, setting individual targets in line with the company's general objectives. In 2013, performance assessment involved almost all senior managers and managers, identified on the basis of their assigned operating and management responsibilities. The incentive policy is linked to the achievement of results and the level of contribution provided. Furthermore, in 2013 the new incentive system was confirmed for the sales force operating within

Europe. A long-term incentive system, in line with the practices and policies of the Eni Group, is in place for those executives with strategic responsibilities, whose actions have an impact on the results of operations.

Environmental responsibility

The final figures, which give a significant indication of the commitment of economic resources by Versalis SpA regarding the protection of the health of its workers and of the environment, as well as the implementation of preventive measures to guarantee safety in the workplace and the protection against industrial risks of local communities in which the company operates, are as follows:

- €192.1 million for expenses in the period (€187 million in 2012) of which €36.3 million for ordinary maintenance (€32 million in 2012) and €155.8 million of current expenses (€155 million in 2012);
- €51 million for capitalized investments (€38 million in 2012).

Environmental activities amounted to €123.2 million (including polluted area and aquifer management activities), safety activities amounted to €110.5 million and Management and Health activities amounted to €9.4 million.

The control of greenhouse gas emissions, another important issue for environmental protection, produced the following results:
With regard to the control of **greenhouse gas emissions**, another important issue for environmental protection, as in 2012, the year 2013 closed with a final balance of CO_2 emissions which was represented historic low for the company (2013: 3,576,603[5] – 2012: 3,590,166). As we all know, in the past few years, as a result of both the cyclical nature of trends in the chemicals market, and of the economic crisis which afflicted all markets, production volumes, and consequently the emissions related to energy production, have been steadily decreasing.

This trend can easily be seen by examining the data relating to global CO_2 emissions in the last four years.

The results for 2013 can therefore be summarized as:

- quotas allocated[6] in 2013: 3,659,326 tons of CO_2;
- 2013 emissions: 3,576,603 tons of CO_2;
- surplus: 82,723 tons of CO_2;

With regard to emissions in 2013, it is important to note:

- the completion in 2013 of various energy saving projects, with a reduction of around[7] 7,300 tons of CO_2 (these should lead to an annual drop in CO_2 emissions of approximately 36,000 tons per year starting from the year 2014);
- a series of significant events, from a production perspective:
    - Priolo: the steam cracking plant was shut down for long-term maintenance. Various investments aimed at restructuring the plant (making energy savings) were realized during the shutdown period
    - Mantua: the ST 40 plant for styrene monomer production was shut down for scheduled maintenance;
    - Porto Torres: activities to reorganize the networks which will lead to savings on steam consumption and therefore reductions in CO_2 emissions resulting from the plant's Thermal and Electrical Energy system are ongoing.

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[5] Provisional final balance pending completion of certification activities.
[6] With regard to the Italian sites, the quotas allocated are those indicated in the Resolution No. 29/2013, as supplemented by Resolution No. 2/2014 and subsequently amended by the communication dated January 30, 2014, notified by the ETS Committee to the European Commission and pending approval. The quotas allocated must be made available on the accounts of each site subject to the ETS by the end of February and, in any case, in time for their return which must be completed by April 30, 2014.
[7] For the calculation of the savings obtained with the measures implemented in 2013, the data provided by Industrial Management, which refer to a fixed production level without taking account of planned or accidental shutdowns or load reductions due to unfavourable market conditions, have been prudently reduced by 20%.

The work of supporting Italian and foreign sites on all safety aspects is continuing. Moreover, visits (road shows) were organized at the operational sites with the aim of raising the awareness of company and third party personnel on safety issues, the fight against corruption, supplier qualification and feedback.

In particular, with regard to accident prevention, the following results have been obtained for company and contractor personnel:

Italy and abroad	2013	2012
No. of incapacitating accidents	9	16
Frequency rate	0.57	1.09
Severity index	0.038	0.036

The above figures show a satisfying downwards trend in the number of injuries and in the frequency rate and severity indices thereof.

All employee accidents were attributable mainly to clumsiness or lack of attention, and for sub-contract workers, to the risks inherent in the job.

In 2013 ten sites achieved the target of "**an entire year without employee accidents**": Oberhausen, Dunkirk, Ferrara, Hythe (second consecutive year), Porto Torres (second consecutive year), Priolo (fifth consecutive year), Ragusa (sixth consecutive year), San Donato Milanese (sixth consecutive year), Brindisi (fourth consecutive year), and Szàzhalombatta (third consecutive year).

Just as satisfactory, are the results of the health surveillance of workers, in particular the monitoring carried out to prevent risks from exposure to carcinogenic chemical agents. These consolidate the improvement in the effectiveness of the technical, organizational and procedural systems adopted by the company at all its production units.

The reporting activities for accidents/injuries have continued: weekly descriptions, monthly descriptions, monthly dashboard, (quarterly) safety KPI, monthly update of safety activities, semi-annual safety meetings and annual analysis of the root causes of accidents.

The following initiatives are also worthy of note:

Accident and Injury Data Bank

Work continued in the recording of injuries/accidents/near misses/unsafe conditions/medications, using the Accident and Injury Data Bank management software at the Italian and foreign sites, integrated with the "qlikview.integrated" data management software. SharePoint was updated for the sharing of information from the different sites (risk assessment report, safety reports, etc.).

Personal Protective Equipment (PPE) and Collective Protective Equipment (CPE), warning signs and fire-fighting materials

Material agreements are in place for safety shoes and gloves, safety warning signs, hire and cleaning of antistatic clothing, other PPE/CPE and fire fighting materials, foam extinguishers and micelle encapsulator fire extinguishers. Specifications have been prepared for the issue of a new tender.

Hire and cleaning of work-wear

The agreement for the hire and cleaning of trivalent work-wear (Atex, anti-acid, heat-resistant) is still in place; tests are being carried out at the Dunkirk site and a tender is expected in 2014.

Framework agreement for safety (integrity) analysis

Framework agreements are in place for safety activities, SIL allocation and SIL verification in accordance with standards. An agreement is also in place for the performance of process safety audits, and SIL, HAZOP and Root Cause Analyses associated with the relevant guidelines. The agreement covering process safety audit reviews, monitoring, follow-up, unscheduled audits and SIL optimization has been renewed.

Assessment and due diligence

A contract has been issued to provide support to Italian and foreign sites on safety aspects, with the related methodology.

Working parties

Versalis SpA continues to participate in Eni working parties, including: 3TER software update, INDACO Incident Data Bank software update, Emergency response, Integrated HSE Data Bank/INDACO Data Bank software interface, Work Permits Procedure, TapRooT, Industrial Risk Assessment Procedure, HSE Supplier Qualification and Feedback Procedure, Management Model, Rail Tanker Transport, Communicating Safety and Environment, Eni in safety, Worker Training and Supervisor Training, Eni HSE MSG and annexes.

Support for HSE supplier qualification and feedback

Support activities for HSE supplier qualification were launched in April 2013 with the implementation of a specific procedure in Versalis. With regard to HSE aspects, 20 suppliers (7 successfully and 13 unsuccessfully) were assessed and 10 feedback exercises were carried out with Versalis suppliers.

Professional Operating Instructions

The following Professional Operating Instructions and Procedures were updated to take account of the changed legislative, procedural, organizational and technical frameworks:

Codice	Titolo	Decorrenza
opi hse 170	Gestione delle emergenze tossicologiche e degli antidoti	15/01/2014
opi hse 143	Esecuzione in sicurezza dei lavori (Permessi di Lavoro)	08/01/2014
opi hse 162	Monitoraggio e controllo delle emissioni odorigene	01/01/2014
opi hse 163	Esecuzione di scavi e modalità operative per il riutilizzo dei materiali di scavo	13/12/2013
opi hse 133	Documento unico di valutazione dei rischi da interferenze articolo 26, comma 3, D.Lgs 81/08 (DUVRI)	25/11/2013
opi hse 169	Gestione della Risorsa idrica	20/11/2013
opi hse 168	Safety Integrity Level (SIL) Optimisation	14/11/2013
opi hse 142	Rilascio o rinnovo del Certificato di Prevenzione Incendi	14/11/2013
opi hse 116	Analisi QHSE nel processo di gestione delle modifiche	14/11/2013
opi hse 106	Modalità di identificazione, valutazione e controllo dei rischi di incidenti rilevanti	29/10/2013
opi hse 157	Protezione passiva antincendio	29/10/2013
opi hse 141	Criteri di protezione attiva antincendio	29/10/2013
pro hse 001	Gestione delle quote di emissioni di pertinenza delle società nell'ambito del Sistema di Gestione dell'emission Trading	16/10/2013
pro hse 009	Principi e politiche in materia di Sicurezza, Salute, Ambiente, Incolumità Pubblica e Sostenibilità	30/09/2013
opi hse 107	Scelta, uso, manutenzione della segnaletica di sicurezza e/o salute sui luoghi di lavoro	26/09/2013
opi hse 144	Attività di pianificazione monitoraggio e reporting hse	13/09/2013
opi hse 105	Gestione degli eventi incidentali	10/09/2013
opi hse 160	Sorveglianza lavori e luoghi di lavoro	10/09/2013
opi hse 155	Conduzione di Audit della Sicurezza di Processo	10/09/2013
opi hse 131	Standard di sicurezza nell'isolamento di impianti ed apparecchiature di processo	10/09/2013
opi hse 137	Scelta, uso e manutenzione delle scale portatili	09/09/2013
opi hse 167	Guida tecnica per l'aggiornamento del documento di valutazione dell'esposizione a campi elettromagnetici (0 Hz – 300 GHz)	03/09/2013
opi hse 145	Identificazione e gestione allarmi blocchi critici	03/09/2013
opi hse 126	Attività connesse con la presenza di materiali contenenti amianto e di materiali coibentanti	12/07/2013
opi hse 156	Conduzione di Root – Cause Analysis	09/07/2013
opi hse 166	Criteri di clusterizzazione in base al rischio HSE in versalis	17/06/2013
opi hse 154	Determinazione del Safety Integrity Level (SIL)	17/06/2013
opi hse 135	Gestione delle manichette prodotti chimici e fluidi di servizio	17/06/2013
opi hse 153	Conduzione di studio HAZOP	17/06/2013
opi hse 159	Emergency Response	14/05/2013
opi hse 002	Gest. e operatività sistema informativo di medicina del lavoro ed igiene industriale (ARAMIS)	04/03/2013
pro hse 008	Gestione degli aspetti HSE nell'ambito del processo di qualifica dei fornitori	25/02/2013
opi hse 149	Emission Trading - Metodologia per la valutazione del rischio di errori nella dichiarazione annuale delle emissioni	21/01/2013

In addition to safeguarding the physical wellbeing of employees, the company's responsibility for health protection is increasingly extending beyond a strictly business/operational dynamic to a more social perspective, with the activation of programmes aimed at promoting health.

Health protection activities are structured according to a management system strongly focused on prevention, with integrated annual standard programmes and campaigns for environmental surveys and health checks. In particular, in view of the risks from exposure to carcinogenic chemical agents and mutagens, environmental measurements and personal exposure measurements are supplemented by biological monitoring aimed at assessing the dose absorbed by workers.

The results, which have been consolidated over several years, are of absolute excellence at the European level, with particular mention for exposure to carcinogenic chemical agents such as Benzene, 1,3-Butadiene and I.P.A., which are the focus of attention in the petrochemical industry.

In particular with regards to benzene, the results of the biological monitoring confirm that the levels of exposure are comparable to those of the general population.

Still on the subject of exposure to benzene, Versalis, with the coordination of a specific working party in the training association (UNICHIM and SIVR), has contributed to the publication of a new analytical method (UNICHIM No. 2549) for the measurement of a urinary indicator for those exposed to benzene.

2013 saw the launch of a new IT system called Aramis (Advanced Risk Assessment and Medicine Information System) to manage industrial hygiene and occupational medicine in Italian and foreign sites. Aramis, realized according Eni standards, is becoming the reference IT system for Occupational Medicine and Industrial Hygiene for many Eni companies and BUs.

Following the implementation of Directive 2004/40/EC on the minimum health and safety measures related to workers' exposure to risks arising from physical agents, important campaigns to measure electromagnetic fields have been carried out at various Italian sites.

2013 saw the birth of Product Stewardship, which emerged with the introduction of REACH (Registration, Evaluation, Authorization of Chemicals) Regulation.

The starting point was the realization of a specific IT platform, called Athos (Advanced Tool for the Handling of Substances), which formalizes the REACH survey and collects all the information needed to provide safe management, for the workers and the environment, of chemicals (substances and mixtures) synthesized and/or used in Versalis SpA's plants.

This system has also been implemented with information regarding the safety data sheets (SDS), REACH compliance, C&L, lists of substances of high concern, law and life cycle classifications.

Since the creation of the IT support, a product stewardship programme has been developed which is the appropriate tool for the optimal management of chemicals within the integrated HSE management systems.

Still with regard to product stewardship, relations have been strengthened with the commercial Business Units in order to prepare the documentation and information needed to improve knowledge about our products, also through integrated involvement of professionals of different kinds and with different expertise.

One of the prevailing operational activities of 2013 was the compliance with REACH Regulations and CLP, which regulate the obligations of "registration" and "authorization" of products, as a prerequisite for their manufacture (REACH), and the obligations of classification and labelling of all products as a prerequisite for their introduction onto the market (CLP).

The main activities in 2013 were:

- updating of registration dossiers for both internal changes (production stoppages at some sites, changes in classification etc.) and the updates necessary at REACH consortia level;
- new registrations following innovative company projects leading to the introduction of new substances;
- preparation of inquiries for new substances to be registered, the subject of production in future years;
- support for the Matrìca company, engaged in registering, for the purposes of REACH, new products which will enter the market;
- updating of the corporate procedure which regulates the flow of substances subject to the REACH regulation, and implementation of significant new aspects of the regulation (inquiry and authorization process);
- checking of compliance with REACH by suppliers. The communication system along the procurement chain with suppliers and clients is now well-established and so too is a monitoring system for REACH compliance for all the raw materials purchased and new supplies;
- authorization requests for a priority substance for the production of EPS. An ad hoc consortium has been launched, together with another 10 European companies, and, with the support of external companies, all the documentation to be sent to ECHA is being formalized;
- verification of the exposure scenarios annexed to the SDS (both for industrial hygiene and the environment) along with activities linked to the guaranteeing of strictly controlled conditions for substances registered as intermediates;

- safety data sheets (SDS): all the SDSs for Versalis products have been updated during 2013 and are currently being translated into all languages according to customers' needs. Verification of suppliers' SDSs is also ongoing.

Replies to customers on product stewardship:

2,219 replies were given to customers on the theme of "product compliance", the rules that regulate final applications or product safety, in support of our product lines and their specific final applications.

The table below summarizes the number of requests sent by customers in 2013, divided by the business unit involved.

	ELAS	POLY	STYR	INTE	Total
Requests	**279**	**1,248**	**618**	**74**	**2,219**

Each individual customer request can contain several issues.

The main issues contained in the requests include: compliance with standards for contact with food (692 replies), pharmacopoeia (94), absence of substances (543), conformity with product-specific regulations (335), polymer safety data sheets (282), REACH and SVHC substances (581).

The database which manages replies to customers has also been modernized. The new version, which provides better detail on the types of response, has been in use since the beginning of 2014.

With regard to work with sector associations, in Plastics Europe, research activities continued to clarify certain safety aspects of the polymers and their final applications. In particular:

- In the Polyolefin Committee: the first stage of tests was completed for the specification and assessment of oligomers and polyolefins, with a report prepared by the Fraunhofer (D) laboratory.
- In the Styrenes Committee: tests are being designed for the specification and assessment of the oligomers of styrene polymers; testing of migration of the residual styrene monomer from polystyrene (GPPS and HIPS) have been carried out in the TNO (NL) laboratory, and testing has started for ABS, SAN and EPS. These data will be used to complete a dossier to support styrene which will be presented to EFSA (European Food Safety Authority) whose assessment is particularly important as it is likely to lead to the definition of a migration limit for monomers.

The Food Contact Committee and the Food Contact Expert WG continued work on updating Regulation 10/2011 "Plastic materials destined for contact with foodstuffs" and, in particular, on the European authority's preparation of guidelines on declarations of conformity.

The preparation of guidelines for verifying interactions between plastic packaging and cosmetics was launched in Plastics Europe, following the publication of Commission Regulation (EC) No. 1223/2009 on cosmetic products, in collaboration with the industry association, Cosmetics Europe.

In Plastics Europe Italy:

- work continued on completing the guidelines on good manufacturing practice (GMP) with the Italian National Health Institute, with the issue of guidelines for the feedback document of Commission Regulation (EC) No. 2023/2006 (issued as ISTISAN Report 13/14). At the same time in 2013 the ISS working party, which also involves the other chains of the packaging sector for foodstuffs, has been preparing the guidelines on documentation supporting declarations of conformity, which is an important aspect of compliance with Regulation No. 10/2011.
- At the request of ISS, work to update Italian legislation concerning equipment in contact with drinking water was begun. Its first objective was to update Ministerial Decree No. 174 dated April 6, 2004 with a view to joining the "4 Member States" initiative, which currently involves France, the UK, Germany and the Netherlands. This initiative aims to align the rules for the verification and approval of materials in contract with drinking water and to facilitate the achievement of a mutual recognition of approvals.
- Preparation has begun for some conferences to support plastic materials and their applications in contact with foodstuffs, which will be held during Expo 2015.

During the second half of 2013, work to update the Life Cycle Assessment (LCA) for polymers has been restarted. In particular:

- a kick off meeting for the updating of LCA for ABS/SAN with Plastics Europe;
- Cefic has started a review of the LCA data for phenol and acetone;
- the LCA update of EPS in Plastics Europe is continuing in 2014;
- in the IISRP (International Institute of Synthetic Rubber Producers) work is going ahead to prepare for the first LCA study on synthetic rubber (possibly involving all producers and not just those in the European area), which should begin in 2014. Versalis has communicated the list of products and plants it intends to include in the study.

As part of its membership of the CEFIC EPDLA (European Polymeric Dispersions and Latex Association) Versalis has participated in the updating of the position paper on nano-materials, which became necessary as a support for customers who ask whether notifications in national inventories must be carried out, particularly in France.

The following activities have also been carried out with the business units:

- polyethylene - development of the new product line Pharmalene and the resale of former LG Chem products;
- styrenes - activities connected with the replacement of HBCD as a flame retardant agent in EPS;
- elastomers - evaluation of former Sintez-Kauchuk products for resale.

The 2013 **System Certification** results, for the company's manufacturing sites, are as follows:

- **Italian Sites:** all facilities (Priolo and Ragusa considered as a single site), including the San Donato Milanese office, are ISO 14001 and OHSAS 18001 certified. Two sites are EMAS certified (Mantua and Ferrara);
- **foreign Sites:** all sites are ISO 14001 and OHSAS 18001 certified;
- the ISO 14001 and OHSAS 18001 certification of the San Donato Milanese office has been extended to the office in San Donato Milanese and the sales office in Trieste.

The number of establishments considered includes only those owned and managed by Versalis.

In the area of "**Certifications**":

- the facilities at Brindisi, Mantua, Porto Marghera, Priolo, Ragusa, Ravenna, Ferrara, Sarroch, Porto Torres, Dunkirk, Szàzhalombatta, Grangemouth and Hythe as well as the San Donato Milanese Headquarters were subject to OHSAS 18001 inspections regarding the workplace health and safety management system;
- the facilities at Brindisi, Ferrara, Mantua, Priolo, Porto Marghera, Ragusa, Ravenna, Porto Torres, Sarroch, Dunkirk, Hythe, Grangemouth, Oberhausen and Szàzhalombatta were subject to ISO 14001 inspections;
- the facilities at Mantua and Ferrara underwent surveillance tests for EMAS registration;
- all facilities, including the office and sales office in Trieste, in Italy and the foreign sites (Dunkirk, Hythe, Grangemouth, Szàzhalombatta) obtained the Certificate of Excellence, for having effectively integrated their Quality, Environment, Health and Safety Management Systems.

Audits: as part of the process to implement both the Eni MSG and the Versalis Management System, as well as the company's Health, Safety and Environment (HSE) policy, audits were planned and carried out in 2013 on the environmental and safety systems at production units.

In detail:

- the facilities at Brindisi, Ferrara, Ravenna and Dunkirk were audited, adopting the "compliance check" criteria for safety aspects concerning fire prevention and explosion risks;
- the facilities at Mantua, Priolo, Porto Torres and Dunkirk were audited with regard to waste management aspects;
- the facilities at Brindisi, Mantua, Priolo, Porto Marghera, Porto Torres, Sarroch, Ragusa, Ravenna, Ferrara, Dunkirk, Szazhalombatta, Grangemouth, Hythe, Oberhausen and the San Donato Milanese Headquarters underwent systemic Technical Audits and Inspections of Legislative Compliance on the subject of HSE, in accordance with Eni Circular No. 404 of May 14, 2010;
- specific action plans and related follow-ups were formalized where room for improvement was found;

- in 2013 the Ministry for the Environment issued the Integrated Environmental Authorization for the facilities at Priolo and the examination for the Porto Torres plant was closed;
- a Technical Audit was carried out on the Industrial Consortia of Porto Marghera, Ravenna and Brindisi;
- process safety audits have been completed for all the Italian and foreign sites. Follow-up monitoring will continue until the corrective actions have been completed;
- activation of an audit plan on all Italian and foreign sites to determine the SIL Verification in accordance with the IEC61508 and IEC61511 standards, to be completed by the end of 2014. Follow-up monitoring will continue until the corrective actions have been completed;
- HSE assessment of Versalis International SA and related branches, Versalis Kymia and Eni Chemical Trading (Shanghai) with follow-up monitoring until the corrective actions have been completed.
- the SIL allocation and SIL Verification activities have continued in accordance with the IEC61508 standard. Follow-up monitoring will continue until the corrective actions have been completed.

As regards the **remediation of soil and groundwater**, the investigatory activities in accordance with the plans presented and approved, as well as the subsequent supplementary activities, have been completed. Aquifer pumping systems have been installed as a preventive measure at the Brindisi, Ferrara, Mantua, Porto Marghera, Priolo and Sarroch sites. The pumping systems, evaluated at the end of 2013, pump an estimated total of 6 million cubic metres of water a year, in line with forecasts. With regard to remediation, the authorization procedure provided for by law was completed with the approval of projects at the sites in Gela (groundwater); Porto Marghera (groundwater and soil); Priolo (groundwater and soil in the area south of Vallone della Neve); Ferrara (confined groundwater and surface aquifer and soil); Ravenna (surface aquifer and soil), Sarroch (groundwater) and Ragusa (remediation of the ex topping area). Work has begun at Porto Marghera, Priolo, Ferrara, Sarroch and Ravenna. At the Porto Torres facility the groundwater and soil situation is monitored and managed by Syndial, given that Versalis works under leasehold at this site.

