versalis

Annual Report 2018

Ordinary Shareholders' Meeting of April 15, 2019

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 is present with manufacturing plants in Italy (Brindisi, Ferrara, Mantua, Porto Marghera, Porto Torres, Priolo, Ragusa, Ravenna and Sarroch), France (Dunkirk), Germany (Oberhausen), Great Britain (Grangemouth), Hungary (Szàzhalombatta), South Korea, with Research Centres and Units in Italy (Brindisi, Ferrara, Mantua, Novara and Ravenna), sales networks in Italy, Belgium, Czech Republic, Congo, Slovak Republic, Denmark, France, Germany, Ghana, Great Britain, Greece, Poland, Slovenia, Romania, Singapore, Spain, United States, Sweden, Switzerland, Turkey, Hungary, China, and Russia.

Boards of Directors and of Statutory Auditors

BOARD OF DIRECTORS(1)

Chairman

Erika Mandraffino (2)

Chief Executive Officer

Daniele Ferrari

Directors

Cristiana Argentino

Luigi Lusuriello(2)

Rosanna Fusco

(1) Appointed by the Shareholders' Meeting of April 29, 2016 for a three-year period which expires upon the approval of the financial statements for the year 2018.
(2) Appointed by the Shareholders' Meeting of July 11, 2018

BOARD OF STATUTORY AUDITORS (1)

Chairman

Carlo Invernizzi

Statutory auditors

Patrizia Ferrari

Alberto Luigi Gusmeroli

Alternate statutory auditor

Giovanna Campanini

Marco Mencagli

INDEPENDENT AUDITORS(3)

EY SpA

(3) 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.

Directors' Report and Consolidated Financial Statements

Highlights

Workers' safety

Despite the constant commitment of the Versalis Group for the safety of people, the frequency index for injuries 2018 increased slightly compared to the previous year due to some injuries to employees and contractors. However, the majority of the sites have achieved the one-year goal without any injuries to employees.

Inauguration of the new elastomer production plant in Ferrara

On September 12, 2018 Versalis inaugurated, at the Ferrara site, a new plant for the production of EPDM tyres to be utilized, in particular, in the automobile components industry. The project, for which a total of over €250 million was invested, involved the construction of a new production line and the modernization of part of the existing elastomer plant.

This investment increases the total production capacity of the site by an estimated 50 thousand tons per year and enables the renewal of the elastomer product portfolio and increases employment.

This initiative further consolidates, in the Versalis production system, the centrality of Ferrara which, in addition to the production of elastomers, also includes plants for the production of LDPE polyethylene and an important research center.

Acquisition of the biochemical business of the Mossi & Ghisolfi company

Versalis acquired, with effect from November 1, 2018, the "Bio" business units related to Mossi & Ghisolfi group. The business, acquired for €75 million, in addition to the assumption of a financial lease with a nominal value of €19 million, includes human resources and instrumental, tangible and intangible assets related to the development, industrialization, licensing of biochemical technologies and processes based on the use of renewable sources from biomass. In particular, it includes the ethanol production plant in Crescentino and the associated biomass power plant and the Rivalta Scrivia Research Center and, among the licenses, the proprietary Proesa technology for the conversion of biomass into second generation sugars and subsequent production of biofuels or potentially other bio-chemical intermediates.

At the moment, Versalis is defining an action plan in preparation for the resumption of the operational activities of the plants and relauching the international licensing activities of the Proesa technology.

With this important acquisition, Versalis continues to strive to strengthen its competitive position in the chemistry of renewable sources, whose activities will flow into a new business unit, and to develop an integrated technological platform in line with the strategy undertaken in recent years, creating synergies with their research projects already underway.

Agreement for the establishment of the Versalis Petrochem Mazrui (VPM) joint venture

In November, Versalis, Petrochem (a company of the Mazrui Energy Services group) a leader in the production of drilling fluids and Mazrui Energy Service (a company of Mazrui International, leader in the service sector for the Oil & Gas industry in the Middle East), signed an agreement to establish Versalis Petrochem Mazrui (VPM), a joint venture for the marketing of innovative chemicals for the Oil & Gas industry in the Middle East.

The new company will make use of locally produced oilfield chemicals to ensure the availability of products in a short time and with competitive advantages in terms of logistics, reliability and customer service, in a highly demanding and specialized market like the Middle East.

The joint venture, already able to offer a broad portfolio of petroleum products with high added value, in particular, to the capabilities of Versalis in research and development to ensure flexibility and timeliness in personalized service to the end customer.

The synergy with Mazrui will allow greater customer proximity and the ability to compete with the major players on the market. Moreover, with this partnership, Versalis takes the opportunity to extend the oilfield chemicals business also to Middle Eastern countries.

Partnership for recycling sports fields synthetic turf in accordance to circular economy principles

In terms of a circular economy, Versalis, as a supplier of the raw material (polyethylene), RadiciGroup (manufacturer of yarns for sports applications) and Safitex (manufacturer of synthetic turf) combine their expertise to manufacture the recyclable synthetic sports fields turf, in order to reduce the environmental impacts related to its disposal, (which is currently still managed mainly through landfill or incineration, with consequent emissions of greenhouse gases).

The project's objective is to ensure that, at the end of its life, the synthetic turf can be recycled in the plastic world. The three partners evaluated the environmental performance of the project by quantifying, in a reliable and scientific way, the environmental impacts of each product involved.

These studies were then certified by an independent certification body (Certiquality) which issued a product environmental footprint certificate for each product.

Corporate restructuring

Versalis Singapore PTE LTD, (established in 2017 by Versalis SpA to consolidate its presence in the Asian market), entered the Versalis Group's scope of consolidation in November 2018 after having exceeded the parameters of relevance.

On November 22, 2018, the liquidation of Eni Chemical Trading Shangai (owned 100% by Versalis SpA), which had already left the scope of consolidation in October 2016 due to the termination of operations, was completed.

Technological innovation

During 2018, research and technology activities contributed to the strengthening and renewal of the proprietary businesses, constantly improving processes and products. The research and development in the field of green chemistry were reinforced, with ever-growing commitment, in synergy with the existing businesses especially as regards the guayule, biobutadiene, obtained from second-generation sugars and metathesis of vegetable oils. The production of silica functionalized sSBR for the development of high-end tyres has been consolidated. New grades of medium-density LPDE have been developed for the production of plastic films with improved mechanical and optical performances, fundamental for the food and industrial packaging sector. Technological development activities continued for the products of the new One Step pilot plant, two industrial productions were carried out to create new types of ABS products for extrusion and molding. As for the basic chemistry, a transalkylation technology has been developed that allows to improve the production of cumene from IPA (isopropyl alcohol). With a circular economy perspective, the study continued on the production of rubber devulcanized and re-cancan from out-of-use tyres and Versalis is participating in a project for the development of fully recyclable synthetic turf.

Total expenditure on research and development was €38 million. Eleven patent applications were filed.

Production

Production amounted to 9,483 thousand tonnes, an increase of 5.9% with respect to 2017, mainly due to the increased production of intermediates and chemical derivatives. The production of polymers was stable. The manufacturing plants that experienced the main production increases were Porto Marghera, due to the recovery of production capacity following a disruption which occurred at the plant in 2017, Szàzhalombatta, Mantua and Priolo. However, the production of the Ferrara, Brindisi, e Oberhausen plants decreased due to unscheduled shutdowns during 2018.

Results

The Versalis Group in 2018 incurred a net loss of €460 million (net profit of €303 million in 2017), an operating loss of €287 million (€490 million in 2017); net financial debt as of December 31, 2018 amounted to €630 million (with a net financial resources of €41 million as of December 31, 2017). For an explanation of the results for the year, please refer to the "Comment on the economic and financial results of the Versalis Group".

Financial highlights

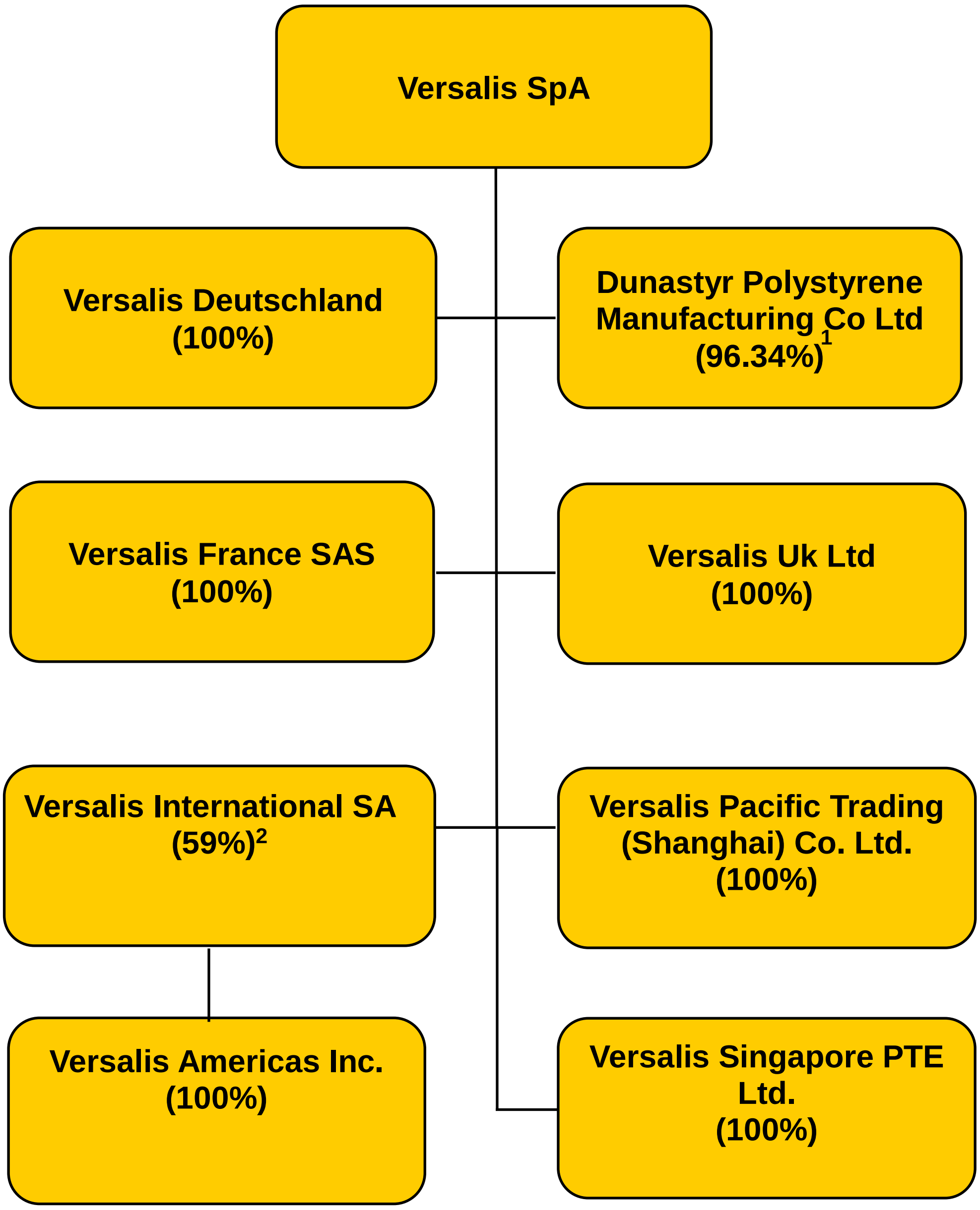
2016	amounts in millions of euros	2017	2018
4,196	Net sales from operations	4,851	5,123
213	Operating profit (loss)	490	(287)
163	Net profit (loss)	303	(460)
469	Net cash flow provided by operating activities	478	(120)
241	Capital expenditures	202	145
2,762	Total assets	3,060	2,762
1,514	Shareholder's equity	1,815	1,044
133	Net borrowings	(41)	630
1,647	Net capital employed	1,774	1,674
0.09	Leverage	(0.02)	0.60

Key operating and sustainability data

2016			2017	2018
5,085	Employees	(number)	5,114	5,224
0.22	Accident frequency rate	(accidents/hours worked x 1,000,000)	0.15	0.72
2.99	Direct emission of greenhouse gases	(mm tonnes CO_2 eq)	3.05	3.13
37	Cost of research and development	(amount in millions of euros)	40	38
8,809	Production	(k tonnes)	8,955	9,483
71.4	Plant utilization rate	(%)	72.8	76.2
43.69	Average price of Brent Dated FOB	(dollars/barrel)	54.27	71.04
367	Average price of Virgin Naphtha FOB Med	(dollars/tonne)	467	582
1.11	Average EUR/USD exchange rate		1.13	1.18

Versalis Group Structure

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



(1) The remaining shareholders are Versalis International SA (1.83%) and Versalis Deutschland (1.83%)

(2) The remaining shareholders are Versalis Deutschland (23.71%), Dunastyr Polystyrene Manufacturing Co.Ltd. (14.43%) & Versalis France SAS (2.86%)

Operating Review

The global economic growth rate recorded in 2018 shows an increase of 3.0%, slightly lower than the previous year (3.2% in 2017). This indicator is a direct consequence of a more general economic growth in almost all geographical areas and in particular the most advanced economies recorded at the aggregate level an increase of 2.2%, with a slight slowdown when compared to the previous year (-0.3%), due to the minor contribution of the European Union countries and the advanced Asian economies (Japan, South Korea, Hong Kong, Singapore and Taiwan), in the face of robust growth in the USA.

As regards emerging and developing countries, Asia confirmed last year's growth rate of 6.5% in 2018, Africa and the Middle East in 2018 recorded rates respectively of 2.9% and 2,0%, further accelerating compared to 2017 (+ 0.1% and + 0.4% respectively). Latin America experienced a substantial slowdown in growth (0.9% in 2018 compared to 1.4% in 2017), particularly due to the Venezuelan instability and political crisis.

According to data from the IMF, OECD and the national statistical institutes, the US recorded real GDP growth of + 2.9%, an increase of 0.7% compared to 2017, supported in particular by the strong increase in Industrial Production and Investments favoured by the fiscal policies of the government and by the tightening of customs tariffs on imported goods. Internal consumption remained substantially stable

On the other side, the EU 28 area recorded a slowdown in GDP in 2018 compared to 2017, at 1.9%, a significantly lower value than the global economy. This figure is linked to a decline in industrial production, the appreciation of the Euro against the main currencies and the slowdown in private consumption.

Inflation in the EU 28 area was 1.9%, slightly up on the previous year, due to the monetary policy measures adopted by the ECB and the increase in energy prices, which occurred in particular in the second half of the year, with an increase in average Brent prices in 2018 to US$ 71 per barrel (+ 31% compared to 2017).

Chemical production in Europe (i.e. the sector of activity homogeneous to that in which Versalis operates) ended 2018 with a 0.8% decrease, remaining the area with the lowest growth rate in the chemical sector worldwide. In fact, worldwide, the increase in demand for chemicals has led to an annual growth of 3.9% in terms of production. In particular, North America recorded a +4.7% increase, similarly to the other main areas that have further improved the already excellent growth rates of the Petrochemical Sector.

The Net Trade of Europe in 2018 worsened slightly compared to 2017, given the growth in consumption (albeit modest) and the simultaneous reduction in production due to competition from American and Middle East exports, favoured by a competitive advantage in terms of costs and the effects of the trade war on US-China duties.

In this macroeconomic context, the Versalis Group in 2018 reported an operating loss of €287 million (operating profit of €490 million in 2017). The result is worse than that of 2017 essentially due to the polyolefin scenario.

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 adequate availability of monomers to cover the needs of the downstream businesses. In particular, olefins (ethylene and butadiene) are integrated with the elastomer and polyethylene 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 (especially the automotive industry).

The 2018 **net sales** from operations of the Versalis Group amounted to €5,123 million compared with €4,851 in 2017 (+5.6%). This increase is mainly due to the 7.1% increase in average unit sales prices of the Intermediates, whilst the sales of Polymers are slightly down(-2.4%).

Sales increased by 6.3%.

In particular, there were:

- higher sales of olefins (+14.8%), mainly spot sales to third parties of ethylene (+30%), to compensate for lower internal consumption in the Polyethylene business, and in the absence of multi-year plant shutdowns;
- lower sales of polymers (-2.5%), in particular polyethylene (-6.3%) as well as elastomers (-3.2%), for the high competitiveness and oversupply in Europe, due to the entry of low-cost products from the USA and Asia.

Production amounted to 9,483 thousand tonnes, 528 thousand tonnes more than in 2017 (+5.9%), due mainly to higher production of intermediates (+8.1%) in particular derivatives (+17.6%); the production of polymers was stable notwithstanding the improvement of Styrenics (+ 8.3%).

The main production increases occured at the following plants: Port Marghera (+22,9%) as a result of the recovery of production capacity following a plant shutdown in 2017, and in the sites of Szàzhalombatta (+20%), Mantua (+11%), and Priolo (+6.7%).

However, the production of the plants decreased in Ferrara (-12,8%), Brindisi (-6,6%) and Oberhausen (-11,9%), due to unscheduled shutdowns in 2018.

The nominal production capacity is in line with 2017. The average utilization rate of the plants, calculated on nominal capacity, was 76.2%, i.e. higher than the 2017 rate (72.8%).

Sales Revenues				
(amount in millions of euros)	**2016**	**2017**	**2018**	***Var. %***
Intermediates	1,688	1,988	**2,401**	20.8
Polymers	2,380	2,730	**2,589**	(5.2)
Other income [(a)]	128	133	**133**	0.0
	4,196	**4,851**	**5,123**	**5.6**

(a) Third Party products sold under agency contracts with foreign trading companies and other service revenues.

Production & availability				
(k tonnes)	**2016**	**2017**	**2018**	***Var. %***
Intermediates	6,580	6,595	**7,130**	8.1
Polymers	2,229	2,360	**2,353**	(0.3)
Production	**8,809**	**8,955**	**9,483**	**5.9**
Consumption & Losses	(4,917)	(4,566)	**(5,085)**	11.4
Purchases & Stock Variances	853	257	**540**	110.1
Total availability	**4,745**	**4,646**	**4,938**	**6.3**

Sales Volumes				
(k tonnes)	**2016**	**2017**	**2018**	***Var. %***
intermediates	2,956	2,748	**3,087**	12.3
Polymers	1,789	1,898	**1,851**	(2.5)
Total Sales	**4,745**	**4,646**	**4,938**	**6.3**

Business review

Intermediates Business Unit

Intermediates sales revenues (€2,401 million) increased by 20.5%, (+€413 million compared to the previous year), due to the increase in the petroleum products prices which affect the average unit prices of the main products of this Business Unit.

Sales volumes increased (+12.3%), in particular ethylene (+30.3%) and also derivatives (+20.4%), owing to improved product availability in 2018 (following shutdowns in 2017).

Average unit sales prices increased overall (+ 7.1%), in particular olefins (+ 10.9%) and aromatics (+ 4.1%) whilst derivatives decreased (- 9.3%).

The **production** of **Intermediates** (7,130 thousand tonnes) increased by 8.1% compared to the previous year: increases in the production of derivatives (+17.6%), aromatics (+8.3%) and olefins (+7.0%).

Polymers Business Unit

Sales revenues from **Polymers** (€2,589 million) decreased by 5.2% (-€141 million compared to the previous year), due to decreased sales volumes (- 2.5%) and to lower average unit prices (- 2.4%).

The **styrenics** business has benefited from improved sales volumes (+ 5.8%) due to greater product availability.

The sales volume of **polyethylene** decreased (-6.4%), with lower sales of EVA (-16.1%), LDPE (-8.6%) and LLDPE (-5.1%), whilst HDPE volumes were up (+ 2.2%), mainly due to the oversupply and competitive pressure from cheaper Middle East and US products; average prices decreased (-3.9%).

The lower sales volumes of **elastomers** is attributable to the reduction is the sales of SBR tyres (-3.6%), EPDM special rubber (-5.7%) and latex (-16.9%); there was an increase in the sales volumes of thermoplastic rubbers (+2.5%) and BR (+1.2%).

The increased sales volumes of **styrene** (+5.8%) is mainly due to the higher sales of styrene (+21.1%) and compact polystyrene (+8.2%) and expandable polystyrene (+5.3%); lower sales volumes for ABS/SAN (-16.0%).

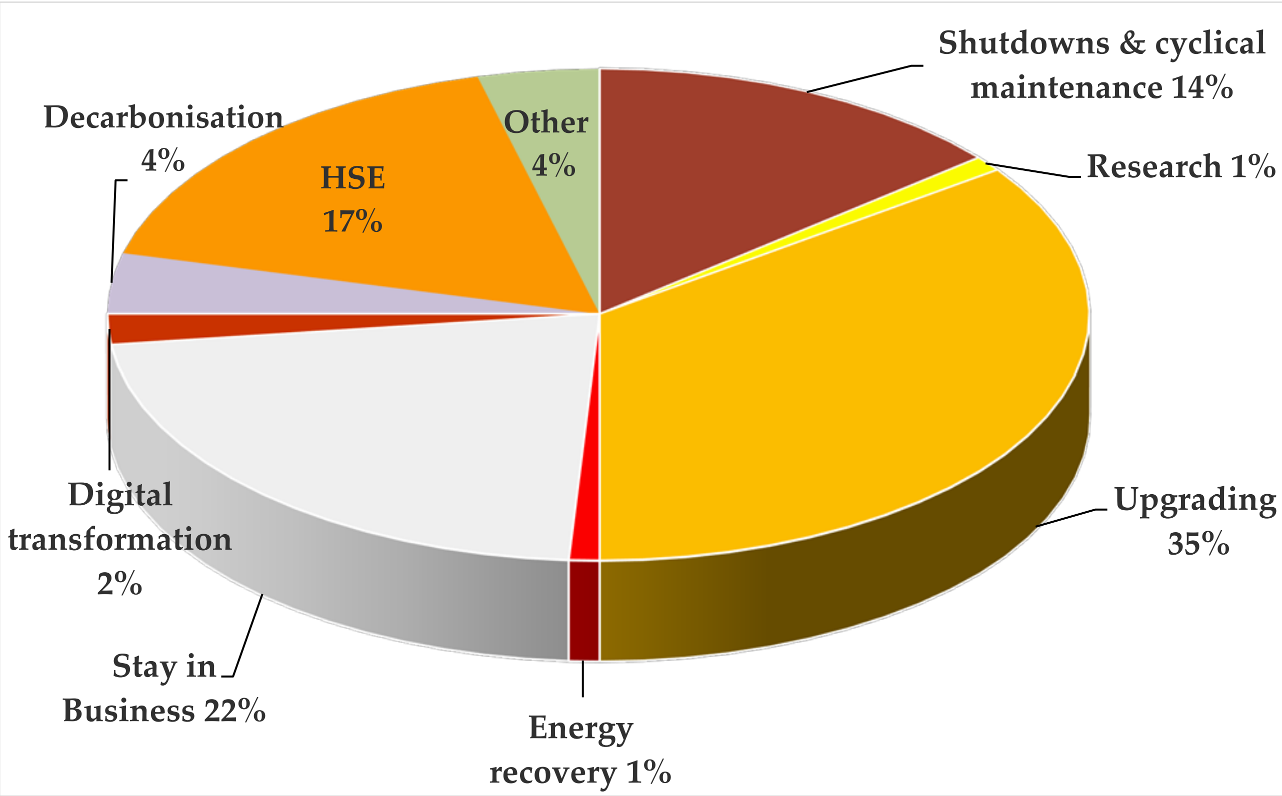
The **Polymers** production (2,353 thousand tons) is in line with the previous year notwithstanding the lower production of polyethylene (-7.3%) and elastomers (-2.7%). The styrenics business recorded a higher production of both styrene (+ 12.1%) and HIPS (+ 11.7%).