With regard to sites of national interest, services conferences were held in 2013 for the following sites: Brindisi, Gela, Mantua, Sarroch. Some of the remediation projects presented for the Mantua site may be approved subject to certain requirements. Versalis has confirmed its intention to proceed with the projects presented and partly approved by the decision-making services conference (CDS), however the company considers some requirements set during the conference as illegitimate and has therefore filed an appeal with the Regional Administrative Court of Brescia.

In 2013 no remediation orders were issued by the Ministry of the Environment and Protection of the Territory and the Sea (MATTM) which would allow field activities to be started.

In line with the role acquired by Syndial SpA as a centre of excellence for remediation activities in Eni, a number of activities were entrusted to it at the following facilities: Mantua, Ferrara, Brindisi, Ravenna, Sarroch, Porto Marghera.

The above is the result of a special private deed signed by the parties in September 2012.

With regard to **Quality Control**, in 2013 internal audits were carried out on the Quality Management System (ISO 9001) at all of the Italian production sites, including the headquarters, and also at production sites outside of Italy and at Versalis International. In addition, audits were carried out on 23 companies performing the following activities/processes on behalf of Versalis SpA: contract work, storage of Versalis products (liquid and solid), chemical analysis, procurement, packaging, handling, storage, shipment, calibration, and weighing.

The checklists in support of the QMS audits have been updated/implemented for the following processes: production, commercial (sales, marketing, customer service), procurement, storage and shipping (solid and liquid products), maintenance, research and development, quality control, production planning, conducting and managing QMS. Each checklist was developed by examining the relevant regulatory documents (MSGs, procedures, professional operating instructions, etc.).

During 2013, we completed the cycle of surveillance audits with the aim of maintaining certification for the Quality Management System (ISO 9001) for all Italian sites.

The following directly-controlled foreign companies also had their Quality Management System certifications maintained and/or renewed: maintenance audits for Polimeri Europa France SA, Polimeri Europa UK Ltd, Versalis International SA, Dunastyr Polystyrene Manufacturing Company Ltd and renewal audit for Polimeri Europa GmbH.

Versalis SpA, Polimeri Europa GmbH and Polimeri Europa France SAS were subjected to 13 audits by customers who operate in the automotive, medical and compound industries.

As regards **Product Certification**, confirmation was obtained that:

- All of the polyethylenes produced in Italy, with the exclusion of GREENFLEX, are certified by the Italian Plastics Institute, in accordance with the UNI EN ISO 1872-1 standard with the IIP-UNI No. 010 mark;
- Certain polystyrenes are certified by Underwriters Laboratories (UL - USA) as meeting the UL94 standard for flame-resistant materials for use in the electrical/electronic sector; in 2013 a new Sinkral has been certified for the Mantua site.. The NSF-51 standard certification issued by the National Sanitation Foundation (NSF-USA) for equipment used in food processing is still valid for Kostil and for certain Sinkral products;
- Steps were taken to continue to meet the standard DIN 4102 for flame-resistant materials for use in the construction industry in Germany and in connected productive areas, certified by Materialprfüngsanstalt (MPA) of Stuttgart, for Extir AE and Extir CM AE. At the same time, activities to maintain the flame-resistant materials certification by LNE (Laboratoire National d'Essai) were undertaken in accordance with the standard EN 13501-1 ("Euroclasses"). The MPA and LNE certifications relate to both Mantua and Szàzhalombatta products.

Also with regard to product certification, communication activities with the National Authorities who approve the final applications of our customers in contact with drinking water have also been significant this year. Requests have been made for the information necessary for approval for 56 of our products, essentially by the authorities in France and Germany.

In April, the Laboratory unit of Sarroch Facility obtained accreditation with Certificate No. 1210 for performance of the test or analysis "Measurement of the composition of combustible gases in accordance with the EN 15984:2011 standard which incorporated DIN 51666:2007, for the calculation of greenhouse gas emissions".

The procedure for "good manufacturing practices (GMP) and the management of risk in the production of polymers for food packaging and pharmaceutical applications" was issued in 2013. This implements the good manufacturing practices (GMP) as defined in Commission Regulation (EC) No. 2023/2006 in order to provide a framework for the identification of risks that endanger the integrity of the products and for the implementation of appropriate controls. The procedure explains the GMP system and the management of risk during the manufacturing process for the integrity of Versalis SpA products intended for contact with foodstuffs or for use in the pharmaceutical field. Five training courses have been organized for personnel who work in plants that manufacture products used in these application sectors.

The procedures that describe the quality system management processes, customer complaint processes and QMS audits have been updated.

Four personalized questionnaires have been prepared in electronic form for each Business Unit and each questionnaire has been translated into four languages and sent to 725 specifically selected customers to assess customer satisfaction with the products and services supplied by Versalis and its subsidiaries. Response was received from 260 customers, equivalent to 36% of the customer base, and the results have been presented to the Board of Directors of Versalis.

Taking as a reference ISO 9001, Versalis's quality policy and the document sent by Versalis' AMDE to customers and suppliers, fifteen indicators have been defined to measure the satisfaction of internal clients and 15 indicators to measure the satisfaction of customers outside the company. The indicators have been identified as significant, pertinent, objective, easy to interpret, easily accessible to those who must perform the analyses on them, checkable, available at regular intervals and at the appropriate times, reproducible and easy to represent by means of tables, bar graphs and diagrams. The above is available for consultation on the intranet and can be viewed by all in Italy and in foreign subsidiaries.
Work continues on monitoring the approval of raw material (strategic, chemicals and auxiliary) and packaging suppliers, on the issue of the relevant specifications and on the issue of product and sales specifications of all of the company's products.
In addition to responding to customers on product stewardship issues, work continued on the commitment to respond to customers on other matters related to Versalis' Quality Management System.

The table below summarizes the number of letters sent to customers in 2013, analysed by document type and business unit involved.

Type of document	ELAS	POLY	STYR	Total
Declaration of conformity	-	-	40	40
Corrective action / Replies to complaints	1	28	7	36
Questionnaires / Agreements / Other	15	19	10	44
Total	16	47	57	120

Constant monitoring of the processes managed through the IT procedures of the company's intranet is still in place:

- Management of customer complaints - Customer Complaints Procedure;
- Management of improvement actions and non conformities - Corrective, Preventive Actions and Non Conformities;
- Management of the provision of polymer samples to clients - Polymers sampling to customers.

Altogether during 2013 the following documents were registered and managed using these computerized applications:

Procedure	Number of documents
Customer Complaints	1,039
Corrective, Preventive Actions and Non Conformities	383
Polymers sampling to customers	1,507

Monitoring these applications requires the constant control of the access prerogatives of the approximately 900 staff members involved in the different units and in all the manufacturing and commercial sites in Italy and abroad, support for correct document management, and ongoing training for those using the applications.

In 2013, four training modules on the use of these tools were delivered, with the participation of approximately 50 staff from the Porto Marghera and Gela sites.

Territorial relationships and local development

In 2013 work continued on the following projects as part of the Green Chemistry project:

The "Porto Torres Green Hub" project

The "Green Chemistry" project is part of the redevelopment being carried out at Porto Torres, which is aimed at replacing the traditional activities of the site with activities that have greater potential for future development, manufacturing products with a high degree of biodegradability using raw materials obtained from renewable sources.

The project represents therefore an industrial innovation and a great opportunity for the site, as consistent industrial investment ensures both the requalification of the existing jobs and the creation of new ones.

In 2013 Matrìca SpA reported expenditure for the construction of the facilities envisaged in the first phase of €105 million while Versalis completed the restoration of the areas destined for the creation of a Research Centre at Matrìca SpA, where three new pilot plants and offices for technical staff have already been installed. Moreover, reorganization of the utilities distribution and stock networks to be used at the Matrìca SpA plants has continued. In 2013 Versalis reported expenditure of €12 million, out of an authorized budget of €53 million on interventions to support Matrìca's activities.

Production of bio-butadiene - Agreement with Genomatica

As part of the Green Chemistry initiative, Versalis SpA also envisages the development of new technologies to separate butadiene production from cracking plant production capacity. In July 2012 an agreement was signed by Versalis, Novamont and Genomatica (a leading US company in the field of biotechnology) to develop an innovative process for the production of butadiene using renewable raw materials and for the incorporation of a company which will hold exclusive rights over the development and marketing of the process that is the subject of the agreement.

Following the signing of the agreements, in 2013 the jointly controlled company Newco Tech SpA was incorporated with an investment of €6 million by Versalis.

Extraction of natural rubber from guayule - Agreement with Yulex

Versalis has signed a Memorandum of Understanding with Yulex, a US company that has developed unique agricultural expertise in the cultivation of guayule and the process of extracting the natural rubber contained in it. The agreement is aimed at developing a feasibility study for an industrial initiative which envisages the development of a guayule agricultural chain managed by the Basilicata region together with farmers' associations, in order to exploit marginal and uncultivated land, and the related facility for extracting the natural rubber. The cost to Versalis in 2013 was approximately €0.7 million.

Redevelopment of the Priolo site

In 2013 redevelopment activities continued on the Priolo site in order to eliminate the weaknesses that have contributed to negative results.

The reorganization of the cracker plant (Versalis' largest plant in terms of capacity) into one line has been completed, using new and more efficient furnaces with a higher output. The facility was restarted at the end of 2013, in line with expectations, while the costs sustained amounted to €57 million compared to a total estimated cost of €74 million.

Technological innovation

During 2013 research and technological innovation activities were directed at the ongoing improvement of processes and products of the existing business lines. Moreover, research and development activities in the green chemistry sector have been consolidated, with intensified commitment.

In particular, the most interesting results include:

Green chemistry

The demonstration fields for the cultivation of guayule in Basilicata have been launched successfully with good percentages of germination in the nursery, high survival and satisfactory yields in biomass, resin and rubber.

The technological tests with formulations of lubricating oils for engines based on esters from renewable sources manufactured by Matrìca as an alternative to fossil oils, carried out in collaboration with Eni SpA Refining & Marketing Division, have been successful.

A strategy has been put in place for the synthesis of bio-butadiene from lignocellulosic biomass using second generation sugars.

Proprietary catalysts have been developed for the production of bio-butadiene from butandiols.

Elastomers

A new polybutadiene has been consolidated industrially for pneumatic application since it has high processability characteristics, as demonstrated by the positive feedback received from the market.

A new range of high performance styrene-butadiene elastomers have been industrialized for application in the lubricants sector as viscosity index improvers (VII).

A new ethylene propylene diene monomer (EPDM) product has been industrialized, using new catalyst technology to produce a wide-ranging oil for use in the field of thermoplastic vulcanized (TPV) elastomers. This product is of a high level in terms of quality and performance.

Polyethylene

Production trials of new ULDPE polyethylenes, using proprietary catalysts, have been carried out at the Dunkirk facility with the aim of extending the product mix to application segments with higher added value.

New grades of cross-linkable X-HDPE polyethylene have been produced for rotational moulding for specialized applications (such as the tank sector for cars/motorcycles).

Styrenes

The basic design has been completed for the construction of a pilot plant based on new technology for the production of new styrene polymers suitable for expanding the range of products to new and more profitable application sectors.

A new analytical method for controlling the process for producing expandable polystyrene under suspension which is able to guarantee greater reliability and qualitative constancy has been developed in a pilot plant.

Basic chemicals

New cheaper catalysts with reduced environmental impact have been identified in the area of production of phenol from cumene.

Other compliance information

Declaration in accordance with Legislative Decree 196 of June 30, 2003

Versalis SpA declares that the Data protection security planning document required under the terms of Legislative Decree 196 of June 30, 2003 has been drawn up and updated.

Secondary head offices

In accordance with the provisions of Art. 2428, clause 4, of the Italian Civil Code, it is hereby confirmed that Versalis SpA has no secondary head offices.

Administrative and Accounting separation of the electricity business

In addition to the petrochemical sector, Versalis SpA also operates in the power sector, producing energy almost exclusively for internal consumption and selling modest quantities to third parties. As of 2013, the ratio between the quantity of electric energy and thermal energy that can be produced in a cogenerative arrangement at Versalis' three thermoelectric power plants, is less than 1. Furthermore, the plants**,** do not satisfy the definition set forth in resolution no. 42/02. This results in the exclusion of the three power plants, with the consequent classification of the entire financial statement of Versalis in **Other activities**. For this reason, as of 2013, Versalis no longer prepares separate annual accounts in accordance with Resolution 11/2007 of the Italian Energy Authority.

On behalf of the Board of Directors
The Chairman
Salvatore Sardo

versalis

Consolidated Financial Statements 2013

TOTAL SHAREHOLDERS' EQUITY	580	952
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	3,805	4,089

(a) Fully paid-up share capital consisting of 1,553,400,000 shares with no face value.

Balance Sheet

		31.12.2012		31.12.2013	
(amounts in millions of euros)	Notes	Total	*of which with related parties*	Total	*of which with related parties*
ASSETS					
Current assets					
Cash and cash equivalents	(1)	60		80	
Trade and other receivables	(2)	1,110	*222*	1,104	*280*
Inventories	(3)	1,251		1,145	
Current income tax assets	(4)	15		25	
Other current tax assets	(5)	9		10	
Other Assets	(6)	2	*1*	3	*1*
		2,447		**2,367**	
Non-current assets					
Property, plant and equipment	(7)	893		1,060	
Intangible assets	(8)	69		67	
Investments valued at net equity	(9)	49		148	
Other investments	(10)	52		15	
Other financial assets				1	
Deferred tax assets	(11)	294		427	
Other Assets	(12)	1		4	*3*
		1,358		**1,722**	
TOTAL ASSETS		**3,805**		**4,089**	
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities					
Short-term debt	(13)	1,205	*1,203*	1,040	*1,038*
Current portion of long-term debt	(14)	3	*3*	3	*3*
Trade and other payables	(15)	987	*426*	1,121	*534*
Income tax payables	(16)	1		1	
Other taxes payable	(17)	9		10	
Other liabilities	(18)	6	*2*	2	*1*
		2,211		**2,177**	
Non-current liabilities					
Long-term debt	(19)	800	*798*	702	*700*
Provisions for risks and charges	(20)	110		159	
Provisions for employee benefits	(21)	79		74	
Deferred tax liabilities	(22)	18		19	
Other liabilities	(23)	7		6	
		1,014		**960**	
TOTAL LIABILITIES		**3,225**		**3,137**	
SHAREHOLDERS' EQUITY	(24)				
Share capital [(a)]		1,553		1,553	
Other reserves		102		(1)	
Retained earnings/(losses brought forward)		(491)		25	
Loss for the period		(584)		(625)	
TOTAL SHAREHOLDERS' EQUITY		**580**		**952**	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**3,805**		**4,089**	

(a) Fully paid-up share capital consisting of 1,553,400,000 shares with no face value.

The amounts indicated in 2012 have been adjusted to account for the effects produced by the retroactive application of the new accounting standard IAS 19 "Employee benefits".

Profit and Loss Account

(amounts in millions of euros)	Notes	2012 Total	2012 *of which with related parties*	2013 Total	2013 *of which with related parties*
REVENUES	(26)				
Net sales from operations		6,418	*424*	5,859	*299*
Other income and revenues		103	*44*	149	*71*
Total revenues		6,521		**6,008**	
OPERATING EXPENSES	(27)				
Purchases, services and other costs		(6,639)	*(3,244)*	(6,247)	*(3,169)*
Payroll and related costs		(366)		(373)	*(2)*
OTHER OPERATING (EXPENSE) INCOME	(28)	**(9)**	*(9)*	**(1)**	*(1)*
DEPRECIATION, AMORTIZATION AND IMPAIRMENT	(29)	**(193)**		**(125)**	
OPERATING PROFIT (LOSS)		**(686)**		**(738)**	
FINANCIAL INCOME (EXPENSE)	(30)				
Financial income		75		58	*2*
Financial expense		(124)	*(39)*	(102)	*(48)*
Derivatives		(2)	*(2)*	(9)	*(9)*
		(51)		**(53)**	
INCOME (EXPENSE) FROM INVESTMENTS					
Share of profit (loss) of equity-accounted investments		2			
		2			
PROFIT (LOSS) BEFORE INCOME TAXES		**(735)**		**(791)**	
Income taxes	(31)	162		166	
LOSS FOR THE PERIOD		**(573)**		**(625)**	

Statement of Comprehensive Loss

(€ million)	2012	2013
LOSS FOR THE PERIOD	**(573)**	**(625)**
Other items of comprehensive loss:		
Valuations of defined-benefit plans for employees	(15)	2
Foreign currency translation differences	4	(1)
Tax effect relative to the other components of the comprehensive loss that cannot be reclassified to the profit and loss account	4	(1)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	**(580)**	**(625)**

The amounts indicated in 2012 have been adjusted to account for the effects produced by the retroactive application of the new accounting standard IAS 19 “Employee benefits”.

Statement of Changes in Shareholders' Equity

(amounts in millions of euros)	Share capital	Exchange differences reserve	Porto Torres contribution reserve	Other reserves	Retained earnings/(losses brought forward)	Loss for the period	Total
Balances at December 31, 2011	**1,553**	**(9)**	**101**	**2**	**(170)**	**(320)**	**1,157**
Changes to accounting criteria					**(1)**		**(1)**
Balances at January 01, 2012 (a)	**1,553**	**(9)**	**101**	**2**	**(171)**	**(320)**	**1,156**
Loss for the year 2012						*(573)*	*(573)*
Other items of comprehensive loss							
Revaluations of defined-benefit plans for employees net of tax effect				(11)			(11)
Foreign currency translation differences		4					4
Total comprehensive loss for the year 2012 (b)		**4**		**(11)**		**(573)**	**(580)**
Transactions with shareholders:							
Allocation of loss for the year 2011					(320)	320	
Total transactions with shareholders (c)					**(320)**	**320**	
Other changes:							
Effect of the acquisition of non-consolidated investments				4			4
Total other changes (d)				**4**			**4**
Balances at December 31, 2012 (e=a+b+c+d)	**1,553**	**(5)**	**101**	**(5)**	**(491)**	**(573)**	**580**
Loss for the year 2013						*(625)*	**(625)**
Other items of comprehensive loss							
Revaluations of defined-benefit plans for employees net of tax effect				1			**1**
Foreign currency translation differences		(1)					**(1)**
Total comprehensive loss for the year 2013 (f)		**(1)**		**1**		**(625)**	**(625)**
Transactions with shareholders:							
Allocation of loss for the year 2012					(573)	573	
Reduction of share capital and loss coverage	(1,000)		(101)	(1)	1,102		
Contribution by the sole shareholder	1,000						**1,000**
Total transactions with shareholders (g)			**(101)**	**(1)**	**529**	**573**	**1,000**
Other changes:							
Business combination under common control					(3)		**(3)**
Total other changes (h)					**(3)**		**(3)**
Balances at December 31, 2013 (i=e+f+g+h)	**1,553**	**(6)**		**(5)**	**35**	**(625)**	**952**

The amounts indicated in 2012 have been adjusted to account for the effects produced by the retroactive application of the new accounting standard IAS 19 "Employee benefits

Cash Flow Statement

(amounts in millions of euros)	Notes	**2012**	**2013**
Loss for the period		(573)	(625)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortisation	(29)	82	84
Net impairments (writebacks) on plant, property, equipment and intangible assets	(29)	111	41
Share of profit (loss) of equity-accounted investments		(2)	
Currency translation differences from alignment	(30)	(1)	(2)
Interest expenses	(30)	36	41
Current, deferred and advance income taxes for the period	(31)	(163)	(166)
Changes in working capital:			
- inventories	(3)	(102)	107
- trade receivables	(2)	24	95
- trade payables	(15)	(118)	147
- provisions for risks and charges	(20)	27	51
- other assets and liabilities		(51)	(1)
Cash flow provided by changes in working capital		*(730)*	*(228)*
Net changes in provisions for employee benefits	(21)	(1)	(3)
Dividends received		3	
Interest paid		(35)	(38)
Income taxes received (paid) including tax credits rebated		110	(2)
Net cash flow provided by operating activities		**(653)**	**(271)**
of which with related parties	*(32)*	*(2,718)*	*(2,793)*
Investments:			
- property, plant and equipment	(7)	(147)	(288)
- intangible assets	(8)	(9)	(3)
- investments	(9) and (10)	(60)	(71)
- business units			(3)
- changes in payables relating to investment activities	(15)	(9)	17
- financial receivables instrumental to the operating activity - investment			(100)
Cash flow from investments		*(225)*	*(448)*
Disposals:			
- property, plant and equipment	(7)		
- investments	(9) and (10)		1
Cash flow from disposals			*1*
Net cash flow from investment activities		**(225)**	**(447)**
of which with related parties	*(32)*	*(65)*	*(175)*
Long-term debt obtained	(19)	358	
Repayments of long-term debt	(19)	(4)	(101)
Increase (decrease) in short-term debt	(13)	540	(163)
Dividends paid and changes in non-controlling interests and reserves	(24)		1,000
Other changes			2
Net cash flow from financing activities		**894**	**738**
of which with related parties	*(32)*	*895*	*738*
Net cash flow for the period		**16**	**20**
Cash and cash equivalents - beginning of the year	(1)	**44**	**60**
Cash and cash equivalents - end of the year	(1)	**60**	**80**

Supplementary information

(€ million)	Notes	Year 2012	Year 2013
Analysis of investments in business units			
Non-current assets:			
Property, plant and equipment	(7)		(3)
Net effect of the investments			**(3)**
CASH FLOW FROM INVESTMENTS MADE			**(3)**

Notes to the Consolidated Financial Statements

Basis of presentation

The consolidated financial statements of Versalis have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and adopted by the European Commission pursuant to Article 6 of EC Regulation No. 1606/2002 of the European Parliament and Council of July 19, 2002 and in accordance with Art. 9 of Italian Legislative Decree 38/05 [8].

The consolidated financial statements have been prepared on a historical cost basis, with adjustments where appropriate, except for items that under the IFRSs must be recognized at fair value as described in the paragraph on accounting policies.

The consolidated financial statements include the statutory financial statements of Versalis SpA and the financial statements of those companies over which Versalis SpA holds the right to directly or indirectly exercise control, determine financial and management decisions and obtain economic and financial benefits.

The consolidated companies, unconsolidated subsidiaries, joint ventures, associates and significant investments as set forth by Art. 126 of Consob Decision No 11971 of May 14, 1999 and subsequent changes are indicated separately in the paragraph “List of investments” which is an integral part of these notes. The same appendix also shows the changes to the consolidation area which took place during the year..

The financial statements of the consolidated companies are audited by independent audit firms which also examine and verify the information required for preparation of the consolidated financial statements.

The financial statements at December 31, 2013, approved by the Board of Directors of Versalis SpA at its meeting on March 5, 2014, are audited by Reconta Ernst & Young SpA. As the main independent auditor, the Reconta Ernst & Young network is responsible for auditing the Group's consolidated financial statements.

Considering their materiality, the amounts of the items in the financial statements and the associated notes are stated in millions of euro, unless otherwise indicated.

These financial statements were prepared on the basis of a going concern assumption, as Versalis SpA is a company wholly owned and controlled by Eni SpA; on this point, see the more detailed description provided in the report on operations, in the paragraphs on liquidity risk and the business outlook.

Consolidation Principles

Interest in consolidated companies

Assets and liabilities, revenues and expenses related to fully consolidated subsidiaries are consolidated on a line-by-line basis in the Consolidated Financial Statements; the carrying amount of these interests is eliminated against the corresponding share of the shareholder’s equity of the investee companies.

Business combination operations are recorded using the acquisition method. The amount transferred under a business combination is determined at the date control is taken and is equal to the fair value of the assets transferred, the liabilities incurred or undertaken, and any equity instruments issued by the acquirer. Costs directly attributable to the operation are reported in the profit and loss account at the time they are incurred.

8 The international accounting standards used in preparing the consolidated financial statements substantially coincide with those issued by the IASB in force for financial year 2011 because the current differences between the IFRSs endorsed by the European Commission and those issued by the IASB concern cases not present in the Group's businesses.

The shareholders' equity in consolidated companies is determined by attributing to each of the balance sheet items its fair value at the date on which control is acquired. The excess of the purchase price of an acquired entity over the total fair value assigned to assets acquired and liabilities assumed is recognised as goodwill. Negative goodwill is recognised in the income statement.

When shareholdings are acquired after control was obtained (acquisition of minority interests), any positive difference between the purchase cost and the proportionate share of shareholders' equity is recognized in the Group's equity; in the same way, effects deriving from disposals of equity interests that do not result in a loss of control are recognized in equity.

However, the sale of shareholdings which involve the loss of control results in the recognition in the income statement of: (i) any capital gain/loss calculated as the difference between the amount received and the proportionate share of consolidated shareholders' equity sold; (ii) the effect of the revaluation of any residual shareholding held to align it to its fair value; (iii) any amounts recognized in "Other comprehensive income items" related to the former subsidiary. The value of the shareholding held, aligned to its fair value at the date control is lost, represents the new carrying amount of the investment and therefore the reference value for the subsequent valuation of the investment in accordance with the applicable accounting policies[9].

Gains or losses associated with the disposal of interests in consolidated subsidiaries are reflected in the income statement for the difference between proceeds from the sale and the divested portion of shareholders' equity.

Intercompany transactions

Income deriving from inter-company transactions between consolidated companies is eliminated, as are unrealized income from third parties. Receivables, payables, revenues and costs, guarantees, commitments and risks among consolidated companies are also eliminated. Unrealized gains with companies accounted for using the equity-accounting method are eliminated in proportion to the Group's share. In both cases inter-company losses are not eliminated since they reflect an actual decrease in the value of divested assets.

Foreign currency translation

Financial Statements of consolidated companies denominated in currencies other than the euro, which is the Group's functional currency, are converted into euro applying the exchange rates prevailing at the period end to assets and liabilities, the historical exchange rates to equity items and the average rates for the period to the profit and loss account (source: Bank of Italy).

Any currency translation differences from the translation of non-euro financial statements, deriving from the application of different exchange rates for assets and liabilities, shareholders' equity and the profit and loss account are recognized under the item "Other reserves". The reserve for currency translation differences is recognized in the profit and loss account at the moment of disposal of the investment or of repayment of the capital employed.

The financial statements of foreign subsidiaries which are translated into euro are those denominated in the functional currencies of the country where the enterprise operates (Pound Sterling, Hungarian Forint and the Chinese Renminbi). The exchange rates used to translate financial statements in currencies other than the euro are listed below:

(amount of currency for 1 euro)	Annual average exchange rate 2012	Exchange rate at Dec. 31, 2012	Annual average exchange rate 2013	Exchange rate at Dec. 31, 2013
Pound Sterling	0.81	0.82	0.85	0.83
Hungarian Forint	289.25	292.30	296.87	297.04
Chinese Renminbi	8.11	8.22	8.16	8.35

9 The same indications apply in the case of sales involving the loss of joint control or of the associated company status.

Accounting policies

The most significant accounting policies adopted in the preparation of the Consolidated Financial Statements are described below.

Current assets

Cash and cash equivalents include cash in hand, sight deposits and financial assets originally due within 90 days, readily convertible into cash and subject to insignificant risk of changes in value.
Financial assets held for trading and available-for-sale financial assets are stated at fair value, with gains or losses recognized in the income statement under the heading “Financial income (expense)”[10] and in the shareholders’ equity reserve under the heading “Other items of comprehensive income” respectively. In the latter case, changes in fair value recognised in equity are taken to the income statement when the asset is sold or impaired. Assets are assessed for objective evidence of an impairment loss. This may include, among other things, significant breaches of contracts, serious financial difficulties or the high risk of insolvency of the counterparty.

Financial instruments available for sale include financial assets, other than derivatives, receivables, financial assets held for trading and assets held to maturity.

Interest matured and dividends declared on financial assets available-for-sale are accounted for on an accruals basis as ‘Financial income (expense[11]’ and ‘Other income (expense) from investments’, respectively. When the purchase or sale of a financial asset occurs under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the market place concerned, the transaction is recognized at the settlement date.

Receivables are stated at amortised cost (see below “Non-current assets - Financial assets").

Financial assets sold are derecognized when the contractual rights to receive the cash flows of the financial assets are transferred together with the risks and benefits associated with ownership.

Inventories are stated at the lower of purchase or production cost and net realizable value represented by the proceeds the company expects to collect from the sale of inventories in the normal course of business.

The cost of inventories of chemical products is determined applying the weighted average cost for the year.

Non-current assets

Property, Plant and Equipment

Property, plant and equipment, including real estate investments, are recognised using the cost model and are stated at their purchase or production cost including any costs directly attributable to bringing the asset into operation. In addition, when a substantial amount of time is required to make the asset ready for use, the purchase price or production cost includes borrowing costs that theoretically would have been avoided had the investment not been made.
In the case of current obligations for the dismantling and removal of assets and the remediation of sites, the carrying value includes, with a corresponding entry to a specific provision, the estimated (discounted) costs to be borne at the moment the asset is retired. The accounting treatment of changes in estimates for these provisions, of the passage of time and of the discount rate are recognized under ‘Provisions for risks and charges". As the time when the asset will be abandoned is uncertain, making it impossible to estimate the related discounted abandonment costs, the site dismantling and remediation costs related to property, plant

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[10] Starting from 2009, the fair value variations of non-hedging derivatives on commodities, also including the effects of such regulations, are recorded under the profit and loss account item “Other operating (expense) income”.

[11] The accrued interest income on financial assets held for trading contributes to the overall valuation of the instrument’s fair value and is reported, under “Finance income (expense)”, in the sub-item “Income (expense) from securities held for trading”. However, the accrued interest income on available-for-sale financial assets is reported, under “Finance income (expense)”, in the sub-item “Finance income”.

and equipment are recognized when the date on which the actual cost to be incurred can be determined, and when the amount of the obligation can be estimated reliably. In this respect Versalis periodically assesses the conditions in which it operates in order to ascertain if there have been any changes, circumstances or events that could result in the need to provide for site dismantling and remediation costs related to its property, plant and equipment.

Revaluations are not allowed even in application of specific laws.

Expenditure on renewals, improvements and transformations that extend the useful lives of the related asset or otherwise increase the value thereof are capitalised when it is likely that they will increase the future economic benefits expected from the asset.
Starting from the moment when the asset comes into use or should have come into use, property, plant and equipment are depreciated on a straight-line method over their useful life, which is an estimate of the period over which the assets will be used by the company. When the asset is made up of several significant components with different useful lives, the depreciation is calculated separately for each component.

The depreciable value of an asset is its cost less the estimated realisable value at the end of its useful life, if significant and reasonably determinable. Land is not subject to depreciation, even if purchased together with a building, and nor property, plant and equipment held for sale (see the paragraph “Assets held for sale and discontinued operations”, below). Eventual changes to the depreciation plan arising from the revision of the asset’s useful life, of its the residual value or of the method for obtaining the economic benefits of the asset, are recognized prospectively.

The costs of replacing identifiable components in complex assets are capitalized and depreciated over their useful life; the residual carrying value of the component that has been replaced is charged to the income statement. Ordinary maintenance and repair costs are expensed when incurred.

The carrying value of tangible assets is reviewed for impairment whenever events indicate that the carrying amounts for those assets may not be recoverable. The recoverability of an asset is assessed by comparing its carrying value with the recoverable amount, represented by the higher of fair value less costs to sell and value in use (the so-called impairment test). In the absence of a binding sales agreement, fair value is estimated on the basis of market values, recent transactions, or the best available information that shows the proceeds that the company could reasonably expect to collect from the disposal of assets.
Value in use is determined by discounting the future cash flows expected to be derived from the use of the asset and, if significant and reasonably determinable, from its disposal at the end of its useful life, net of disposal costs. The value in use is calculated net of the tax effect as this produces results substantially equivalent to those obtainable using a pre-tax measurement.
Cash flows are determined on the basis of reasonable and demonstrable assumptions that represent the best estimate of the future economic conditions which could occur during the residual useful life of the asset, giving more importance to independent assumptions. Discounting is carried out at a rate that reflects current market assessments of the time value of money and the risks specific to the asset that are not reflected in the estimate of future cash flows. The discount rate used is the Weighted Average Cost of Capital (WACC) adjusted, as indicated below, for the specific country risk of the asset being measured. The measurement of the specific country risk to be included in the discount rate is carried out on the basis of information provided by external providers. Valuation is carried out for each single asset or, if the realizable value of a single asset cannot be determined, for the smallest identifiable group of assets that generates independent cash inflows from their continuous use, the so-called “cash generating unit”. If the reasons for impairment cease to exist, the impairment loss is reversed to the income statement as income from revaluation. The value of the asset is written back to the lower of the recoverable amount and the original book value before impairment, less the depreciation that would have been charged had no impairment loss been recognised.

Intangible assets

Intangible assets comprise assets without physical substance, controlled by the company and capable of producing future economic benefits, and goodwill acquired in business combinations. Intangible assets are identified when Management is able to distinguish them clearly from goodwill. This condition is normally met when: (i) the intangible asset can be traced back to a legal or contractual right, or (ii) the asset is separable, i.e. can be sold, transferred, licensed, rented or exchanged either individually or as an integral part of other assets. An entity controls an asset if it has the power to obtain the future economic benefits flowing from the asset and to restrict the access of others to these benefits.

Intangible assets are recognized at cost, using the same criteria as that indicated for property, plant and equipment. Revaluations are not allowed even in application of specific laws.

Intangible assets with a defined useful life are amortised on a straight-line basis over their useful life, estimated as the period over which the assets will be used by the company. The amount to be amortised and

the recoverability of their carrying value are determined in accordance with the criteria described in the section 'Property, plant and equipment.

Intangible assets with an indefinite useful life are not amortized. The recoverability of their carrying value is reviewed at least annually and whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

Costs of technological development activities are capitalised when (i) the cost attributable to the development activities can be reasonably determined; (ii) there is the intention, the availability of funding and the technical ability to make the asset available for use or sale; and (iii) it can be shown that the asset is able to produce future economic benefits.

Grants

Capital grants are recognized as a reduction of purchase price or production cost of the relevant assets when there is reasonable assurance that the conditions laid down by government bodies for obtaining them have been met.
Grants for operating expenditure are credited to the income statement on an accrual basis, in line with the incurrence of the costs to which they are related.

In accordance with the warranties given at the time of conferral in 2002 of the "Strategic Chemical Activities" business unit, Versalis SpA charges Syndial SpA for the costs which it incurs for environmental, health and safety actions deriving from activities carried out prior to 2002. If these relate to capital expenditure, these recharges are accounted for as capital grants. If, instead, they relate to operating expenses, they are recorded in "Other income and revenues" as a recovery of costs.

Financial assets

Investments

Investments in non-consolidated subsidiaries, joint ventures and associated companies are accounted for using the equity-accounting method[12], whereby the investments are initially recorded at cost and subsequently adjusted to take account of: (i) the shareholder's portion of the net income/loss realized after the acquisition date; and (ii) the shareholder's portion of other elements of the comprehensive income. Changes in the net equity value of an investment, other than those related to economic performance and the other elements of comprehensive income, are recognized in the income statement when they represent in substance the effects of a transfer of an interest in the investee. Dividends distributed by the investee are recorded as a reduction of the carrying value of the investment. For the purposes of applying the equity-accounting method, the adjustments provided for the in the consolidation process are considered (see also the section "Principles of consolidation").
Where there exists objective evidence of impairment (see also 'Current assets'), the recoverability is assessed comparing the carrying amount with the recoverable value of the assets determined adopting the criteria indicated in the section "Property, plant and equipment'".
Where this does not result in a misrepresentation of the financial situation and income, subsidiaries excluded from consolidation, joint ventures and associated companies are accounted for at cost, adjusted for impairment losses. When the reasons for their impairment cease to exist, equity investments accounted for at cost are written back up to the limit of the impairment recognized and the effects are credited to the income statement under the item "Other income (expense) from investments".

Other equity investments included in non-current assets are recognised at their fair value and their effects are included in shareholders' equity under 'Other items of comprehensive income'. Changes in fair value recognised in equity are charged to the income statement when the investment is sold or impaired. When equity investments are not traded in a regulated market and the fair value cannot be reasonably ascertained,

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12 In the case of taking on a connection (joint control), in later stages the investment is recorded at the amount equal to that resulting from the application of the equity-accounting method as if it had been applied from the start; the effect of the revaluation of the carrying amount of the shares of the investment held prior to taking on the connection (joint control) is charged to shareholders' equity.

these are accounted for at cost, adjusted for impairment losses; such impairment losses may not be reversed[13].

The investor's share of any losses exceeding the carrying amount is recognised in a specific provision to the extent that that investor is required to fulfil legal or implicit obligations towards the investee or to cover its losses.

Receivables and held-to-maturity financial assets

Receivables and financial assets to be held to maturity are stated at cost, represented by the fair value of the initial price paid, plus transaction costs. The initial carrying amount is subsequently adjusted to take into account repayments of principal, impairments and amortization of the difference between the redemption value and the initial carrying amount; amortization is carried out on the basis of the effective internal rate of return represented by the rate that, at the moment of initial recognition, discounts the present value of expected future cash flows to the initial carrying amount (the so-called amortized cost method). Receivables originating from assets granted in financial leasing are recognized for the amount corresponding to the present value of the leasing fees and of the redemption price or of any residual value of the asset; the discounting is carried out adopting the implicit interest rate of the lease.

If there is objective evidence that an impairment loss has occurred (see also "Current assets"), the impairment is recognized by comparing the carrying value with the present value of the expected cash flows discounted at the effective interest rate computed at initial recognition or at the moment of its updating to reflect re-pricings contractually established. Receivables and held-to-maturity financial assets are recognised net of the provision for impairment losses. When the impairment loss is definite, the provision is used; otherwise it is released.

Changes to the carrying amount of receivables or financial assets arising from amortised cost valuation are recognised as 'Financial income (expenses)'.

Financial liabilities

Payables are carried at amortized cost (see "Financial assets" above).

Provisions for risks and charges

Provisions for risks and charges concern risks and charges of a definite nature and whose existence is certain or probable, but for which at period end the amount or date of occurrence remains uncertain. Provisions are recognised when: (i) there is a present obligation, either legal or implicit, deriving from a past event; (ii) fulfilment of that obligation will probably result in an outflow of resources; and (iii) the amount of the obligation can be reliably estimated. Provisions represent the best estimate of the expenditure required to settle the obligation or to transfer it to third parties at the balance sheet date; provisions relating to onerous contracts are recognized at the lower of the cost necessary to fulfil the contract obligation, net of the economic benefits expected to be received under it, and any compensation or penalties arising for termination of the contract.

When the financial effect of time is significant and the timing of settlement can be estimated reliably, the provisions should be discounted using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The increase in the provision related to the passage of time is recognised in the income statement under the heading "Financial income (expense)".

When the liability regards property, plant or equipment (e.g. decommissioning and site remediation), the provision is stated with a corresponding entry to the asset to which it refers and taken to the income statement through the depreciation process.

The costs that the company expects to bear to carry out restructuring plans are recognised in the year in which the company formally defines the plan and the interested parties have developed a valid expectation that the restructuring will occur.

Provisions are periodically updated to show the variations in cost estimates, realization times and discount rates; increases or decreases for changes in estimates are recognized in the same income statement item

13 Impairment losses are not reversed even when, considering conditions existing in a subsequent interim period, they would have been recognized for a smaller amount or would not have been recognized at all.

used to accrue the provision, or, when the liability regards property, plant or equipment (e.g. dismantling and site remediation), through an entry corresponding to the assets to which they refer.

Employee benefits

Post-employment benefit plans, even if not formalized, are classified as either 'defined contribution plans' or 'defined benefit plans', depending on the economic substance of the plan as derived from its principal terms and conditions. In defined-contribution plans the company's obligation, which is limited to the payment of contributions to the State or to a separate legal entity (a fund), is determined on the basis of the contributions due.

The liability relating to defined-benefit plans, net of any plan assets, is determined on the basis of actuarial assumptions and provided for on an accrual basis over the period of service necessary for the benefits to vest.

Net interest includes the item "return on plan assets and the interest expense to be recognized in the income statement. Net interest is determined by applying to the liabilities, net of any plan assets, the discount rate defined for the liabilities; the net interest for defined-benefit plans is recognized in the item "Financial income (expense)".

For defined-benefit plans, the changes in the value of the net liability (so-called write-downs) from actuarial earnings (losses), resulting from changes in actuarial assumptions used or adjustments based on past experience, and from return on plan assets different from the item included in net interest, are recognized in the statement of comprehensive income. In the presence of net assets, value changes different from the item included in net interest are also recognized in the statement of comprehensive income.

Additionally, obligations for other long-term benefits are determined by adopting actuarial assumptions; the effects of changes in actuarial assumptions or of a change in the characteristics of the benefit are recognized in the income statement in their entirety.

Revenues and costs

Revenues from sales of products and services are recognized when the significant risks and rewards of ownership pass to the customer or when the transaction can be considered settled and associated revenue can be reliably measured. In the case of sales of goods, revenues are generally recognized upon shipment when, at that date, the risks of loss are transferred to the buyer.

Revenues related to partially rendered services are recognised by reference to the stage of completion, providing this can be measured reliably and that there is no significant uncertainty regarding the collectability of the amount and the related costs. Otherwise they are recognised only to the extent of the recoverable costs incurred.

If the contract provides for the issue of specific performance warranties for the benefit of the licensee, the company discloses this fact in the notes to the financial statements, or recognizes specific provisions for contingencies on the basis of an assessment of the degree of probability that a liability may arise from these warranties.

Revenues are stated net of returns, discounts, rebates and bonuses, as well as directly related taxation.

Exchanges of goods and services of a similar nature and value do not give rise to revenues and costs, as they do not represent sale transactions.

Costs are recognized when the related goods and services are sold, consumed or allocated or when their future usefulness cannot be determined.

Costs related to emission quotas, determined on the basis of the average market prices, are recognized in relation to the amount of carbon dioxide emissions exceeding the quotas assigned. Costs related to the purchase of emission rights are capitalized and recognized as intangible assets, net of any negative difference between the amount of emissions made and quotas assigned. Revenues related to emission quotas are recognized when realized through sale. In the case of sale, where present, emission rights purchased are considered sold first. Cash receivables assigned in lieu of free assignment of emission quotas are recognized against the item "Other revenues" in the income statement.

Operating lease instalments are recognized in the income statement over the duration of the contract.

The costs for the acquisition of new knowledge or inventions, the study of products or alternative processes, new techniques or models, the planning and construction of prototypes or any costs sustained for other scientific research activities or technological development which do not satisfy conditions for recognition in the balance sheet, are generally considered as current costs and expensed as incurred.

Exchange rate differences

Revenues and costs relating to transactions in currencies other than the functional currency are recognised at the exchange rate in force at the transaction date.

Monetary assets and liabilities in currencies other than the functional currency are converted by applying the year-end exchange rate and the effect is recognized in the income statement. Non-monetary assets and liabilities in currencies other than the functional currency and measured at cost are recognized at the initial exchange rate. Non-monetary assets that are re-measured at fair value, recoverable amount or realisable value, are translated at the exchange rate applicable on the date of re-measurement.

Dividends

Dividends are recognized at the date of the Shareholders' Meeting in which they were approved, except when the sale of shares before the ex-dividend date is reasonably certain.

Income taxes

Current income taxes are determined on the basis of estimated taxable income; the estimated liability is recognized in the item "Current income taxes payables". Current tax assets and liabilities are measured at the amount expected to be paid to/recovered from the tax authorities using the tax rates and tax laws in force or substantively enacted at the reporting date.

From financial year 2008 onwards Versalis SpA, jointly with Eni SpA, has adhered to the National Tax Consolidation tax system, which enables IRES (corporation tax) to be determined on a taxable base corresponding to the sum of the positive and negative taxable incomes of the single companies that take part in the consolidation. The economic relationships, as well as the responsibilities and reciprocal obligations, between Eni SpA and the other companies of the Eni Group who have signed up to the National Tax Consolidation system are defined in the "Regulations for participation in the National Tax Consolidation system for Eni Group companies", according to which: (i) the subsidiaries with a positive taxable income will transfer to Eni SpA the financial resources corresponding to the higher tax payable by the latter as a result of their participation in the National Tax Consolidation, (ii) those with a negative taxable income will receive compensation, on a proportional basis, equivalent to the related tax savings made by Eni SpA, providing, and to the extent that, they have income prospects that would have allowed, in the absence of National Tax Consolidation, the effective use of the tax losses generated. Consequently, the relevant tax, net of advances paid, withholdings made and tax credits in general, is recognized as a payable to or receivable from the parent company; Current income taxes are calculated on the basis of estimated taxable income of the company as well as the taxable income of subsidiaries and other companies resident in countries with preferential tax regimes, in proportion to the shareholding, where the conditions exist for tax imputation as provided for in Art. 167 and 168 of the Consolidated Income Tax Act .