Technical Investments

Net investment in tangible and intangible assets for the year amounted to €150 million; this is analysed by business unit in the table here below, and by type of expenditure in the following graph.

Investments				
(amounts in millions of euros)	**2016**	**2017**	**2018**	*Var. %*
Olefins	67	58	29	(50.0)
Aromatics	12	17	9	(47.1)
Derivatives	1	6	2	(66.7)
Styrenes	8	10	4	(60.0)
Elastomers	68	36	38	5.6
Polyethylene	24	13	16	23.1
Green Chemistry	1	2		..
Industrial Services	53	42	40	(4.8)
Staff and financial expenses	7	9	7	(22.2)
Gross Investments in property, plant and equipment	**241**	**193**	**145**	(24.9)
Syndial Grants	(2)			..
Grants, refunds from third parties and change in advances	(1)			..
Investments in property, plant and equipment	**238**	**193**	**145**	**(24.9)**
Investments in intangible assets	**3**	**10**	**5**	**..**
Total	**241**	**203**	**150**	**(26.1)**

Net investment by type



The main technical investments for the year were the following:

- upgrade work (€53 million) mainly related to strategic projects undertaken for the development of the Elastomers business in Ferrara (€32.4 million), for the new boliers at the Porto Marghera plant (€12.3 million) and the C9 cutting enhancement project at the Priolo (€6.6 million);
- work to ensure plant compliance with safety and environmental regulations (€26 million)
- scheduled maintenance on the polyethylene plants at Oberhausen, Ferrara and Ragusa for a total of €10.5 million;
- minor maintenance work and improvements in the reliability of the plants at various facilities (€30.1 million);
- cyclical maintenance interventions mainly for recoil on the furnaces of the ethylene plants of Brindisi, Dunkirk, Porto Marghera and Priolo, and on the underground tanks of Ravenna (€9.5 million);
- work on the buildings and utility networks at the Porto Torres site in preparation for the Green Chemistry project (€3.1 million);
- Decarbonisation activities (€6.6 million) regarding the Dunkirk Auxiliary boiler on gas only project;
- Digital transformation tasks (€3 million) related to the activities which were started on the Brindisi pilot site
- Energy recovery work (€1.5 million);
- research activities (€1.7 million), partly for the completion activity regarding the new "one step" facility in the Mantua plant (€0.6 million).

Financial review Versalis Group

Profit and Loss Account

2016	(amounts in millions of euros)	2017	2018	Variance	Var. %
4,196	Net sales from operations	4,851	5,123	272	5.6
48	Other income and revenues	152	123	(29)	(19.1)
(3,986)	Operating expenses	(4,515)	(5,200)	(685)	15.2
(7)	Other operating (expense) income	2	(16)	(18)	..
(37)	Depreciation, depletion, amortization and impairments		(317)	(317)	..
(1)	Losses due to eliminations/disposals				..
213	**Operating profit (loss)**	**490**	**(287)**	**(777)**	**..**
(97)	Net financial income (expense)	(127)	7	134	..
(19)	Net income (expense) from investments	(61)	(70)	(9)	14.8
97	**Profit (Loss) before income taxes**	**302**	**(350)**	**(652)**	**..**
66	Income taxes	1	(110)	(111)	..
(68.0)	*Tax Rate (%)*	*(0.3)*	*(31.4)*	*17.0*	..
163	**Net profit (loss)**	**303**	**(460)**	**(763)**	**..**

Net Loss

In 2018, the Versalis Group recorded a **net loss** of €460 million, with a reduction of €763 million compared to the previous year.

The operating results decreased by €777 million, mainly due to the following:

- reduction of cracker margins due to the higher oil prices, as well as a decrease in the butadiene-naphtha spread;
- European oversupply of polyethylene, due to low-cost imports from the USA and the Middle East;
- outcome of the impairment test on production facilities, which resulted in impairment losses of €203 million against writebacks of € 81 million in the previous year;
- lower income from the sale of energy efficiency certificates of €34 million compared to the previous year;
- increased amortization of €33 million, due to the write-backs of the previous year.

Analysis of profit and loss account items

Net sales from operations

2016	(amounts in millions of euros)	2017	2018	Variance	Var. %
1,087	Olefins	1,308	1,666	358	27.4
290	Aromatics	328	340	12	3.7
311	Derivatives (*)	352	365	13	3.7
539	Elastomers	699	665	(34)	(4.9)
647	Styrenes (*)	723	749	26	3.6
1,194	Polyethylene	1,308	1,175	(133)	(10.2)
128	Corporate and services	133	163	30	22.6
4,196		**4,851**	**5,123**	**272**	**5.6**

Net sales from operations increased by €272 million, due to the increase in average unit sales prices for Intermediates, partially offset by a decline in the prices of Polymers, and a 6% increase in sale volumes.

Other income and revenues

Other income and revenues decreased by €29 million compared to the previous year, mainly due to the lower sales of Energy Efficiency Securities (€34 million) and lower revenues derived from the sale of licenses (€6 million). These effects are partially offset by the increase in income deriving from the sale of emission rights (€4 million), the higher recovery costs of the Syndial guarantee Provision (€4 million) and the gains on the disposal of fixed assets (€2 million).

Operating expenses

2016	(amounts in millions of euros)	2017	2018	Variance	Var. %
2,481	Production costs – raw, ancillary & consumable materials and goods	2,882	3,466	584	20.3
1,109	Service costs	1,174	1,261	87	7.4
22	Operating leases and other	22	27	5	22.7
9	Net provisions for contingencies	24	37	13	54.2
21	Other expenses	72	52	(20)	(27.8)
344	Payroll and related costs	341	356	15	4.4
	Increases in capitalized internal work		1	1	..
3,986		**4,515**	**5,200**	**685**	**15.2**

Operating expenses increased by €685 million (+15.2%), as shown in the table above.

The increase of 20.3% in the cost of raw, ancillary and consumable materials and goods and inventory changes is mainly due to the increase, compared to the previous year, of the average unit price in euro of the virgin naphtha and of the quantities purchased.

Service costs increased by 7.4% due to the increase in the prices of utilities (natural gas, gas, steam) partially offset by efficiency and savings operations.

The €13 million increase in **net provisions for contingencies** is mainly due to higher net accruals to the provision for disputes and litigation (€ 5 million), to the provision for risks and environmental charges (€ 4 million) and to the mutual insurance Provision ILO (€ 2 million).

Other expenses decreased by €20 million mainly due to lower write-downs of trade receivables (€24 million) offset by an increase in costs for green certificates (€3 million).

Payroll and related costs decreased by €15 million, as a result of the wage dynamics and the increase in personnel resulting from the acquisition of the "Bio" branch of the Mossi & Ghisolfi group which took effect onNovember 1, 2018, and also due to the reduced utilization for redundancy of the provision for early retirement, (when compared to the previous year).

Other operating (expense) income

Other operating expenses of €16 million (€2 million in 2017) relate to derivatives hedging the price risk of virgin naphtha which, although not speculative, cannot be classified as "hedges" for IFRS standards.

Depreciation, amortization and impairment

2016	(amounts in millions of euros)	2017	2018	Variance	Var. %
51	Tangible assets	75	107	32	42.7
4	Intangible assets	6	7	1	16.7
55	**Depreciation and amortization**	**81**	**114**	**33**	**40.7**
(18)	**Impairments (write-back)**	**(81)**	**203**	**284**	**..**
37			**317**	**317**	**..**

Depreciation and amortization increased by €33 million compared to the previous year, due to the restoration of value of assets carried out in 2017.

The impairment test carried out in 2018, resulted in net impairment losses totaling €203 million (€186 million on tangible assets and €16 million on intangible assets).

The **write-backs** and **impairment losses** of **tangible assets**, whose net effect is impairment losses of €187 million, mainly refer to the following CGUs: Priolo plant (€134 million write-down), Mantua styrene (full write-down of €56 million), Ravenna plant (write-down of €32 million), Porto Marghera plant (full write-down of €27 million), Porto Torres services (full write-down of €7 million), Ferrara polyethylene (full write-down of €5 million), Ragusa plant (full write-down of €4 million), Brindisi butadiene (full write-down of €1 million), Szàzhalombatta plant (full write-down of € 1 million), Ferrara Elastomeri (write-back of €71 million), Mantua intermediates (write-back of €5 million) and Brindisi intermediate polyethylene (write-back of €4 million). For more details, see note no. 7 "Property, plant and equipment" in the consolidated financial statements notes.

The **write-backs** and **write-downs** of **intangible assets**, whose net effect is impairment losses of €16 million, refer mainly to the licenses and technologies of the following CGUs: Mantua styrene (write-down of €8 million); Ravenna plant (write-down of €4 million) and Porto Marghera plant (write-down of €4 million).

Net financial (expenses) income

2016	(amounts in millions of euros)	2017	2018	Variance	Var. %
(15)	Finance income (expense) related to net borrowings	(4)	(5)	(1)	(25.0)
(84)	Income (expense) on loans & securities related to operations	(125)	9	134	..
(1)	Finance Income (expense) on derivative contracts	(3)	(5)	(2)	(66.7)
	Exchange differences	1	3	2	..
(3)	Other finance income (expense)	(3)	(1)	2	66.7
6	Capitalized finance expense	7	6	(1)	14.3
(97)		**(127)**	**7**	**134**	**..**

Net financial income improved compared to the previous year essentially due to the devaluation, carried out in 2017, of the financial credit utilized for the Matrica operating activity.

These derivative instruments do not meet the conditions specified by IAS 39 in order to be classified as “hedges” and, therefore, the related charges in fair value are recorded in the income statement.

Net income (expense) from investments

2016	(amounts in millions of euros)	2017	2018	Variance	Var. %
(6)	Share of profit (loss) of equity-method investments	(23)	(43)	(20)	(87)
(13)	Other net income (expense)	(38)	(27)	11	29
(19)		**(61)**	**(70)**	**(9)**	**(15)**

The **net expense from investments** of €70 million concerns the effects of the valuation with the equity method of the investments in Lotte Versalis Elastomers (€39 million) and Novamont (€5 million) and the provision to cover losses made following the assumption, by Versalis SpA, of the commitment to meet the financial requirements, for the 2019 financial year, of the joint venture company Matrìca (€27 million).

Income taxes

The tax rate analysis is as follows:

2016	(amount in millions of euros)	2017	2018	Variance
	Profit before income taxes			
(68)	Italy	145	(378)	(523)
165	Abroad	157	28	(129)
97		**302**	**(350)**	**(652)**
	Income taxes			
(53)	Italy	(8)	102	110
(13)	Abroad	7	8	1
(66)		**(1)**	**110**	**111**
	Tax rate (%)			
77.9	Italy	(5.5)	(27.0)	110
(7.9)	Abroad	4.5	28.6	24
(68.0)		**(0.3)**	**(31.4)**	**(31.1)**

The increase in the tax rate is mainly due to the write-down of deferred tax assets which are deemed to be unrecoverable. For a description of the principal changes in the *reported* tax rate, see the paragraph "Income Taxes" of the notes to the consolidated financial statements.

Reclassified balance sheet

The reclassified balance sheet scheme aggregates the assets and liabilities of the statutory scheme according to the criterion of the management functionality of the company, considered to be conventionally divided into three fundamental functions: investment, operation and financing. Management believes that the proposed scheme represents a useful information for the investor because it makes it possible to identify the sources of financial resources (i.e. own and third-party) and the uses of the same in fixed assets and operating assets. The reclassified balance sheet is used by management to calculate the main financial ratios of return on invested capital (ROACE) and the solidity/balance of the financial structure (leverage).

Reclassified balance sheet (*)

(amounts of euros)	31.12.2017	31.12.2018	Variance
Fixed assets			
Property, plant and equipment	927	797	(130)
Intangible assets	70	124	54
Investments	222	175	(47)
Receivables and securities held for operating activities	2	2	
Net payables related to capital expenditure	(32)	(47)	(15)
	1,189	**1,051**	**(138)**
Net working capital			
Inventories	719	807	88
Trade receivables	585	557	(28)
Trade payables	(749)	(653)	96
Tax receivables (payables) and provisions for deferred tax	179	88	(91)
Provisions for risks and charges	(132)	(149)	(17)
Other current assets (liabilities)	50	43	(7)
	652	**693**	**41**
Provisions for employee benefits	**(67)**	**(70)**	**(3)**
NET CAPITAL EMPLOYED	**1,774**	**1,674**	**(100)**
Shareholders' equity	**1,815**	**1,044**	**(771)**
Net financial debt (surplus)	**(41)**	**630**	**671**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**1,774**	**1,674**	**(100)**

(*) See "Reconciliation of reclassified balance sheet, income statement and cash flow statement with the statutory financial statements."

Fixed Assets

The main changes to the items of fixed assets are commented on here below.

Property, plant and equipment totaled €797 million, decreased by €130 million, mainly due to the outcome of the impairment test that resulted in a net write-down of the plants (€187 million) and amortization for the year (€107 million), effects partially offset by technical investments for the year (€145 million) and from the acquisition, from the Mossi& Ghisolfi Group, of the financial lease on the biomass power plant relating to the "Bio" business unit (discounted value recorded in the financial statements of €16 million, with a nominal value of €19 million).

Intangible Assets, amounting to €124 million, increased by €54 million, mainly due to due to the registration of licenses (€47 million) and goodwill (€26 million) acquired with the "Bio" business unit (from the Mossi & Ghisolfi Group). Technical investments for the period amounted to €5 million. These effects were partially offset by write-downs (€16 million) and depreciation for the period (€7 million).

Equity investments, amounting to €175 million, decreased by €47 million, essentially due to the valuation with the equity method of the joint venture Lotte Versalis Elastomers Co. Ltd (€39 million) and the subsidiary Novamont (€5 million) as well as for the repayment of the share capital received for the liquidation of the subsidiary Eni Chemical Trading (€4 million).

Net working capital
The main changes to the items of net working capital are commented on below.
The increase of €88 million in **inventories** is attributable to both an increase quantities in stock and also an increase in the value of inventories, and refers to finished products for €62 million, raw materials, consumables and supplies for €24 million and semi-finished products for €1 million. These amounts include net devaluation provisions amounting to €16 million, for the adjustment to the market value of the quantities in stock.

The € 28 million decrease in **trade receivables** is essentially due to the receivables transferred to factoring companies, which in December 2018 was higher than in 2017, and by a reduction in sales turnover in the last months of the year.

The decrease in **tax receivables and net tax provisions** of €91 million is mainly due to: (i) the reduction of the net deferred tax assets (€102 million) and (ii) the net decrease of receivables from the holding company Eni SpA for participation in the National Tax Consolidation (€11 million). The above decreases were partially offset by the €8 million increase in the IRAP advance, the €6 million increase in other current income tax assets and the €4 million increase in current income tax assets.

The €17 million increase in **provisions for risks and charges** is mainly due to the net accrual of €12 million to the provision for environmental risks and charges and €5 million to the provision for disposals and restructuring.

The decrease of €6 million in **other current assets and liabilities** for the year is mainly due to the €7 million decrease in advances to suppliers, the increase of €6 million of receivables from third parties, the €4 million increase in derivatives payable, partially offset by a €10 million increase in other current receivables.

Statement of comprehensive income

(amounts in millions of euros)	2017	2018
PROFIT (LOSS) FOR THE PERIOD	**303**	**(460)**
Other items of comprehensive profit (loss):		
Valuations of defined-benefit plans for employees	3	(3)
Foreign currency translation differences	(4)	(1)
Tax effect relative to the other components of the comprehensive loss that cannot be reclassified in the profit and loss account	(1)	1
TOTAL COMPREHENSIVE PROFIT (LOSS) FOR THE YEAR	**301**	**(463)**

Shareholders' equity

Shareholders' equity as at December 31, 2017	**1,815**
Total comprehensive profit for the year	**(463)**
Distribution of dividends	**(304)**
Adoption of new accounting standards - IFRS9	**(4)**
Shareholders' equity as at December 31, 2018	**1,044**

Shareholders' equity amounted to €1,044 million and decreased by €771 million compared to 2017 due to the overall loss for the year (€462 million), the distribution of dividends to the parent company Eni S.p.A. (€304 million), the effects of the application of the new accounting standard IFRS 9 (€4 million) and the reserve relating to employee benefits pursuant to IAS 19 (€1 million).

Net financial debt and Leverage

Leverage measures the extent of the Group's level of indebtedness and is calculated as the ratio between the net financial debt and shareholders' equity. Versalis management utilizes leverage to assess the degree of solidity and efficiency of the asset structure in terms of optimum financing mix between third-party funding and its own resources, as well as to perform benchmarking with industry standards.

(amounts in millions of euros)	31.12.2017	31.12.2018	Variance
Short-term debt	88	592	504
Medium/long-term debt	72	82	10
Cash and cash equivalents	(201)	(44)	157
Net financial debt (surplus)	**(41)**	**630**	**671**
Shareholders' equity	**1,815**	**1,044**	**(771)**
Leverage	**(0.02)**	**0.60**	**0.63**

The increase of € 671 million in net financial debt is essentially due to the reduced net cash flow from operating activities, which, together with the distribution of dividends and technical and financial investments, generated a negative cash flow. For further details, please refer to the comment on the reclassified cash flow statement.

Leverage, the ratio between net financial debt and shareholders' equity, was +0.60 in 2018 (-0.02 in 2017).

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

	Profit (Loss) for the year		Shareholders' equity	
(amounts in millions of euros)	**2017**	**2018**	**31.12.2017**	**31.12.2018**
As recorded in the annual Financial Statements of Versalis SpA	**320**	**(355)**	**1,860**	**1,196**
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	**(68)**	**(62)**	**(101)**	**(170)**
Consolidation adjustments:				
- elimination of tax adjustments and compliance with accounting policies	**47**	**(41)**	**24**	**(12)**
- deferred taxation	**4**	**(2)**	**32**	**30**
As recorded in the Consolidated Financial Statements	**303**	**(460)**	**1,815**	**1,044**

Reclassified Cash Flow Statement

The Reclassified 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 ends alternatively with: (i) changes in cash and cash equivalents for the period after adding/deducting cash flows relative to finance debts/receivables (issuance/repayment of debts and receivables related to financing activities), shareholders' equity (dividends paid, purchase of own shares, capital issuance) and the effect on cash and cash equivalent of changes in the consolidation area and of exchange rate differences; (ii) change in the net financial debt for the period, after adding/deducting cash flows relating to shareholders'equity, and the effect on the net financial debt of changes in the consolidation area and of exchange rate differences.

Reclassified Cash Flow Statement (*)

2016	(amounts in millions of euros)	2017	2018	Variance
163	**Net profit (loss) for the period**	**303**	**(460)**	**(763)**
	Adjustments to reconcile net profit (loss) to net cash provided by operating activities:			
151	- depreciation and amortization and other non monetary items	197	381	184
	- net gains on disposal of assets		(2)	(2)
(66)	- dividends, interest, taxes and other charges	(14)	104	118
259	Changes in w orking capital	(19)	(141)	(122)
(38)	Dividends received, taxes (paid) received, interest (paid) received	11	(2)	(13)
469	**Net cash flow provided by operating activities**	**478**	**(120)**	**(598)**
(241)	Investments in fixed assets	(202)	(150)	52
(23)	Investments and purchase of consolidated subsidiaries and busine:	(63)	(103)	(40)
1	Disposals		4	4
(9)	Financial investments	(9)	4	13
36	Other cash flow related to investing activities	(31)	14	45
233	**Free cash flow**	**173**	**(351)**	**(524)**
(260)	Change in short-term and long-term debt	(95)	499	594
	Cash flow from capital and reserves		(304)	(304)
(27)	**NET CASH FLOW FOR THE PERIOD**	**78**	**(156)**	**(234)**

2016	(amounts in millions of euros)	2017	2018	Variance
233	**Free cash flow**	**173**	**(351)**	**(524)**
1,086	Exchange differences on net borrow ings and other changes	1		(1)
	Change in financial debts and credits on company branches		(16)	(16)
	Cash flow from capital and reserves		(304)	(304)
1,319	**CHANGE IN NET BORROWINGS**	**174**	**(671)**	**(845)**

* See the paragraph "Reconciliation of the reclassified consolidated financial statements with the statutory financial statements ".

In 2018, the **net cash flow from operating activities**, decreased by €120 million. The outlays for capital expenditure (€150 million), the equity investments (€103 million), were partially offset by the change in receivables related to investing activities (€14 million) and financial investments (€4 million), which generated a negative free cash flow of €351 million. The distribution of dividends (€ 304 million) and the finance lease debt included in the acquisition of the Bio power plant from Mossi & Ghisolfi (discounted value recorded in the financial statements of €16 million, nominal value of €19 million) resulted in a change in the net financial debt of €671 million.