Deferred tax assets and liabilities are calculated on the temporary differences arising between the carrying amounts of the assets and liabilities and the corresponding amounts recognized for fiscal purposes on the basis of the tax rates and laws enacted or substantively enacted for future years. Deferred tax assets are recognized when their recovery is considered probable. In particular the recovery of deferred taxes is considered probable when sufficient taxable income is expected for the year in which the temporary difference is reversed.

Deferred tax assets and liabilities are recorded under non-current assets and liabilities and are offset at single entity level, if related to offsettable taxes. The balance of the offset, if positive, is recognized under "Deferred tax assets", and, if negative, under "Deferred tax liabilities". When the results of transactions are recognized directly in shareholders' equity, current taxes, deferred tax assets and liabilities are also charged to shareholders' equity.

Derivatives

Derivatives, including embedded derivatives which are separated from the host contract, are assets and liabilities recognized at their fair value, estimated using the criteria described in the section "Valuation at fair value". When there is objective evidence that an impairment loss has occurred (see also the section "Current assets") derivative assets are recognized net of provisions for impairment losses. The fair value of liabilities for derivatives considers the adjustments to take account of the issuer's non-performance risk (see "Valuation at fair value" below).

Derivatives are designated as hedging instruments when the relationship between the derivative and the hedged item is formally documented and the effectiveness of the hedge, which is checked regularly, is demonstrated to be high. When derivatives hedge the risk of fluctuations in the fair value of the hedged instruments (fair value hedges, e.g. hedging against changes in the fair value of fixed-rate assets/liabilities), the derivatives are recognized at fair value , with changes taken to the income statement. Hedged items are accordingly adjusted to reflect changes in their fair value attributable to the hedged risk. When derivatives hedge the cash flow variation risk of the hedged item (cash flow hedge; e.g. hedging the variability on the cash flows of assets/liabilities as a result of the fluctuations in exchange rates), changes in the fair value of the derivatives considered effective are initially recorded in net equity and then recognized in the income statement consistently with the economic effects produced by the hedged transaction.
Changes in the fair value of derivatives which do not satisfy the conditions required to qualify as hedging instruments are recognised in the income statement. Specifically, changes in the fair value of non-hedging interest rate and foreign currency derivatives are recognised in the income statement under 'Finance income (expense)'; conversely, changes in the fair value of non-hedging commodity derivatives are recognised in the income statement under 'Other operating income (expense)'.

The economic effects of transactions which relate to purchase or sales contracts for commodities stipulated for the purposes of the entity's normal operating requirements and for which settlement is envisaged on delivery of the goods, are recognized on an accruals basis (the so-called normal sale and normal purchase exemption or own use exemption).

Valuation at fair value

Fair value is the price that would be received for the sale of an asset or paid for the transfer of a liability in an normal transaction between market participants (i.e. not in a forced liquidation or sale under cost) at the date of valuation (so-called exit price).

Determination of fair value is based on the market conditions existing at the date of valuation and on assumptions of market-based operators. The fair value measurement assumes that the asset or liability is exchanged on the principal market or, in its absence, in the most beneficial market the company has access to, regardless of the intention of the company to sell the asset or transfer the liability being valued.

Determination of the fair value of a non-financial asset is performed by considering market operators' capacity to generate economic benefits, employing such asset at its fullest and best use, or selling it to another market operator who would employ it at its fullest and best use.

Determination of the fullest and best use of the asset is performed from the perspective of market operators even when the company intends to use it differently. It is assumed that the company's current use of a non-financial asset is the fullest and best use of it, unless the market or other factors suggest that a different use by market operators would maximize its value.

The fair value of a liability, whether financial or non-financial, or of an equity instrument, in the absence of a quoted price, is valued by considering the valuation of the corresponding asset held by a market operator at the date of valuation.

The fair value of a liability reflects the effect of a risk of a default; the risk of default includes, among other things, the entity's credit risk.

In the absence of available market prices, fair value is determined using valuation techniques which are appropriate to the circumstances and maximize the use of significant observable inputs, reducing the use of unobservable inputs to a minimum.

Financial Statements

Balance sheet assets and liabilities are classified as current and non-current. Income statement items are presented by nature.

The statement of Comprehensive Loss shows the net loss plus income and expenses that are recognized directly in shareholders' equity in accordance with the IFRSs.

The Statement of Changes in Shareholders' Equity presents net profit or loss for the year, transactions with shareholders and other changes in shareholders' equity.

The Cash Flow Statement is presented using the indirect method, whereby net profit/(loss) is adjusted for the effects of non-monetary transactions.

Changes to accounting criteria

Regulation 475/2012 issued by the European Commission on June 5, 2012 also approved the new version of the IAS 19 "Employee Benefits" (hereinafter "IAS 19"). The new provisions of IAS 19 are applied retroactively by adjusting the opening values of the balance sheet at January 1, 2012 and the economic data of 2012. Application of the new provisions of IAS 19 has resulted in: (i) a reduction of shareholders' equity at January 1, 2012 of €1 million; (ii) a reduction of shareholders' equity at December 31, 2012 of €11 million, relating to the actuarial profits and losses of 2012 recognized in the other items of comprehensive loss. The effect on the 2012 income statement is not significant. The representation of the "net interest" of defined-benefit plans under "Finance income (expense)", in place of the previous representation as an element of payroll and related costs, resulted in an increase in operating profit for 2012 of €2 million.

Use of accounting estimates

The preparation of financial statements in accordance with generally accepted accounting standards requires management to make accounting estimates based on complex or subjective judgements, past experience and assumptions deemed reasonable and realistic based on the information available at the time. The use of these estimates and assumptions affects the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of income and expenses during the reporting period. Actual results may differ from these estimates given the uncertainty surrounding the assumptions and conditions upon which the estimates are based, especially in the current context characterised by the economic and financial crisis, which made it necessary to make assumptions regarding the future marked by significant uncertainty.
The principal accounting estimates used that required subjective judgements, assumptions and estimates relating to issues which, by their very nature, are uncertain are summarised below. Changes in the conditions on which such judgements, assumptions and estimates are based may have a significant effect on future results.

Impairment of assets

Impairment losses against assets are recognized if events or changes in circumstances indicate that their carrying amount is no longer recoverable.

Such indicators include changes in the Group's business plans, changes in market prices leading to unprofitable performance and reduced utilization of the plants. Determining whether and to what extent an asset is impaired involves management estimates on complex and highly uncertain factors, such as future prices, the effects of inflation and technological improvements on operating costs, production profiles and the outlook for the global or regional market demand and supply.

The amount of an impairment loss is determined by comparing the carrying value of an asset with its recoverable amount. The recoverable amount is the greater of fair value net of disposal costs and value in use. The value in use is measured based on the values of expected future cash flows net of disposal costs. The expected future cash flows are quantified considering information available at the date of review on the basis of subjective judgements on trends in future variables - such as prices, costs, growth rate of demand, production volumes - and are discounted using a rate which takes into account the risk inherent in the activity involved.

Dismantling and remediation of production sites

At present, the companies of the Versalis Group have no obligation to restore sites, in compliance with legislation, administrative regulations or contractual clauses, and therefore, in consideration also of the

current corporate plans, which do not envisage any decommissioning of the operational industrial sites given the strategic importance of these sites for the achievement of the corporate objectives, management considers the probability of incurring costs relating to the decommissioning and remediation of these sites to be remote.

Recoverability of deferred tax assets

Management has identified the necessary requisites for the recognition of the deferred tax assets arising from participation in the National Tax Consolidation of Eni SpA. For this purpose management assessed the recoverability, together with Eni SpA, on whose "consolidated" taxable income this mainly depends. It is also important to note that Art. 23, paragraph 9, of Legislative Decree 98 of July 6, 2011 establishes the unlimited recoverability of tax losses in effect at the date of the decree.

Business combinations

Accounting for business combinations requires the allocation of the purchase price to the various assets and liabilities of the acquired business at their respective fair values. Any positive residual difference is recognised as goodwill. Negative residual differences are taken to the income statement. Management uses all available information to make these fair value determinations and, for major business acquisitions, typically engages an independent appraisal firm to assist in the fair value determination of the acquired assets and liabilities.

Environmental liabilities

In common with other companies in the industries in which it operates, Versalis is subject to numerous EU, national, regional and local environmental laws and regulations concerning its oil and gas operations, production and other activities, including legislation that implements international conventions or protocols. Provisions for future costs are recorded when it is likely that a liability has been incurred and the amount can be reasonably estimated.

Although at present Versalis does not believe that non-compliance with environmental regulations will have a particularly significant adverse impact on the financial statements - taking into account the actions already taken, the insurance policies underwritten and the provisions accrued – it is not possible to exclude the possibility that Versalis may incur additional costs and liabilities, even of a significant amount, given that, at present, it is impossible to foresee the effects of future developments, also taking into account the following aspects: (i) the possibility of as yet unknown contamination; (ii) the results of the on-going surveys and the other possible effects deriving from the application of current legislation; (iii) the possible effects of future environmental legislation and rules; (iv) the effect of possible technological changes relating to environmental remediation; and (v) the possibility of litigation and the difficulty of determining any consequences, also in relation to the liability of other parties and to possible compensation.

Employee benefits

Defined-benefit plans and other long-term benefits are evaluated with reference to uncertain events and actuarial assumptions including, amongst others, discount rates, expected rates of salary increases, mortality rates, estimated retirement dates and future trends in healthcare costs.

The main assumptions used to quantify such benefits are determined as follows: (i) discount and inflation rates, which reflect the rates at which the benefits could be effectively settled, are based on rates that accrue on high-quality corporate bonds (or, in the absence of a "*deep market*" for such bonds, on the return on government bonds) and on inflation forecasts in the countries involved; (ii) future salary levels are determined on the basis of inflation forecasts, productivity, promotion and seniority; (iii) future healthcare costs are determined on the basis of elements such as present and past healthcare cost trends, including assumptions on the inflation of such costs, and changes in the health status of participants; (iv) demographic assumptions reflect the best estimate of variables such as mortality, turnover and disability in relation to the population of participants.

Differences normally occur in the value of the net liability (asset) of employee benefit plans arising from so-called revaluations represented by, among other things, changes in the actuarial assumptions employed, the difference between the actuarial assumptions adopted previously and those that are actually realized and the different return on plan assets compared to that considered in net interest. The revaluations for defined-benefit plans are recognized in the statement of comprehensive income and in the income statement for long-term plans.

Provisions for risks and charges

Besides recognizing environmental liabilities and liabilities for employee benefits, Versalis sets aside provisions associated mainly with legal and tax litigation.

Determining appropriate amounts to set aside is a complex process that entails subjective judgements by management.

Recently issued accounting standards

Accounting standards and interpretations issued by IASB/IFRIC and endorsed by the European Commission

Regulation No. 1254/2012 issued by the European Commission on December 11, 2012 approved the IFRS 10 “Consolidated Financial Statements” (hereafter “IFRS 10”) and the revised version of IAS 27 “Separate Financial Statements” (hereafter “IAS 27”) which established, respectively, principles for the presentation and preparation of consolidated financial statements and separate financial statements. The rules of IFRS 10 provide, among other things, a new definition of control to be applied uniformly to all entities (including special purpose entities). According to this definition, an entity is able to exercise control when it is exposed, or has rights, to (positive and negative) returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The standard provides a number of indicators to consider when assessing whether it controls an investee, which include, among other things, potential rights, merely protective rights, the existence of agency or franchising relationships. In addition the new rules recognize the possibility of exercising control over an investee also in the absence of a majority of voting rights or as a result of dispersed shareholdings or of a passive attitude on the part of the other investors. The provisions of IFRS 10 and of the new version of IAS 27 are to be applied for financial years beginning on or after January 1, 2014.

Regulation No. 1254/2012 issued by the European Commission on December 11, 2012 approved the IFRS 11 “Joint Arrangements” (hereafter “IFRS 11”) and the revised version of IAS 28 “Investments in associates and Joint Ventures” (hereafter “IAS 28”). On the basis of the rights and obligations of the participants, IFRS 11 identifies two types of arrangements, joint operations and joint ventures, and regulates the consequent accounting treatment to be adopted for their recognition. With reference to the recognition of joint ventures, the new rules indicate, as the only permitted treatment, the equity method, eliminating the option to use proportionate consolidation. Participation in a joint operation results in the recognition of assets/liabilities and the costs/revenues associated with the agreement on the basis of the rights/obligations due regardless of the interest held. The revised version of the IAS 28 defines, among other things, the accounting treatment to be applied in the case of total or partial sale of an interest in a jointly controlled entity or associate. The provisions of IFRS 11 and of the new version of IAS 28 are to be applied for financial years beginning on or after January 1, 2014.

Regulation No. 1254/2012 issued by the European Commission on December 11, 2012 approved the IFRS 12 “Disclosure of Interests in Other Entities” (hereafter “IFRS 12”) which regulates the disclosure to be provided in financial statements on subsidiaries and associates, joint operations and joint ventures, and on structured entities not included in the consolidation scope. The provisions of IFRS 12 are to be applied for financial years beginning on or after January 1, 2014.

Regulation No. 313/2013 issued by the European Commission on April 4, 2013 approved the document “Consolidated Financial Statements, Joint Arrangements and Disclosure of Interest in Other Entities”: Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12)” which provides some clarification and simplification regarding the requirements of the IFRS 10, IFRS 11 and IFRS 12 principles. The document rules must be applied for financial years beginning on or after January 1, 2014.

Regulation No. 1256/2012 issued by the European Commission on December 13, 2012 approved the revised version of IAS 32 “Financial Instruments: Disclosure in the balance sheet — Offsetting financial assets and financial liabilities” (hereinafter “amendments to IAS 32”, according to which: (i) in order to carry out an offset, the right of offsetting must be legally exercisable in every circumstance, that is both in the normal course of business and in cases of insolvency, default or bankruptcy of one of the contractual parties; and (ii) when certain conditions are fulfilled, settlement at the same time of financial assets and liabilities on a gross basis with consequent elimination or significant reduction of credit and liquidity risks, may be considered equivalent to settlement on a net basis. The amendments to IAS 32 must be applied for financial years beginning on or after January 1, 2014.

Regulation No. 1374/2013 issued by the European Commission on December 19, 2013 approved some amendments to IAS 36 “Impairment of assets - additional information on the recoverable amount of non-

financial assets" (hereinafter "amendments to IAS 36") which supplements the disclosure of information requiring: (i) the recoverable amount of individual assets or cash-generating units for which an impairment loss has been recognized or reversed; and (ii) additional disclosures if the recoverable amount is determined based on fair value less costs of disposal. The amendments to IAS 36 must be applied for financial years beginning on or after January 1, 2014.

Regulation No. 1375/2013 issued by the European Commission on 19 December 2013 approved the revised version of IAS 39 "Financial Instruments: Recognition and measurement - Novation of derivatives and continuation of hedge accounting (hereinafter "amendments to IAS 39"), based on which hedge accounting is not discontinued in the case of novation of the derivative, as a consequence of laws or regulations, which implies that the original counterparty is replaced by a central counterparty. The amendments to IAS 39 must be applied for financial years beginning on or after January 1, 2014.

Accounting standards and interpretations issued by IASB/IFRIC and not yet endorsed by the European Commission

On November 12, 2009, the IASB issued IFRS 9 "Financial Instruments" (hereafter "IFRS 9") which changes the criteria for the recognition and measurement of financial assets and their classification in financial statements. In particular, the new provisions require, among other things, a classification and measurement model of financial assets based exclusively on the following categories: (i) financial assets measured at amortized cost; (ii) financial assets measured at fair value. The new provisions also require that investments in equity instruments, other than subsidiaries, jointly-controlled entities or associates, shall be measured at fair value with effects taken to the profit and loss account. If these investments are not held for trading purposes, subsequent changes in the fair value can be recognized in other comprehensive income, even if dividends are taken to the profit and loss account. Amounts taken to other comprehensive income shall not be subsequently transferred to the profit or loss account even on disposal. Furthermore, on October 28, 2010 the IASB made additions to the rules of IFRS 9 including criteria for the recognition and measurement of financial liabilities. In particular, the new rules require, among other things, that, in the case of measurement of a financial liability at fair value through profit or loss, fair value changes attributable to changes in the credit risk of the issuer (the so-called own credit risk) must be recognized in the statement of comprehensive income; recognition of this component in profit or loss is envisaged to ensure the symmetrical representation with other accounting items connected with the liability, thus avoiding accounting mismatches. On November 19, 2013, the IASB integrated IFRS 9 with the revised guidance for hedge accounting with the aim of ensuring that hedge operations are in line with companies' risk management strategies and are based on a more principles-based approach than in the past. In particular, the main changes concern: (i) the solely forward-looking hedge effectiveness assessment; (ii) the possibility of "rebalancing" the hedging relationship if the risk management objective remains the same; (iii) the possibility of classifying as a hedged item a risk component of a non-financial item, net positions or layer components of items, if specific conditions are met; (iv) the possibility of hedging aggregated exposures, i.e. a combination of a non-derivative exposure and a derivative; and (v) the accounting for the time value of purchased options or the forward elements of forward contracts, excluded from the hedge effectiveness assessment, which must be consistent with the features of the hedged item. Furthermore, in November 2013, the effective date was also removed from IFRS 9 and the effective date will be defined when the entire principle is completed (the previous provisions refer to January 1, 2015).

On May 20, 2013, the IFRIC issued the interpretation IFRIC 21 "Levies" (hereinafter "IFRIC 21"), which defines the accounting for outflows imposed by governments (e.g. contributions required to operate in a specific market), other than income taxes, fines or penalties. IFRIC 21 sets out criteria for the recognition of the liability, stating that the obligating event that gives rise to the liability, and therefore to its recognition, is the business activity that triggers the payment, as identified by the applicable legislation. The provisions of IFRS 21 are to be applied for financial years beginning on or after January 1, 2014.

On November 21, 2013, the IASB issued the amendments to IAS 19 "Defined Benefit Plans: Employee Contributions", which allow the recognition of contributions to defined benefit plans from employees or third parties as a reduction of service cost in the period in which the related service is received, provided that such contributions: (i) are set out in the formal conditions of the plan; (ii) are linked to the service provided by the employee; and (iii) are independent of number of years of service (e.g. the contributions are a fixed percentage of the employee's salary or a fixed amount throughout the service period or dependent on the employee's age). The amendments are effective starting from periods beginning on or after July 1, 2014 (for Versalis: 2015 financial statements).

On December 12, 2013 the IASB issued the documents "Annual Improvements to IFRSs 2010-2012 Cycle" and "Annual Improvements to IFRSs 2011-2013 Cycle", which include, basically, technical and editorial

changes to existing international standards. The amendments to the standards are effective starting from periods beginning on or after July 1, 2014 (for Versalis: 2015 financial statements).

Versalis is currently analysing the above standards to assess whether their adoption will have a significant impact on the financial statements.

Current assets

1. Cash and cash equivalents

Cash and cash equivalents amounted to €80 million (€60 million at December 31, 2012) and are mainly deposited in non-interest bearing current accounts (at December 31, 2012 the average interest rate was 0.06%).

2. Trade and other receivables

Trade receivables and other receivables are analysed in the table below:

(amounts in million of euros)	31.12.2012	31.12.2013
Trade receivables	851	752
Financial receivables:		
related to operating activities		100
Other receivables	259	252
	1,110	**1,104**

Financial receivables of €100 million relate to a short-term loan to the joint venture company Matrìca SpA, in order to meet the financial requirements of Phase 1 of the Green Hub project in Porto Torres.

Receivables are shown net of provisions for impairment of €141 million (€128 million at December 31, 2012):

(amounts in millions of euros)	Amount at 31.12.2012	Additions	Utilisation	Amount at 31.12.2013
Provisions for impairment of trade receivables	128	17	(4)	141
	128	**17**	**(4)**	**141**

Provisions for impairment regard overdue trade receivables of doubtful collectability; for more details on the company's exposure to contingent losses deriving from counterparties' failure to fulfil their obligations see the paragraph “Credit Risk” of Note 25.

The utilisation refers to receivables written off as non-collectible.

Trade receivables and other overdue receivables can be broken down as follows:

	31.12.2012			31.12.2013		
(amounts in millions of euros)	Trade receivables	Other receivables	Total	Trade receivables	Other receivables	Total
Receivables neither overdue nor written off	802	157	959	710	201	911
Receivables written down (net of the writedown	6		6	6		6
Net receivables overdue and not written down :						
- up to 90 days overdue	*26*	*17*	*43*	*18*		*18*
- between 3 to 6 months overdue	*4*	*4*	*8*	*6*	*1*	*7*
- between 6 to 12 months overdue	*5*	*21*	*26*	*5*	*(25)*	*(20)*
- over 12 months overdue	*8*	*60*	*68*	*7*	*75*	*82*
	43	**102**	**145**	**36**	**51**	**87**
	851	**259**	**1,110**	**752**	**252**	**1,004**

Trade receivables overdue but not written down relate mainly to receivables for supplies of petrochemical products with counterparties subject to repayment of debt restructuring plans, which have been complied with so far.

Other past-due and unimpaired receivables include €16 million of receivables from the European Union for antitrust fines (€50 million in 2012), described in further detail in the section “Litigation”, and sundry receivables from counterparties with high credit ratings.

The other receivables are comprised as follows:

(amounts in millions of euros)	31.12.2012	31.12.2013
Receivables from parent company	105	58
Receivables from Eni Group companies	53	63
Advances for services and guarantee deposits	6	21
Receivables for patents and royalties	4	9
Receivables relating to personnel	4	6
Other receivables	87	95
	259	**252**

Receivables from the parent company relate mainly to Versalis SpA's adhesion to the group VAT (€54 million).

Receivables from Eni Group companies relate to relations with Syndial SpA (€49 million), Eni Insurance Ltd (€12 million) and Raffineria di Gela SpA (€2 million).

Trade receivables and other receivables in currencies other than the euro amounted to €81 million and are mainly denominated in US dollars.

Because of the short-term nature of trade and other receivables their fair value approximated their carrying amount.

Receivables from related parties are disclosed in Note no. 32.