Reconciliation of the reclassified consolidated financial statements with 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 consolidated financial statements (statutory format) (amounts in millions of euros)	Ref. to notes to the consolidated financial statements	31.12.2017 Partial amounts from the consolidated financial statements	31.12.2017 Amounts from the reclassified financial statements	**31.12.2018** Partial amounts from the consolidated financial statements	**31.12.2018** Amounts from the reclassified financial statements
Fixed assets					
Property, plant and equipment			927		797
Intangible assets			70		124
Equity accounted investments			219		172
Other investments			3		3
Receivables & securities for operating activities, made up of:			2		2
- other receivables					
- other non-current financial assets		2		2	
Net payables related to capital expenditures, made up of:			(32)		(47)
- payables related to capital expenditures	(see Note 16)	(32)		(47)	
Total fixed assets			**1,189**		**1,051**
Net working capital					
Inventories			719		807
Trade receivables			585		557
Trade payables			(749)		(653)
Tax receivables (payables) & provisions for tax, made up of:			179		88
- income tax payables	(see Note 17)	(5)		(1)	
- other tax payables	(see Note 18)	(14)		(12)	
- deferred tax liabilities	(see Note 23)	(1)		(2)	
- payables for tax transparency v/s joint ventures	(see Note 16)	(2)		(2)	
- payables for Group VAT		(2)		(19)	
- current tax assets	(see Note 4)	3		15	
- other current tax assets	(see Note 5)	8		14	
- deferred tax assets	(see Note 12)	177		75	
- receivables for tax consolidation		15		4	
- receivables for Group VAT	(see Note 2)			16	
Provisions for risks and charges			(132)		(149)
Other current assets and liabilities, made up of:			50		43
- other receivables	(see Note 2)	126		129	
- other (current) assets	(see Note 6)	4		3	
- other receivables and other assets (non current)	(see Note 13)	1			
- advances, other payables	(see Note 16)	(73)		(72)	
- other (current) liabilities	(see Note 19)	(8)		(17)	
- other payables and other liabilities (non current)	(see Note 24)				
Total net working capital			**652**		**693**
Provisions for employee benefits			**(67)**		**(70)**
NET CAPITAL EMPLOYED			**1,774**		**1,674**
Shareholders' equity			**1,815**		**1,044**
Net borrowings					
Total debt, made up of:					
- long-term debt	(see Note 20)	67		66	
- current portion of long-term debt	(see Note 20)	5		16	
- short-term debt	(see Note 14)	88		592	
Less: Cash and cash equivalents					
Total net borrowings	(see Note 1)	(201)		**(44)**	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY			**(41)**		**630**

Reclassified Consolidated Cash Flow Statement

Items of the Reclassified Cash Flow Statement and confluence/reclassification of items in the Consolidated Cash Flow Statement (statutory format) (amounts in millions of euros)	2017		**2018**	
	Partial amounts from the consolidated financial statements	Amounts from the reclassified financial statements	Partial amounts from the consolidated financial statements	Amounts from the reclassified financial statements
Net Profit (Loss)		**303**		**(460)**
Adjustments to reconcile net profit (loss) to net cash provided by operating activities:				
Depreciation and amortization and other non-monetary items		197		381
- depreciation and amortization	81		114	
- net impairment of tangible and intangible assets	(81)		203	
- eliminations				
- effect arising from the evalutation at the equity method	61		70	
- currency translation differences from alignment	2		(2)	
- economic effects on securities and financial receivables	133		(4)	
- valuation of equity investments valued at cost				
- net change in provision for employee benefits	1			
Net gains on disposal of assets				(2)
Dividends, interest, income taxes and other charges		(14)		104
- dividends				
- interest income	(9)		(4)	
- interest expense	(4)		(2)	
- income taxes	(1)		110	
Changes in working capital		(19)		(141)
- inventories	(129)		(84)	
- trade receivables	(3)		23	
- trade payables	80		(96)	
- provisions for risks and charges	7		19	
- other assets and liabilities	26		(3)	
Dividends received, taxes paid, interest (paid) received during the period		11		(2)
- dividends received	1		1	
- interest received			4	
- interest paid	4		3	
- Income taxes received (paid) including tax credits rebated	6		(10)	
Net cash flow provided by operating activities		**478**		**(120)**
Capital expenditures		(202)		(150)
- tangible assets	(192)		(145)	
- intangible assets	(10)		(5)	
Investments and purchase of consolidated subsidiaries and businesses		(63)		(103)
- non consolidated investments	(63)		(28)	
- investments and purchase of consolidated subsidiaries and businesses			(75)	
Divestments and partial disposals of consolidated investments				4
- tangible assets				
- investments			4	
Other changes related to investment activity		(40)		18
- financial investments: financial receivables	(9)		4	
- change in payables and receivables related to investments	(31)		14	
Free cash flow		**173**		**(351)**
Change in short-term and long-term debt		(95)		499
- proceeds from long-term finance debt				
- payments from long-term finance debt	(5)		(5)	
- change in short-term finance debt	(89)		504	
- foreign currency exchange differences	(1)			
- change in the consolidation of cash & cash equivalents				
Cash flow from equity capital:				**(304)**
- net capital contribution (repayments) by/to third parties			**(304)**	
Net cash flow for the period		**78**		**(156)**

Financial review – Versalis SpA

Profit and Loss Account

2016	(amounts in millions of euros)	2017	2018	Variance	Var. %
3,455	Net sales from operations	3,850	4,111	261	6.8
48	Other income and revenues	151	119	(32)	(21.2)
(3,368)	Operating expenses	(3,657)	(4,251)	(594)	16.2
(7)	Other operating (expense) income	2	(16)	(18)	..
(74)	Depreciation, amortization and impairment	(13)	(274)	(261)	..
54	**Operating Profit (Loss)**	**333**	**(311)**	**(644)**	**..**
(97)	Net finance income (expense)	(125)	7	132	..
139	Net income (expense) from investments	101	51	(50)	(49.5)
96	**Profit (Loss) before income taxes**	**309**	**(253)**	**(562)**	**..**
54	Income taxes	11	(102)	(113)	..
150	**Net Profit (Loss)**	**320**	**(355)**	**(675)**	**..**

Net profit

The financial statements of Versalis SpA show a net loss for the period of €355 million (€320 million net profit in 2016), determined by the operating loss of €311 million, net finance income of €7 million and net investment income of €51 million and by income taxes of €102 million.

The operating result decreased by €279 million, mainly as a consequence of the following:

- reduction of cracker margins due to the higher cost of oil, as well as a decrease in the butadiene-naphtha spread
- European oversupply of polyethylene, due to low-cost imports from the USA and the Middle East;
- outcome of the impairment test on production plants, which resulted in write-downs of €202 million against write-backs of €33 million in the previous year;
- lower income from the sale of energy efficiency certificates of €34 million compared to the previous year;
- higher depreciation of €26 million, due to the write-backs in 2017.

Analysis of the profit and loss account items

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

Net sales from operations

2016	(amounts in millions of euros)	2017*	2018	Variance	Var. %
925	Olefins	950	1,266	316	33.3
290	Aromatics	328	340	12	3.7
311	Derivatives	351	365	14	4.0
462	Elastomers	574	528	(46)	(8.0)
595	Styrenes	685	715	30	4.4
751	Polyethylene	834	743	(91)	(10.9)
121	Corporate and services	128	154	26	20.3
3,455		**3,850**	**4,111**	**261**	**6.8**

* Data restated for uniformity of representation

Net sales from operations increased by €261 million mainly due to the increase in average unit sales prices of intermediates and the increase in quantities sold.

Other income and revenues

Other income and revenues decreased by €32 million compared with the previous year due mainly to the decreased revenues derived from the sale of Energy Efficiency Certificates (€34 million) and the sale of licenses (€6 million) and lower recovery of costs and charges (€4 million). These effects were partially offset by increased income from the sale of emission rights (€4 million), increased recovery costs related to the Syndial guarantee Provision (€4 million), higher capital gains on the sale of fixed assets (€2 million) and other charges (€1 million).

Operating expenses

2016	(amounts in millions of euros)	2017	2018	Variance	Var. %
2,047	Production costs – raw, ancillary and consumable materials and goods and inventory changes	2,252	2,741	489	21.7
1,007	Service costs	1,059	1,130	71	6.7
16	Operating leases and other	16	21	5	31.3
20	Net provisions for contingencies	14	37	23	..
7	Other expenses	47	42	(5)	(10.6)
271	Payroll and related costs	269	280	11	4.1
3,368		**3,657**	**4,251**	**594**	**16.2**

Operating expenses increased by €594 million, equal to 16.2%, as shown in the table above.

The increase of 21.7% in the **cost of raw, ancillary and consumable materials and goods and inventory changes** was primarily due to an increase in the average unit price in euros of the virgin naphtha compared to the previous year and an increase in the quantities purchased.

Service costs increased by 6.7%, mainly due to the increase in utilities prices (methane, elettricity and steam. These effects were only partially offset by efficiency and savings operations.

The €37 million in **net provisions for contingencies** refers mainly to the following: (i) the provision for restructuring and divestitures (€16 million), (ii) the provision for risks and environmental liabilities (€13 million), (iii) the provision for risks and charges for disputes (€5 million), (iv) mutual Provision for OIL insurance (€2 million).

Other expenses decreased by €5 million mainly due to lower write-downs of trade receivables (€20 million) partially offset by an increase in costs for the purchase of energy efficiency certificates (€4 million), other taxes and fees (€4 million) and other costs and expenses (€7 million).

Payroll and related costs increased by €16 million mainly due to the effect of wage dynamics and due to the increase in personnel resulting from the acquisition of the "Bio" branch of the Mossi & Ghisolfi group which took effect on November 1, 2018.

Other operating (expense) income

Other operating expenses of €16 million (€2 million in 2017) are related to derivatives used to cover the virgin naphtha price risk that, although not held for speculative purposes, are not classifiable as "hedges" in accordance to the IFRS standards.

Depreciation, amortization and impairment

2016	(amounts in millions of euros)	2017	2018	Variance	Var. %
30	Tangible assets	41	67	26	63.4
4	Intangible assets	5	5		
34	**Depreciation and amortization**	**46**	**72**	**26**	**56.5**
40	**Impairments**	**(33)**	**202**	**235**	**..**
74		**13**	**274**	**261**	**..**

Depreciation and amortization increased by €26 million compared with the previous year, mainly due to the effects of the write-back of assets made in the previous year.
Following the outcome of the impairment test carried out in 2018, there was a write-down amounting to €202 million (€186 million tangible assets and €16 million intangible assets).

The write-backs and write-downs of tangible assets, the net effect of which is a devaluation of €186 million, refer mainly to the following CGU: Priolo plant (write-down of €134 million), Styrene - Mantua plant (full write-down of €56 million), Ravenna plant (write-down of €32 million), Porto Marghera plant (full write-down of €5 million), Services - Porto Torres plant (full write-down of €7 million), Polyethylene – Ferrara plant (full write-down of €5 million), Ragusa plant (full write-down of €4 million), Butadiene - Brindisi plant (full write-down of €1 million), Elastomers – Ferrara plant (write-back of €71 million) Intermediates – Mantova plant (write-back of €5 million), and Intermedites & Polyethylene – Brindisi plant (write-back of €4 million). For further details, see Note 7 "Property, plant and equipment" of the Notes to the financial statements.

Write-backs and write-downs of intangible assets, whose net effect is impairment losses of €16 million, refer mainly to licenses and technologies of the following CGUs: styrene – Mantua plant (write-down of €8 million); Ravenna plant (write-down of €4 million) and Porto Marghera plant (write-down of €4 million).

Net financial expenses

2016	(amounts in millions of euros)	2017	2018	Variance	Var. %
(14)	Financial income (expense) related to net borrowings	(1)	(5)	(4)	..
(85)	Income (expense) on loans and securities related to operations	(125)	9	134	..
(1)	Income (expense) on derivative contracts	(3)	(5)	(2)	66.67
	Exchange differences	1	4	3	..
(3)	Other financial income (expense)	(4)	(2)	2	(50.00)
6	Financial expenses capitalized	7	6	(1)	(14.29)
(97)		**(125)**	**7**	**132**	**..**

Net financial income improved compared to the previous year essentially due to the devaluation, carried out in 2017, of the financial credit required for the Matrica operating activity.

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

Net income (expense) from investments

2016	(amounts in millions of euros)	2017	2018	Variance	Var. %
16	Dividends	33	90	57	..
123	(Allocations to) Utilization of provisions for impairment of investmer	106	(9)	(115)	..
	(Allocations to) Utilization of provisions to cover losses	(38)	(30)	8	(21.1)
139		**101**	**51**	**(50)**	**(49.5)**

The **net income from investments** of €51 million refers to dividends received from the subsidiaries Versalis France (€79 million), Versalis Deutschland (€6 million) and Versalis International (€5 million); partially offset by the accrual to the provision to cover losses made following the assumption by Versalis SpA of the commitment to meet the financial requirements, expected for the year 2019, of the jointly controlled company Matrìca (€ 27 million) and of the subsidiary Dunastyr (€3 million) and (ii) from the write-down of the investment in Dunastyr (€9 million).

Income taxes

2016	(amounts in millions of euros)	2017	2018	Variance
	Current taxes			
(28)	IRES	(16)	1	17
	IRAP	9		(9)
(28)		**(7)**	**1**	**8**
15	Deferred taxes	15	(10)	(25)
(41)	Prepaid taxes	(18)	111	129
(26)		**(3)**	**101**	**104**
(54)		**(10)**	**102**	**112**

The increase in income tax of €112 million, compared with the previous year, derives mainly from the increased write-downs of prepaid taxes, from the reduction in income for the consolidated IRES tax (current and previous years), effects partially offset by the reduction in deferred taxes and current IRAP tax.

Reclassified Balance Sheet [1]

Reclassified Balance Sheet (*)

(amounts in millions of euros)	31.12.2017	31.12.2018	Variance
Fixed assets			
Property, plant and equipment	652	541	(111)
Intangible assets	69	123	54
Investments	630	617	(13)
Receivables and securities held for operating activities	1	2	1
Net payables related to capital expenditure	(29)	(45)	(16)
	1,323	**1,238**	**(85)**
Net working capital			
Inventories	565	618	53
Trade receivables	497	470	(27)
Trade payables	(664)	(561)	103
Tax receivables (payables) and provisions for deferred tax	149	47	(102)
Provisions for risks and charges	(114)	(135)	(21)
Other current assets (liabilities)	100	95	(5)
	533	**534**	**1**
Provisions for employee benefits	**(67)**	**(68)**	**(1)**
NET CAPITAL EMPLOYED	**1,789**	**1,704**	**(85)**
Shareholders' equity	**1,860**	**1,196**	**(664)**
Net borrowings	**(71)**	**508**	**579**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**1,789**	**1,704**	**(85)**

(*) See "Reconciliation of reclassified balance sheet, income statement and cash flow statement with the statutory financial statements."

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

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

Fixed assets

Property, plant and equipment amounted to €541 million, decreased by €111 million essentially due to the outcome of the impairment test which resulted in a net write-down of the plants of €186 million and of the amortization for the year (€67 million), effects partially offset by the technical investments for the year (€126 million) and the acquisition, from the Mossi & Ghisolfi Group, of the financial lease on the biomass power plant relating to the "Bio" business unit (discounted value in the financial statements equal to €16 million, nominal value equal to €19 million).

Intangible assets amounted to €123 million, increased by €54 million mainly due to the registration of licenses (€47 million) and goodwill (€26 million) acquired with the "Bio" business unit by the Mossi & Ghisolfi Group. Technical investments for the period amounted to €1 million. These effects were partially offset by write-downs (€16 million) and depreciation for the period (€5 million).

Equity investments amounted to €617 million, a decrease of €13 million mainly due to the write-down of the Dunastyr investment (€9 million) and for the repayment of share capital received for the liquidation of Eni Chemical Trading (€4 million).

Net working capital

The increase of €53 million in **inventories** is attributable both to an increase in stocks and to an increase in the value of inventories and concerns finished products for €34 million and raw materials, supplies and consumables for €18 million. These amounts include the utilization of the provision for the impairment of investments of €14 million for the adjustment to market value of inventories in stock.

The decrease of €27 million in **trade receivables** is mainly due to the assignment of receivables to factoring companies, which in December 2018 was higher than in 2017, and by a reduction in turnover in the last months of the year.

The decrease in **tax assets and net provisions for taxes** of €102 million is mainly due to the reduction of €99 million in net deferred tax assets and the net decrease of €11 million in receivables from the parent company Eni SpA for acceptance of the National Tax Consolidation, these effects were partially offset by the €8 million increase IRAP deposit.

The increase of €21 million in **provisions for risks and charges** was due to the net provision of €13 million to the provision for risks and environmental charges and €5 million to the provision for disposals and restructuring, as well as to the provision of €3 million to the provision to cover losses of the subsidiary Dunastyr.

The decrease of €5 million in **other current net assets** is mainly due to reduction of €8 million in advances to suppliers, of €4 million in receivables for the sale of licenses, of €3 million in miscellaneous receivables from third parties and of €2 million in receivables from subsidiaries, to the increase of €4 million in derivatives payable, of €2 million in prepayments and advances from customers, and of €2 million in payables to employees. These are partially offset by the €21 million increase in other receivables from the parent company.

Shareholders' equity

(amounts in millions of euros)	
Shareholders' equity as at December 31, 2017	**1,860**
Net profit	**(355)**
Distribution of Dividends	**(304)**
Adoption of the new accounting standard - IFRS 9	**(4)**
Reserves relating to employee benefits	**(1)**
Shareholders' equity as at December 31, 2018	**1,196**

Shareholders' equity amounted to €1,196 million decreased by €664 million, mainly due to the loss of the year of €355 million and the distribution of dividends to the parent company Eni SpA (€304 million), due to the effects of the application of the new accounting standard IFRS 9 (€4 million) and due to the effects of reserves relating to employee benefits pursuant to IAS 19 (€1 million)

Net financial debt

(amounts in millions of euros)	**31.12.2017**	**31.12.2018**	**Variance**
Short-term debt	23	463	440
Medium/long-term debt	66	66	
Cash and cash equivalents	(160)	(21)	139
Net borrowings	**(71)**	**508**	**579**
Shareholders' equity	**1,860**	**1,196**	**(664)**
Leverage	**(0.04)**	**0.42**	**0.46**

The increase of €579 million in **net financial debt** was primarily the result of the decrease in the net cash flow from operating activities which, together with the distribution of dividends and technical and financial investments, generated a negative cash flow. For further information, see the comment on the Reclassified Cash Flow Statement.

Reclassified Cash Flow Statement

	operating activities:			
45	- depreciation, depletion, and amortization and other non monetary iterr	80	306	226
	- net gains on disposal of assets		(2)	(2)
(71)	- dividends, interest, taxes and other charges	(57)	6	63
217	Changes in w orking capital	19	(105)	(124)
(5)	Dividends received, taxes (paid) received, interest (paid) received	67	98	31
336	**Net cash flow from operating activities**	**429**	**(52)**	**(481)**
(154)	Capital expenditures	(184)	(126)	58
(171)	Investments and purchase of consolidated subsidiaries and businesse	(62)	(103)	(41)
1	Disposals		4	4
(9)	Financial investments: financial receivables	(8)	4	12
31	Other changes related to investment activity	(27)	16	43
34	**Free cash flow**	**148**	**(257)**	**(405)**
(49)	Change in short-term and long-term debt	(80)	422	502
	Equity cash flow		(304)	(304)
(15)	**NET CASH FLOW FOR THE PERIOD**	**68**	**(139)**	**(207)**

Change in net borrowings

2016	(amounts in millions of euros)	2017	2018	Variance
34	**Free cash flow**	**148**	**(257)**	**(405)**
1,072	Exchange differences on net borrow ings and other changes		(1)	(1)
	Change in financial debts and credits on company branches		(16)	(16)
	Equity cash flow		(304)	(304)
1,106	**CHANGE IN NET BORROWINGS**	**148**	**(578)**	**(726)**

(*) See "Reconciliation of the reclassified balance sheet, income statement and cash flow statement with the statutory financial statements

In 2018, the **net cash flow** from **operating activities** is negative for €52 million. The disbursements for technical investments (€126 million) and for investments in equity investments (€103 million) are partially offset by the change in receivables relating to investment activities (€16 million) and financial investments (€4 million) and disposals of investments (€4 million), generated a negative free cash flow of €257 million. The distribution of dividends (€304 million) and the takeover of the finance lease debt, for the acquisition of the Bio power plant from Mossi & Ghisolfi, (discounted value recorded in the financial statements of €16 million, nominal value of €19 million) resulted in a change in net financial debt of € 578 million.

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

Reclassified Balance Sheet

Items of the Reclassified Balance Sheet (where not expressly indicated,the item derives directly from the financial statements (statutory format) (amounts in millions of euros)	31.12.2017 Partial amounts from the statutory financial statements	31.12.2017 Amounts from the reclassified financial statements	31.12.2018 Partial amounts from the statutory financial statements	31.12.2018 Amounts from the reclassified financial statements
Fixed assets				
Property, plant and equipment		652		541
Intangible assets		69		123
Equity accounted investments and Other investments		630		617
Receivables & securities for operating activities, made up of:		1		2
- other receivables				
- other non-current financial assets	1		2	
Net payables related to capital expenditures, made up of:		(29)		(45)
- payables related to capital expenditures	(29)		(45)	
Total fixed assets		**1,323**		**1,238**
Net working capital				
Inventories		565		618
Trade receivables		497		470
Trade payables		(664)		(561)
Tax receivables (payables) & provisions for tax, made up of:		149		47
- income tax payables			(2)	
- other tax payables	(8)		(8)	
- payables for tax transparency v/s joint ventures	(2)		(19)	
- payables for Group VAT	(2)		4	
- current tax assets			9	
- deferred tax assets	146		47	
- receivables for tax consolidation	15		16	
Provisions for risks and charges		(114)		(135)
Other current assets and liabilities, made up of:		100		95
- other receivables	152		155	
- other (current) assets	3		2	
- other receivables and other assets (non current)	1		1	
- advances, other payables	(49)		(54)	
- other (current) liabilities	(7)		(9)	
Total net working capital		**533**		**534**
Provisions for employee benefits		**(67)**		**(68)**
NET CAPITAL EMPLOYED		**1,789**		**1,704**
Shareholders' equity		**1,860**		**1,196**
Net borrowings				
Total debt, made up of:				
- long-term debt	66		66	
- current portion of long-term debt	5		16	
- short-term debt	18		447	
Less: Cash and cash equivalents	(160)		(21)	
Total net borrowings		**(71)**		**508**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**1,789**		**1,704**

Reclassified Cash Flow Statement

Items of the Reclassified Cash Flow Statement and confluence/reclassification of items in the statutory format (amounts in millions of euros)	2017		**2018**	
	Partial amounts from statutory format	Amounts from the reclassified financial statements	Partial amounts from the statutory financial statements	Amounts from the reclassified financial statements
Net Profit (Loss)		**320**		**(355)**
Adjustments to reconcile net profit (loss) to net cash provided by operating activities:				
Depreciation and amortization and other non-monetary items		80		306
- depreciation and amortization	46		72	
- net impairment of tangible and intangible assets	(33)		201	
- impairments (write-backs) of investments	(68)		39	
- currency translation differences from alignment	2		(1)	
- economic effects on securities and financial receivables	133		(4)	
- valuation of equity investments valued at cost			(1)	
- net change in provision for employee benefits				(2)
Net gains on disposal of assets				6
Dividends, interest, income taxes and other charges		(57)	(90)	
- dividends	(33)		(4)	
- interest income	(9)		(2)	
- income taxes	(11)		102	
Changes in working capital		19		(105)
- inventories	(111)		(50)	
- trade receivables	25		24	
- trade payables	99		(104)	
- provisions for risks and charges			19	
- other assets and liabilities	6		6	
Dividends received, taxes paid, interest (paid) received during the period		67		98
- dividends received	33		90	
- interest received			4	
- interest paid	5		3	
- Income taxes received (paid) including tax credits rebated	29		1	
Net cash flow provided by operating activities		**429**		**(52)**
Capital expenditures		(184)		(126)
- tangible assets	(174)		(125)	
- intangible assets	(10)		(1)	
Investments and purchase of consolidated subsidiaries and businesses		(62)		(103)
- non consolidated investments	(62)		(28)	
- investments and purchase of consolidated subsidiaries and businesses			(75)	
Divestments and partial disposals of consolidated investments				4
- investments			4	
Other changes related to investment activity		(35)		20
- financial investments: financial receivables	(8)		4	
- change in payables and receivables related to investments	(27)		16	
Free cash flow		**148**		**(257)**
Change in short-term and long-term debt		(80)		422
- payments from long-term finance debt			(5)	
- change in short-term finance debt	(80)		427	
Cash flow from equity capital:				**(304)**
- dividends distributed to shareholders			(304)	
Net cash flow for the period		**68**		**(139)**

Risk factors and uncertainties

Introduction

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

Operational risk

The Versalis Group's business, by nature, involves industrial and environmental risks and is subject, in most countries where 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.

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 requires the same to 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 Business Units 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, based on 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/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, 2018 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 book values, for the following reasons:

- receivables included in current assets: the market value of trade, financial and other receivables falling due within one year is estimated to be practically equivalent to the respective book value because of the short interval between the origin of the receivable and its due date;
- financial payables included in 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 book value, because they were entered into at fixed market rates;
- trade, financial and other payables included in current liabilities: the market value of trade, financial and other payables falling due within one year is estimated to be practically equivalent to the book value 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 risk 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 Decree no. 152/2006 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.

Emissions 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).

During the year, the Versalis Group purchased 514,936 EUA rights to supplement the assigned securities and cover the estimated year-end emissions. The purchased surplus (66.353 EUA, for a countervalue of €1 million) was capitalized among intangible assets, as required by accounting standards.

Business outlook

The Versalis Group will consolidate the resilience to scenario fluctuations, with an increase in the balance of the ethylene-polyethylene supply chain and greater integration between the production sites. The production processes will be adequate to focus the portfolio on differentiated products with higher added value and circular economy and Biotech processes will be developed to respond to regulatory challenges and market demands in the field of sustainability.
Greenhouse gas emissions in production processes will also be reduced, increasing energy efficiency and flexibility of cracker charges. Finally, the international presence will be developed in areas with low-cost charges, to increase the resilience of the industrial system and in market areas with higher growth rates through technological leverage.

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 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 impacts thereof on the equity, the economic results and the cash flows, are disclosed in the notes to the financial statements (consolidated and statutory).