3. Inventories

Inventories are comprised of the following:

(in millions of euros)	31.12.2012				31.12.2013			
	Petroleum products	Chemical products	Other	Total	Petroleum products	Chemical products	Other	Total
Raw materials and consumables	108	170	49	327	108	173	49	330
Work in progress and semi-finished products	3	14		17	1	14		15
Finished products and goods	56	851		907	36	764		800
	167	**1,035**	**49**	**1,251**	**145**	**951**	**49**	**1,145**

The following movements took place in inventories and in provisions for impairment:

(€ million)	Value at the beginning of the year	Variation during the year	Additions	Utilisation	Foreign currency translation differences	Other movements	Value at the end of the year
31.12.2012							
Gross value	1,231	89			4		1,324
Provisions for impairments	(86)		(20)	33			(73)
Net inventories	**1,145**	**89**	**(20)**	**33**	**4**		**1,251**
31.12.2013							
Gross value	1,324	(105)			(3)	3	1,219
Provisions for impairments	(73)		(11)	10			(74)
Net inventories	**1,251**	**(105)**	**(11)**	**10**	**(3)**	**3**	**1,145**

There are no secured guarantees on inventories.

4. Current income tax assets

Current income tax assets amounted to €25 million (€15 million as at December 31, 2012) and referred to IRAP advances paid in previous years (€8 million) and tax credits for earnings produced abroad (€17 million). Further details are provided in Note 31.

5. Other current tax assets

Other current tax assets comprise the following:

(amounts in millions of euros)	31.12.2012	31.12.2013
Receivables from foreign states for VAT	8	10
Other receivables	1	
	9	**10**

6. Other Assets

Other assets amount to €3 million (€2 million as at December 31, 2012) and mainly include prepaid expenses, and for amounts of less than €1 million, the fair value of derivatives on exchange rates without the formal requirements to be qualified as hedge accounting.

The fair value of derivatives (not qualifying as "hedges" but not of a speculative nature) is recognized on the basis of the values determined and communicated by the parent company Eni SpA. These are derivatives which, while not having a trading or speculative purpose, do not meet the requirements of the IAS/IFRS standards to qualify as hedges.

The nominal value of a derivative is the contractual amount on the basis of which the differentials are exchanged. This amount can be expressed either on a value basis or on a physical quantities basis (barrels, tons, etc.). Monetary amounts expressed in foreign currency are translated into euro applying the exchange rate at the year end.

The notional amounts of derivatives summarized below do not represent the amounts exchanged by the parties and consequently do not constitute a measure of the company's exposure to credit risk, which is limited to the positive market value (fair value) of the contracts at the year end, less the effect of possible general offset arrangements.

The fair value of non-hedging derivatives can be broken down as follows:

	31.12.2012		**31.12.2013**	
(amounts in millions of euros)	Fair value	Commitments	Fair value	Commitments
Derivatives on exchange rates:				
- Outright		188		82
- Currency swap		20		65
- Over the counter		5		65
		213		**212**

Non-current assets

7. **Property, plant and equipment**

Property, plant and equipment can be broken down as follows:

(amount in millions of euros)	Net value at the beginning of the year	Investments	Depreciation charge for the year	Impairment losses and reversals	Currency translation differences	Other movements	Net value at the end of the year	Gross value at the end of the year	Provisions for depreciation and impairments
31.12.2012									
Land	96	1				8	105	113	8
Buildings	57		(4)			2	55	326	271
Plant and machinery	694	18	(71)	(91)	3	28	581	3,343	2,762
Industrial and commercial equipment	4		(2)			1	3	108	105
Other assets	2						2	54	52
Assets under construction and advances	78	128		(20)		(39)	147	386	239
	931	**147**	**(77)**	**(111)**	**3**		**893**	**4,330**	**3,437**
31.12.2013									
Land	105						105	113	8
Buildings	55		(5)	(5)		4	49	330	281
Plant and machinery	581	50	(73)	(20)		39	577	3,432	2,855
Industrial and commercial equipment	3		(2)			2	3	110	107
Other assets	2					1	3	55	52
Assets under construction and advances	147	238		(16)		(46)	323	578	255
	893	**288**	**(80)**	**(41)**			**1,060**	**4,618**	**3,558**

The investments of €288 million (€147 million in 2012) are discussed in the relevant section of the Directors' report.

Finance expenses eligible for capitalization, determined by using a 3.34% interest rate (3.55% in 2012), amounted to €4 million (€3 million in 2012). Capitalized increases for internal work incurred during the year amounted to €10 million (€9 million in 2012) and consisted of work carried out by internal personnel.

The following annual depreciation rates were adopted:

(annual %)	**2012**	**2013**
Buildings	4 - 16	4 - 16
Plant and machinery	4 - 25	4 - 25
Industrial and commercial equipment	10 - 30	10 - 30
Other assets	12 - 20	12 - 20

The net write-downs of €41 million stem from the results of impairment tests and chiefly refer to the following Cash Generating Units (CGU):

- Cracker and Polyethylene units in Brindisi (€16 million);
- Porto Marghera facility (€10 million);
- Sarroch facility (€7 million);
- Hythe facility (€7 million).

Impairment losses are net of the use of public funds for the Gas Phase installation at Brindisi (€10 million) and the use of contributions from Syndial (€2 million, for further details, see the paragraph "Grants" in "Accounting policies").

The operating loss recorded during the year (relative mainly to the polyethylene business) caused by the ongoing high levels of petrochemical feedstock prices, the low levels of utilisation of production capacity at the production plants, which significantly penalise unit margins, and the still partially negative profit forecasts for the next three years (although showing a trend towards improvement) formulated in the 2014 - 2017 plan, were all indicators of impairment for management. These impairment indicators are discussed in greater detail in the paragraphs "Comment on the economic and financial results" and "Business Outlook" of the Directors' report to which reference should be made. Consequently the Management carried out impairment tests on the non-financial fixed assets; for this purpose these assets were grouped together in Cash Generating Units, which correspond mainly to the production sites.

Management has identified the production sites as CGUs, due both to the high operational autonomy of the individual plants and to the fact that, even within the same business sector, their operating and profit conditions can differ. Nevertheless, where present at the same site, or at linked together within the same geographical area, the close interdependence between the olefin cycle and the polyethylene and aromatics cycles entailed the need to group certain sites together, while, in certain cases, the co-existence of the styrene, elastomer and intermediates businesses, which are characterized by greater reciprocal independence, within the same production site, led to the sub-division of the sites involved into a set of different CGUs.

On the basis of the above, management identified the following CGUs: styrenes at Mantua; intermediates at Mantua; styrenes at Settimo Milanese; Porto Marghera Facility (olefins and aromatics); polyethylene at Ferrara; elastomers at Ferrara; SBR/latexes at Ravenna; BR/TPR at Ravenna; Cracker and polyethylene at Brindisi; butadiene at Brindisi; the Sarroch site; Sicilian Hub (olefins, aromatics and polyethylene at Priolo, polyethylene at Gela, polyethylene at Ragusa); olefins, aromatics and polyethylene at Porto Torres; elastomers at Porto Torres; the Dunkirk site; the Oberhausen site; the Grangemouth site; the Hythe site and the Szàzhalombatta site.

The impairment loss was calculated by comparing the carrying amount of each CGU with its value in use, determined by discounting to present value the expected cash flows deriving from use of the assets over a period coinciding with the average remaining useful life of the CGU.

The cash flows for the period 2014-2017 were determined on the basis of the forecast for operating profits contained in the plan approved by the Board of Directors; cash flows for subsequent years were determined taking as a reference an average operating profit calculated taking into account both the final figures and the forecasts included in the 2014-2017 Plan, with reference to an overall period of nine years (of which five were historical and four forecast), opportunely adjusted to eliminate the economic effects of the current crisis, in order to represent in an adequate manner the marked cyclical effects that characterize the petrochemical industry.

In identifying the reference time period, management also took into consideration the assessments of useful life carried out by independent experts in previous years.

In discounting the cash flows determined with the above methods and according to the above criteria, management adopted the discount rate of 7.4% (7.8% as of December 31, 2012) communicated by the parent company Eni SpA.

The other changes mainly included the reclassification from fixed assets under construction to the relative finished asset category.

There are no mortgages or special privileges existing on the plant, property and equipment.

The net amount of government grants and refunds from third parties recognized as a reduction in the value of property, plant and equipment amounted to €70 million (€71 million as of December 31, 2012). The award of public grants entails a number of constraints on the assets in relation to which they were awarded. These constraints consist essentially of the obligation not to remove the subsidized assets from the use envisaged

for at least five years from the date of their commissioning. Non-compliance with this obligation entitles the granting body to seek repayment of the grant, plus interest.

8. Intangible assets

Intangible assets are comprised of the following:

(amount in millions of euros)	Net value at the beginning of the year	Additions	Amortization charge for the year	Net value at the end of the year	Gross value at the end of the year	Accumulated amortisation and impairments
31.12.2012						
Intangible assets with finite useful lives						
- Research and development costs					3	3
- Industrial patents and intellectual property rights					3	3
- Concessions, licenses, trademarks and similar items	2			**2**	98	96
- Fixed assets in progress and advances	1			**1**	6	5
- Other intangible assets	62	9	(5)	**66**	146	80
	65	**9**	**(5)**	**69**	**256**	**187**
31.12.2013						
Intangible assets with finite useful lives						
- Research and development costs					3	3
- Industrial patents and intellectual property rights					3	3
- Concessions, licenses, trademarks and similar items	2			**2**	98	96
- Fixed assets in progress and advances	1	3		**4**	9	5
- Other intangible assets	66		(5)	**61**	146	85
	69	**3**	**(5)**	**67**	**259**	**192**

Concessions, licenses and trademarks relate essentially to industrial licenses.

Other intangible assets relate mainly to intellectual property rights for the license contract with Union Carbide (€52 million). It should be noted that this license contract was subjected to an impairment test as it is included within the scope of the Brindisi production plant cash generating unit (for further details on the criteria for identifying cash generating units see Note 7). The remaining amortization period of the Union Carbide royalties is 13 years.

The following annual amortization rates were adopted:

(annual %)	2012	2013
Intangible assets with finite useful lives		
- Concessions, licenses, trademarks and similar items	4 - 33	4 - 33
- Other intangible assets	4 - 15	4 - 15

No grants were recorded as deductions from the value of intangible assets.

9. Equity- accounted investments

These comprise the following:

(amount in millions of euros)	Net value at the beginning of the year	Acquisitions and subscriptions	Share of profit of equity-accounted investments	Deductions for dividends	Other changes	Net value at the end of the year
31.12.2012						
Investments in:						
- subsidiaries	9		3	(2)		**10**
- associates	24				(1)	**23**
- joint ventures	4	12	(1)		1	**16**
	37	**12**	**2**	**(2)**		**49**
31.12.2013						
Investments in:						
- subsidiaries	10				(6)	**4**
- associates	23	41			36	**100**
- joint ventures	16	29	(1)			**44**
	49	**70**	**(1)**		**30**	**148**

Acquisitions and subscriptions relate to the share capital increases of Novamont SpA (€41 million) and Matrìca SpA (€2 million) as well as the establishment of the joint ventures Lotte Versalis Elastomers Co. Ltd (€21 million) and NewCo Tech (€6 million).

Other changes of €30 million related to the reclassification for €36 million of the investment in Novamont SpA from "Other investments" to "Equity-accounted investments" (following the subscription to the share capital increase) are offset by the effect of the incorporation by merger into Versalis International SA of the non-consolidated subsidiaries Polimeri Europa Polska Sp.zo.o., Polimeri Europa Hellas SA and Polimeri Europa Norden A/S (€6 million).

The equity-accounted investments relate to the following companies:

(amounts in millions of euros)	31.12.2012	31.12.2013
Novamont SpA		77
Lotte Versalis Elastomers Co Ltd		21
Matrìca SpA	16	17
Priolo Servizi Industriali Scarl	17	16
Newco Tech SpA		5
Polimeri Europa Kimya Urunleri Ticaret Limited Sirketi	1	4
Servizi Porto Marghera Scarl	3	3
Ravenna Servizi Industriali ScpA	2	2
Brindisi Servizi Generali Scarl	1	1
Polimeri Europa Polska Sp.zo.o.	5	
Polimeri Europa Norden A/S	2	
Polimeri Europa Hellas SA	1	
Other (*)	1	2
	49	**148**

(*) Amounts of less than €1 million

The ownership percentages are shown in Note 37.

Other information on investments

The assets, liabilities, revenues, costs and operating profit/(loss) of unconsolidated subsidiaries, associated companies and joint ventures are detailed in the table below:

	31.12.2012			31.12.2013		
(amounts in millions of euros)	**Subsidiaries**	**Joint ventures**	**Associates**	**Subsidiaries**	**Joint ventures**	**Associates**
Current assets	14	1	14	3	25	33
Non-current assets		26	41		77	78
Total assets	**14**	**27**	**55**	**3**	**102**	**111**
Current liabilities	(10)	(1)	(31)	1	51	46
Non-current liabilities	(3)	(10)	(1)		10	7
Total liabilities	**(13)**	**(11)**	**(32)**	**1**	**61**	**53**
Revenue	**15**		**52**	**2**	**2**	**93**
Costs	**(9)**	**(1)**	**(51)**	**(1)**	**(68)**	**(93)**
Operating profit (loss)	**6**	**(1)**	**1**	**1**	**(66)**	
Profit (loss) for the period	**4**	**(1)**		**1**	**54**	**(1)**

10. Other investments

Other investments comprise the following:

(amounts in millions of euros)	**Net value at the beginning of the year**	**Acquisitions and subscriptions**	**Other changes**	**Net value at the end of the year**
31.12.2012				
Investments in:				
- other companies	3	47	2	**52**
	3	**47**	**2**	**52**
31.12.2013				
Investments in:				
- other companies	52		(37)	**15**
	52		**(37)**	**15**

Other changes relate chiefly to Novamont SpA, reclassified from “Other investments” to “Equity-accounted investments” due to the increase in the percentage of the equity investment.

Other investments relate to the following companies:

(amounts in millions of euros)	31.12.2012	31.12.2013
Genomatica Inc.	12	12
Consorzio Exeltium SAS	3	3
Novamont SpA	35	
Other (*)	2	
	52	**15**

(*) Amounts of less than €2 million

The ownership percentages are shown in Note 37.

11. Deferred tax assets

Deferred tax assets amounted to €427 million (€294 million as of December 31, 2012) net of deferred tax liabilities of €65 million (€67 million as of December 31, 2012).

(amounts in millions of euros)	31.12.2012	31.12.2013
Deferred tax assets	361	492
Deferred tax liabilities available for offset	(67)	(65)
Net deferred tax assets	**294**	**427**

Income taxes are discussed in Note 31.

The deferred tax assets derive from the following timing differences:

(amounts in millions of euros)	Amount at 31.12.2012	Additions	Deductions	Other changes	Amount at 31.12.2013
Deferred tax assets:					
- non-deductible impairment losses	150	10	(21)		139
- expenses with deferred deductibility	28	4	(12)		20
- tax losses	141	126			267
- provisions for risks and charges	14	5	(2)		17
- other	46	27	(7)	1	67
- (impairments)/reversal of deferred tax assets	(18)				(18)
	361	**172**	**(42)**	**1**	**492**
Deferred tax liabilities:					
- excess amortization/depreciation	52		(8)		44
- other	15	11	(6)	1	21
	67	**11**	**(14)**	**1**	**65**
Net deferred tax assets	**294**	**161**	**(28)**		**427**

12. Other Assets

Other assets of €4 million (€1 million at December 31, 2012) relate essentially to a refund claim on IRAP receivables.

Current liabilities

13. Short-term debt

Short-term debt amounting to €1,040 million (€1,205 million at December 31, 2012) relates mainly to loans granted by Eni SpA and Eni Finance International SA.

(amounts in millions of euros)	31.12.2012	31.12.2013
Payables to parent companies for loans	845	831
Commercial papers	91	21
Other financial institutions	269	188
	1,205	**1,040**

Short-term debt in foreign currencies amounted to €8 million (€83 million at December 31, 2012) in US dollars.

The average annual interest rate for the year was 1.42% (1.44% in 2012).

14. Current portion of long-term debt

The current portion of long-term debt amounted to €3 million (unchanged from December 31, 2012) as indicated in Note 19 "Long-term debt and current portion of long-term debt", to which the reader is referred.

15. Trade and other payables

Trade and other payables comprise the following:

(amounts in millions of euros)	31.12.2012	31.12.2013
Trade payables	861	1,006
Advances	3	
Other payables:		
- relating to capital expenditures	15	31
- other	108	84
	987	**1,121**

Trade payables of €1,006 million relate to payables to suppliers (€500 million), payables to associates, joint ventures and other Eni Group companies (€338 million) and payables to the parent company Eni SpA (€168 million).

Payables related to capital expenditures amounted to €31 million.

Other payables, which amounted to €84 million, are comprised mainly of payables towards personnel (€43 million), payables towards social security authorities (€20 million) and payables for participation in the tax consolidation in relation to excessive advances received (€10 million).

Due to the short-term nature of trade and other payables, the fair value of these payables does not differ significantly from their carrying value.

Payables to related parties are detailed in Note 32.

16. Current income tax payable

Current income taxes payable of €1 million (unchanged from December 31, 2012) relate to the income tax of foreign consolidated companies.

17. Other current taxes payable

Other current taxes payable of €10 million (€9 million at December 31, 2012) relate mainly to withholding tax.

18. Other liabilities

Other liabilities can be broken down as follows:

(amounts in millions of euros)	**31.12.2012**	**31.12.2013**
Accrued expenses	4	
Fair value on non-hedging derivatives	2	2
	6	**2**

The fair value and commitments of non-hedging derivatives can be broken down as follows:

	31.12.2012		**31.12.2013**	
(amounts in millions of euros)	Fair value	Commitments	Fair value	Commitments
Derivatives on exchange rates:				
- Outright	1	204	1	152
- Swap		9		66
- Over the counter	1	4	1	5
	2	**217**	**2**	**223**

The fair value of derivative contracts not qualifying as "hedges" but not of a speculative nature is recognized on the basis of the values determined and communicated by the parent company Eni SpA. These are derivatives which, while not having a trading or speculative purpose, do not meet the requirements of the IAS/IFRS standards to qualify as hedges.

The nominal value of a derivative is the contractual amount on the basis of which the differentials are exchanged. This amount can be expressed either on a value basis or on a physical quantities basis (barrels, tons, etc.). Monetary amounts expressed in foreign currency are translated into euro applying the exchange rate at the year end.

The nominal values of derivatives do not represent amounts exchanged by the parties and consequently do not constitute a measure of the company's exposure to credit risk, which is limited to the negative market value (fair value) of the contracts at the year end, less the effect of any general offset arrangements.

Non-current liabilities

19. Long-term debt and current portion of long-term debt

Long-term debt and current portion thereof amounts to €705 million (€803 million at December 31, 2012), detailed in the table below:

	31.12.2012			**31.12.2013**		
(amounts in millions of euros)	Non-current portion	Current portion	Total	Non-current portion	Current portion	Total
Banks						
Shareholders for loans	600	3	603	600	3	603
Other providers of finance	200		200	102		102
	800	**3**	**803**	**702**	**3**	**705**

The average effective interest rate for the year was 4.46% (4.18% in 2012). For more information see the paragraph “Leverage and net borrowings” in the Directors’ Report.

The table below shows the maturity dates of long-term debt, inclusive of the current portion:

(amounts in millions of euros)	**Value at December 31**			**Long-term maturity**					
Type	2012	2013	Mat. 2014	2015	2016	2017	2018	Beyond	Total
Banks:									
Subsidized-rate mortgage loans	1								
Subsidized exchange-rate mortgage loans									
Shareholders for loans	602	603	3		300	300			603
Other providers of finance	200	102		1		100		1	102
	803	**705**	**3**	**1**	**300**	**400**		**1**	**705**

The financial liabilities are not guaranteed by mortgages or privileges on the company's real estate.

The breakdown of net borrowings indicated in the “Comments on the economic and financial results” in the “Directors' Report” is as follows:

	31.12.2012			31.12.2013		
(amounts in millions of euros)	Current	Non-current	Total	Current	Non-current	Total
A. Cash and cash equivalents	60		60	80		80
B. Available-for-sale securities						
C. Liquidity (A+B)	**60**		**60**	**80**		**80**
D. Financial receivables						
E. Short-term debt towards banks						
F. Long-term debt towards banks						
G. Bonds						
H. Short-term debt towards related parties	1,203		**1,203**	1,037		**1,037**
I. Long-term debt towards related parties	3	798	**801**	3	702	**705**
L. Other short-term debt	2		**2**	2		**2**
M. Other long-term debt		2	**2**			
N. Total borrowings (E+F+G+H+I+L+M)	**1,208**	**800**	**2,008**	**1,042**	**702**	**1,744**
O. Net borrowings (N-C-D)	**1,148**	**800**	**1,948**	**962**	**702**	**1,664**

20. Provisions for risks and charges

(amounts in millions of euros)	31.12.2012	31.12.2013
Provisions for disposal and restructuring		56
Provision for legal and other proceedings	62	39
Provisions for redundancy incentives	17	33
Provisions for environmental risks	10	15
Provision for losses on investments	9	7
Provisions for tax litigation risks	4	3
Provision for OIL insurance	3	2
Other provisions	5	4
	110	**159**

The following movements took place in provisions for risks and charges:

(amounts in millions of euros)	Value at the beginning of the year	Additions	Utilisation of provisions	Reversal of unutilized provisions	Value at the end of the year
31.12.2012					
Provision for legal and other proceedings	42	20			62
Provisions for redundancy incentives	9				9
Provisions for environmental risks	8	12	(3)		17
Provision for losses on investments	12	1	(3)		10
Provisions for tax litigation	4				4
Provision for OIL insurance	4		(1)		3
Other provisions	4	1			5
	83	**34**	**(7)**		**110**
31.12.2013					
Provisions for disposal and restructuring		56			**56**
Provision for legal and other proceedings	62	4	(27)		**39**
Provisions for redundancy incentives	17	22	(4)	(2)	**33**
Provisions for environmental risks	10	5			**15**
Provision for losses on investments	9			(2)	**7**
Provisions for tax litigation	4	1	(2)		**3**
Provision for OIL insurance	3		(1)		**2**
Other provisions	5	1	(2)		**4**
	110	**89**	**(36)**	**(4)**	**159**

Provisions for disposal and restructuring of €56 million are related to the closure of the Hythe (UK) site.

The provisions for litigation of €39 million relate mainly to litigation over antitrust legislation (€20 million, discussed in greater detail in the paragraph "Litigation") and litigation for revocatory actions (€19 million).

Provisions for redundancy incentives of €33 million relate to expenses for ordinary redundancy procedures.

Provisions for environmental risks of €15 million include costs for environmental expenses relating to the various Versalis SpA sites for the part not covered by the warranty issued by Syndial SpA at the moment of the transfer of the "Strategic Chemical Activities" business unit (see the paragraph "Accounting policies – Grants") amounting to €8 million and costs relating to the environmental liabilities of Polimeri Europa France SAS of €7 million.

Provisions for losses on investments of €7 million comprise provisions made against losses exceeding the shareholders' equity of associated companies and relate to Polimeri Europa Elastomères France SA in liquidation.

Provisions for tax litigation of €3 million are discussed in the paragraph "Litigation".

Provisions for OIL insurance of €2 million comprise the expenses related to the surcharge on insurance premiums to be paid in the next five financial years to Mutua Assicurazione Oil Insurance Ltd, in which the Eni Group, along with other oil companies, has an interest.

The other provisions of €4 million consist mainly of future charges for the purchase of green certificates of €1 million, and social security contributions and employee termination benefits relating to the deferred cash incentive of €1 million for senior managers.

21. Provisions for employee benefits[14]

Provisions for employee benefits amounted to €74 million as detailed in the table below:

(amounts in millions of euros)	**31.12.2012**	**31.12.2013**
Employee termination indemnities (TFR)	47	46
Supplementary medical reserve for Eni managers (FISDE) and other foreign medical plans	10	9
Foreign pension plans	6	5
Other benefits	16	14
	79	**74**

Employee termination indemnities ("TFR") due upon termination of employment are regulated by Art. 2021 of the Italian Civil Code and represent the obligation, calculated on the basis of actuarial techniques, due to employees of Italian companies at the moment of termination of employment.

The indemnity, to be paid in a lump sum, is calculated on the basis of the salary paid and revalued annually up until termination of employment. Following the legislative changes introduced with effect from January 1, 2007, the amount of severance indemnity accruing after that date is placed into independent pension funds or into the treasury fund held by the Italian pensions agency (INPS). This means that a significant portion of this accruing amount will be classified as a defined-contribution plan, because the entity's obligation corresponds exclusively to the payment of contributions to pension funds or to the INPS. The liability for termination indemnities set aside prior to January 1, 2007 continues to be a defined-benefit plan and must be assessed based on actuarial assumptions.

Foreign defined-benefit schemes are related in particular to provisions for pension plans which concern defined-benefit pension schemes adopted by non-Italian companies chiefly in Germany and the UK. The benefit is an income determined on the basis of seniority and the salary paid during the last year of service or according to the average annual salary paid in a given period and prior to the end of the employment relationship.

The liability for healthcare costs relative to the Managers Supplementary Healthcare Fund for companies of the Eni Group (FISDE) and other foreign medical plans are determined with reference to the contribution that the company pays for retired senior managers.

The other provisions for long-term employee benefits mainly regard the deferred cash incentive plans, the long-term incentive plan and the seniority bonuses. The figures for deferred cash incentive plans include the estimated amount of variable remuneration linked to business performance which will be paid to senior managers who have achieved the individual targets set. The long-term incentive plan (ILT) provides for payment, after three years of assignment, of a variable monetary benefit linked to the trend in a performance parameter compared to a benchmark group of international oil companies. The seniority awards are benefits distributed upon the achievement of a minimum period of service with the company and, with regard to Italy, are paid in kind.

[14] The amounts indicated in 2012 have been adjusted to account for the effects produced by the retroactive application of the new accounting standard IAS 19 "Employee benefits".

Provisions for employee benefits, measured applying actuarial techniques, are analysed as follows:

	31.12.2012				
(amounts in millions of euros)	**TFR**	**Foreign defined-benefit schemes**	**FISDE and foreign medical plans**	**Other provisions for long-term employee benefits**	**Total**
Present value of obligations at the beginning of the year	**40**	**32**	**8**	**14**	**94**
Current cost				3	3
Interest cost	2	1		1	4
Revaluation:	10	4	2		16
- for financial assumptions	*9*	*4*	*2*		*15*
- for past experience	*1*				*1*
Cost for past services and Gains/losses by extinction				(3)	(3)
Benefits paid	(4)	(2)			(6)
Effect of business combinations, disposals, transfers	(1)				(1)
Currency exchange differences and other changes		1			1
Present value of obligations at the end of the year (a)	**47**	**36**	**10**	**15**	**108**
Plan assets at the beginning of the year		**27**			**27**
Interest income					
Return on plan assets		1			1
Contributions to the scheme:		1			1
- Contributions by the employer		*1*			*1*
Benefits paid		(1)			(1)
Currency exchange differences and other changes		1			1
Plan assets at the end of the year (b)		**29**			**29**
Redemption rights at the end of the year (c)					
Ceiling of assets/liabilities incurred at the beginning of the year					
Ceiling of assets/liabilities incurred at the end of the year (d)					
Net liabilities recognized in the financial statements (a-b±d)	**47**	**7**	**10**	**15**	**79**

	31.12.2013				
(amounts in millions of euros)	**TFR**	**Foreign defined-benefit schemes**	**FISDE and foreign medical plans**	**Other provisions for long-term employee benefits**	**Total**
Present value of obligations at the beginning of the year	**47**	**36**	**10**	**15**	**108**
Current cost		1		3	4
Interest cost	1	1		1	3
Revaluation:	(1)	(1)		(2)	(4)
- for financial assumptions				*(1)*	*(1)*
- for past experience	*(1)*	***(1)***		*(1)*	*(3)*
Cost for past services and Gains/losses by extinction				(3)	(3)
Benefits paid	(2)	(1)	(1)		(4)
Effect of business combinations, disposals, transfers	1				1
Currency exchange differences and other changes		(1)			(1)
Present value of obligations at the end of the year (a)	**46**	**35**	**9**	**14**	**104**
Plan assets at the beginning of the year		**29**			**29**
Interest income		1			**1**
Return on plan assets					
Contributions to the scheme:		1			**1**
- Contributions by the employer		*1*			**1**
Benefits paid		(1)			**(1)**
Currency exchange differences and other changes					
Plan assets at the end of the year (b)		**30**			**30**
Redemption rights at the end of the year (c)					
Ceiling of assets/liabilities incurred at the beginning of the year					
Ceiling of assets/liabilities incurred at the end of the year (d)					
Net liabilities recognized in the financial statements (a-b±d)	**46**	**5**	**9**	**14**	**74**

Other provisions for long-term employee benefits of €14 million (€15 million at December 31, 2012) primarily concern seniority awards for €7 million (€9 million at December 31, 2012), deferred monetary incentives for €5 million (unchanged from December 31, 2012) and the long-term incentive plan for €1 million (unchanged from December 31, 2012).

The costs relating to liabilities for employee benefits recognized in the income statement are comprised as follows:

(amounts in millions of euros)	**TFR**	**Foreign defined-benefit schemes**	**FISDE and other foreign medical plans**	**Other provisions for long-term employee benefits**	**Total**
2012					
Current cost				3	3
Cost for past services and Gains/losses by extinction				(3)	(3)
Net interest expense (income):					
- Interest expense on the obligation	*2*	*1*		*1*	*4*
- Interest income on the plan assets		*(1)*			*(1)*
Total net interest expense (income)	2			1	3
- of which recognized in payroll and related costs				*1*	*1*
- of which recognized in financial income (expense)	*2*				*2*
Total	**2**			**1**	**3**
- of which recognized in payroll and related costs				*1*	*1*
- of which recognized in financial income (expense)	*2*				*2*
2013					
Current cost		1		3	4
Cost for past services and Gains/losses by extinction				(3)	(3)
Net interest expense (income):					
- Interest expense on the obligation	*1*	*1*		*1*	*3*
- Interest income on the plan assets		*(1)*			*(1)*
Total net interest expense (income)	1			1	2
- of which recognized in payroll and related costs				*1*	*1*
- of which recognized in financial income (expense)	*1*				*1*
Total	**1**	**1**		**1**	**3**
- of which recognized in payroll and related costs				*1*	*1*
- of which recognized in financial income (expense)	*1*				*1*

The costs of defined-benefit plans recognized among the other items of the comprehensive income/loss are analysed as follows:

	31.12.2012					**31.12.2013**				
(amounts in millions of euros)	**TFR**	**Foreign defined-benefit schemes**	**FISDE and foreign medical plans**	**Other provisions for long-term employee benefits**	**Total**	**TFR**	**Foreign defined-benefit schemes**	**FISDE and foreign medical plans**	**Other provisions for long-term employee benefits**	**Total**
Remeasurements:										
- Actuarial gains and losses from changes in demographic assumptions										
- Actuarial gains and losses from changes in financial assumptions	9	4	2		15				(1)	(1)
- Effect of past experience	1				1	(1)	(1)		(1)	(3)
	10	**4**	**2**		**16**	**(1)**	**(1)**		**(2)**	(4)

The main actuarial assumptions used to measure the liabilities at the end of the year and to determine the cost of the next year are indicated below:

(%)	TFR	Foreign defined-benefit schemes	FISDE and other foreign medical plans	Other provisions for long-term employee benefits
2012				
Discount rate	3.0	4.7	3.0	1.1-3.0
Wage growth trend rate		2.5		
Inflation rate	2.0	2.8	2.0	2.0
2013				
Discount rate	3.0	2.8	3.0	1.1 - 3.0
Wage growth trend rate		2.5		
Inflation rate	2.0	2.7	2.0	2.0

The discount rate used was determined based on corporate bond yields (rating AA) in countries where the relevant market is sufficiently significant, or otherwise government bond yields. The demographic tables adopted are those used by each country for the assessments of IAS 19. The inflation rate was determined by considering the long-term forecasts issued by national or international banks.

The amount of contributions expected to be paid into defined-benefit plans in the next year totals €6 million.

22. Deferred tax liabilities

Deferred tax liabilities amounted to €19 million (€18 million at December 31, 2012) net of deferred tax assets of €24 million (€20 million at December 31, 2012).

(in millions of euros)	31.12.2012	31.12.2013
Deferred tax liabilities	38	43
Deferred tax assets available for offset	(20)	(24)
Net deferred tax liabilities	**18**	**19**

The most significant timing differences are detailed below:

(in millions of euros)	Amount at 31.12.2012	Additions	Deductions	Other changes	Amount at 31.12.2013
Deferred tax liabilities:					
- excess amortization/depreciation	34	6			40
- other	4			(1)	3
	38	**6**		**(1)**	**43**
Deferred tax assets:					
- tax losses	80	37			117
- other	5	2			7
- impairment of deferred tax assets	(65)	(35)			(100)
	20	**4**			**24**
Net deferred tax liabilities	**18**	**2**		**(1)**	**19**

23. Other non-current liabilities

These amount to €6 million (€7 million at December 31, 2012) and relate primarily to payables to pension and social security authorities for redundancy expenses.

24. Shareholders' equity[15]

The shareholders' equity amounts to €952 million (€580 million at December 31, 2012) as detailed below:

(in millions of euros)	**31.12.2012**	**31.12.2013**
Share capital	1,553	1,553
Reserve from exchange differences	(5)	(6)
Other reserves:	96	5
Reserve for Business combination under common control		*2*
Reserve for agreements with Syndial on P.to Torres business contribution	*101*	
Effect of the acquisition of non-consolidated investments	*4*	*3*
IAS19 remeasurement	*(11)*	
Reserve for stock options awarded	*2*	
Retained earnings/(losses brought forward)	(491)	25
Loss for the period	(573)	(625)
	580	**952**

Share capital

The share capital consists of 1,553,400,000 ordinary shares with a par value of 1 euro per share, all owned by Eni SpA.

[15] The amounts indicated in 2012 have been adjusted to account for the effects produced by the retroactive application of the new accounting standard IAS 19 "Employee benefits".

Other reserves

The other reserves of €5 million are related to the effect of the acquisition of unconsolidated investments (€3 million) and business combinations under common control (€2 million).

For information on management of the capital see the specific paragraph “Financial Risk Management – Capital Management”.

Reconciliation of net profit/(loss) and shareholders’ equity of Versalis SpA with the consolidated data

	Profit (loss) for the period		Shareholders’ equity	
(amount in millions of euros)	2012	2013	31.12.2012	31.12.2013
As recorded in annual Financial Statements of Versalis SpA	**(593)**	**(551)**	**544**	**997**
Difference between the equity value of individual accounts of consolidated subsidiaries, with respect to the corresponding carrying amount in the statutory accounts of the parent company	23	(51)	(4)	(63)
Consolidation adjustments:				
- elimination of tax adjustments and compliance with accounting policies	8	(29)	56	29
- deferred taxation	(11)	6	(16)	(11)
As recorded in the Consolidated Financial Statements	**(573)**	**(625)**	**580**	**952**

25. Guarantees, commitments and risks

Guarantees

Guarantees can be broken down as follows:

	31.12.2012			31.12.2013		
(amounts in millions of euros)	Fidejussions	Other guarantees	Total	Fidejussions	Other guarantees	Total
Consolidated subsidiaries		86	86		91	91
Other	1	3	4	1	4	5
	1	**89**	**90**	**1**	**95**	**96**

Unsecured guarantees provided in the interest of others of €1 million relate to the guarantee issued in favour of Serfactoring SpA, on behalf of employees of Versalis SpA who have obtained loans from Serfactoring SpA.

Other guarantees of €91 million issued on behalf of consolidated companies relate to indemnities issued to Eni SpA and Syndial SpA which in turn have issued guarantees to third parties on behalf of Versalis Group companies.

The effective commitment at December 31, 2013 amounted to €76 million.

Commitments and risks

Commitments and risks can be broken down as follows:

(in millions of euros)	31.12.2012	31.12.2013
Commitments		
Operating leases	2	3
	2	**3**
Risks		
Third party assets	11	7
	11	**7**
	13	**10**

Third-party assets held by the Group relate mainly to the virgin naphtha of third parties (€4 million) and Syndial technical material (€3 million) stored at various Versalis Group sites.

Financial risk management

Introduction

The following main financial risks are identified, monitored and, as regards those specified below, actively managed by the Versalis Group: (i) market risk deriving from exposure to fluctuations in interest rates and exchange rates, and to the volatility of commodity prices; (ii) credit risk deriving from the possibility of default of a counterpart; (iii) liquidity risk deriving from the lack of financial resources to cover short-term commitments.

Financial risk management is based on guidelines issued centrally by the parent company Eni SpA, with the aim of harmonizing and coordinating Eni's policies on financial risks.

The paragraphs below provide a description of the main financial risks, the methods adopted for the management thereof as well as details of the exposure to market risks (the indication of the exposure to market risks is based on sensitivity analysis[16] or through an indication of the Value at Risk results).

Market risk

Market risk is the possibility that changes in foreign currency exchange rates, interest rates or commodity prices will adversely affect the value of the assets, liabilities or expected future cash flows. Market risk management is governed by the “Guidelines” approved by the company's Board of Directors and by internal procedures, which make reference to a centralized financial asset management model, based on distinct Operational Finance structures (Eni Corporate Finance, Eni Finance International, Eni Finance USA and Banque Eni, this last within the limits set by banking legislation on “Concentration Risk”) which ensure coverage of the requirements and absorption of financial surpluses of the Italian and foreign Versalis Group companies. In addition, as regards trading in derivatives on commodities, management is entrusted to Eni Trading & Shipping SpA.

In particular, all the Versalis Group’s transactions in foreign currency and in derivatives are managed by Eni SpA, together with the trading of emission certificates. Price risk on commodities is managed by the individual business units and Eni Trading & Shipping trades in hedging derivatives.

The Versalis Group uses derivative financial instruments and derivatives on commodities in order to minimize exposure to market risks related to changes in exchange rates and interest rates and to manage exposure to commodity price fluctuations. The Versalis Group does not enter into derivative transactions for speculative purposes.

Versalis has defined financial activity guidelines which quantify the maximum exchange and interest rate risk that can be assumed and define the characteristics of suitable counterparties.

As regards commodity risk, Versalis has set maximum limits on price risk deriving from commercial activities. The steering functions in this case are entrusted to a Commodity Risk Committee.

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[16] Sensitivity analysis is applied to financial instruments at variable interest rates, to instruments carried at fair value (non-hedging derivatives, cash flow hedging derivatives, financial assets available for sale); and to financial instruments exposed to exchange rate risk.

Exchange rate risk

Exchange rate risk derives from the fact that operations are conducted in currencies other than the euro (in particular the US dollar) and from the timing difference between recognition of revenues and costs in a currency other than the reporting currency and their collection/payment (transaction exchange rate risk). Exchange-rate derivatives are measured at fair value on the systematic basis of market prices provided by leading info-providers. The value at risk technique (VaR) deriving from exchange rate risk positions is calculated daily using the parametric approach (variance/covariance), adopting a 99% confidence level and a 20-day holding period.

Interest rate risk

Fluctuations in interest rates affect the market value of the financial assets and liabilities of the company and the level of its finance expense. The Versalis Group’s risk management objective is the minimization of interest rate risk in pursuance of the financial structure targets defined and approved in the “Financial Plan”. The Eni Operational Finance Units, in accordance with the centralized finance model, receive information on the Group's requirements and manage the resulting positions, including operations of a structural nature, in keeping with the targets of the “Financial Plan” ensuring that the risk profile remains within the set limits.

Commodity risk

The Versalis Group’s results are affected by changes in prices of the products sold. A decrease in the prices of plastics and chemical intermediates generally has a negative impact on the company's operating profit and vice versa. Conversely, an increase in the costs of petroleum feedstock leads to a reduction in operating profit and vice versa.

For example, it can be estimated that an increase of US $10 per tonne of petroleum feedstock would lead to a reduction in the annual operating profit of around €35 million while a rise of 10 cents in the euro against the US dollar would lead to an increase of around €215 million in the annual operating profit.

Credit risk

Credit risk is the potential exposure of the Group to losses in the event that counterparties fail to fulfil their obligations. Versalis approaches the risks relating to counterparties for commercial transactions with different policies, with respect to those relating to counterparties for financial transactions, in accordance also, as far as the latter are concerned, with the centralized finance model adopted. As regards counterparty risk in commercial contracts, credit management is the responsibility of the business units and of the dedicated specialist Eni Corporate units, on the basis of formal procedures to assess and grant credit to commercial partners, including credit recovery activities and possible litigation management. At the Corporate level, guidelines and methodologies are defined to quantify and control customer risk.

As regards the financial counterparty risk deriving from the use of cash, positions in derivative contracts and transactions with an underlying physical basis with financial counterparties, the above-mentioned "Guidelines" identify the objective of risk management as the optimization of the risk profile in pursuance of the operating targets.

The maximum risk limits are expressed in terms of maximum credit granted by classes of counterparties, defined at the Board of Directors level and based on ratings provided by the leading Agencies. The risk is managed by Eni's Operational Finance Units, by Eni Trading & Shipping for trading in commodity derivatives, and by the companies and Divisions only for transactions with an underlying physical basis with financial counterparties, in keeping with the centralized finance model. As regards the ceilings defined for rating classes, for each operating structure the lists of names of authorized counterparties are identified, assigning to each a maximum credit limit, which is monitored and checked daily. The critical situation that occurred on the markets starting from financial year 2008 led to the adoption of stricter rules, namely risk diversification and rotation of financial counterparties, and of selectivity for transactions in derivatives with a duration of more than three months.

During 2013 the trade receivables situation improved, even though the macroeconomic situation showed further significant deterioration compared to the previous year. In particular, overdue receivables have decreased compared to 2012 due to constant monitoring of potential issues, although there have been a significant number of cases of client companies who have filed a composition with creditors on a going concern basis.

It should be noted that there is a significant exposure in relation to a customer which in June 2009 was admitted to Receivership procedures for large companies in crisis and was declared bankrupt in 2013. Both

the receivables arising before admission to the procedure, and those arising later, were completely written off.

Liquidity risk

Liquidity risk represents the risk that, owing to an inability to raise new funds (funding liquidity risk) or to sell off assets on the market (asset liquidity risk), the company may not be able to fulfil its payment commitments, causing an impact on net income if the company is forced to incur additional costs to meet its commitments or, as an extreme consequence, a situation of insolvency representing a risk to its survival as a going concern. The aim of the Group's risk management is to put in place, within the scope of the "Financial Plan", a financial structure which, in keeping with the business targets and with the limits defined by the Board of Directors (in terms of maximum percentage levels of leverage and minimum percentage levels of ratios between medium/long-term debt and total debt and between fixed-rate debt and total medium/long-term debt), can ensure an adequate level of liquidity for the entire Group, minimizing the related opportunity cost, and can maintain a balance in terms of the duration and composition of the debt.

At this time, the Versalis Group believes that it can meet its liquidity needs with the support of the Eni Group, whose cash assets it has the right to use without contractually defined borrowing limits in virtue of the existing agreements with the parent company Eni SpA.

At the reporting date, the Versalis Group had no unutilized credit facilities.

The tables below show the amounts of payments contractually owed in relation to financial debts, including payments of interest and the time horizon of disbursements for trade and other payables.

Future payments against debt

(amounts in millions of euros)	2014	2015	2016	2017	2018	Beyond	Total
Short-term debt	1,040						**1,040**
Long-term debt including current portion	3	1	300	400		1	**705**
Interest on financial debt	27	27	24	15	1		**94**

Future payments against trade and other payables

	Year of maturity						
(amounts in millions of euros)	2014	2015	2016	2017	2018	Beyond	Total
Trade payables	1,006						**1,006**
Advances from customers, other payables	115						**115**
	1,121						**1,121**

Future payments against obligations

In addition to the financial and trade payables shown in the Balance Sheet, the Versalis Group has a set of contractual obligations which entail making payments in future years. The table below shows the non-discounted payments owed by the Versalis Group in future years against the main existing contractual obligations.

	Year of maturity						
(amounts in millions of euros)	2014	2015	2016	2017	2018	Beyond	**Total**
Costs (charges) relating to environmental provisions	4	5	1			4	**14**
Other commitments	172	20	12	11	10	21	**246**
	176	**25**	**13**	**11**	**10**	**25**	**260**

The Other commitments of €246 million include essentialy an undertaking to purchase supplies of petrochemical products (€117 million) and commitments for the purchase of services and utilities for €110 million.

Investment commitments

Over the next few years the Versalis Group plans to carry through a programme of capital expenditure of €397 million. The table below shows the time schedule for the investments relating to the more significant committed projects. A project is considered committed when it has obtained the necessary approval from Management and when the relative purchase contracts have been awarded or are being finalized.

	Year of maturity						
(amounts in millions of euros)	2014	2015	2016	2017	2018	Beyond	**Total**
Other commitments (*)	95	162	140				**397**
	95	**162**	**140**				**397**

(*) Commitments for investments will be partially refunded by Syndial for an amount of €4 million in 2014 against existing guarantees. For further information see the paragraph "Accounting policies - Grants".