Treasury shares and shares in parent company

In compliance with the provisions of art. 40, paragraph 2, letter d) of Legislative Decree 127/91, we certify that Versalis SpA and its subsidiaries do not hold or have been authorized by the respective Shareholders' Meetings to purchase shares in Versalis SpA or Eni SpA.

Secondary offices

In compliance with the provisions of art. 2428 of the Italian Civil Code, we certify that Versalis SpA has no secondary offices.

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, 2018 amounted to 5,268.

2016	Employees	2017	**2018**
4,182	Italy	4,213	**4,295**
949	Abroad	959	**973**
5,131		**5,172**	**5,268**

The increase of 96 staff compared with December 31, 2017 was determined by the following:

- increases:
  - 124 persons were acquired with the Bio business branch from Mossi & Ghisolfi;
  - 156 persons were recruited, 35% of whom were graduates;

- reductions:
  - 157 employees left the company for ordinary reasons (retirement, resignation, consensual termination, expiry of fixed-term contracts);
  - 5 employees left the Company under ordinary redundancy procedures, in accordance with Law No. 223/91;
  - 22 employees, as a negative balance for transfers within the Eni Group.

The breakdown by category is as follows:

2016	Employees	2017	**2018**
110	Senior Management	109	**119**
3,168	Middle Management & Staff Employees	3,183	**3,269**
1,853	Workers	1,880	**1,880**
5,131		**5,172**	**5,268**

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

Age group	Total	%
< 30	393	7.5
30-39	1,143	21.7
40-49	1,700	32.3
50-59	1,768	33.6
> 60	264	5.0
	5,268	100.0

As at December 31, 2018 the number of employees in service in the Group companies was 5,224.

Employees	2017	2018
Senior Management	102	113
Middle Management & Staff Employees	3,156	3,240
Workers	1,856	1,871
	5,114	**5,224**

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 83, while those seconded to Versalis SpA from other companies of the Eni Group numbered 39.

Training

The training programmes in Italy and in the foreign subsidiaries covered 207,000 man-hours in 2018. This activity was provided mostly using internal resources, but also with the support of Eni Corporate University SpA.

During 2018, the commitment, as teachers, of Versalis employees belonging to the Eni faculty was also significant, both in training initiatives run by Eni Corporate University and in internal teaching activities.

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;
- continuation in the targeted development of language skills, to support both managerial and operational resources in international professional situations;
- significant training and information efforts on environmental, health, safety and quality issues, for a total of approximately 107,000 hours, made both in the classroom and in "training on the job", with particular reference to compulsory HSE training in Italy and abroad;
- training initiatives (carried out both in e-learning mode and through classroom workshops) with the objective of extending to the staff all the knowledge in the field of compliance, with the goal of making the guidelines, regulations and internal procedures known and operative, to ensure compliance with the laws in the conduct of Versalis business;

- the participation in seminars of in-depth updating, at Eni Corporate University SpA or other qualified external organizations, for the development and consolidation of transversal competencies and specialized know-how of the employees working in different business areas.
- the implementation of training initiatives at some plants to enhance the Integration-Involvement-Collaboration-Leadership dimensions.

Incentive and remuneration systems

In keeping with the merit-based policy linked to roles and responsibilities, Versalis SpA strengthened its variable performance-based incentive system for senior management and middle management, setting individual targets in line with the company's general objectives. In 2018, 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 2018 the 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 greater 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:

- €198 million for expenses in the period (€182 million in 2017)
- €34 million for capitalized investments (€35 million in 2017).

Total HSE 2018[2] expenditure was €232 million (€217 million in 2017)

Environmental activities amounted to €118 million (€114 million in 2017), including soil and aquifer management activities.

Safety activities amounted to €87 million (€75 million in 2017), industrial hygiene, product safety and health activities amounted to €6 million (same amount in 2017) and the integrated HSE amounted to €21 million (same amount in 2017).

With regard to the control of **greenhouse gas emissions**, 2018 ended with a final balance of CO_2 emissions, for the company, subject to Emission Trading, of 3.13 million tonnes, slightly higher than 2017 (year in which some sites were affected by significant plant shutdowns).

The results for 2018, therefore, can be summarized as follows:

- quotas allocated: 2.37 million tonnes of CO_2;
- emissions: 3.13 million tonnes of CO_2;
- deficit: 0.45 million tonnes of CO_2.

With regard to the issue, free of charge, of the 2019 emissions quotas, the following is envisaged:

- Ferrara: an increase in quotas allocated, free of charge, over the period 2019-2020, against the start-up of the new GP27 plant in 2018;

[2] Data net of decomissioning activities.

- Porto Marghera: a reduction in the quotas allocated, free of charge, over the period 2019-2020, in the face of the CTE shutdown and the start-up of the two new boilers in the first quarter of 2018; ongoing procedure with the MATT for the recognition of the investment as an energy efficiency and, therefore, without the reduction of the free quotas.
- Porto Torres: a reduction in the quota allocated free of charge, in 2020, in the face of the shutdown of the CTE and the commissioning of the new boiler in 2019. The change will be submitted for evaluation by the MATT as a modification for energy efficiency.

Among the characterizing events in 2018, from the point of view of the emissions, the following should be noted:

- Brindisi: the 12 day scheduled maintenance shutdown in July;
- Dunkerque: ethylene production budget increased by 20,000 tons.

The following initiatives were reported for 2018:

- Brindisi: Reburning Furnaces F1001 L and G
- Porto Marghera: Reorganization of the site: new VA steam generators
- Mantova: Implementation of advanced APC plant controls ST20

The reduction of direct/indirect CO2 emissions when fully operational, linked to the entry into operation of the aforementioned projects, is equal to approximately 16.4 kt/year (equal to a saving of 5,813 toe / fu of fuels and of 13,111 MWht/a of steam).

For all the aspects of safety, support activities for Italian and foreign sites continued with great commitment. The application of the "Pact for Security" continues, a real contract signed between the companies of Eni and the third-party companies in the area, and which envisages concrete, measurable and constantly monitored improvement actions.

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

Italian and abroad	2017	2018
No. of incapacitating accidents	2	8
Frequency rate	0.15	0.52
Severity index	0.042	0.049.

During 2018, eight injuries, of which four were for employees and four for contract staff, linked to episodes attributable mainly to uncoordinated movements, carelessness, failure to use correct personal protective equipment, failure to comply with the provisions of the risk assessment documents and authorization documents for work execution.

17 Versalis sites/offices achieved the safety target of "one year without employee accidents": Versalis International SA (sixth consecutive year), Green Chemistry research center in Novara (sixth consecutive year), Porto Marghera (sixth consecutive year), Grangemouth (fifth consecutive year), Oberhausen (fifth consecutive year), Sarroch (fifth consecutive year), Priolo (tenth consecutive year), Ragusa (eleventh consecutive year), Brindisi (nineth consecutive year), Ferrara (fifth consecutive year), Porto Torres (fifth consecutive year), San Donato Milanese and Trieste (eleventh consecutive year), Szazhalombatta (eigth consecutive year), Versalis Pacific Trading (sixth consecutive year), Ravenna (second consecutive year) and Mantova (second consecutive year) and Oilfield.

In addition, the accident reporting activities continued.

The actions for the prevention, safeguard and health promotion of workers and communities near industrial sites are recognized as primary needs in Versalis policies and contribute significantly to achieving high sustainability performance.

Health protection activities are increasingly organized and structured in an "integrated management system" strongly oriented towards prevention in which the health checks are combined with the annual standard controls related to environmental survey campaigns. In particular, against exposure risks to carcinogenic and mutagenic chemical agents, environmental exposure and personal exposure assessments are integrated with the monitoring, for each employee, of specific biological indicators in order to verify the dose actually absorbed by the worker.

Health promotion programs continued in 2018, such as campaigns for flu vaccination, cardiovascular prevention, awareness campaigns on smoking risk and the adoption of correct lifestyles.
The process of internationalization of Versalis, increasingly aimed at operating in foreign markets and sites, has triggered new projects for the management of medical emergencies and health care, not only on the national territory but also internationally, developing specific health protocols that consider the risk "country" linked to the trip, to the climate, to the diseases present. To better manage the specific health risks of the activities abroad, the "Health and Hygiene of Work" function of Versalis was reorganized, establishing two new units, one regarding the health management system - Italy and the other concerning foreign health management systems.

In the spirit of continuous improvement of management tools for the prevention and protection of health in the workplace and for the communities, the development of the integrated HSE culture and the implementation of the knowledge management program continued, aimed at training all the employees who, for various reasons, hold roles and responsibilities in the activities concerning the protection of health.

Always in the spirit of continuous improvement, management tools relating to emerging and non-regulated risks have been implemented, such as smart and mobile workers, teleworking and foreign travel. In the case of foreign travel, specific information and training programs, health surveillance protocols and related vaccinations have been defined, and emergency medical assistance and repatriation are guaranteed.

With regard to **remediation of soil and groundwater**, both the characterization activities envisaged in the submitted and approved plans and the subsequent integration activities were completed.

At the Brindisi, Ferrara, Mantua, Porto Marghera, Priolo and Sarroch sites, as preventive measures, groundwater pumping systems are active. The pumping systems, evaluated at the end of 2018, pump an estimated total of 6.5 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 soil) and Ragusa (remediation of the ex-topping area). The land reclamation and groundwater reclamation project was approved for the Mantova site, limited to some specific areas and to the removal of the supernatant. Authorized interventions are underway at all sites. At the Porto Torres facility, the groundwater and soil situation is monitored and managed by Syndial, since Versalis operates under leasehold at this site.

In 2018, the MISO project for the land on the Brindisi site was approved by the MATTM. The following investigations are in the preliminary stage at the MATTM: risk analysis and the project of superficial scotic related to the site of Mantua, the MISP project of the Sarroch landfill 2A and the project for the operational safety measures for unsaturated soils (Homogeneous areas A1 , A2, A3, A4, B1 and C2) at the Priolo site. The following projects are awaiting the opinion of the Sicily Region: the land reclamation project owned by Versalis in Gela and the land reclamation project for the D2 and D3 areas inside Priolo. The risk analysis for the Versalis areas of the Ragusa site is also pending a local investigation. At the end of the aforementioned investigations, the authorization framework for Versalis on a national scale will be complete.

Versalis has entrusted Syndial, a center of competence for the reclamation activities in the Eni area, with the reclamation activities in the plants of: Brindisi, Ferrara, Mantua, Porto Marghera, Priolo, Ravenna, Sarroch, in accordance to agreements between the parties.

Technological innovation

During 2018 research and technological innovation activities were directed, in continuity with previous years, at the ongoing improvement of processes and products of the existing business lines.

Research and development activities have also been consolidated, always with considerable commitment, in the field of chemistry from renewable sources, trying to seize every opportunity for synergy with other businesses. Furthermore, the commitment to sustainability and the circular economy was intensified.

In particular, the most interesting results include the following:

Chemistry from renewable sources

Guayule

Under the co-development and industrialization agreement with Bridgestone, aimed at developing an economically advantageous technology for the cultivation and subsequent processing of guayule, for the industrial production of natural rubber and the main output fractions to be developed on the relevant reference markets, activities are underway that range from the agronomic field to the engineering field and to product development on the market.

In particular, during the year, activities were started for setting up new fields in Basilicata and Sicily to increase the agronomic productivity of guayule, also using new seeds supplied by Bridgestone more suited to our soil and climate conditions.

Activities were also started to support engineering of the changes to be made to Bridgestone's extraction pilot technology at the Phoenix USA plant, in order to achieve the optimal configuration aimed at improving the extraction yields and the operability of the plant.

Metathesis

Testing continues of the new catalysts, specifically designed for the metathesis of vegetable oils based on ethylene in place of 1-butene, in order to reduce the product spectrum, maximizing those with greater added value.

Furthermore, new derivatization technologies are under development, starting from the process co-products, in order to create new bio lubricants for high performance wind turbine blades and difunctional monomeric intermediates for the production of polyamides of organic origin. An agreement is being finalized with ENEA Trisaia for the development of bio lubricants at a dedicated pilot plant.

Biobutadiene

During the year the experimentation of the fermentation process from sugars to 1,3-butanediol (1,3-BDO) took place on a laboratory scale reaching the target KPIs for the new microbial strain provided by Genomatica. The produced butanediol was successfully purified and tested

in the double dehydration with 1,3-butadiene (1,3-BDE).

Elastomers

As part of international development, support for the JV Lotte/Versalis led to the industrialization of various grades of the EPDM and SSBR/LCBR family, at expected quality levels, with which the premarketing action of K products in the Asian area was launched, mainly for the tyre, automotive, plastic material modification and technical articles sectors.

During the year, the production was consolidated of sSBRs, functionalised for silica, which will constitute the platform for developing high-end tyres.

The first production of a polybutadiene grade was carried out which aims to improve the processability, with other elastomers and fillers, for the attainment of an intimate contact between the phases and to achieve a reduction in processing times, with relative reduction of transformation costs for the final customers.

The consolidation of all these products will allow Versalis to expand its product range for the tyre sector, in line with the challenging requests for improvement in terms of performance, safety and containment of environmental impacts, as well as maintaining its leadership position in the sector.

The industrialization of new EPDM grades was carried out, whose structure improved to widen the market segment of the automotive sector. It is in fact the development of a new technology which, thanks to the increase in capacity ensured by the new production line, inaugurated in September, will allow Versalis to expand the portfolio and to strengthen its competitive positioning.

In terms of environmental sustainability and circular economy, the study continued finalized to the evaluation of technologies for the production of devulcanised and revulcanizable rubber from End-of-life Tyres.

Polyethylene

Consolidated new medium density LDPE grades for film applications; these products show a remarkable improvement of the mechanical and optical properties, fundamental in the food and industrial packaging sector.

The rotomolding application sector has benefited from the entry of new grades on the market with high UV resistance, resistance to chemical agents and improved mechanical properties.

Versalis is participating in a project to develop a type of artificial turf completely recyclable, which sees an all-Italian supply chain as its protagonist: Versalis as supplier of the raw material (polyethylene), Radici as a producer of yarn and fabric and Safitex which has patented a highly recyclable product (Eco Next).

Synthetic turf can be recycled and reused as a secondary raw material in sectors where high quality standards are required.

Styrenes

The research activities related to the new ONE-STEP pilot plant focused on the ABS range. After the successful start-up of the pilot plant in October 2017, the technological product development activity is completely in line with the forecast.

Research and development activities continued on the new ABS range, based on an innovative formulation: in particular, two industrial productions were conducted for the production of new types of ABS products for extrusion and molding. The products obtained have been tested by the most important customers with excellent results.

The industrialization of the new ABS compound-based product range continued with high thermal resistance, for the automotive sector, and fire resistance, for electrical/electronic applications.

A new line of "flexible" EPS products has been industrialized and has already been well received on the market.

Basic Chemistry

The main parameters, (catalyst/operating conditions/reactor), involved in the production of butadiene through dehydrogenation/isomerization of butanes/butenes, have been further analyzed and optimized.

A transalkylation technology has been developed that enables the further improvement of the production process of cumene from IPA (isopropyl alcohol) coming from the hydrogenation of the acetone.

The process as a whole (acetone recovery step via hydrogenation and PAH production via alkylation/transalkylation) competitively positions Versalis as a top player in the sector. New commercial catalysts are being developed which improve the performance of the standard PBE1 catalyst in alkylation.

Administrative and accounting split of electricity activities

Starting from January 1, 2018, Versalis SpA has become the operator of "distributor of electricity" and “measure of electricity”. For this reason, even for the 2018 financial year, Versalìs SpA prepares the separate annual accounts pursuant to Resolution 11/2007 of the ARERA Authority.

Versalis SpA also operates in the production of electricity, producing almost exclusively for self-consumption and selling small quantities to third parties. The Versalis thermoelectric power plants have a ratio between the amount of electricity and thermal energy that can be produced, in a cogeneration setting, less than one. Furthermore, the plants do not meet the definition set forth in Resolution no. 42/02. This involves the exclusion of the three power plants from the "Electricity production" activity and their classification in the "Various activities".

Effective November 1, 2018, Versalìs acquired a biomass power plant from the Mossi & Ghisolfi group within the "Bio" business unit. The control panel is not operational and it is expected to restart during the course of 2019.

For the Board of Directors

The Chief Executive Officer

Daniele Ferrari

Consolidated Financial Statements 2018

Statement of Financial Position

(amounts in millions of euros)	Notes	31.12.2017 Total	31.12.2017 *of which with related parties*	31.12.2018 Total	31.12.2018 *of which with related parties*
ASSETS					
Current assets					
Cash and cash equivalents	*(1)*	201	*195*	45	*33*
Trade and other receivables	*(2)*	726	*151*	706	*194*
Inventories	*(3)*	719		807	
Current income tax assets	*(4)*	3		15	
Other current tax assets	*(5)*	8		14	
Other assets	*(6)*	4	*3*	2	*1*
		1.661		**1.589**	
Non-current assets					
Property, plant and equipment	*(7)*	927		797	
Intangible assets	*(8)*	70		124	
Investments valued at net equity	*(9)*	219		172	
Other investments	*(10)*	3		3	
Other financial assets	*(11)*	2	*2*	1	*2*
Deferred tax assets	*(12)*	*177*		75	
Other assets	*(13)*	1		1	
		1.399		**1.173**	
TOTAL ASSETS		**3.060**		**2.762**	
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities					
Short-term debt	*(14)*	88	*70*	592	*587*
Current portion of long-term debt	*(15)*	5	*4*	17	
Trade and other payables	*(16)*	858	*414*	793	*377*
Income tax payables	*(17)*	5		1	
Other taxes payable	*(18)*	14		12	
Other liabilities	*(19)*	8	*5*	16	*3*
		978		**1.431**	
Non-current liabilities					
Long-term debt	*(20)*	67	*66*	66	*57*
Provisions for risks and charges	*(21)*	132		149	
Provisions for employee benefits	*(22)*	67		70	
Deferred tax liabilities	*(23)*	1		2	
		267		**287**	
TOTAL LIABILITIES		**1,245**		**1,718**	
SHAREHOLDERS' EQUITY	*(24)*				
Capital and reserves attributable to minority shareholders					
Share capital [(a)]		1.365		1.365	
Other reserves		32		45	
Profit (Loss) relating to previous years		115		94	
Profit for the period		303		(460)	
TOTAL SHAREHOLDERS' EQUITY		**1.815**		**1.044**	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**3.060**		**2.762**	

(a) Fully paid-up share capital consisting of 1,364,790,000 shares with no face value.

Statement of Income

(amounts in millions of euros)	Notes	31.12.2017 Total	31.12.2017 of which with related parties	31.12.2018 Total	31.12.2018 of which with related parties
REVENUES	*(26)*				
Net sales from operations		4.851	*230*	5.123	*317*
Other income and revenues		152	*119*	123	*97*
Total revenues		**5.003**		**5.246**	
OPERATING EXPENSES	*(27)*				
Purchases, services and other costs		(4.174)	*(2.043)*	(4.841)	*(2.531)*
Write-downs (write-backs) of trade and other receivables				(3)	
Payroll and related costs		(341)		(356)	
OTHER OPERATING (EXPENSE) INCOME	*(28)*	**2**	*2*	**(16)**	*(16)*
DEPRECIATION, AMORTIZATION AND IMPAIRMENT	*(29)*			**(317)**	
		(4.513)		**(5.533)**	
OPERATING INCOME		**213**		**490**	
FINANCIAL INCOME (EXPENSE)	*(30)*				
Financial income		39	*13*	69	*9*
Financial expense		(135)	*(22)*	(193)	*(6)*
Derivatives		(1)	*(1)*	(3)	*(3)*
		(97)		**(127)**	
INCOME (EXPENSE) FROM INVESTMENTS	*(31)*				
Share of profit (loss) of equity-accounted investments		(23)		(43)	
Other income (expense) from investments		(38)		(27)	
		(61)		**(70)**	
INCOME BEFORE INCOME TAXES		**302**		**(350)**	
Income taxes	*(32)*	1		(110)	
INCOME FOR THE PERIOD		**303**		**(460)**	

Statement of Comprehensive Income

(amounts in millions of euros)	2017	2018
INCOME FOR THE YEAR	**303**	**(460)**
Other items of comprehensive profit (loss):		
Valuations of defined-benefit plans for employees	3	(3)
Foreign currency translation differences	(4)	(1)
Tax effect relative to the other components of the comprehensive income that cannot be reclassified to the income statement	(1)	1
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**301**	**(463)**

Statement of Changes in Equity

(amounts in millions of euros)	**Share capital**	**Legal reserve**	**Exchange differences reserve**	**Reserve for coverage of losses**	**Reserve for employee defined-benefit plans**	**Riserve for business combination under common control**	**Retained earnings /(losses) brought forward**	**Dividends**	**Profit (Loss) for the period**	**Total**
Balances at December 31, 2016 (a)	**1.365**		**3**	**32**	**(8)**	**2**	**(43)**		**163**	**1.514**
Profit for the year 2017									*303*	**303**
Revaluation of defined-benefit plans for employees net of tax effect			*(7)*				*3*			**(4)**
Foreign currency translation differences			**(7)**		**2**		**3**		**303**	**301**
Total comprehensive profit for the year 2017 (b)										
Transactions with shareholders:										
Loss allocation for the year 2016		8					*155*		*(163)*	
Reduction of share capital and loss coverage										
Total transactions with shareholders (c)		**8**					**155**		**(163)**	
Other changes:										
Total other changes (d)										
Balances at December 31, 2017 (e=a+b+c+d)	**1.365**	**8**	**(4)**	**32**	**(6)**	**2**	**115**		**303**	**1.815**
Profit for the year 2018									(460)	**(460)**
Other items of comprehensive profit (loss):										
Revaluation of defined-benefit plans for employees net of tax effect					(2)					(2)
Foreign currency translation differences			(1)							(1)
Total comprehensive profit for the year 2018 (f)			**(1)**		**(2)**				**(460)**	**(463)**
Transactions with shareholders:										
Profit allocation for the year 2017		16					(17)	304	(303)	
Dividends for shareholders								(304)		(304)
Total transactions with shareholders (g)		**16**					**(17)**		**(303)**	**(304)**
Other changes:										
Accounting Standards changes (IFRS 9)							(4)			(4)
Total other changes (h)							**(4)**			**(4)**
Balances at December 31, 2018 (i=e+f+g+h)	**1.365**	**24**	**(5)**	**32**	**(8)**	**2**	**94**		**(460)**	**1.044**

Statement of Cash Flows

(amounts in millions of euros)	*Notes*	**2017**	**2018**
Profit (Loss) for the period		303	(460)
Adjustments to reconcile net profit (loss) to net cash provided by operating activities:			
Depreciation and amortization	(29)	81	114
Net impairments (value reinstatements) on plant, property, equipment and intangible assets	(29)	(81)	203
Share of profit (loss) of equity-method investments		61	70
Currency translation differences from alignment	(30)	2	(2)
Gains/Losses on securities &Financial receivables, investment, disinvestment		133	(4)
Net gains on disposal of equity investments			(2)
Interest income	(30)	(9)	(4)
Interest expense	(30)	(4)	(2)
Current, deferred and advance income taxes for the period	(32)	(1)	110
Changes in working capital:			
- inventories	*(3)*	(129)	(84)
- trade receivables	*(2)*	(3)	23
- operational plug	*(16)*	80	(96)
- trade payables	*(21)*	7	18
- provisions for risks and charges		26	(2)
Cash flow provided by changes in working capital		*467*	*(118)*
Net changes in provisions for employee benefits	*(22)*	1	
Dividends received		1	
Interest received			4
Interest paid		4	3
Income taxes received (paid) including tax credits rebated		6	(9)
Net cash flow provided by operating activities		**478**	**(120)**
of which with related parties	*(34)*	*(1.518)*	*(2.215)*
Investments:			
- tangible assets	*(7)*	(192)	(145)
- intangible assets	*(8)*	(10)	(5)
- investments	*(9) e (10)*	(63)	(103)
- changes in payables relating to investment activities	*(16)*	(31)	14
- financial receivables instrumental to the operating activity – investment		(9)	4
Cash flow from investments		**(304)**	**(235)**
Disposals:			
- tangible assets	*(7)*		
- sale of business units			4
Cash flow from disposals			*4*
Net cash flow from investment activities		**(304)**	**(231)**
of which with related parties	*(34)*	*(98)*	(78)
Increase (decrease) in short-term debt	(14)	(95)	499
Cash flow from share capital	(25)		(304)
Net cash flow from financing activities		**(95)**	**195**
of which with related parties	*(34)*	*(100)*	508
Net cash flow for the period		**79**	**(156)**
Cash and cash equivalents - beginning of the year	(1)	**122**	**201**
Cash and cash equivalents - end of the year	(1)	**201**	**45**

Notes to the Consolidated Financial Statements

Basis of presentation

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS" or "International Accounting Standards")[1] 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 the Italian Legislative Decree 38/05.[2]

The consolidated financial statements have been prepared under the historical cost convention, taking into account, where appropriate, value adjustments, except for certain items that under IFRSs must be measured at fair value as described in the paragraph on accounting policies.

The financial statements at December 31, 2018, approved by the Board of Directors of Versalis S.p.A. at its meeting on the March 4, 2019, are audited by EY S.p.A. (also Ernst & Young S.p.A.). EY S.p.A., being the main independent auditor, is responsible for auditing the Group's consolidated financial statements; in the limited cases in which other auditors are utilized, EY S.p.A. assumes responsibility for the work performed by the latter.

Considering their materiality, the amounts of the items in the financial statements and the associated notes are stated in millions of euros, except when stated otherwise.

Significant accounting estimates and judgements

The application of generally accepted accounting principles for the preparation of the financial statements and interim reports requires the Company Management to make accounting estimates based on complex and/or subjective judgments, based on past experience of other assumptions deemed reasonable in consideration of the information available at the time. The use of these accounting estimates affects the book value of assets and liabilities and the information on potential assets and liabilities as at the date of the financial statements, as well as the revenues and costs in the reference period. Actual results may differ from those estimated due to the uncertainty that characterizes the assumptions and conditions on which the estimates are based. The accounting estimates of critical importance for the process of drawing up the financial statements, which involve a high recourse to subjective judgments, assumptions and estimates relating to matters which by their nature are uncertain, are illustrated in the description of the related accounting policy reported below. Changes in the conditions underlying the judgments, assumptions and estimates adopted may have a significant impact on subsequent results.

Consolidation principles

Consolidated subsidiaries

The consolidated financial statements include the financial statements of Versalis SpA and the Italian and foreign subsidiaries controlled by Versalis S.p.A. (hereinafter referred to as the "Group").

An investor controls a subsidiary company when it is exposed to, or has the right to participate in, the variability of the company's economic returns and is able to influence these returns through the exercise of its decision-making power over it. The decision-making power exists in the presence of rights that confer to the parent company the effective capacity to direct the relevant activities of the subsidiary, that is the activities most capable of affecting the economic returns of the subsidiary itself.

The subsidiary's amounts are included in the Consolidated Financial Statements from the acquisition date until the date when the parent company ceases to control the subsidiary. All the assets, liabilities, income and

[1] The IFRS also include the International Accounting Standards (IAS), still in force, as well as the interpretative documents prepared by the IFRS Interpretations Committee, previously called the International Financial Reporting Interpretations Committee (IFRIC) and the former Standing Interpretations Committee (SIC).

[2] The international accounting standards used for the preparation of the consolidated financial statements are substantially the same as those issued by the IASB in force for the year 2018.

expenses of consolidated subsidiaries are consolidated on a line-by-line basis in the Consolidated Financial Statements; the book value of these subsidiaries is offset against the corresponding share of the shareholders' equity. Equity and net profit attributable to noncontrolling interests are included in specific line items of equity and the income statement.

When shareholdings are acquired after control was obtained (acquisition of minority interests), any difference between the purchase cost and the proportionate share of shareholders' equity is stated 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 recorded in equity. Conversely, the sale of equity interests with loss of control determines the recognition in the income statement of: (i) any gain/loss calculated as the difference between the consideration received and the corresponding transferred portion of equity; (ii) the effect of the alignment to the relative fair value of any residual interest held; and (iii) any amount related to the former subsidiary previously recognized in other comprehensive income which can be reclassified subsequently to the income statement.[3] The value of any equity investment, aligned to the relative fair value at the date of loss of control, represents the new book value of the investment and therefore the reference value for the subsequent valuation of the investment according to the applicable valuation criteria.

Interests in joint arrangements

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Investments in joint ventures are accounted for using the equity method as described in the accounting policy for "The equity method of accounting".

A joint operation is a joint control agreement in which the parties that have joint control have rights to the assets and obligations for the liabilities (so-called enforceable rights and obligations) relating to the agreement. In the consolidated financial statements, Versalis' share of the assets/liabilities and the revenues/costs of the joint operations based on the actual rights and obligations deriving from the contractual agreements is recognized. After the initial recording, the assets/liabilities and revenues/expenses of the joint operations are measured in accordance with the measurement criteria applicable to each case. Immaterial joint operations are accounted for using the equity method or, if this does not result in a misrepresentation of the Company's financial position, at cost net of impairment losses.

Interests in associated companies

An associated company is an entity over which Versalis has significant influence, that is the power to participate in the financial and operating policy decisions of the subsidiary but without having control or joint control.

Investments in associated companies are accounted for using the equity method as described in the accounting policy for "The equity method of accounting".

Consolidated companies, non-consolidated subsidiaries, joint ventures, equity investments in joint operations, and associated companies, are included in the paragraph "Companies and equity investments of Versalis SpA as at 31st December 2018", which is part of the previous note. The change in the scope of the consolidation, that took place during the year, is shown in the following paragraph.

The financial statements of the consolidated companies are audited by independent auditors who also examine and certify the information required for the preparation of the consolidated financial statements.

The equity method of accounting

[3] Conversely, any amount related to the former subsidiary previously recognized in other comprehensive income, which subsequently cannot be reclassified to the income statement, are reclassified in equity.

Investments in joint ventures, associated companies and not significant unconsolidated subsidiaries, are accounted for using the equity method [4] [5].

Under the equity method, equity investments are initially recorded at purchase cost, allocating, similarly to the provisions for business combinations, the cost incurred on the assets / liabilities of the investee; the allocation, made provisionally on the date of initial posting, it can be retroactively adjusted within 12 months from the date of of the initial posting, to reflect new information obtained about facts and circumstances that existed at the date of the initial posting. Subsequently, the carrying amount is adjusted to reflect: (i) the investor's share of the post-acquisition profit or loss of the investee; and (ii) the investor's share of the investee's other comprehensive income. Changes in the net assets of an equity-accounted investee, not arising from the investee's profit or loss or other comprehensive income, are recorded in the investor's income statement, when they represent a gain or loss from a disposal of an interest in the investee's equity. Dividends received from an investee are recorded as a reduction of the carrying amount of the equity investment. In applying the equity method, any consolidation adjustments are taken into consideration (see also the paragraph "Subsidiaries"). When there is objective evidence of impairment (see also the accounting policy for "Current financial assets"), the recoverability is tested by comparing the carrying amount and the related recoverable amount determined by adopting the criteria indicated in the accounting policy for "Property, plant and equipment". Immaterial subsidiaries, joint ventures and associates are accounted for at cost, net of any impairment losses, if this does not result in a misrepresentation of the Group financial position and performance. When an impairment loss no longer exists, a value reinstatement is recorded, (without exceeding the previously recorded impairment losses), in the income statement in the item "Other income (expense) from investments".

The sale of equity interests, with the resulting loss of either the joint control or of the significant influence over the investee, determines the recording in the income statement of: (i) any gain/loss calculated as the difference between the amount received and the corresponding book value portion sold; (ii) the changes due to the alignment to the relative fair value of the residual interest revaluation maintained[6]; and (iii) any amounts related to the former subsidiary previously recorded in other comprehensive income which can be transferred to the income statement[7]. Any investment retained in the former joint venture/associated company is recorded at its fair value at the date when joint control or significant influence is lost and shall be accounted for in accordance with the applicable evaluation criteria.
The parent company's share of any of the subsidiary's losses, exceeding the value of the investment, is recorded in a specific reserve only to the extent that the company is required to fulfill legal or implied obligations of the subsidiary, or in any case, to cover its losses.

Business combination

Business combinations are accounted for by applying the acquisition method. The consideration transferred in a business combination is the sum of the acquisition-date fair value of the assets transferred, the liabilities incurred and the equity interests issued by the acquirer. Acquisition-related costs are accounted for as expenses when incurred.
The acquirer shall measure the identifiable assets acquired and liabilities assumed at their acquisition-date fair values [8], unless another measurement basis is required by IFRSs. The excess of the consideration transferred over the Group's share of the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed is recognised, in the balance sheet, as goodwill; conversely, a gain on a bargain purchase is recognised in the income statement.

---

4 In the case of the assumption of a link (joint control) at a later period, the investment is recorded for the amount equivalent to that resulting from the application of the equity method, as if the same had been applied from the outset; the effect of the book value "revaluation" of the interests held prior to the assumption of the link (joint control) are recorded in equity.

5 When no significant effects are produced on the balance sheet or financial position, the joint ventures, associates and non-significant subsidiaries excluded from the consolidation area are valued at cost adjusted for impairment losses.

6 If the remaining investment continues to be accounted for using the equity method, the retained portion is not adjusted to its fair value of this equity investment.

7 Conversely, any values recorded in other components of comprehensive income, related to the former joint venture or associated company for which the reversal to the income statement is not foreseen, are charged to retained earnings.

8 The criteria for the determination of the fair value are illustrated in the section "Valuation at fair value".

Any non-controlling interests are measured as the proportionate share in the recognised amounts of the acquiree's identifiable net assets at the acquisition date excluding, hence, the portion of goodwill attributable to them (partial goodwill method); as an alternative, non-controlling interests may be measured at fair value, which means that goodwill includes the portion attributable to them (full goodwill method) [9]. The choice of measurement basis for goodwill (partial goodwill method vs. full goodwill method) is made on a transaction-by-transaction basis.

In a business combination achieved in stages, the purchase price is determined by summing the acquisition-date fair value of previously held equity interests in the acquiree and the consideration transferred for obtaining control; the previously held equity interests are re-measured at their acquisition-date fair value and the resulting gain or loss, if any, is recognised in the income statement. Furthermore, on obtaining control, any amount recognised in other comprehensive income related to the previously held equity interests is reclassified to the income statement, or in another item of equity when such amount may not be reclassified to the income statement.
If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the provisional amounts recognised at the acquisition date shall be retrospectively adjusted within one year from the acquisition date, to reflect new information obtained about facts and circumstances that existed as of the acquisition date.

The acquisition of interests in a joint operation whose activity constitutes a business is accounted for applying the principles on business combinations accounting.

Intragroup transactions

Profits arising from transactions between consolidated companies and not yet realized with third parties are offset, as are the receivables, payables, income and expenses, guarantees, commitments and risks between consolidated companies. Unrealized profits from transactions between the Group and its equity-accounted entities are offset to the extent of the Group's interest in the equity accounted entity. In both cases, unrealized losses are not offset since they are evidence of an impairment loss of the asset transferred.

Translation of financial statements in currencies other than the Euro

Financial statements of foreign subsidiaries having a functional currency other than the euro, (i.e. the Group's functional currency), are translated into euro using the spot exchange rates prevailing as at the balance sheet date for assets and liabilities, historical exchange rates for equity and average exchange rates for the income statement and the statement of cash flows (source: Reuters - WMR).

Exchange differences from the translation of the subsidiaries financial statements denominated in foreign currency, deriving from the application of different exchange rates for assets and liabilities, for net equity and the income statement, are recorded in equity under "Reserve for exchange differences" for the portion attributable to the Group[10]. The reserve for exchange rate translation differences is recorded in the the income statement upon full divestment, (i.e. the date of the loss of control or loss of joint control or loss of significant influence over the subsidiary). At the time of the the partial sale, without loss of control, the share of foreign exchange differences relating to the percentage of the investment sold is posted to the equity of minority interests. In the event of a partial sale, with no loss of joint control or significant influence, the share of foreign exchange differences, relating to the percentage of divested participation, is recorded in the income statement. The repayment of share capital made by a subsidiary having a functional currency other than the euro, without a change in the ownership interest, implies that the proportionate share of the cumulative amount of exchange differences relating to the subsidiary is reclassified to the income statement.

The financial statements of foreign operations which are translated into euro are denominated in the foreign operations' functional currencies which generally is the U.S. dollar.

---

[9] The adoption of the partial or full goodwill method also applies in the case of business combinations that entail the recognition, in the income statement, of "negative goodwill" (so-called gain on bargain purchase).

[10] The share attributable to minority interests of the exchange differences from the translation of financial statements of subsidiaries operating in foreign currency is accounted for in the equity item "Minority interests".

The main exchange rates utilized to translate the financial statements, in currencies other than the euro, are listed here below:

(amounts of currency for 1 euro)	**Annual average exchange rate 2017**	**Exchange rate at Dec. 31, 2017**	**Annual average exchange rate 2018**	**Exchange rate at Dec. 31, 2018**
US Dollar	1.13	1.20	1.15	1.14
Pound Sterling	0.88	0.89	0.89	0.90
Hungarian Forint	309.22	310.25	321.11	322.76
Chinese Renminbi	7.63	7.81	7.87	7.84
Korean Republic Won	1,276.43	1,284.12	1,278.20	1,277.40

Accounting policies

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

Property, plant and equipment

Property, plant and equipment, including investment properties, are recorded according to the cost method, and stated at purchase price or production cost, inclusive of directly attributable costs required to make the assets ready for use.

In the case of a present obligation for dismantling and removal of assets and restoration of sites, the initial carrying amount of an item of property, plant and equipment includes the estimated (discounted) costs to be incurred when the removal event occurs a corresponding amount is recorded as part of a specific provision. Changes resulting from revisions to the timing or the amount of the original estimate of the provision are accounted for as described in the accounting policy for: "Provisions, contingent liabilities and contingent assets" [11].

Property, plant and equipment are not revalued for financial reporting purposes.

Assets acquired under financial leasing or concerning arrangements that do not take the legal form of a finance lease but substantially transfer the risks and rewards of ownership, are recorded at fair value, net of the lessor, or if lower, the present value of the minimum lease payments, under tangible assets against a financial payable to the lessor.

Expenditures on upgrading, revamping and reconversion are recognized as items of property, plant and equipment when it is probable that they will increase the expected future economic benefits of the asset. Assets acquired for safety or environmental reasons, although not directly increasing the future economic benefits of any particular existing item of property, plant and equipment, qualify for recognition as assets when they are necessary for running the business.

Depreciation of tangible assets begins when they are available for use, i.e. when they are in the location and condition necessary for it to be capable of operating as planned. Property, plant and equipment are depreciated on a systematic basis, using a straight-line method over their useful life. The useful life is the period over which an asset is expected to be available for use by the Company. When tangible assets are composed of more than one significant part with different useful lives, each part is depreciated separately. The depreciable amount is the asset's carrying amount less its residual value at the end of its useful life, if it is significant and can be reasonably determined. Land is not depreciated, even when purchased with a building. Tangible assets held for sale are not depreciated (see the accounting policy for "Assets held for sale and discontinued

[11] The costs of dismantling and restoring sites relating to tangible assets, taking into account the uncertainty of the time of abandonment of the assets, which prevents the estimate of the related discounted abandonment costs, are recognized when the date on which the charge is actually incurred can be determined. and the amount of the obligation can be reliably estimated. In this regard, Versalis periodically evaluates the conditions for carrying out the activity in order to verify the occurrence of changes, circumstances or events that may lead to the need to detect dismantling and site restoration costs related to tangible assets.

operations"). Changes in the depreciation method, deriving from changes in the asset's useful life, in its residual value or in the pattern of consumption of the future economic benefits embodied in the asset, shall be recognized prospectively.

Assets that can be utilized free of charge by third parties are depreciated over the shorter term of the duration of the concession or the asset's useful life.

Replacement costs of identifiable parts in complex assets are capitalized and depreciated over their useful life; the residual carrying amount of the part that has been substituted is charged to the income statement. Leasehold improvement costs are depreciated over the useful life of the improvements or, if lower, over the residual length of the lease, considering any renewal period if renewal depends entirely on the lessee and is virtually certain. Ordinary maintenance and repair costs, other than replacement of identifiable components, which reintegrate but do not improve the performance of the assets, are reported in the income statement when incurred.

The carrying amount of property, plant and equipment is reviewed for impairment whenever there is any indication that the carrying amounts of those assets may not be recoverable. The recoverability of an asset is assessed by comparing its carrying amount with the recoverable amount, which is the higher of the asset's fair value less costs of disposal and its value in use. Value in use is the present value of the future cash flows expected to be derived from continuing use of the asset and, if significant and reliably measurable, the cash flows expected to be obtained from its disposal at the end of its useful life, after deducting the costs of disposal. Expected cash flows are determined on the basis of reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset, giving greater weight to external evidence.

With reference to commodity prices, management assumes the price scenario adopted for economic and financial projections and for whole life appraisal for capital expenditures. In particular, for the cash flows associated to oil, natural gas and petroleum products prices (and prices derived from them), the price scenario is approved by the Board of Directors and is based on the development of economic fundamentals and, in the short and medium term, takes into account the projections of market analysts and, if there is a sufficient liquidity and reliability level, on the forward prices prevailing in the marketplace.

Discounting is carried out at a rate that reflects a current market assessment of the time value of money and of the risks specific to the asset that are not reflected in the expected future cash flows. In particular, the discount rate used is the Weighted Average Cost of Capital (WACC) adjusted for the specific country risk of the asset. These adjustments are measured considering information from external parties. WACC differs considering the risk associated with each operating segments where the asset operates. In particular, for the assets belonging to the Chemical business, taking into account the different risks encountered in this sector/business, specific WACC rates have been defined on the basis of a sample of companies operating in the same segment/business, adjusted to take into consideration the risk premium of the specific country of the activity. For the other segments/businesses, a single WACC is used considering that the risk is the same to that of Eni as a whole. Value in use is calculated net of the tax effect as this method results in values similar to those resulting from discounting pre-tax cash flows at a pre-tax discount rate deriving, through an iteration process, from a post-tax valuation. Valuation is carried out for each single asset or, if the recoverable amount 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". When an impairment loss no longer exists or has decreased, a reversal of the impairment loss is recorded in the income statement. The impairment reversal shall not exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years.

The carrying amount of property, plant and equipment is derecognized on disposal or when no future economic benefits are expected from its use or disposal; the arising gain or loss is recognized in the income statement.

Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance, controlled by the Company and able to produce future economic benefits, and goodwill acquired in business combinations. An asset is classified as intangible when management is able to distinguish it clearly from goodwill. This condition is normally met when: (i) the intangible asset arises from contractual or other legal rights, or (ii) the asset is separable, i.e. can be sold, transferred, licensed, rented or exchanged, either individually or together with other assets. An entity controls an intangible asset if it has the power to obtain the future economic benefits flowing from the underlying asset and to restrict the access of others to those benefits.

Intangible assets are initially recognized at cost as determined by the criteria used for tangible assets whilst those purchased through business combination transactions are recorded at fair value on the acquisition date. Revaluations are not permitted, even in application of specific laws.

Intangible assets with finite useful lives are amortized on a systematic basis over their useful life; for the amount to be amortized and the recoverability of the carrying amount are determined in accordance with the criteria described in the accounting policy for "Property, plant and equipment".

Goodwill and intangible assets with indefinite useful lives are not amortised. Their carrying amounts are tested for impairment at least annually and whenever there is any indication of impairment. Goodwill is tested for impairment at the lowest level within the entity at which it is monitored for internal management purposes. When the carrying amount of the cash-generating unit, including goodwill allocated thereto, calculated considering any impairment loss of the non-current assets belonging to the cash-generating unit, exceeds its recoverable amount, the excess is recognised as an impairment loss. The impairment loss is allocated first to reduce the carrying amount of goodwill; any remaining excess is allocated to the other assets of the cash generating unit pro-rata on the basis of the carrying amount of each asset in the unit, up to the recoverable amount of assets with finite useful lives. An impairment loss recognised for goodwill cannot be reversed in a subsequent period [12].

Costs of obtaining a contract with a customer are recorded in the balance sheet if the Company expects to recover those costs. The intangible asset arising from those costs is amortised on a systematic basis, that is consistent with the transfer to the customer of the goods or services to which the asset relates, and is tested for impairment[13].

Costs of technological development activities are capitalized when: (i) the cost attributable to the development activity can be measured reliably; (ii) there is the intention and the availability of financial and technical resources to make the asset available for use or sale; and (iii) it can be demonstrated that the asset is able to generate probable future economic benefits.

The carrying amount of intangible assets is reversed on disposal or when no future economic benefits are expected from its use or disposal; any arising gain or loss is recorded in the income statement.

Capital Grants

Government grants related to assets are recognized by deducting them in calculating the carrying amount of the related assets when there is reasonable certainty that the Company will comply with the conditions attaching to them and the grants will be received.

Inventories

Inventories, including compulsory stock, are measured at the lower of purchase or production cost and net realizable value. Net realizable value is the amount expected to be realized from the sale of inventories in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale, or, with reference to inventories of crude oil and petroleum products already included in binding sale contracts, the contractual selling price. Inventories which are principally acquired with the purpose of selling in the near future and generating a profit from fluctuations in price are measured at fair value less costs to sell. Materials and other supplies held for use in production are not written down below cost if the finished products in which they will be incorporated are expected to be sold at a price that allows the recovery of the cost incurred.

The cost of inventories is determined by applying the weighted average cost method over the year.

---

[12] Impairment losses recognised in an interim period are not reversed also when, considering conditions existing in a subsequent interim period, they would have been recognised in a smaller amount or would not have been recognised.

[13] The previous accounting policies required the capitalisation of directly attributable customer acquisition costs when the following conditions are met: (i) the capitalised costs can be measured reliably; (ii) there is a contract binding the customer for a specified period of time; and (iii) it is probable that the costs will be recovered through the revenue from the sales, or, where the customer withdraws from the contract in advance, through the collection of a penalty.

Significant accounting estimates and judgements: impairment of non-financial assets

Non-financial assets are impaired whenever events or changes in circumstances indicate that carrying amounts of the assets are not recoverable.

The events that can cause a devaluation of non-financial assets are changes in the business plans, changes in market prices that can determine lower operating performance, reduced use of the plants. The decision whether, or not, to proceed with a devaluation and the quantification thereof depends on the Company Management’s assessments of complex and highly uncertain factors, including the future trend of commodity prices, the impact of inflation and technological improvements on costs production, production profiles and demand and supply conditions on a global or regional scale.

Similar remarks are valid for assessing the recoverability of deferred tax assets (see also the accounting policy for “Income taxes”), which requires complex processes for evaluating the existence of adequate future taxable profit.

The expected cash flows used to determine the recoverable value are quantified in the light of the information available at the time of the estimate, based on subjective judgments on the trend of future variables - such as prices, costs, demand growth rates, the production profiles - and are discounted using a rate that takes into account the risk inherent in the business concerned.