Capital management

The Versalis management uses leverage ratios to assess the degree of solidity and efficiency of the asset structure in terms of relative proportion of sources of financing between own and third-party assets, as well as to carry out benchmark analysis with the industry standards. Leverage measures the degree of company indebtedness and is calculated as the ratio between net borrowings and shareholders' equity. The Management's aim in the medium term is to maintain a solid financial structure with a leverage of not more than 1.

Fair value of financial instruments

In carrying out its business, the Versalis Group uses various kinds of financial instruments. The market value of the company's financial instruments is substantially in line with their carrying amounts, for the following reasons:

Receivables recognized as current assets: the market value of trade, financial and other receivables falling due within one year are estimated to be practically equivalent to the respective carrying amount because of the short interval between the origin of the receivable and its due date.

Financial payables recognized as non-current liabilities: the market value of financial payables falling due after one year, including the short-term portion, is estimated to be substantially equal to the carrying amount, because they were entered into at fixed market rates.

Trade, financial and other payables recognized as current liabilities: the market value of trade, financial and other payables falling due within one year is estimated to be practically equivalent to the carrying amount because of the short interval between origin of the payable and its due date.

Other non-current financial assets and liabilities: other non-current financial assets and liabilities are of an immaterial amount.

The classification of financial assets and liabilities is indicated below; these are measured at fair value in the Balance Sheet according to the fair value hierarchy defined on the basis of the significance of the inputs used in the measurement process. In particular, on the basis of the features of the inputs used in making the measurements, the fair value hierarchy has the following levels:

- Level 1: prices quoted (and unadjusted) in active markets for identical financial assets or liabilities;

- Level 2: measurements carried out on the basis of inputs, other than the quoted prices as above, which, for the assets and liabilities to be measured, can be observed directly (e.g. prices) or indirectly (e.g. deriving from prices).
- Level 3: inputs not based on observable market data.

In relation to the above, the Versalis Group's financial instruments carried at fair value at December 31, 2013 regard "level 2" derivative contracts. During the year there were no transfers between the different fair value hierarchy levels.

Environmental regulations

As regards environmental risk, at present Versalis does not foresee any particularly significant negative effects on the financial statements arising from compliance with environmental legislation, taking into account the steps already taken, the insurance policies signed and the provisions for risks set aside. However, we cannot exclude the risk that Versalis may incur further costs or liabilities in the future as it is currently impossible to foresee the effects of future developments, considering the following: (i) the possibility of as yet unknown contamination; (ii) the results of the ongoing surveys and the other possible effects of statements required by Italian Decree No. 471/1999 of the Ministry of Environment; (iii) new developments in environmental regulation; (iv) the effect of possible technological changes relating to future remediation; (v) the possibility of litigation and the difficulty of determining the eventual consequences, also considering the responsibility of other parties and eventual insurance indemnity. As explained in greater more detail in the paragraph "Accounting policies – Grants", the environmental costs of actions to be taken at the manufacturing facilities acquired by the Versalis Group through the business conferral by Syndial SpA are covered by a specific warranty issued by the latter. This guarantee has a ceiling of €800 million which has been utilised in full as at December 31, 2013. Any future environmental liabilities will be at Versalis' expense.

Emission trading

Italian Legislative Decree no. 216 of April 4, 2006 implemented both the Emission Trading Directive 2003/87/EC, relative to greenhouse gas emissions, and Directive 2004/101/EC, relative to the use of carbon credits deriving from projects for the reduction of emissions based on the Kyoto Protocol.

On November 27, 2008, the National Committee for Management and Implementation of Directive 2003/87/EC published Resolution 20/2008 relative to the European Emission Trading Scheme –ETS (in operation since January 1, 2005), assigning the emissions allowances for the 2008-2012 period to the existing plants. It should be noted that, at the request of the European Commission, changes were made by the National Committee for Management and Implementation of Directive 2003/87/EC, which expanded the scope of application of the Directive with respect to the provisions in force for the period 2005-2007, extending it to certain types of combustion plants including those present in the steam cracking plants (see also the paragraph Commitments for sustainable development in the Directors' Report).

On the basis of the estimates of the emissions made, at December 31, 2013 the Versalis Group presented an overall emissions rights surplus (a so-called "long position")[17]; therefore, in accordance with the accounting criteria adopted, management will recognize the income from these surplus rights at the moment of sale.

Litigation

Versalis is a party to civil and administrative proceedings and legal disputes related to transactions carried out in the ordinary course of its business. On the basis of the information currently available Versalis considers that such proceedings and cases will not have a significant adverse impact on its financial statements. A summary of the more important proceedings is given below. Unless stated otherwise, no provisions were made for such risks given that it was considered improbable that the proceedings would have a negative outcome.

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[17] Provisional data: the definitive data will be available only after the final results have been certified by the Accredited Auditor. This will, however, not affect the company's position which will certainly remain long.

Antitrust litigation

The European Commission adopted a decision on November 29, 2006 regarding a violation of antitrust legislation and imposed a joint fine of €272.25 million on Eni SpA and Versalis SpA (previously Polimeri Europa) in relation to an alleged anti-competitive agreement in the field of BR/SBR elastomers. In February of 2007 both Companies lodged an appeal against this decision with the Court of the European Union. With a judgment issued on July 13, 2011 the Court reduced the original fine imposed jointly on Eni SpA and Versalis SpA to €181.5 million. In particular, the Court annulled the increase of the penalty based on the aggravating circumstance of recidivism. Against this judgment both the European Commission and the Companies presented appeals to the European Court of Justice. The European Commission also indicated to Eni its intent to relaunch investigative proceedings in order to re-determine the penalty, an initiative against which Eni has appealed. With decisions dated May 8 and June 13, 2013, the European Court of Justice rejected the appeal brought by Eni and Versalis and the counter appeal of the European Commission, thus confirming the reduction of the fine. Meanwhile, after having communicated, in April 2012 its intention to recommence the preliminary proceedings to recalculate the fine, in February 2013 the European Commission notified its formal decision to initiate the recalculation procedure together with the Statement of Objections to Eni and Versalis. Eni and Versalis have appealed against both the notice received in April 2012 and the subsequent decision to initiate the proceeding with the statement of objections before the Court of First Instance, contesting the authority of the Commission to amend a deed that has already been annulled and reformed by the Court in the exercise of its full judicial review. In the light of the decisions of the European Court of Justice and the observations of Eni and Versalis in response to the Statement of Objections, on September 25, 2013 the Commission ordered the recalculation proceeding to be dismissed and subsequently filed an order not to continue the European Court of First Instance before which the proceedings filed by Eni and Versalis against the administrative deeds for the recalculation procedure are pending.

Furthermore, with regards to the decision of the European Commission, in August 2007 Eni also initiated proceedings at the Court of Milan aimed at obtaining a ruling that proved the non-existence of alleged damages suffered by manufacturers of tyres using BR/SBR products. The Court of Milan however declared the action inadmissible with the ruling challenged before the Milan Court of Appeal and the appeal judgement is still pending.

Subsequently certain subsidiaries of the Dow Chemical Group served a writ on Eni and Versalis in order to be indemnified and held blameless as part of a proceeding initiated before the Commercial Court of London by several tyre producers who have been claiming compensation for the damages allegedly caused by the companies in the alleged BR cartel, including Dow Chemical. Eni, Versalis and Dow Chemical have agreed to suspend the judgement also because Eni and Versalis have appealed before the Appeals Court of Milan regarding the jurisdiction of the British Court in the former proceeding concerning damages allegedly caused to the tyre producers.

With regards to elastomers (CR), the European Court of First Instance ruling of December 2012 reduced to approximately €106 million the original fine of €132.16 million imposed jointly on Polimeri Europa and Eni by the European Commission on December 5, 2007, for the alleged violation, along with other chemical companies, of Art. 81 of the EC Treaty and of Art. 53 of the EEA agreement. In March 2013, Eni SpA and Versalis SpA lodged an appeal against the judgement at the European Court of Justice, in order to overturn the decision of the Commission, which has in turn appealed against the judgement.

In consideration of these disputes the opportune provisions for risks were accrued.

Polieco litigation

The “Polieco affair”, which has been going on for more than a decade, was triggered by shortcomings in Article 48 of the legislative decree of February 5, 1997 (the so-called “Ronchi Decree”). In fact, the issue regarding Art. 48 of Legislative Decree 22/97 and the entire legislative decree itself, was superseded by Legislative Decree 152 of April 3, 2006 “Environmental Regulations” published in the Official Journal of the Italian Republic on April 14, 2006. This law, reforming the Ronchi Decree:

- expressly introduced the principle of voluntary membership in the Consortium for the manufacturers and importers of polyethylene raw material;

- definitively confirmed that the obligations set out in Article 48, clause 2 (concerning membership of Polieco) as well as the sanctions set forth in Article 51 of the Ronchi Decree do not apply (and this is the current legal position of Section III of the Court of Rome).

Furthermore the Council of State, with a judgment of October 17, 2006, upheld in full the appeal lodged jointly by Versalis SpA and the other raw material manufacturers, and annulled the “By-laws of the Consortium for the Recycling of Polyethylene Waste”, approved with a Decree of the Ministry of the

Environment, Industry, Trade and Commerce of July 15, 1998, as regards the part in Art. 4 which extended the obligation of membership to manufacturers and importers of raw materials used to produce polyethylene goods. In the light of this judgment, the case pending before the Court of Rome also had a positive outcome. In fact, with a judgment filed on June 12, 2009, the Court of Rome found that the claims put forward by Polieco were groundless. The motives of the sentence clarify, in an exhaustive and final manner, the question relating to the obligation of Polieco membership on the part of producers and importers of raw material. The Court of Rome, in fact, stated that the negation of this obligation is not a consequence of the abolition of Legislative Decree 22/97 by Legislative Decree 152 of 2006, but instead derives from a correct interpretation of Art. 48 of Legislative Decree 22/97, as already clarified by the judgment of the Council of State which had annulled Art. 4 of the by-laws of the Consortium. Polieco has lodged an appeal against this judgement. Versalis had already entered an appeal in October 2010 and the final hearing is set for May 6, 2015.

We are, however, still faced with a singular case in which the Consortium for the Recycling of Polyethylene Waste, Polieco:

i) after a legal battle lasting more than ten years fought in various courts in which the Consortium's arguments were rejected several times;

ii) after the legislative changes which clarified in an unequivocal manner the non-obligatory nature of Polieco membership for manufacturers and importers of polyethylene raw material;

iii) after Council of State judgment No 7560/06 of 17/10/06, which expressly and unequivocally annulled the By-laws of the Polieco Consortium, in the part in which, in Art. 4 they extended arbitrarily the obligation of membership to producers and importers of polyethylene raw material;

is continuing, regardless of the above, to:

- reiterate inadmissible claims, demanding that the plaintiff companies pay unenforceable membership fees and payments not owed;

- allege to third parties (that is directly to customers) that the companies involved are unlawfully managed and are subjects which avoid legal obligations to the detriment, also, of their customers;

- solicit inspections by public assessment bodies, such as the tax inspectors.

In light of the above, the manufacturers of polyethylene raw materials (Versalis SpA, Ineos Manufacturing Italia SpA and Dow Italia SpA) decided, as they had already chosen to do at the start of the entire judicial affair, to make an application for ascertainment of the groundlessness of Polieco's claims, thus choosing to lead the action instead of following it, and decided also, in relation to the matter described above, to initiate an action for liability against Polieco with a consequent request for compensation for damages in relation to the illegitimate claims of the said Consortium.

In fact, in order to continue to assert its claims, Polieco has inadmissibly changed its demands by requiring that the plaintiff companies join the Consortium because they are manufacturers of polyethylene goods different from the raw material.

After the formal questioning of the legal representatives of the plaintiff companies at the hearings held on June 14, 2010, December 7, 2010 and March 15, 2011, the witnesses called by Versalis, Ineos and Dow were heard, confirming all the items of evidence.

Following the hearing on September 19, 2011, the Judge declared the investigation complete and accepted Versalis SpA's request rejecting Polieco's claim for the admission of an Official Technical Consultant.

At the evidentiary hearing, held on December 4, 2012, the judge adjourned the case for further consideration. The submission of Versalis SpA's conclusions and closing reply briefs took place on February 2, 2013 and February 22, 2013 respectively.

The proceeding was then adjourned for pre-trail examination and the subsequent hearing was scheduled for March 28, 2014.

Tax litigation

Following the inspections carried out by the Milan tax inspectors in 2006 and in 2010 relative to the costs deriving from transactions carried out with subjects resident in tax havens (mainly Switzerland) under the terms of Art. 110, clauses 10 and 11 of the Consolidated Income Tax Act (Presidential Decree 917/86):during the tax years from 2003 to 2009,

- Versalis SpA presented an appeal for the 2003 tax period against judgment No. 118-01-09 issued by the Brindisi Tax Commission as regards the negative income components for IRPEG/IRAP purposes which, although it was accepted that they were related to transactions that were actually performed, were

considered non-deductible for approximately €15 million, with a consequent reduction of the IRPEG tax loss. As yet no date has been set for the hearing.

Management, supported also by the opinion of the Eni tax department and of the external consultant appointed, believes in any case that it can prove that the disputed transactions were correct, in consideration also of the positive outcome of the litigation for the years 2004, 2005 and 2006 and 2007 described below;

- with the support of the Eni Tax Office's opinion confirmed by the Revenues Agency, Department of Assessment and Litigation, Rome, the management settled the years 2004, 2005, 2006 and 2007 paying respectively:

  - for the year 2004: taxes, fines and interest of €6.8 million instead of the €152 million originally assessed;
  - for the year 2005: taxes, fines and interest of €3.4 million instead of the €123 million originally assessed;
  - for the year 2006: taxes, fines and interest of €8.6 million (of which €5 million relates to use of the 2003 tax loss, the subject of the aforementioned ongoing litigation) instead of the €115 million originally assessed;
  - for the year 2007: taxes, fines and interest of €2.3 million instead of the €197 million originally assessed;

- for the year 2008: on 31 December 2013 the Lombardy Regional Large Taxpayers Office served an IRES Tax assessment notice for a total of €2.3 million for taxes, fines and interest. The company, in collaboration with the consolidating company Eni SpA, intends to settle the dispute using the proposed tax settlement procedure and, for this purpose, has set aside costs for €1.6 million.

- the Lombardy Regional Large Taxpayers Office is controlling the operations carried out in 2009.

On 17/02/2011 the Siracusa Revenues Agency served a demand for payment of registry tax of €731 thousand relating to the sale of shares in the consortium Priolo Servizi; together with the other companies in the consortium, the company appealed to the Tax Commission and has not set aside provisions, having reasonable confidence in a positive outcome for the dispute.

On 12/04/2011 the Milan Tax Office served a demand for payment of registry tax of €340 thousand, relating to the sale transaction regarding the equity investment in Eni Trading & Shipping to Eni SpA as a result of the conferral of the “SHIPPING” business unit. The company, together with Eni SpA and Eni Trading & Shipping, appealed to the Tax Commission and has not accrued any provisions, as it is reasonably confident of a positive outcome of the dispute. The hearing took place on May 13, 2013 and the decision is still pending.

On September 22, 2011 the Milan Tax Office served a demand for payment of registry, mortgage and cadastral tax of €1.7 million relating to the sale of the equity investment in Raffineria di Gela SpA to Eni SpA, as a result of the conferral of the “SPLITTER” business unit. The company appealed to the Tax Commission together with Eni and Raffineria di Gela SpA and has not accrued any provisions, as it is reasonably confident of a positive outcome of the dispute. The hearing took place on December 12, 2013 and the decision is still pending.

The Milan Tax Office served a demand for payment of higher registry, mortgage and cadastral tax of approximately €1 million relating to the sale of the TAF business unit in Brindisi to Syndial SpA. The company, in conjunction with the jointly-responsible Syndial, intends to settle the dispute using the proposed tax settlement procedure; the estimated cost is approximately €500 thousand.

The Lombardy Regional Large Taxpayers Office sent a VAT Assessment Notice with regard to irregular intra-Community VAT transactions in 2008 and the company intends to comply, taking advantage of the fine reduction, by paying the total amount of the tax, fines and interest of approximately €132 thousand.

Management considers the provisions accrued of €3 million to be adequate.

26. Revenue

The main “Revenue” items are analyzed below. The most significant changes in Revenues are explained in the “Comments on the economic and financial results“ in the Directors' Report.

Net sales from operations

Net sales from operations are detailed in the table below:

(amounts in millions of euros)	2012	2013
Sales of petrochemical products	6,128	5,648
Sales of other products	58	2
Other services	232	209
	6,418	**5,859**

Net sales by business line are indicated in “Comments on the economic and financial results” in the Director’s Report.

The table below shows the geographical distribution of net sales from operations:

(amounts in millions of euros)	2012	2013
Italy	3,172	2,758
Rest of Europe	2,826	2,704
Asia	271	238
America	61	126
Africa	84	28
Other areas	4	5
	6,418	**5,859**

Other income and revenues

Other income and revenues are comprised of the following:

(amounts in millions of euros)	2012	2013
Recovery of other costs and expenses	45	49
License rights and royalties	43	58
Insurance payouts	4	17
Income for emission rights	1	17
Real estate revenues	6	6
Contract penalties		2
Other	4	
	103	**149**

The recovery of other costs and expenses refers to the recharging of operating expenses to Syndial SpA in virtue of the guarantees issued at the time of the conferral in 2002 of the “Strategic Chemical Activities” business unit (€37 million, for further details see the paragraph “Accounting policies - Grants”) and to the recharging of sundry costs and expenses to other companies working at the production sites (€12 million).

27. Operating expenses

The following is a summary of the main items of "Operating expenses":

Purchases, services and other costs

Purchases, services and other costs comprise the following:

(amounts in millions of euros)	**2012**	**2013**
Production costs - raw, ancillary and consumable materials and goods	5,152	4,523
Service costs	1,511	1,463
Leasing and rental charges	25	25
Net provisions for risks and charges	19	37
Change in inventories	(103)	107
Impairment of receivables	18	17
Other expenses	17	76
less:		
Capitalized direct costs associated with internally-constructed assets		(1)
	6,639	**6,247**

The service costs of €1,463 million refer mainly to costs for utilities (€700 million), logistics and transport (€283 million), maintenance (€235 million) and professional services and consulting (€47 million).

Leasing and rental charges of €25 million consist mainly of fees for concessions and licenses of €6 million, rent for land and buildings of €5 million, vehicle hire of €3 million and other rentals and leases of operating assets of €4 million.

Information relating to provisions for risks and charges is provided in Note 20.

Information relating to changes in inventories is provided in Note 3.

Information relating to the impairment of receivables is provided in Note 2.

The Other expenses of €76 million comprise mainly the remediation costs of €30 million, contractual penalties of €28 million and sundry indirect taxes of €20 million.

Non-capitalisable research and development costs amounted to €39 million (€38 million in 2012).

Payroll and related costs[18]

Payroll and related costs comprise the following:

(amounts in millions of euros)	2012	2013
Wages and salaries	264	266
Social security contributions	76	77
Costs related to defined benefit plans and defined contribution plans	19	17
Redundancy incentives	14	23
Other costs	2	1
	375	**384**
Less:		
Net revenue for seconded personnel		(1)
Capitalized direct cost associated with self-constructed assets	(9)	(10)
	366	**373**

Costs related to employee benefits include expenses for defined-contribution plans of €15 million and expenses for defined-benefit plans of €2 million. The expenses for defined-contribution and defined-benefit plans are analysed in Note 21.

The remuneration for persons responsible for the planning, direction and control functions of the company, including executive and non-executive directors, managers and senior managers with strategic responsibilities (so-called key management personnel) in office at December 31, 2013 amounted to €5 million as follows:

(€ million)	2012	2013
Wages and salaries	4	4
Costs related to defined benefit plans and defined contribution plans	1	1
	5	**5**

The remuneration paid to directors amounted to €178 million. The remuneration paid to statutory auditors amounted to €114 thousand. The remuneration includes emoluments and all other kinds of remuneration, and pension and welfare contributions payable for the performance of duties, which constituted a cost for the company, even if not subject to personal income tax.

The average number of employees, classified by category, is as follows:

	2012	2013
Senior Managers	103	109
Managers/supervisors and clerical staff	3,285	3,392
Manual workers	2,333	2,202
	5,721	**5,703**

The average number of employees was calculated as the arithmetic mean of the number of employees at the beginning and end of the year. The average number of senior managers includes managers employed and operating in foreign countries whose organizational role is equivalent to the Italian “manager” grade.

[18] The amounts indicated in 2012 have been adjusted to account for the effects produced by the retroactive application of the new accounting standard IAS 19 “Employee benefits”.

28. Other operating (expenses) income

The other operating expenses are comprised as follows:

(€ million)	**2012**	**2013**
Income from commodity derivatives	2	2
Expenses from commodity derivatives	(11)	(3)
	(9)	**(1)**

Other operating expenses of €1 million (€9 million in 2012) relate to the recognition in the income statement of net expenses incurred on commodity derivatives which do not fulfil the formal requisites necessary to be classified as "hedges" in accordance with IAS 39.

29. Depreciation, amortization and impairment

Depreciation, amortization and impairment are comprised as follows:

(€ million)	**2012**	**2013**
Depreciation, depletion and amortization:		
- Property, plant and equipment	77	80
- Intangible assets	5	4
	82	**84**
Impairment losses:		
- Property, plant and equipment	111	41
	111	**41**
	193	**125**

Information regarding depreciation rates and the impairment of property, plant and equipment is provided in Note 7, to which the reader is referred, while that regarding intangible assets is provided in Note 8.

30. Financial income (expense)[19]

Financial income (expense) is comprised as follows:

(amounts in millions of euros)	2012	2013
Financial income (expense)		
Financial income	75	58
Financial expense	(124)	(102)
Derivatives	(2)	(9)
	(51)	**(53)**

The net amount of financial income (expense) can be broken down as follows:

[19] The amounts indicated in 2012 have been adjusted to account for the effects produced by the retroactive application of the new accounting standard IAS 19 “Employee benefits”.