Financial instruments[14]

Financial assets

Financial assets are classified, on the basis of both the financial instrument and the entity’s business model for managing them, in the following categories: (i) financial assets measured at amortised cost; (ii) financial assets measured at fair value through other comprehensive income (hereinafter also OCI); (iii) financial assets measured at fair value through profit or loss.

At initial recognition, a financial asset is measured at its fair value; at initial recognition, trade receivables that do not have a significant financing component are measured at their transaction price.

After initial recognition, financial assets whose contractual terms give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding are measured at amortised cost if they are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows (the so called hold to collect business model). For financial assets measured at amortised cost, interest income determined using the effective interest rate, foreign exchange differences and any impairment losses[15] (see the accounting policy for “Impairment of financial assets”) are recognised in the income statement.

Conversely, financial assets that are debt instruments are measured at fair value through OCI (hereinafter also FVTOCI) if they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets (the so called hold to collect and sell business model). In these cases: (i) interest income determined using the effective interest rate, foreign exchange differences and any impairment losses (see the accounting policy for “Impairment of financial assets”) are recognised in the income statement; (ii) changes in fair value of the instruments are recognised in equity, within other comprehensive income. The accumulated changes in fair value, recognised in the equity reserve related to other comprehensive income, is reclassified to the income statement when the financial asset is derecognised.

A financial asset represented by a debt instrument that is neither measured at amortised cost nor at FVTOCI, is measured at fair value through profit or loss (hereinafter FVTPL); financial assets held for trading fall into this category. Interest income on assets held for trading contributes to the fair value measurement of the

[14] The accounting policies related to financial instruments were defined on the basis of IFRS 9 “Financial Instruments” effective from 2018; as required by the standard, the new requirements were applied starting from January 1, 2018 without restating the prior years under comparison. With reference to the financial instruments held by the Company, the previous accounting policies (see 2017 Annual Report on Form 20-F) required essentially: (i) the classification of financial assets on the basis of the categories under IAS 39; (ii) recognition and measurement of impairment losses if there was objective evidence that an impairment loss had been incurred (the so called incurred loss model); and (iii) more stringent hedge accounting requirements (mainly referred to the assessment of hedge effectiveness).

[15] Receivables and other financial assets measured at amortised cost are presented in the balance sheet net of their loss allowance.

instrument and is recognised in “Finance income (expense)”, within “Net finance income (expense) from financial assets held for trading”.

When the purchase or sale of a financial asset is under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned, the transaction is accounted for on the settlement date.

Impairment of financial assets

The assessment of the recoverability of the financial assets representing debt instruments not valued at fair value with effects on the income statement is made on the basis of the so-called expected credit loss model.

In particular, the expected credit losses are generally measured by multiplying: (i) the exposure to the counterparty’s credit risk net of any collateral held and other credit enhancements (Exposure At Default, EAD); (ii) the probability that the default of the counterparty occurs (Probability of Default, PD); and (iii) the percentage estimate of the exposure that will not be recovered in case of default (Loss Given Default, LGD), considering the past experiences and the range of recovery tools that can be activated (e.g. extrajudicial and/or legal proceedings, etc.).

With reference to trade and other receivables, Probabilities of Default of counterparties are determined by adopting the internal credit ratings already used for credit worthiness and are periodically reviewed using, inter alia, back-testing analyses. [16]

Considering the characteristics of the reference markets, debt positions with more than 180 days past due or, in any case, with counterparties undergoing litigation, restructuring or renegotiation, are considered to be in default. Counterparties are considered undergoing litigation when judicial/legal proceedings aimed to recover a receivable have been activated or are going to be activated. Impairment losses of trade and other receivables are recognised in the income statement, net of any impairment reversal, within the line item of the income statement “Net impairment reversals (losses) of trade and other receivables”.

The recoverability of financial receivables related to operating activities, granted to associates and joint ventures, which in substance forms part of the entity’s net investment in these investees, is evaluated considering also the underlying industrial operations and the macroeconomic scenarios of the countries where the investees operate.

Significant accounting estimates and judgements: impairment of financial assets

Measuring impairment losses of financial assets requires management evaluation of complex and highly uncertain elements such as, for example, Probabilities of Default (PD) of counterparties, the existence of any exposure mitigators, as well as the forecast credit exposure that will not be recovered in case of default (Loss Given Default o LGD).

Investments in minority shareholdings

Investments in minority shareholdings, that are not held for trading, are measured at fair value with allocation of the effects to the equity reserve that includes the other components of the other comprehensive income, without transfer to the income statement in the case of realization; conversely, dividends from these investments are recorded in the income statement, within the line item “Income (Expense) from investments”.

---

[16] For exposures arising from intra-group transactions, the recovery capacity is assumed to be equal to 100% in consideration of the possibility of intervention on the capital of the investee companies to guarantee their performing status.

[17] For investments in joint ventures and associated companies see above "Equity method”.

In limited circumstances, an investment in minority shareholdings can be measured at cost if it is an appropriate estimate of fair value.

Financial liabilities

At initial recognition, financial liabilities, other than derivative financial instruments, are measured at their fair value, minus transaction costs that are directly attributable, and are subsequently measured at amortised cost.

Derivative financial instruments and hedge accounting

Derivative financial instruments, including embedded derivatives (see below) that are separated from the host contract, are assets and liabilities measured at their fair value.

With reference to the defined risk management objectives and strategy, the qualifying criteria for hedge accounting requires: (i) the existence of an economic relationship between the hedged item and the hedging instrument in order to offset the related value changes and the effects of counterparty credit risk do not dominate the economic relationship between the hedged item and the hedging instrument; and (ii) the definition of the relationship between the quantity of the hedged item and the quantity of the hedging instrument (the so called hedge ratio) consistently with the entity's risk management objectives, under a defined risk management strategy; the hedge ratio is adjusted, where appropriate, after taking into account any adequate rebalancing. A hedging relationship is discontinued prospectively, in its entirety or a part of it, when it no longer meets the risk management objectives on the basis of which it qualified for hedge accounting, it ceases to meet the other qualifying criteria or after rebalancing it.

When derivatives hedge the risk of changes in the fair value of the hedged items (fair value hedge, e.g. hedging of the variability in the fair value of fixed interest rate assets/liabilities), the derivatives are measured at fair value through income statement. Consistently, the carrying amount of the hedged item is adjusted to reflect, in the income statement, the changes in fair value of the hedged item attributable to the hedged risk; this applies even if the hedged item should be otherwise measured.

When derivatives hedge the exposure to variability in cash flows of the hedged items (cash flow hedge, e.g. hedging the variability in the cash flows of assets/liabilities as a result of the fluctuations of exchange rate), the effective changes in the fair value of the derivatives are initially recognised in the equity reserve related to other comprehensive income and then reclassified to the income statement in the same period during which the hedged transaction affects the income statement.

If a hedged forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, the accumulated changes in fair value of hedging derivatives, recognised in equity, are included directly in the carrying amount of the hedged non-financial asset/liability (commonly referred to as a "basis adjustment").

The changes in the fair value of derivatives, that are not designated as hedging instruments, including any ineffective portion of changes in fair value of hedging derivatives, are recognised in the income statement. In particular, the changes in the fair value of non-hedging derivatives on interest rates and exchange rates are recognised in the income statement line item "Finance income (expense)"; conversely, the changes in the fair value of non-hedging derivatives on commodities are recognised in the income statement line item "Other operating (expense) income".

The economic effects of transactions relating to the purchase or sale of commodities stipulated for the company's requirements in the normal course of business and for which settlement is envisaged through the physical delivery of the assets, are posted on an accrual basis (normal sale and normal purchase exemption or own use exemption).

Offsetting of financial assets and liabilities

Financial assets and liabilities are set off in the balance sheet if the Group currently has a legally enforceable right to set off and intends to settle on a net basis (or to realize the asset and settle the liability simultaneously).

Derecognition of financial assets and liabilities

Transferred financial assets are derecognised when the contractual rights to receive the cash flows from the financial assets expire or are transferred to another party. Financial liabilities are derecognised when they are extinguished, or when the obligation specified in the contract is discharged, cancelled or expired.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and demand deposits.

Provisions, contingent liabilities and contingent assets

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 made when: (i) there is a current 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 closing date; provisions relating to onerous contracts are stated 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 from termination of the contract. When the financial effect of time is material and the timing of settlement can be reliably estimated, the provisions should be discounted using a 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 disclosed in the income statement as “Financial income (expense)”.

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

The costs that the company expects to incur, in order to carry out the restructuring plans, are accounted for 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 reflect the variations in cost estimates, realization times and discount rates; the changes in estimates are accounted for in the same income statement item used to accrue the provision, or when the liability regards property, plant and equipment (e.g. dismantling and site remediation), through an entry corresponding to the relevant assets, to the extent of the assets’ book value; any excess amount is accounted for in the income statement.

Contingent liabilities are disclosed in the notes to the financial statements as follows: (i) possible, but not probable obligations arising from past events, whose existence will be confirmed only by the occurrence or nonoccurrence of one or more uncertain future events not wholly within the control of the Company; or (ii) present obligations arising from past events, whose amount cannot be reliably measured or whose settlement will probably not result in a disbursement. Contingent assets, that are possible assets arising from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company, are not recorded unless the realisation of economic benefits is virtually certain. Contingent assets are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. Contingent assets are assessed periodically to in order to assess the likelihood of the Company obtaining economic benefits; when it is virtually certain that economic benefits will be obtained, the asset and the related income are recorded in the relevant financial statements.

Employee benefits

The employee benefits are the remuneration paid by the company in exchange for the work performed by the employee or for the termination of employment.

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, i.e. in line with the employment period required to obtain the benefits.

Net interest includes the return on assets servicing the plan and the interest expenses to be stated 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 of defined-benefit plans is accounted for in the item "Financial income (expenses)".

For defined-benefit plans, the changes in the value of the net liability (so-called revaluations) 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 stated in the statement of comprehensive income. The revaluations of the net liability for defined benefits accounted for in the statement of comprehensive income, are not subsequently reclassified in the income statement.

The obligations relating to long-term benefits are determined by adopting actuarial assumptions; the effects of the revaluations are disclosed in the income statement.

Revenue from contracts with customers

Revenue from contracts with customers is recognised on the basis of the following five steps: (i) identifying the contract with the customer; (ii) identifying the performance obligations, that are promises in a contract to transfer goods and/or services to a customer; (iii) determining the transaction price; (iv) allocating the transaction price to each performance obligation on the basis of the relative stand-alone selling prices of each good or service; and (v) recognising revenue when (or as) a performance obligation is satisfied, that is when a promised good or service is transferred to a customer. A promised good or service is transferred when (or as) the customer obtains control of it. Control can be transferred over time or at a point in time.In the case of sales of products by Versalis, revenues are generally accounted for upon shipment.

Revenue is measured at the fair value of the consideration to which the Company expects to be entitled in exchange for transferring promised goods and/or services to a customer, excluding amounts collected on behalf of third parties. In determining the transaction price, the promised amount of consideration is adjusted for the effects of the time value of money if the timing of payments agreed to by the parties to the contract provides the customer or the entity with a significant benefit of financing the transfer of goods or services to the customer. The promised amount of consideration is not adjusted for the effect of the significant financing component if, at contract inception, it is expected that the period between the transfer of a promised good or service to a customer and when the customer pays for that good or service will be one year or less.

If the consideration promised in a contract includes a variable amount, the Company estimates the amount of consideration to which it will be entitled in exchange for transferring the promised goods and/or services to a customer; in particular, the amount of consideration can vary because of discounts, refunds, incentives, price concessions, performance bonuses, penalties or if the price is contingent on the occurrence or non-occurrence of future events.

If, in a contract, the Company grants a customer the option to acquire additional goods or services for free or at a discount (for example sales incentives, customer award points, etc.), this option gives rise to a separate performance obligation in the contract only if the option provides a material right to the customer that it would not receive without entering into that contract.

When goods or services are exchanged for goods or services which are of a similar nature and value, the exchange is not regarded as a transaction which generates revenue.

Costs

Costs are recognised when the related goods and services are sold or consumed during the year, when they are allocated on a systematic basis or when their future economic benefits cannot be identified.

Costs associated with emission quotas, determined on the basis of the market prices, are recognised in relation to the amounts of the carbon dioxide emissions that exceed free allowances. Costs related to the purchase of the emission rights that exceed the amount necessary to meet regulatory obligations, are recognised as intangible assets. Revenue related to emission quotas is recognised when they are sold and, if applicable, purchased emission rights are considered the first to be sold. Monetary receivables granted to replace the free award emission rights are recognised as a contra to the line item "Other income and revenue".

Lease payments under an operating lease are recognised as an expense over the lease term.

The costs for the acquisition of new knowledge or discoveries, the study of products or alternative processes, new techniques or models, the planning and construction of prototypes or, in any case, costs incurred for other scientific research activities or technological development, which cannot be capitalised (see also the accounting policy for "Intangible assets"), are included in the income statement when they are incurred.

Exchange rate differences

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

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the spot exchange rate on the balance sheet date and any resulting exchange differences are included in the profit and loss account within “Finance income (expense)” or, if designated as hedging instruments for the foreign currency risk, in the same line item in which the economic effects of the hedged item are recognised. Non-monetary assets and liabilities expressed in currencies other than the functional currency, valued at cost, are recorded at the exchange rate of initial recognition; the current exchange rate at the date of determination of this value is adopted when the valuation is carried out at fair value or at the recoverable or realizable value.

Dividends

Dividends are accounted for as at the date the relative resolution was approved at the Shareholders’ Meeting.

Income taxes

Current income taxes are determined on the basis of estimated taxable income; the estimated liability is posted in the item “Current income taxes payables”. Current tax assets and liabilities are accounted for based on the amount expected to be paid to/recovered from the tax authorities, utilizing the tax rates and tax laws enacted, or substantively enacted, as at the balance sheet date.

Deferred tax assets and liabilities are calculated on the temporary differences arising between the book value of the assets and liabilities and the corresponding amounts recorded for fiscal purposes on the basis of the tax rates and laws enacted, or substantively enacted, for future years. Deferred tax assets are accounted for when their recovery is considered probable, that is, when taxable income is expected to be available, in the year in which the temporary difference is canceled, such as to enable the tax deduction to be activated. Similarly, the unused tax credits and deferred tax assets on tax losses are accounted for only to the extent of their recoverability.The recoverability of deferred tax assets is verified at least annually.

With reference to taxable temporary differences, related to investments in subsidiaries/associated companies and interests in joint agreements, the related deferred tax liability is not recorded in the event that the investor is able to control the reversal of the temporary differences and it is probable that such differences will not materialize in the foreseeable future.

Deferred tax assets and liabilities are accounted for 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 accounted for under “Deferred tax assets”, and if negative under “Deferred tax liabilities”. When the results of transactions are accounted for directly in shareholders’ equity, the related current taxes, deferred tax assets and liabilities are also charged to shareholders’ equity.

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 a normal transaction between market participants (i.e. not in a forced liquidation or distressed sale) at the date of valuation (so-called exit price).

The 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, on 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 the 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 made by market operators would maximize its value.

The fair value of a liability, whether financial or non-financial, or of 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 financial instruments takes into account the counterparty's credit risk for a financial asset (Credit Valuation Adjustment, CVA) and the risk of a liability reflects the effect of a risk of default of a financial liability; the risk of default includes, inter alia, the company's own credit risk for a financial liability (Debit Valuation Adjustment, DVA).

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

Accounting estimates and judgements: fair value

The determination of the fair value of financial and non-financial instruments represents a complex process characterized by the use of complex valuation methods and techniques and which involves the collection of updated information from the reference markets and/or the use of internal input data.

Fair value measurement, even if based on the best available information and on the use of appropriate valuation methods and techniques, is intrinsically characterized by elements of randomness and by the exercise of a professional judgment, and it could result in forecasts not in line with the actual values.

Financial Statements[17]

Balance sheet assets and liabilities are classified as current and non-current. Income statement items are presented by nature[18].

Assets and liabilities are classified as current when: (i) they are expected to be realized/settled in the entity's normal operating cycle or within twelve months after the balance sheet date; (ii) they consist of available cash or cash equivalents which do not have constraints, such as to limit their use in the following twelve months, at the balance sheet date; or (iii) they are held primarily for the purpose of trading. Derivative instruments held for trading are classified as current, regardless of their maturity date. Non hedging derivative instruments, which are entered into to manage risk exposures but do not satisfy the formal requirements to be considered as hedging, and hedging derivative instruments are classified as current when they are expected to be realized/settled within twelve months after the balance sheet date; on the contrary they are classified as non current.

The statement of comprehensive income shows the net profit for the period together with income and expenses that are posted directly in equity in accordance with the IFRS.

The Statement of Changes in Shareholders' Equity includes the comprehensive income (expense) 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.

---

17 The impacts on the financial statements arising from the adoption, starting from January 1, 2018, of the new IFRSs, as well as the other changes in the financial statements are described in the note 3 - Changes in accounting policies.

18 Further information on financial instruments as classified in accordance with IFRS is provided in note 25 – "Guarantees, commitments and risks - Other information about financial instruments".

Changes in accounting policies

IFRS 15 “Revenue from Contracts with Customers" and the document “Clarifications to IFRS 15 Revenue from Contracts with Customers” (hereinafter IFRS 15), which set out the requirements for recognising and measuring revenue arising from contracts with customers, have been adopted by the Commission Regulations No. 2016/1905 and 2017/1987 issued by the European Commission, respectively, on September 22, 2016 and October 31, 2017.

IFRS 15 was adopted from 1 January 2018, making use of the possibility, permitted by the transitional provisions of the accounting standard, to recognize the effect connected with the retroactive re-determination of the values in the shareholders' equity as of 1 January 2018, having regard to the cases existing at that date, without restatement when comparing with previous years. The application of the principle has not led to significant accounting effects.

IFRS 9 “Financial Instruments” (hereinafter IFRS 9) has been adopted by the Commission Regulation No. 2016/2067 issued by the European Commission on November 22, 2016. Eni applied IFRS 9 starting from January 1, 2018. As allowed by the transition requirements of the standard, considering also the complexity of the restatement at the beginning of the first comparative year without the use of hindsight, the impacts of the new classification and measurement requirements, including impairment, of financial assets, have been recognised as an adjustment to the opening balance of equity as of January 1, 2018, without restating the comparative information; with reference to hedge accounting, the adoption of the new requirements did not have significant impacts.

In particular, the adoption of IFRS 9 resulted in an increase in shareholders' equity of €4 million, net of the tax effect, referable to the greater write-downs due to the adoption of the expected credit loss model of trade and other receivables credits.

The adoption of the new requirements resulted in some updates of the line items presented in the financial statements; in particular:

- in the profit and loss account: (i) as a consequence of the adoption of IFRS 9, an additional line item to present separately impairment losses/reversals of trade and other receivables (named “Net impairment reversals (losses) of trade and other receivables”) was presented; these items were previously recognised within the line item “Purchases, services and other”. Consequently, in order to have homogeneous comparative information, these items referred to the comparative years, determined in accordance with the superseded IAS 39, were reclassified into the new line item; and (ii) the line item “Net (impairments) reversals” was renamed as “Net impairment reversals (losses) of tangible and intangible assets”;

- in the balance sheet: the current financing receivables were reclassified out of the line item “Trade and other receivables” into the new line item “Other current financial assets”, both in the current and comparative year; this new presentation of the balance sheet was aimed, essentially, to present separately the trade and other exposures from the financial ones, being characterised by different originations, risk profiles and evaluation processes.

Recent accounting standards

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

By the Commission Regulation No. 2017/1986 issued by the European Commission on October 31, 2017, IFRS 16 “Leases” (hereinafter IFRS 16), which replaces IAS 17 and related interpretations, has been endorsed. In particular, IFRS 16 defines a lease as a contract that conveys to the lessee the right to control the use of an identified asset for a period of time in exchange for consideration. The new IFRS eliminates the classification of leases as either operating leases or financial leases for the preparation of lessees’ financial statements; in particular, for all leases that have a lease term of more than 12 months, the following is required:

- in the balance sheet, to recognise a right-of-use asset, that represents a lessee’s right to use an underlying asset (hereinafter also RoU asset), and a lease liability, that represents the lessee’s obligation to make the contractual lease payments; as allowed by the standard, the right-of-use assets and the lease liabilities are presented separately from other assets and other liabilities;

- in the profit and loss account, to recognise, within operating costs, the depreciation charges of the right-of-use asset and, within finance expense, the interest expense on the lease liability, if not capitalised, rather than recognising the operating lease payments within operating costs under IAS 17, effective until year 2018.
- in the statement of cash flows, to recognise cash payments for the principal portion of the lease liability within the net cash used in financing activities and interest expenses within the net cash provided by operating activities, if they are recognised in the profit and loss account, or within the net cash used in investing activities if they are capitalised as referred to leased assets that are used for the construction of other assets. Consequently, compared with the requirements of IAS 17 related to operating leases, the adoption of IFRS 16 will result in a significant impact in the statement of cash flows, by determining: (a) an improvement of the net cash provided by operating activities, which will no longer include the operating lease payments, not capitalized, but will only include the cash payments for the interest portion of the lease liability that are not capitalised ; (b) an increase in net cash used in investing activities, which will no longer include capitalised lease payments for property, plant and equipment and intangible assets, but will only include cash payments for the capitalized interest portion of the lease liability; and (c) a worsening in the net cash used in financing activities, which will include cash payments for the principal portion of the lease liability.

Conversely, a lessor continues to classify its leases as either operating leases or finance leases. IFRS 16 enhances disclosures both for lessees and for lessors. IFRS 16 shall be applied for annual reporting periods beginning on or after January 1, 2019.

In 2018, the analytical activities, which identified the areas affected by the adoption of the new requirements, updated the processes and systems and assessed the expected impacts on the Consolidated Financial Statements, were completed.

On initial application, Versalis elects to apply the following practical expedients allowed by the accounting standard:

- possibility to adopt the modified retrospective approach, by recognising the cumulative effect of initially applying the new standard as an adjustment to the opening balance at January 1, 2019, without restating the comparative information;
- possibility not to reassess each contract existing at January 1, 2019, by applying IFRS 16 to all contracts previously identified as leases (under IAS 17 and IFRIC 4), while not applying IFRS 16 to the contracts that were not previously identified as leases;
- for contracts previously classified as operating leases, possibility to measure the right-of-use asset at an amount equal to the lease liability, adjusted, if necessary, by any prepaid amounts already recognised in the balance sheet;
- possibility of verifying the recoverability of assets for right of use as at 1 January 2019 based on the valuation, carried out for the purposes of financial reporting 2018, regarding the onerous nature of leasing contracts in accordance with the provisions of IAS 37;
- upon transition, election not to consider leases for which the lease term ends within 12 months of January 1, 2019 as short-term leases.

Based on the information available, the adoption of IFRS 16 entails the recognition of the right-of-use of the asset and lease liability for €22 million; this estimate could change in relation to any interpretative evolution deriving from the indications of the IFRIC, as well as the refinement of the elaboration process in view of the first application of the principle in financial reporting 2019.

Based on the currently available information, a reconciliation between the amount of future minimum lease payments under non-cancellable operating leases at December 31, 2018 and the opening balance of the lease liability at January 1, 2019 is provided below:

(in millions of euros)

Future minimum lease payments under non-cancellable operating leases at December 31, 2018	**24**
Effect of discounting	(2)
Exclusion of non-material leasing contracts	
Recognition of the shares of leases related to followers	
Other changes	
Lease liability at January 1, 2019	**22**

With reference to the accounting principles issued by the IASB, approved by the European Commission and not yet entered into force, regulation no. 2018/1595 issued by the European Commission on October 23, 2018, IFRIC 23 “Uncertainty about processing for income tax purposes” was approved, containing indications regarding the accounting of tax assets and liabilities (current and/or deferred) relating to income taxes in the presence of uncertainties in the application of tax legislation. IFRIC 23 shall be applied for annual reporting periods beginning on or after January 1, 2019. At present, the possible impacts of the new provisions are being analyzed/assessed.
Furthermore, with regulation n. 2019/237 issued by the European Commission on February 8, 2019 the amendments to IAS 28 “Long-term interests in associates and joint ventures” (as amended by IAS 28), aimed at clarifying that the provisions of IFRS 9; including those relating to impairment, are also applied to financial instruments representing long-term interests in an associated company or a joint venture, which, in substance, form part of the net investment in the associated company or joint venture (so-called long -term interest). The amendments to IAS 28 shall be applied for annual reporting periods beginning on or after January 1, 2019.

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

On May 18, 2017, the IASB issued IFRS 17 “Insurance Contracts” (hereinafter IFRS 17), which sets out the accounting for the insurance contracts issued and the reinsurance contracts held. IFRS 17, which replaces IFRS 4 “Insurance Contracts”, shall be applied for annual reporting periods beginning on or after January 1, 2021.

On February 7, 2018, the IASB issued the amendments to IAS 19 "Plan Amendment, Curtailment or Settlement", essentially to require the use of updated actuarial assumptions in determining the cost of current work services and net interest for the period following a change, a reduction or termination of an existing defined benefit plan. he amendments to IAS 19 are effective starting from the financial years starting on or after 1 January 2019.

On March 29, 2018, the IASB issued the document “Amendments to References to the Conceptual Framework in IFRS Standards”, which includes, basically, technical and editorial changes to existing IFRS standards in order to update references in those standards to previous versions of the IFRS Framework with the new Conceptual Framework for Financial Reporting, issued by the IASB on the same date. The amendments to the standards shall be applied for annual reporting periods beginning on or after January 1, 2020.

On October 22, 2018, the IASB issued the amendments to IFRS 3 “Business Combinations” (hereinafter the amendments to IFRS 3), which clarify the definition of a business. The amendments to IFRS 3 shall be applied for annual reporting periods beginning on or after January 1, 2020.

On October 31, 2018, the IASB issued the amendments to IAS 1 and IAS 8 “Definition of Material” (hereinafter the amendments to IAS 1 and IAS 8), which clarify, and align across all IFRS Standards and other publications, the definition of material to help companies make better materiality judgements. In particular, information is material if omitting, misstating or obscuring it could be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments to IAS 1 and IAS 8 shall be applied for annual reporting periods beginning on or after January 1, 2020.

On December 12, 2017, the IASB issued the document “Annual Improvements to IFRS Standards 2015-2017 Cycle”, which includes, basically, technical and editorial changes to existing standards. The amendments to the standards shall be applied for annual reporting periods beginning on or after January 1, 2019.

Current assets

1. Cash and cash equivalents

Cash and cash equivalents amounted to €44 million (€201 million as at December 31, 2017) and are mainly deposited in non-interest bearing current accounts (c/o Eni Group financial companies).

2. Trade and other receivables

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

(amounts in millions of euros)	**31.12.2017**	**31.12.2018**
Trade receivables	584	557
Other receivables	142	149
	726	**706**

Receivables are shown net of provisions for impairment of €158 million:

(amounts in millions of euros)	**Amount at 31.12.2017**	**Allocations**	**Utilizations**	**Changes in accounting criteria (IFRS 9)**	**Amount at 31.12.2018**
Provisions for impairment of trade receivables	171	2	(20)	6	158
	171	**2**	**(20)**	**6**	**158**

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 No. 25.

Deductions refer mainly to the waiver of trade receivables written down in previous years by the jointly controlled company Matrìca.

The other receivables are comprised of the following:

(amounts in millions of euros)	**31.12.2017**	**31.12.2018**
Receivables from Eni Group companies	93	94
Receivables from parent company	18	44
Advances for services and guarantee deposits	13	5
Receivables relating to personnel	5	2
Receivables for licences	4	2
Other receivables	8	3
	141	**149**

Receivables from Eni Group companies mainly relate to Syndial SpA (€82 million) and Eni Trading & Shipping SpA (€6 million)

The fair value of trade and other receivables has no material impact, given their short short-term nature (i.e. between their creation and due date).

Receivables from related parties are disclosed in Note 33.

3. Inventories

Inventories include the following:

	31.12.2017				31.12.2018			
(amounts in millions of euros)	Petroleum products	Chemical products	Other	Total	Petroleum products	Chemical products	Other	Total
Raw materials and consumables	45	107	57	209	47	122	64	233
Work in progress and semi-finished products	1	7		8	1	8		9
Finished products and goods	27	475		502	29	533	3	565
	73	**589**	**57**	**719**	**77**	**663**	**67**	**807**

The changes in inventories and in provisions for impairment are as follows:

(amounts in millions of euros)	**Value at the beginning of the year**	**Variation during the year**	**Allocations**	**Utilizations**	**Foreign currency translation differences**	**Related Parties transactions**	**Value at the end of the year**
31.12.2017							
Gross value	619	129			(2)		**747**
Provisions for impairments	(27)		(4)	3			**(28)**
Net inventories	**592**	**129**	**(4)**	**3**	**(2)**		**719**
31.12.2018							
Gross value	747	101			(1)	4	**851**
Provisions for impairments	(28)		(19)	3			**44**
Net inventories	**719**	**101**	**(19)**	**3**	**(1)**	**4**	**807**

The Related Parties Transactions refers to the purchase of the Bio branch from the Mossi&Ghisolfi group.

There are no secured guarantees on inventories.

4. Current income tax assets

Current income tax assets amounted to €15 million (€3 million as at December 31, 2017) and they refer mainly to foreign tax receivables. Further details are provided in Note 32.

5. Other current tax assets

Other current tax assets include the following:

(amounts in millions of euros)	**31.12.2017**	**31.12.2018**
VAT receivables	7	13
Other receivables	1	1
	8	**14**

6. Other Assets

Other assets include the following:

(amounts in millions of euros)	**31.12.2017**	**31.12.2018**
Fair value on non-hedging derivatives	2	1
Other assets	2	2
	4	**3**

Other assets amount to €3 million (€4 million as at December 31, 2017) and mainly include the prepaid expenses and the fair value of derivatives contracts (not classifiable as "hedging" but without speculative purposes), recorded in the financial statements based on values calculated and reported by the parent company Eni SpA. These are derivatives that, whilst not for trading purposes or speculative, do not meet all the requirements under IAS/IFRS to be considered hedges.

The notional amounts of derivatives summarized below 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 positive market value (fair value) of the contracts at the year end, less the effect of possible general offset arrangements.

Non-current assets

7. Property, plant and equipment

Property, plant and equipment are detailed as follows:

(amounts in millions of euros)	**Net value at the beginning of the year**	**Investments**	**Depreciation and amortization**	**Impairment losses & value reinstatements**	**Currency translation differences**	**Business Unit transactions**	**Other variations**	**Net value at the end of the year**	**Gross value at the end of the year**	**Provisions for depreciation and impairments**
31.12.2017										
Land	40			(10)			1	**32**	113	**81**
Buildings	36		(5)				4	**35**	346	**311**
Plant and machinery	416	48	(69)	199	(1)		74	**667**	5.198	**4.531**
Industrial and commercial equipment			(1)				2	**2**	110	**108**
Other assets	5		(1)				(2)	**2**	36	**34**
Assets under construction and advances	242	144		(110)	(1)		(86)	**189**	464	**275**
	739	**192**	**(75)**	**80**	**(2)**		**(7)**	**927**	**6.267**	**5.340**
31.12.2018										
Land	32			(11)				**21**	113	92
Buildings	35		(6)	2			2	**33**	350	317
Plant and machinery	667	22	(100)	(160)		16	46	**489**	5.281	4.792
Industrial and commercial equipment	2		(1)				1	**2**	112	110
Other assets	2	2	(1)				5	**8**	42	34
Assets under construction and advances	189	121		(18)			(48)	**244**	490	246
	927	**145**	**(108)**	**(187)**		**16**	**6**	**797**	**6.388**	**5.591**

The investments of €145 million (€192 million in 2017) are described in the relevant section of the Directors' report.

Financial expenses capitalized during the year, determined by using a 2.42% interest rate (2.66% in 2017), amounted to €6 million (€7 million in 2017). The amount of the increase on internal work incurred and capitalized during the year amounted to €16 million (€12 million in 2017) and refers to work carried out by internal personnel.

The following annual depreciation rates were included in the following ranges (unchanged from last year):

(Annual %)	**2017**	**2018**
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 value write-down of €187 million stems from the results of impairment tests and refer to the following Cash Generating Units (CGU):

- Priolo plant (impairment loss of €134 million);
- Styrene in Mantua (impairment loss of €56 million);
- Ravenna plant (impairment loss of €32 million);
- Porto Marghera plant (impairment loss of €27 million);
- Porto Torres services (impairment loss of €7 million);
- Polyethylene in Ferrara (impairment loss of €5 million);
- Ragusa plant (impairment loss of €4 million)
- Szàzhalombatta plant (impairment loss of €1 million)
- Elastomers in Ferrara (value write-back of €71 million);
- Intermediates in Mantua (value write-back of €5 million);
- Intermediates and Polythene in Brindisi (value write-back of €4 million).

Management carried out impairment tests on non-financial fixed assets; for this purpose, these assets were grouped together in Cash Generating Units, which correspond mainly to the production facilities.

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, operating and profit conditions may differ. Nevertheless, where present at the same site, or at least 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.

The total value write-back was calculated by comparing the carrying amount of each CGU with its value in use determined by discounting to present the expected cash flows eriving from the use of the assets in a time frame supported by appraisals entrusted to external consultants..

The cash flows were calculated based on the operating results forecast in the 2019-2022 Strategic Plan, approved by the Board of Directors; excluding research investment flows and those of "Development/Upgrade" not yet authorized. For the years following those of the Plan, the normalized material balance has been valued, for fixed costs an increase rate has been applied equal to the scenario inflation. As regards investments, for the years following those of the Plan, a "maintenance" cost (stay in Business) was assumed, equal to the average of the investments planned in the Plan (excluding Research and Development/Upgrade). The periodic punctual value was used for the capitalized Multi-Year Shutdowns (the frequency of which varies from 3 to 6 years).

In discounting the cash flows determined with the above methods and according to the above criteria, management adopted the discount rate of 8.1% for the CGU in Italy and 9.1% in France and Hungary, 9.0% in Germany and 9.2% in the United Kingdom.

In view of the volatile trading environment, management has tested the reasonableness of its assumptions and the impairment test result through different sensitivity analyzes, in particular on the WACC and the forecast cash flows. Taking into consideration the significant write-downs made in previous years and the sensitivity of the main assumptions, relating to issues by their uncertain nature, used for the purposes of the impairment test, a change in the expected cash flows or the WACC would entail a significant change in the recoverable value.

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

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, which lead to a reduction in the value of property, plant and equipment, amounted to €18 million (€20 million as at December 31, 2017). 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.

The Business Unit transactions refer to the thermoelectric plant, held under operating lease, recognized at the time of the acquisition of the Bio business unit from the Mossi & Ghisolfi group.

8. Intangible assets

Intangible assets are comprised of the following:

(amounts in millions of euros)	**Net value at the beginning of the year**	**Additions**	**Depreciation and amortization**	**Impairment losses & value reinstatements**	**Business Unit transactions**	**Other changes**	**Net value at the end of the year**	**Gross value at the end of the year**	**Accumulated amortization and impairment**
31.12.2017									
Intangible assets with finite useful lives									
- Research and development costs	6		(1)				**5**	22	**17**
- Industrial patents and intellectual property rights								53	**53**
- Concessions, licenses, trademarks and similar items	8		(1)			7	**14**	100	**86**
- Fixed assets in progress and advances	5	10				(1)	**14**	19	**5**
- Other intangible assets	40		(3)			1	**37**	136	**99**
	59	**10**	**(5)**			**7**	**70**	**330**	**260**
31.12.2018									
Intangible assets with finite useful lives									
- Research and development costs	**5**		(1)	(4)				22	**22**
- Industrial patents and intellectual property rights								54	**54**
- Concessions, licenses, trademarks and similar items	**14**	3	(1)		47	1	**64**	151	**87**
- Fixed assets in progress and advances	**14**	1		(12)		(3)		16	**16**
- Other intangible assets	**37**	1	(4)				**34**	138	**104**
Intangible assets with an indefinite useful lives									
- Goodwill					26		**26**	26	
	70	**5**	**(6)**	**(16)**	**73**	**(2)**	**124**	**406**	**282**

Concessions, licenses and trademarks relate essentially to industrial licenses. The increase of €47 million recorded in the year relates to the recognition of technology through the purchase of the Bio business unit from the Mossi & Ghisolfi group. The transaction also involved the recognition of goodwill for €26 million.

Other intangible assets (€34 million) relate mainly to intellectual property rights for the license contract with Union Carbide. It should be noted that this license contract was subject 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 for the Union Carbide royalties is 9 years.

he write-downs of €16 million refer mainly to licenses and technologies of the following CGUs: styrene of Mantua (impairment loss of €8 million); Ravenna plant (impairment loss of €4 million) and Porto Marghera plant (impairment loss of €4 million).

The Business Unit transactions relate to the technology and goodwill deriving from the Bio business unit acquired by the Mossi & Ghisolfi group.

The following annual amortization rates, unchanged from the previous year were adopted:

(annual %)	**2017**	**2018**

Intangible assets with finite useful lives		
- Research & Development costs	4 - 20	4 - 20
- 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

Equity-accounted investments include the following:

(amounts in millions of euros)	Net value at the beginning of the year	Acquisitions and subscriptions	Share of profit (loss) on equity-accounted investments	Other changes	Net value at the end of the year
31.12.2017					
Investments in:					
- subsidiaries	6	1		1	**8**
- associated companies	100		(4)	1	**97**
- joint ventures	77	62	(20)	(5)	**114**
	183	**63**	**(24)**	**(3)**	**219**
31.12.2018					
Investments in:					
- subsidiaries	8			(4)	**4**
- associated companies	97		(4)		**93**
- joint ventures	114	28	(67)		**75**
	219	**28**	**(71)**	**(4)**	**172**

Acquisitions and subscriptions of € 28 million relate to the payments for future capital increases in Matrìca.

The results of the equity investments, accounted for using the equity method, negative for €71 million, mainly relate to the valuation of Lotte Versalis Elastomers Co Ltd (€39 million), the reclassification from the provision to cover losses to the provision for doubtful equity investments of Matrìca (€28 million) and the valuation of Novamont (€5 million).

Other changes (€4 million) refer to the liquidation of Eni Chemicals Trading (Shanghai) Co. Ltd.

The equity-accounted investments relate to the following companies:

(amounts in millions of euros)	**31.12.2017**	**31.12.2018**
Lotte Versalis Elastomers Co Ltd	113	74
Novamont SpA	72	68
Priolo Servizi Industriali Scarl	18	18
Versalis Kimya Ticaret Ltd.	4	4

Servizi Porto Marghera Scarl	3	3
Ravenna Servizi Industriali ScpA	2	2
IFM Ferrara Scarl	1	1
Versalis Zeal Ltd.	1	1
Brindisi Servizi Generali Scarl	1	1
Eni Chemicals Trading (Shanghai) Co. Ltd.	4	
	219	**172**

The ownership percentages are shown in Note 38.

10. Other investments

Other investments include the following:

(amounts in millions of euros)	Net value at the beginning of the year	Other changes	Net value at the end of the year
31.12.2017			
Investments in:			
- other companies	3		**3**
	3		**3**
31.12.2018			
Investments in:			
- other companies	3		**3**
	3		**3**

Other investments relate to the following company:

(amounts in millions of euros)	31.12.2017	31.12.2018
Consorzio Exeltium SAS	3	3
	3	**3**

The ownership percentages are shown in Note 38.

11. Other financial assets

Other financial assets of €2 million (€2 million as at December 31, 2017) essentially refer to the financing with Serfactoring *Eni Grioup.

12. Deferred tax assets

Deferred tax assets amounted to €75 million (€177 million as at December 31, 2017) net of deferred tax liabilities of €78 million (€89 million as at December 31, 2017) and are stated net of impairment losses of €684 million (of which €479 million related to tax losses).

(amounts in millions of euros)	31.12.2017	31.12.2018
Pre-paid tax assets	266	153
Deferred tax liabilities available for offset	(89)	(78)

Net deferred tax assets	**177**	**75**

Income taxes are discussed in Note 32.

The nature of the temporary differences giving rise to the deferred tax assets is as follows:

(amounts in millions of euros)	Amount at 31.12.2017	Additions	Deductions	(Write-downs)/Write-backs	Other changes	Amount at 31.12.2018
Deferred tax assets:						
- non-deductible impairment losses	119	94	(53)		1	161
- tax losses	116	46	(26)	(150)	17	3
- expenses with deferred deductibility	(3)		(1)			(4)
- provisions for risks and charges	6	11	(5)			
- other	28	3	(29)		(21)	(19)
	266	**154**	**(114)**	**(150)**	**(3)**	**153**
Deferred tax liabilities:						
- excess amortization/depreciation	69		(14)			55
- other	20	4	(1)			23
	89	**4**	**(15)**			**78**
Net deferred tax assets	**177**	**150**	**(99)**	**(150)**	**(3)**	**75**

The €150 million write-down refers to the outcome of the recoverability of receivables evaluations for deferred taxe assets of Versalis SpA (€145 million) and Versalis France (€3 million).

13. Other Assets

Other assets of €1 million (€1 million as at December 31, 2017) relate essentially to personnel receivables.

Current liabilities

14. Short-term debt

Short-term debt amounting to €592 million (€88 million as at December 31, 2017) relates mainly to loans granted by Eni SpA and by the finance companies of the Eni Group.

(amounts in millions of euros)	31.12.2017	31.12.2018
Payables to parent companies for loans	88	592
	88	**592**

The average annual interest rate for the year was 2.66% (0.9% as at December 31, 2017).

15. Current portion of long-term debt

The current portion of long-term debt amounted to €5 million (€5 million as at December 31, 2017) as illustrated in Note 20 "Long-term debt and current portion of long-term debt", to which reference is made.

16. Trade and other payables

Trade and other payables include the following:

(amounts in millions of euros)	31.12.2017	31.12.2018
Trade payables	749	653
Advances	2	
Other payables:		
- relating to capital expenditures	33	47
- other	74	93
	858	**793**

Trade payables of €653 million relate to payables to third party suppliers (€314 million), payables to associated companies, joint ventures and other Eni Group companies (€183 million) and payables to the parent company Eni S.p.A. (€156 million).

Payables related to capital expenditures amounted to €47 million.

Other payables that amounted to €93 million refer mainly to the payables to personnel (€43 million), payables to the social security authorities (€15 million) and other debts (€35 million).

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

Payables to related parties are described in Note 33.

In application of IFRS 15, advances and advances have been reclassified under other liabilities for €2 million.

17. Current income tax payable

Income taxes payable of €1 million (€5 million as at December 31, 2017) relate to the income tax of foreign consolidated companies.

18. Other current taxes payable

Other taxes payable of €12 million (€14 million as at December 31, 2017) relate mainly to withholding tax due.

19. Other liabilities

Other liabilities are detailed as follows:

(amounts in millions of euros)	31.12.2017	31.12.2018
Deferred Income	7	8
Payments on account & advances		6
Fair value on non-hedging derivatives	1	3
	8	**17**

Other liabilities include the reclassification as at January 1, 2018 of the item Trade payables and other payables, of payments on account and advances (€2 million), pursuant to IFRS 15.

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

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

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

Long-term debt and current portion thereof amounts to €82million (€71 million as at December 31, 2017), are detailed in the table below:

	31.12.2017			31.12.2018		
(amounts in millions of euros)	Long-term portion	Short-term portion	Total	Long-term portion	Short-term portion	Total
Shareholders for loans	66	4	70	57	9	66
Other financial institutions	1		1	9	7	16
	67	**4**	**71**	**66**	**16**	**82**

The average effective interest rate for the year was 2.36% (0.5% in 2017). For more information see the "Leverage and net borrowings" section in the Directors' Report.

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

(amounts in millions of euros)	**Value at December 31**		**Long-term maturity**						
	2017	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**Beyond**	**Total**
Shareholder loans	70	66	9	9	9	9	9	21	66
Other financial institutions	1	16	7	5	4			1	16
	71	**82**	**16**	**14**	**13**	**9**	**9**	**22**	**82**

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

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

	31.12.2017			31.12.2018		
(amounts in millions of euros)	Current	Non-current	Total	Current	Non-current	Total
A. Cash and cash equivalents	201		201	44		44
B. Available-for-sale securities						
C. Liquidity (A+B)	**201**		**201**	**44**		**44**

D. Financial receivables						
E. Short-term debt towards banks						
F. Long-term debt towards banks						
G. Bonds						
H. Short-term debt towards related entities	70		**70**	587		**587**
I. Long-term debt towards related entities	5	67	**72**	9	57	**66**
L. Other short-term debt	18		**18**	5		**5**
M. Other long-term debt				7	9	**16**
N. Total borrowings (E+F+G+H+I+L+M)	**93**	**67**	**160**	**608**	**66**	**674**
O. Net borrowings (N-C-D)	**-108**	**67**	**-41**	**564**	**66**	**630**

21. Provisions for risks and charges

(amounts in millions of euros)	**31.12.2017**	**31.12.2018**
Provision for disposal and restructuring	38	43
Provision for environmental risks	28	41
Provision for associated companies risks	38	37
Provision for redundancy incentives	10	9
Provision for legal and other proceedings	5	5
Provision for OIL insurance	1	3
Provision for green certificates	1	1
Provision for tax litigation risks	1	
Other provisions	10	10
	132	**149**

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

(amounts in millions of euros)	**Value at the beginning of the year**	**Additions**	**Utilization of provisions**	**Reversal of unutilized provisions**	**Other changes & foreign currency translation differences**	**Value at the end of the year**
31.12.2017						
Provision for disposal and restructuring	32	16	(10)			**38**
Provision for environmental risks	21	10	(1)	(2)		**28**
Provision for associated companies		38				**38**
Other provisions	11				(1)	**10**
Provision for redundancy incentives	14		(1)	(4)	1	**10**
Provision for legal and other proceedings	6			(1)		**5**
Provision for tax litigation	2		(1)			**1**
Provision for OIL insurance	1					**1**
Provision for green certificates					1	**1**
	87	**64**	**(13)**	**(7)**	**(1)**	**132**
31.12.2018						
Provision for disposal and restructuring	38	16	(11)			**43**
Provision for environmental risks	28	14	(1)			**41**
Provision for associated companies	38	27			(28)	**37**
Provision for redundancy incentives	10	1	(1)	(1)		**9**
Provision for legal and other proceedings	5	6	(6)			**5**
Provision for OIL insurance	1	2				**3**
Provision for green certificates	1					**1**
Provision for tax litigation	1		(1)			
Other provisions	10	1	(1)			**10**
	132	**67**	**(21)**	**(1)**	**(28)**	**149**

Provisions for disposal and restructuring of €43 million refers mainly to the activities for the disposal of the Sarroch site following the sale of the Aromatici business branch in 2014 for €10 million, for €18 million for the restructuring of the Sarroch site, for €7 million for the restructuring of the Porto Marghera site and for €4 million the restructuring of the Priolo site.

The provisions for environmental risks of €41 million include environmental charges related to various corporate sites for the part not covered by the guarantee issued by Syndial SpA, upon the transfer of the "Strategic Chemical Activity" business.