(€ million)	**2012**	**2013**
Finance income (expense) related to net borrowings		
- Interest and other expenses to banks and other financial institutions	(39)	(48)
Positive (negative) exchange differences		
- Positive exchange differences	75	56
- Negative exchange differences	(83)	(52)
Derivatives	(2)	(9)
Other finance income and expense		
- Capitalized finance expense	3	4
- Other finance (income) expense	(5)	(4)
	(51)	**(53)**

(amounts in millions of euros)	**2012**	**2013**
Financial income (expense) related to net borrowings		
- Interest and other expenses towards banks and other financial institutions	(39)	(48)
Gains (losses) on exchange		
Gains on exchange	75	56
Losses on exchange	(83)	(52)
Derivatives	(2)	(9)
Other financial income and expense		
Capitalized financial expense	3	4
- Other financial (income) expense	(5)	(4)
	(51)	**(53)**

Net income (expense) on derivatives regard derivative contracts that do not meet the formal conditions to be classified as “hedges” as specified by IAS 39, and therefore the related fair value changes are recognized in the income statement. Net expenses on derivative instruments of €9 million regard contracts on currencies.

Income (expense) on derivative contracts is determined as a result, essentially, of recognition in the income statement of the effects of measurement at fair value of those derivative contracts that cannot be considered for hedging according to the IFRSs, because they relate to the net exposure to exchange rate and interest-rate risks and, therefore, are not relative to specific commercial or financial transactions. The same lack of the formal requisites for being considered as derivative hedging contracts entails the recognition of the net payable exchange differences, given that the effects of the adjustment of assets and liabilities in foreign currencies to the year-end exchange rate are not offset in the accounts by the change in fair value of the derivative contracts.

31. Income taxes

The breakdown of income tax is as follows:

(€ million)	2012	2013
Current tax assets:		
- Italian companies	(35)	(28)
- foreign companies	(1)	(7)
	(36)	**(35)**
Net deferred (prepaid) taxes:		
- Italian companies	(136)	(124)
- foreign companies	10	(7)
	(126)	**(131)**
	(162)	**(166)**

The current taxes for the year relating to the Italian companies regard the income for the recognition of the fiscal benefit deriving from participation in the Eni national tax consolidation (for more details on the benefits deriving from participation in the national tax consolidation see the paragraph "Income taxes" of the Directors' Report).

Participation in the Eni national tax consolidation results in the deductibility for Versalis SpA of €40 million of interest expenses, otherwise non-deductible, in accordance with the provisions of Art. 96 of the Consolidated Income Tax Act.

The current taxes for the year of the foreign subsidiaries refer to tax income on Polimeri Europa UK Ltd (€8 million), partially offset by the tax charge of Versalis International SA (€1 million).

Net deferred tax assets of €131 million are commented on in Notes 11 and 22.

The incidence of taxes on the pre-tax profit (loss) for the year amounted to 21.0% (22.0% in 2012) compared with a theoretical tax rate of 28.8% (28.6% in 2012) which derives from the application of the rates of 27.5% (IRES) provided for in the Italian tax legislation to pre-tax profit/(loss) and of 3.68% (IRAP) to the net value of production.

The difference between the theoretical tax rate and the effective rate for the periods compared can be broken down as follows:

(%)	2012	2013
Theoretical tax rate	**28.6**	**28.8**
Items increasing (decreasing) statutory tax rate:		
- (impairments) reversal of deferred taxes	(6.6)	(4.4)
- permanent differences	(1.2)	(1.3)
- prior year taxes	0.3	(0.8)
- changes in tax rates	(0.1)	(0.3)
- (additions)/deductions to provisions for tax litigation	(0.1)	0.2
- different tax burden on foreign companies	(0.4)	(1.4)
- other changes	1.5	0.2
	(6.6)	**(7.8)**
	22.0	**21.0**

An analysis of the timing differences between the statutory and fiscal values is provided in Notes 11 and 22.

32. Related party transactions

The transactions with related parties carried out by Versalis SpA and the companies included in its consolidation area involve mainly the trading of goods, the performance of services, the provision/receipt of funding and the use of financial resources with the parent company Eni SpA and with companies directly or indirectly controlled by the latter, and with its own non-consolidated subsidiaries and associates, and with other companies owned or controlled by the Italian State. All of the transactions carried out form part of ordinary operations and took place at arm's length, that is, at conditions that would have been applied by independent parties on the open market, and were carried out in the best interest of the Versalis Group.

The main transactions carried out were with the following companies:

a) Eni SpA: purchase of petroleum feedstock and virgin naphtha for the cracker plants; purchase of natural gas; sale of basic chemicals and transactions of an administrative and financial nature, procurement and information technology services, legal services, research services and services for personnel;

b) Ecofuel SpA (controlled by Eni SpA): sale of olefin cycle products, transactions deriving from rental of the "MTBE/ETB and BTH" business unit at Ravenna;

c) Eni Adfin SpA (controlled by Eni SpA): treasury services, accounting activities;

d) Eni Finance International SA (controlled by Eni International Holding BV): financial transactions;

e) Eni Insurance Limited (controlled by Eni SpA) insurance cover for risks;

f) EniPower SpA (controlled by Eni SpA), EniPower Mantova SpA and Società EniPower Ferrara Srl (controlled by EniPower SpA): purchase of electricity and steam; provision of auxiliary and general services;

g) EniServizi SpA (controlled by Eni SpA): receiving general services;

h) Eni Trading & Shipping SpA (controlled by Eni SpA): transport by sea, purchase and sale of raw materials and basic chemical products, and derivative contracts on commodities;

i) Matrìca SpA: financing of assets instrumental to operating activities;

j) Raffineria di Gela SpA (controlled by Eni SpA): transactions deriving from rental of the "Polyethylene" business unit at Gela;

k) Saipem SpA (controlled by Eni SpA): receiving goods and services related to the construction and upgrading of plants;

l) Syndial SpA (controlled by Eni SpA): marketing, purchase and sale of products and exchange of services and utilities;

m) Priolo Servizi Scarl (associate of Versalis SpA): supply of general and auxiliary services at sites where Versalis SpA is also present;

n) Ravenna Servizi Industriali SCpA (associate of Versalis SpA): supply of general and auxiliary services at sites where Versalis SpA is also present;

o) Servizi Porto Marghera Scarl (associate of Versalis SpA): supply of general and auxiliary services at sites where Versalis SpA is also present;

p) Gruppo Ferrovie dello Stato: rail transport.

Trade and other transactions with unconsolidated subsidiaries, associates and jointly-controlled companies and with other companies owned or controlled by Eni SpA or by the State can be broken down as follows:

(amounts in millions of euros)

	31.12.2013					2013							
						Costs				Revenue			
Name	Trade and other receivables	Trade and other payables	Positive derivatives	Negative derivatives	Guarantees	Goods	Services	Other	Other operating expenses	Goods	Services	Other	Other operating income
Subsidiaries													
Versalis Kimya		1					1						
		1					**1**						
Associates													
Brindisi Servizi Generali Scarl							5						
Novamont SpA													
Priolo Servizi Scarl		19					24						
Ravenna Servizi Industriali ScpA		2					11					4	
Servizi Porto Marghera Scarl	1						16			6			
	1	**21**					**56**			**6**		**4**	
Joint ventures													
Matrìca SpA	102	1									1		
LOTTE Versalis Elastomeres Co Ltd	12											12	
Newco Tech spa													
	114	**1**									**1**	**12**	
Parent company													
Eni SpA	63	179		1	86	716	241	3		3	4	5	
	63	**179**		**1**	**86**	**716**	**241**	**3**		**3**	**4**	**5**	
Eni Group companies													
Ecofuel SpA	17					10		1		110	6	1	
Eni Adfin Spa							4						
Eni Corporate University SpA		1					3						
Eni Insurance Ltd	12	5					12					(5)	
EniPower SpA	16	36					181			87		1	
EniPower Mantova SpA	1	20					104			3	1		
EniServizi SpA		2					7						
Eni Trading and Shipping SpA		182				1,600	110		3	60		17	2
Ing. Luigi Conti Vecchi SpA						1							
Raffineria di Gela SpA	4	29					31				1	1	
Saipem SpA		21					22						
Serfactoring SpA		2			1								
Società EniPower Ferrara Srl		3					28						
Syndial SpA	53	27			5	8	16	1		11	3	35	
	103	**328**			**6**	**1,619**	**519**	**2**	**3**	**271**	**11**	**50**	**2**
Pension funds related to Eni													
Fopdire								2					
								2					
Entities owned or controlled by the State													
Gruppo Ferrovie dello Stato		4					12						
Gruppo Finmeccanica													
Gruppo Terna											3		
		4					**12**				**3**		
	281	**534**		**1**	**92**	**2,335**	**829**	**7**	**3**	**280**	**19**	**71**	**2**

Financial transactions with the parent company, non-consolidated subsidiaries, associates and jointly-controlled companies and with other companies owned or controlled by Eni SpA or by the State comprise the following:

(amounts in millions of euros)

	31.12.2013			2013		
Name	Receivables	Payables	Guarantees	Charges	Gains	Derivatives
Parent company						
Eni SpA	1	1,436		43		(9)
Eni Group companies						
Eni Finance International SA		305		5		
Joint ventures						
Matrica SpA					2	
	1	**1,741**		**48**	**2**	**(9)**

Impact of transactions and balances with related parties on the Group's balance sheet, profit and loss account and cash flow statement.

The impact parties on the Group's balance sheet, income statement and cash flow statement of transactions or balances with related are disclosed in the tables below:

(amounts in millions of euros)

	31.12.2012			31.12.2013		
	Total	Related parties	% incidence	Total	Related parties	% incidence
Trade and other receivables	1,110	222	20	1,104	280	25
Other current assets	2	1	50	3	1	33
Other non-current assets	1			4	3	75
Short-term debt	1,205	1,203	100	1,040	1,038	100
Trade and other payables	987	426	43	1,121	534	48
Other current liabilities	6	2	33	3	1	33
Long-term debt (including short-term portions)	803	801	100	705	703	100
Other non-current liabilities	7			6		

The impact on the Income statement of transactions with related parties is indicated in the table below

(amounts in millions of euros)

	2012			2013		
	Total	related parties	% incidence	Total	related parties	% incidence
Net sales from operations	6,418	424	7	5,859	299	5
Other income and revenues	103	44	43	149	71	48
Purchases, services and other costs	6,639	3,244	49	6,247	3,169	51
Payroll and related costs	381			373	2	1
Other operating income and expense	(9)	(9)	100	(1)	(1)	100
Financial income	75			58	2	3
Financial expenses	(122)	(39)	32	(102)	(48)	47
Derivatives	(2)	(2)	100	(9)	(9)	100
Income and charges on investments	2	2	100			

The principal cash flows with related parties are described in the following table:

(€ million)	2012	2013
Revenues and other income	468	370
Costs and expenses	(3,255)	(3,172)
Net change in trade and other receivables, and other assets	39	(58)
Net change in trade and other liabilities, and other liabilities	(61)	107
Dividends, interest and taxes	91	(40)
Net cash flow provided by operating activities	**(2,718)**	**(2,793)**
Investments:		
- investments and securities	(60)	(74)
- financial receivables		(100)
- change in payables and receivables relating to investments	(5)	(2)
Cash flow from investments	*(65)*	*(176)*
Disposals:		
- investments and securities		1
Cash flow from disposals		*1*
Net cash flow from investment activities	**(65)**	**(175)**
- Change in financial liabilities	895	(262)
- Capital contribution		1,000
Net cash flow from financing activities	**895**	**738**
Total financial flows to related parties	**(1,888)**	**(2,230)**

The impact of cash flows with related parties is summarised in the table below:

(€million)	2012			2013		
	Total	related parties	% incidence	Total	related parties	% incidence
Cash provided by operating activities	(653)	(2,718)	n.s.	(271)	(2,793)	n.s.
Cash provided by investment activities	(225)	(65)	29	(448)	(175)	39
Cash provided by financing activities	894	895	100	738	738	100

33. Significant non-recurring events and operations

No significant non-recurring events or operations took place during the year.

34. Positions or transactions deriving from atypical and/or unusual operations

During the year there were no positions or transactions deriving from atypical and/or unusual operations.

35. Assets held for sale and in disposal groups

At December 31, 2013 there were no assets held for sale and in disposal groups.

36. Main events subsequent to December 31, 2013

For a description of the main events subsequent to December 31, 2013, the reader is referred to “Significant events after the reporting date” in the “Other information” section of the Directors' Report.

37. List of investments

Versalis SpA Group companies and equity investments at December 31, 2013

In accordance with the provisions of Arts. 38 and 39 of Legislative Decree No. 127/1991, Art. 126 of Consob Resolution No. 11971 of May 14, 1999 and subsequent amendments, and Consob Communication No. DEM/6064293 of July 28, 2006, the lists of the subsidiary and associated companies of Versalis SpA at December 31, 2013, and of other significant equity investments are provided below.

The companies are listed in alphabetical order and divided into Italian and foreign companies. For each company the following details are shown: company name, location of registered office, share capital or consortium fund, shareholders and their interests, for consolidated companies the percentage held by Versalis SpA is shown; the accounting criterion (equity or cost method) for investments in non-consolidated companies.

Subsidiary and associated companies of Versalis SpA at December 31, 2013

CONSOLIDATING COMPANY

Name	Registered office	Currency	Share Capital	Sharehold	% Ownership	% Consolidated pertaining to the Group	Method of consolidation or method of valuation (*)
Versalis SpA	San Donato Milanese (MI)	EUR	1,553,400,000	Eni SpA	100.00	100.00	L.b.L.

(*) L.b.L. = consolidated on a line by line basis, N.E. = valued at net equity, Co. = valued at cost

SUBSIDIARIES

In Italy

Name	Registered office	Currency	Share Capital	Shareholders	% Ownership	% Consolidated pertaining to the Group	Method of consolidation or method of valuation (*)
Consorzio Industriale Gas Naturale	San Donato Milanese (MI)	EUR	124,000	Versalis SpA	53.55	53.55	N.E.
				Raffineria di Gela SpA	18.74		
				Eni SpA	15.37		
				Syndial SpA	0.76		
				Raffineria di Milazzo SpA	11.58		

(*) L.b.L. = consolidated on a line by line basis, N.E. = valued at net equity, Co. = valued at cost

Name	Registered	Currency	Share Capital	Shareholders	% Ownership	% Consolidated pertaining to the Group	Method of consolidation or valuation method (*)
Dunastyr Polystyrene Manufacturing Company Ltd	Budapest (Hungary)	HUF	8,092,160,000	Versalis SpA Versalis International Polimeri Europa GmbH	96.34 1.832 1.832	100.00	L.b.L.
Eni Chemicals Trading (Shanghai) Co Ltd	Shanghai	USD	5,000,000	Versalis SpA	100.00	100.00	L.b.L.
Polimeri Europa Elastomères France SA in liquidation	Champagnier (France)	EUR	13,011,904	Versalis SpA	100.00	100.00	N.E.
Polimeri Europa France SAS	Mardyck (France)	EUR	126,115,582.90	Versalis SpA	100.00	100.00	L.b.L.
Polimeri Europa GmbH [1]	Eschborn (Germany)	EUR	100,000	Versalis SpA	100.00	100.00	L.b.L.
Polimeri Europa Kimya Ticaret Limited Sirketi	Istanbul (Turkey)	TRY	20,000	Versalis International SA	100.00	100.00	N.E.
Polimeri Europa UK Ltd	Hythe (Great Britain)	GBP	4,004,041	Versalis SpA	100.00	100.00	L.b.L.
Versalis International SA	Brussels	EUR	11,979,589	Versalis SpA Polimeri Europa France SAS	99.99 (..)	100.00	L.b.L.
Versalis Pacific Trading (Shanghai) Co Ltd	Shanghai	CNY	1,000,000	Eni Chemicals Trading	100.00	100.00	L.b.L.
Versalis Pacific (India) Private Limited	Mumbai (India)	INR	100,000.00	Versalis Pacific Trading Third parties	99.99 0.01	99.99	N.E.

(*) L.b.L. = consolidated on a ine by line bais, N.E. = valued at net equity, Co. = valued at cost

ASSOCIATES

In Italy

Name	Registered office	Currency	Share Capital	Shareholders	% Ownership	% Consolidated pertaining to the Group	Method of consolidation or valuation method (*)
Brindisi Servizi Generali Scarl	Brindisi (BR)	EUR	1,549,060	Versalis SpA	49.00	49.00	N.E.
				Syndial SpA	20.20		
				EniPower SpA	8.89		
				Third parties	21.89		
Novamont SpA	Novara (NO)	EUR	13,333,500	Versalis SpA	25.00	25.00	N.E.
				Third parties	75.00		
Priolo Servizi Scpa	Melilli (SR)	EUR	25,600,000	Versalis SpA	36.50	36.50	N.E.
				Syndial SpA	4.25		
				Third parties	59.25		
Ravenna Servizi Industriali ScpA	Ravenna (RA)	EUR	5,597,400	Versalis SpA	42.13	42.13	N.E.
				EniPower SpA	30.37		
				Ecofuel SpA	1.86		
				Third parties	25.64		
Servizi Porto Marghera Scarl	Venice, Porto Marghera (VE)	EUR	8,751,500	Versalis SpA	48.13	48.13	N.E.
				Syndial SpA	38.14		
				Third parties	13.73		

JOINT VENTURES

In Italy

Name	Registered office	Currency	Share Capital	Shareholders	% Ownership	% Consolidated pertaining to the Group	Method of consolidation or valuation method (*)
Lotte Versalis Elastomers Co Ltd	Yeosu (Jeollanam-do) (South Korea)	KRW	60,200,010,000	Versalis SpA	49.99	49.99	N.E.
				Third parties	50.01		
Matrìca SpA	Porto Torres (SS)	EUR	37,500,000	Versalis SpA	50.00	50.00	N.E.
				Third parties	50.00		
Newco Tech SpA	Novara (NO)	EUR	200,000	Versalis SpA	88.90	88.90	N.E.
				Genomatica Inc	11.10		

(*) L.b.L. = consolidated on a line by line basis, N.E. = valued at net equity, Co. = valued at cost

OTHER COMPANIES

In Italy

Name	Registered office	Currency	Share Capital	Shareholders	% Ownership	% Consolidated pertaining to the Group	Method of consolidation or method of valuation (*)
IFM Ferrara ScpA	Ferrara (FE)	EUR	5,270,466	Versalis SpA Syndial SpA Società EniPower Ferrara Srl Third parties	19.73 11.58 10.70 57.98	19.73	Co
Consorzio Crea Assemini	Cagliari (CA)	EUR	70,000	Versalis SpA Third parties	7.14 92.86	7.14	Co
IAS Industria Acqua Siracusana SpA	Siracusa (SR)	EUR	102,000	Versalis SpA Third parties	1.00 99.00	1.00	Co

Outside Italy

Name	Registered office	Currency	Share Capital	Shareholders	% Ownership	% Consolidated pertaining to the Group	Method of consolidation or method of valuation (*)
Genomatica Inc	San Diego (USA)	USD	130,707,444.76	Versalis SpA Third parties	5.12 94.88	5.12	Co
BKV Beteiligungs-und Kunststoffverwert-ungsgesellschaft mbH	Frankfurt am Main (Germany)	EUR	15,106,118.63	Polimeri Europa GmbH Third parties	1.11 98.89	1.11	Co
EXELTIUM 2 SAS	Paris (France)	EUR	9,473.00	Polimeri France SAS Third parties	1.88 98.12	1.88	Co
EXELTIUM SAS	Paris (France)	EUR	174,420,200.00	Polimeri France SAS Third parties	1.66 98.34	1.66	Co

(*) L.b.L. = line by line, N.E. = measurement at net equity, Co. = measurement at cost

Changes in the consolidation area

The company Polimeri Europa Iberica left the consolidation area in 2013 as it was incorporated into the company Versalis International, with effect from January 1, 2013.

Independent Auditors' Report

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Independent Auditors' Report
pursuant to Art. 14 of Legislative Decree No. 39 dated 27 January 2010 and Art. 165 of Legislative Decree No. 58 dated 24 February 1998
(Translation from the original Italian text)

To the Sole Shareholder of
Versalis S.p.A.

1. We have audited the consolidated financial statements of Versalis S.p.A. and its subsidiaries (the "Versalis Group") as of 31 December 2013 and for the year then ended, comprising the balance sheet, the profit and loss account, the statement of comprehensive loss, the statement of changes in the shareholders' equity, the statement of cash flows and the related explanatory notes. The preparation of these financial statements in compliance with International Financial Reporting Standards as adopted by the European Union is the responsibility of Versalis S.p.A.'s Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with the auditing standards issued by the Italian Accounting Profession (CNDCEC) and recommended by the Italian Stock Exchange Regulatory Agency (CONSOB). In accordance with such standards, we planned and performed our audit to obtain the information necessary to determine whether the consolidated financial statements are materially misstated and if such financial statements, taken as a who e, may be relied upon. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, as well as assessing the appropriateness of the accounting principles applied and the reasonableness of the estimates made by the Directors. We believe that our audit provides a reasonable basis for our opinion.

3. For the financial data of the consolidated financial statements of the previous year, restated as a result of the retrospective application of the amendment to IAS 19, as described in the explanatory notes, reference should be made to our report dated 19 March 2013. We have examined the method used to restate the comparative financial data and the information presented in the explanatory notes in this respect, for the purpose of expressing our opinion. In our opinion, the consolidated financial statements of the Versalis Group at 31 December 2013 have been prepared in accordance with the International Financial Reporting Standards as adopted by the European Union; accordingly, they present clearly and give a true and fair view of the financial position, the results of operations and the cash flows of the Versalis Group for the year then ended.

4. The Directors of Versalis S.p.A. are responsible for the preparation of the Directors' Report on Operations, in accordance with the applicable laws. It is our responsibility to express an opinion on the consistency of the Directors' Report on Operations with the financial statements as required by law. For this purpose we have performed the procedures required under Auditing Standard 001 issued by Italian Accounting Profession (CNDCEC) and recommended by CONSOB. In our opinion the Directors' Report on Operations is consistent with the consolidated financial statements of the Versalis Group at 31 December 2013.

Milan, 18 March 2014

Reconta Ernst & Young S.p.A.
Signed by: Edoardo Sannazzaro, Partner

This report has been translated into the English language solely for the convenience of international readers

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Sede Legale: 00198 Roma - Via Po, 32
Capitale Sociale € 1.402.500,00 i.v.
Iscritta alla S.O. del Registro delle Imprese presso la C.C.I.A.A. di Roma
Codice fiscale e numero di iscrizione 00434000584
P.IVA 00891231003
Iscritta all'Albo Revisori Contabili al n. 70945 Pubblicato sulla G.U. Suppl. 13 - IV Serie Speciale del 17/2/1998
Iscritta all'Albo Speciale delle società di revisione
Consob al progressivo n. 2 delibera n.10831 del 16/7/1997

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