The provision for associated companies of € 37 million includes the provisions made following the undertaking by the parent company of the commitment to meet the financial requirements for the 2019 financial year of the jointly controlled company Matrìca. Other changes of € 28 million relate to the reclassification to the provision for investment write-downs.

Provisions for redundancy incentives of €9 million relate to expenses for ordinary redundancy procedures.

Provisions for legal and other proceedings of €5 million concerns disputes for revocation actions.

Provisions for OIL insurance of €3 million include 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 €10 million consist mainly of the provision for mobility grants of €5 million, the social security contributions and the severance indemnities relating to the deferred monetary incentives for managers of €2 million and future charges for the purchase of €1 million green certificates.

22. Provisions for employee benefits

Provisions for employee benefits amounted to €70 million as detailed in the table below:

(amounts in millions of euros)	**31.12.2017**	**31.12.2018**
Employee termination indemnities (TFR)	45	44
Supplementary medical reserve for Eni managers and other foreign medical plans	9	10
Foreign pension plans	(1)	1
Other benefits	14	15
	67	**70**

Employee termination indemnities ("TFR") are regulated by Art. 2120 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 their employment. The indemnity, to be paid in capital 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 pension funds, or into the treasury fund held by the Italian Pension Agency (INPS) or, in the case of companies with fewer than 50 employees, it can be placed with the employer. 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 fund 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 relate to 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.

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

	31.12.2017				
(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**	**42**	**9**	**12**	**110**
Current cost		*1*		*4*	*5*
Interest costs	*1*	*1*			*2*
Remeasurements:	*(1)*	*(1)*			*(2)*
- Actuarial gains and losses from changes in demographic assumptions		*(2)*			*(2)*
- From financial assumptions	*(1)*	*1*			*0*
- From past experience					*0*
Benefits paid	*(1)*	*(1)*		*(2)*	*(4)*
Currency exchange differences and other changes		(4)			(4)
Present value of obligations at the end of the period (a)	**45**	**38**	**9**	**14**	**106**
Plan assets at the beginning of the year		**40**			**40**
Interest income		*1*			1
Return on plan assets		*1*			1
Currency exchange differences and other changes		*(3)*			(3)
Plan assets at the end of the year (b)		**39**			**39**
Redemption rights at the end of the year (c)					
Assets/liabilities ceiling incurred at the end of the year (d)					
Net liabilities recognized in the financial statements (a-b±d)	**45**	**(1)**	**9**	**14**	**67**

(amounts in millions of euros)	31.12.2018				
	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	**45**	**38**	**9**	**14**	**106**
Current cost				*3*	*3*
Interest costs	*1*	*1*			*2*
Revaluations:		*(1)*	*1*	*2*	*2*
- Actuarial gains and losses from financial assumptions		*(1)*		*2*	*1*
- Influenced by past experience			*1*		*1*
Benefits paid	*(2)*	*(2)*		*(4)*	*(8)*
Currency exchange differences and other changes		*(1)*			*(1)*
Present value of obligations at the end of the period (a)	**44**	**35**	**10**	**15**	**104**
Plan assets at the beginning of the year		***39***			***39***
Interest income		*1*			*1*
Return on plan assets		*(2)*			*(2)*
Benefits paid		*(2)*			*(2)*
Currency exchange differences and other changes		*(2)*			*(2)*
Plan assets at the end of the year (b)	**0**	**34**	**0**	**0**	**34**
Redemption rights at the end of the year (c)					
Ceiling of assets/liabilities incurred at the end of the year (d)					
Net liabilities recognized in the financial statements (a-b±d)	**44**	**1**	**10**	**15**	**70**

Other provisions for long-term employee benefits of €15 million (€14 million as at December 31, 2017) primarily concern deferred monetary incentives for €9 million (€8 million as at December 31, 2017) and seniority bonuses for €4 million (€4 million as at December 31, 2017).

The costs relating to liabilities for employee benefits, assessed utilizing actuarial assumptions, recorded in the income statement are analysed 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**
2017					
Current cost		1		4	5
Cost for past services and gains/loss by extinction					
- Interest expense on the obligation	*1*	*1*			*2*
- Interest income on the plan assets		*(1)*			*(1)*
Total		**1**		**4**	**5**
- of which recorded in the cost of labour		1		4	5
- of which recorded in financial income (expense)					
2018					
Current cost				*3*	*3*
Cost for past services and gains/loss by extinction					
Net interest expense (income):					
- Interest expense on the obligation	*1*	*1*			*2*
- Interest income on the plan assets		*(1)*			*(1)*
Total net interest expense (income)	*1*				1
Revaluations of long-term plans				2	2
Total	**1**			**5**	**6**
- of which recorded in the cost of labour				*5*	*5*
- of which recorded in financial income (expense)	1				*1*

The cost of defined-benefit plans included in the other items of the comprehensive income/loss are analysed as follows:

	31.12.2017				**31.12.2018**			
(amounts in millions of euros)	**TFR**	**Foreign defined-benefit schemes**	**FISDE and foreign medical plans**	**Total**	**TFR**	**Foreign defined-benefit schemes**	**FISDE and foreign medical plans**	**Total**
Remeasurements:								
- Actuarial gains and losses from changes in demographic assumptions		(2)		**(2)**				
- Actuarial gains and losses from changes in financial assumptions	(1)	1			(1)			**(1)**
- Effect of past experience						2		**2**
- Return on plan assets		(1)		**(1)**	2			**2**
	(1)	**(2)**		**(3)**	**1**	**2**		**3**

The main actuarial assumptions utilized to measure the liabilities at the end of the year and to determine the cost of the next year are illustrated here below:

(%)	TFR	Foreign defined-benefit schemes	FISDE and other foreign medical plans	Other provisions for long-term employee benefits
2017				
Discount rate	1,5	1,5-2,40	1,5	0,0-1,5
Salary growth trend rate	2,5	1.5-3,20		
Inflation rate	1,5	1,5-3,70	1,5	1,5

(%)				
2018				
Discount rate	1,5	1,5-2,70	1,5	0,2-1,5
Salary growth trend rate	2,5	1.5-3,25		
Inflation rate	1,5	1,5-3,75	1,5	1,5

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.

	Discount Rate		Inflation Rate	Cost of Living Trend
	0.5% increase	Riduzione di 0.5%	0.5% increase	0.5% increase
TFR	(2)	2	2	
FISDE and foreign medical plans	(1)	1		1

The amount of contributions expected to be paid into defined-benefit plans in the next year totals €7 million.

23. Deferred tax liabilities

The deferred tax liabilities balance is analysed as follows:

(amounts in millions of euros)	Amount at 31.12.2017	Provisions	Utilizations	Other changes	Amount at 31.12.2018
Deferred tax liabilities:					
- other	1	1			**2**
	1	**1**			**2**

24. Shareholders' equity

The shareholders' equity amounts to €1,044 million (€1,815 million as at December 31, 2017) as detailed below:

(amounts in millions of euros)	**31.12.2017**	**31.12.2018**
Share capital	1,365	1,365
Legal reserve	8	24
Other reserves	24	21
Retained earnings/(losses) brought forward	115	94
Profit (Loss) for the period	303	(460)
	1,815	**1,044**

Share capital

The share capital consists of 1,364,790,000 ordinary shares, without par value and owned exclusively by Eni SpA.

The change in net equity compared to the previous year is essentially due to the loss of €460 million and the payment of dividends to the sole shareholder Eni for €304 million.

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

Legal reserve

The legal reserve, amounting to approximately €24 million, increased by €16 million following the resolution of the shareholders' meeting held on April 20, 2018, pursuant to art. 2430 of the Civil Code.

Other Reserves

The other reserves amount to a total of €21 million (€24 million at December 31, 2017).The amount is mainly due to provisions for covering losses, equal to €32 million, (the same amount as of December 31, 2017), the reserve for business combinations under common control for €2 million (same amount as at 31.12.2017) to the negative reserve for benefit plans defined for employees, net of the tax effect, equal to €8 million, (€6 million at 31 December 2017) and negative reserve on exchange rate effects for a hard €5 million (€4 million at December 31, 2017).

25. Guarantees, commitments and risks

Guarantees

Guarantees are detailed as follows:

	31.12.2017			**31.12.2018**		
(amounts in millions of euros)	Fidejussions	Other guarantees	Total	Fidejussions	Other guarantees	Total
Consolidated subsidiaries		122	122		120	120
Other	1		1	1		1
	1	**103**	**104**	**1**	**120**	**121**

Other guarantees of €120 million provided on behalf of consolidated companies relate to indemnities granted to Eni SpA and Syndial SpA, which in turn granted guarantees in favour of third parties on behalf of the Versalis Group companies.

The effective commitment as at December 31, 2018 amounted to €121 million.

The sureties given in the interest of others of €1 million concern the guarantee issued in favor of Serfactoring SpA, in the interest of employees of Versalis SpA, which obtained loans from Serfactoring SpA.

Commitments and risks

Commitments and risks are detailed as follows:

(amounts in millions of euros)	31.12.2017	31.12.2018
Commitments		
Operating leases	2	2
	2	**2**
Risks		
Other risks	40	40
	40	**40**
	42	**42**

Other Risks refers mainly to costs related to the divestment, on December 31, 2014, of the Sarroch Aromatics business.

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 between the Euro and other currencies with which Versalis operates, and to the volatility of commodity prices; (ii) credit risk deriving from the possibility of default of a counterparty; (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 a sensitivity analysis[19] 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, the management of trading in derivatives on commodities is entrusted to Eni Trading & Shipping SpA and Eni SpA.

In particular, Eni SpA manages all the Versalis Group’s transactions in foreign currency and in derivatives, together with the trading of emission certificates. The individual business units and Eni Trading & Shipping trades in hedging derivatives manage commodity price risk.

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.

---

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

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.

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 can determine the following impacts: on the individual operating results due to the different materiality of costs and revenues, denominated in foreign currencies, with respect to the moment when the price conditions have been defined (economic risk) and on the translation of trade receivables/payables denominated in foreign currencies (transaction risk); on the consolidated financial statements (profit or loss and shareholders' equity) on the translation of assets and liabilities of companies that prepare their financial statements with a functional currency other than the euro. In general, a US dollar gaining strength against the euro has a positive effect on the operating profit of the Group Versalis and vice versa. The objective of Versalis management is to minimize the risk of exchange rate risk and optimizing the economic risk related to commodity prices; the risk of growing income in foreign currency or converting assets and liabilities of companies that issue their financial statements in a currency different than euro are not usually subject to hedging, unless specifically evaluated otherwise. 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, by the centralized Eni Finance structure, using the parametric approach (variance/covariance), adopting a 99% confidence level and a 20-day holding period.

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 €40 million.

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 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 the 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 and Eni SpA 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 duration of more than three months.

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.

During the course of 2018 the trend in trade receivables from third parties showed a substantially homogeneous trend with that of the previous year, with an increase in exposure mainly in the first half of the year, and then suffered a reduction in the second part of 2018; the average exposure of 2018 is higher than in 2017, as is the average turnover which in 2018 is higher than the previous year.

The level of disposals to Factors was substantially in line with that of the previous year and allowed a reduction of the accounting exposure at the end of the quarterly closing.

The number and amount of litigations had limited increases compared to the previous year.

The average intra-group exposure showed slightly higher values, against a significant increase in average turnover compared to the previous year.

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 duration and composition of the debt.

These financial statements have been prepared on a going concern basis as Versalis SpA is a wholly owned subsidiary of, and is subject to the activity of management and coordination exercised by, Eni S.p.A.

The Versalis group has the right to access, without contractually defined credit limits, to the financial resources granted by Eni S.p.A, in accordance to the existing agreements with the latter.

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

	Year of maturity						
(amounts in millions of euros)	2019	2020	2021	2022	2023	Beyond	**Total**
Short-term debt	592						**592**
Long-term debt including current portion	9	9	9	9	9	22	**66**

Interest on financial liabilities are less than €1 million for all the years shown in the above table**.**

Future payments against trade and other payables

	Year of maturity						
(amounts in millions of euros)	2019	2020	2021	2022	2023	Beyond	**Total**
Trade payables	653						**653**
Advances from customers, other payables	140						**140**
	793						**793**

Future payments against contractual 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.

(amounts in millions of euros)	2019	2020	2021	2022	2023	Beyond	**Total**
Costs (charges) relating to environmental provisions	13	17	4	3		4	**41**
Other commitments	748	187	81	7	6	5	**1,035**

	761	**204**	**85**	**10**	**6**	**9**	**1,075**

The Other Commitments of €1,035 million include essentially an undertaking to purchase supplies of petrochemical products to be utilized in the production process.

Investment commitments

Over the next few years, the Versalis Group plans to carry through a programme of capital expenditure of €116 million. The table below shows the time schedule for the investments relating to the more significant committed projects. A project is considered to be *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)	2019	2020	2021	2022	2023	Beyond	**Total**
Other commitments	30						**30**
	30						**30**

Capital management

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. Management's aim in the medium term is to maintain a solid financial structure summarized by a leverage value not exceeding one.

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 amount, for the following reasons:

Receivables included in 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 included in 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 book value, because they were entered into at fixed market rates.

Trade, financial and other payables included in current liabilities: the market value of trade, financial and other payables falling due within one year is estimated to be practically equivalent to the book value 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 refer to receivables from the Matrica joint venture and were evaluated taking into account the repayment capacity in line with the risk involved; the other non-current financial 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, 2018 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 currently 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 development in environmental regulation; (iv) the effect of possible technological changes relating to future remediation; and (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 section "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.

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.

Since January 1, 2005, via the Directive 2003/87/EC published Resolution 20/2008 , the European Emission Trading Scheme – ETS is operational, i.e. assigns 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 section Commitments for sustainable development in the Directors' Report on Operations).

On the basis of the estimates of the emissions made, at December 31, 2018, the Versalis Group presented an overall emission rights surplus (a so-called "long position")[20]; Management, therefore, in accordance with the accounting criteria adopted, will record the related income once these surplus rights are sold.

Litigation

Versalis is involved in civil and administrative proceedings and legal actions, related to the normal course of business. Based on the information currently available, Versalis believes that these proceedings and actions will not have material adverse effects on its financial statements. Below is a summary of the most significant proceedings. Unless otherwise specified, provisons for risks have not been made, because it is believed that an unfavorable outcome of the proceedings is unlikely.

Tax litigation

On February 17, 2011 the Siracusa tax Office 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 accrued any provisions, having reasonable confidence in a positive outcome for the dispute. The CTUs appointed by the judge deposited their report; the Provincial Tax Commission of Syracuse with sentence no. 1302/2018 ordered the acceptance of appeals and the annulment of the contested deeds.

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, having failed to settle the dispute using the proposed tax settlement procedure, intends to appeal; the estimated cost is approximately €537 thousand. The Milan Provincial Tax Commission with ruling no. 2530/8/16 filed on 16/03/2016 dismissed the application of the company, who promptly filed an appeal and request for suspension of enforceability of the judgment. The

[20] 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.

Regional Tax Commission of Milan, by order, n. 1677/2016 dated 14/12/2016, has granted the suspension of the payment of taxes on a provisional basis (equal to two-thirds of the ascertained sums) behind issuance of a specific guaranty. The hearing was held on 25 October 2017. With sentence n. 4806/2018 filed on 08/11/2018 the Lombardy CTR rejected the appeal confirming the first instance sentence.

Following the notification of a settlement notice for the collection of taxes, penalties and interest, and considering the willingness of the companies to avail themselves of the definition of pending tax disputes with the payment of the only taxes due without penalties and interest provided for by art. 6 of Decree 119/2018, in agreement with the Inland Revenue, the residual taxes due for €337 thousand were paid and a request for suspension of the payment of penalties and interest was submitted pending the publication of the implementing decrees provided for in the aforementioned Decree 119/2018.

On the October 15, 2014 the Milan Finance Police started an inspection on Versalis SpA (formerly Polimeri Europa SpA) for the tax years 2010 to October 15, 2014 relating to transactions with foreign subsidiaries/associated companies, and to personnel (for the year 2014 until October 15, 2014) also with regard to employment and social security, in accordance with, among others, Law No. 689 dated 24/11/1981.

The Finance Police tax inspection started on 13 July 2016, regarding IRES, IRAP and VAT, for the years 2011 to 2014, was completed, for the year 2011, with PvC dated 27/09/2016, the Finance Police, with IRES and IRAP findings regarding non-deductible costs incurred in respect of resident suppliers in low-tax countries, for €21 million, and IRAP only findings, for discounts given to customers amounting to €1.5 million, and for VAT for sales to EU customers with an irregular VAT number in the amount of €126 thousand. Following the clarifications provided to the Lombardy Inland Revenue Regional Directorate of Major Taxpayers Office, the following notifications were issued:

- Notice of Assessment n. TMB0C3R01034/2016 IRAP amounting to €2.3 million (of which €197 thousand for non-deductible costs incurred towards suppliers resident in low-tax countries and €1.5 million for discounts given to customers) with total expenses of €195 thousand (of which IRAP €94 thousand, €85 thousand fines and interest €15 thousand),
- Notice of Assessment n. TMB0E3R01016/2016 IRES amounting to €197 thousand for non-deductible costs incurred towards suppliers resident in countries with privileged taxation with total charges of €111 thousand (of which IRES €54 thousand, sanctions €49 thousand and interest for €8 thousand).

The company acquiesced to the above assessments by paying the amounts due and making use of the reduction, i.e. a third of the sanctions due.

The Finance Police tax audits ended for the years 2012, 2013 and 2014 with the PVC of March 29, 2017 with findings for IRAP tax purposes for discounts to customers for about €1.7 million, and with the PVC of May 29, 2017 with findings for IRES and IRAP tax purposes for non-deductible costs incurred towards suppliers resident in countries with preferential taxation for €36 million and €2 million respectively and for VAT purposes for sales to EU customers with irregular VAT numbers for €8 thousand.

Following clarifications provided by the company, the Inland Revenue Office of the Lombardy Regional Office for Large Taxpayers has completed the control of the year 2012 by notifying:

- - Notice of Assessment n. TMB0C3S01036 for IRAP purposes with a reduction in the value of production (negative) of €1 million. A fine of €250 was imposed, paid on time by the company, i.e. making use of the one-third sanction reduction.
- Notice of Assessment n. TMB0E3S01016 for IRES purposes totaling €493 thousand (instead of the €36 million recognized in the PVC) for non-deductible costs incurred with suppliers resident in countries with privileged taxation with a total cost of €279 thousand (of which IRES €136 thousand, fines of €122 thousand and interest of €21 thousand). The consolidating company Eni SPA will present, within the terms, an application for a reduction of the consolidated tax losses from the higher taxable amount deriving from the assessment.

The Inland Revenue Regional Directorate of Lombardy Major Taxpayers Office completed the audit of 2013 and 2014 by notifying:

- Notice of Assessment n. TMB065U00466 for VAT purposes for 2013 for €14 thousand for VAT, penalties of €16 thousand and €2 thousand of interest. The company proceeded with the payment, availing itself of the reduction of the fine to a third.
- Notice of Assessment n. TMB0C5S00336 for IRAP purposes for the year 2013 with a reduction of the production value (negative) of €1.6 million. The sanction of €250 was imposed which the company paid within the terms of the reduction to a third.

- Notice of Assessment n. TMB0E5S00331 for IRES purposes for 2013 for a total of €240 thousand for non-deductible costs incurred with suppliers resident in countries with preferential taxation with IRES of €66 thousand, fines €59 thousand and interest for €9 thousand. The consolidating company Eni S.p.A. has filed for a reduction in the consolidated tax losses from the greater taxable amount deriving from the assessment. The Revenue Agency with Communication Prot. N. 2018/162650 canceled the taxes, penalties and interest.
- Notice of Assessment n. TMB0C5U00481 for IRAP purposes for 2014 with reduction of the production value (negative) of €1.4 million. The sanction of €250 was imposed which the company paid within the terms of the reduction to a third.
- Notice of Assessment n. TMB0E5U00477 for IRES purposes for 2014 for a total of €729 thousand for non-deductible costs incurred with suppliers resident in countries with preferential taxation with IRES of €200 thousand, penalties €198 thousand and interest for €22 thousand. The consolidating company Eni S.p.PA has filed for a reduction in the consolidated tax losses from the greater taxable income deriving from the assessment by the Revenue Agency with Communication Prot. N. 2018/162862 canceled the taxes, penalties and interest.

26. Revenue

The main "Revenue" items are analysed below. The most significant changes in Revenues are explained in the "Operating Review" in the Directors' Report.

Net sales from operations

Net sales from operations are detailed in the table below:

(amounts in millions of euros)	**2017**	**2018**
Sales of petrochemical products	4.712	4.977
Sales of other products	2	1
Other services	137	145
	4.851	**5.123**

Net sales by business are discussed in the "Business review" in the Directors' Report.

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

(amounts in millions of euros)	**2017**	**2018**
Italy	2.201	2.292
Rest of Europe	2.145	2.183
Asia	352	481
America	93	109
Africa	57	58
Other areas	3	
	4.851	**5.123**

Other income and revenues

Other income and revenues are comprised of the following:

(amounts in millions of euros)	**2017**	**2018**
Income from sale of Energy Efficiency Certificates	90	56
Recovery of other costs and expenses	31	32
License rights and royalties	18	12
Income for emission rights	3	7
Insurance payouts	5	5
Income from investment properties	3	4
Contractual penalties	1	1
Other	1	6

	152	**123**

The recovery of other costs and expenses refer to the re-charging of operating expenses to Syndial SpA in virtue of the guarantees issued at the time of conferral in 2002 of the “Strategic Chemical Activities” business unit (€13 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 Group’s production sites (€19 million).

27. Operating expenses

The main items that make up Operating costs are illustrated here below:

Purchases, services and other costs

Purchases, services and other costs are analyzed as follows:

(amounts in millions of euros)	**2017**	**2018**
Production costs - raw, ancillary and consumable materials and goods	3.012	3.566
Service costs	1.174	1.261
Other expenses	50	48
Net provisions for risks and charges	24	37
Leasing and rental charges	22	27
Change in inventories	(129)	(101)
Impairment of receivables	22	2
Decrease of capitalized internal work costs	(1)	1
	4.174	**4.841**

Costs for raw materials, ancillary materials, consumables and goods amounting to €3,566 million mainly refer to the purchase of Virgin Nafta.

The service costs of €1,261 million refer mainly to costs for utilities (€556million), logistics and transport (€249 million), maintenance (€168 million) and industrial services (€22 million).

Information relating to provisions for risks and charges is provided in Note 21.

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

Leasing and rental charges of €27 million refer mainly to rentals for €8 million, concessions and licenses for €7 million and leases of land and buildings for €6 million.

The Other Expenses of €48 million include mainly indirect taxes and duties.

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

Non-capitalisable research and development costs amounted to €38 million (€36 million in 2017).

Payroll and related costs

Payroll and related costs are detailed as follows:

(amounts in millions of euros)	**2017**	**2018**
Wages and salaries	258	268
Social security contributions	75	76
Costs related to defined benefit plans and defined contribution plans	5	6
Other costs	14	17
	352	**367**
Less:		
Capitalized direct cost associated with self-constructed assets	(11)	(11)

	341	**356**

The expenses for defined-contribution and defined-benefit plans are analysed in Note 22.

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, 2018 amounted to €6 million as follows:

(amounts in millions of euros)	**2017**	**2018**
Wages and salaries	3	4
Costs related to defined benefit plans and defined contribution plans	1	2
	4	**6**

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

	2017	**2018**
Senior Management	105	104
Middle Management and Staff	3.137	3.167
Workers	1.836	1.837
	5.078	**5.108**

The average number of employees are calculated as the arithmetic mean of the number of employees at the beginning and at the 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 “senior manager” grade.

28. Other operating income (expenses)

The other operating expenses include the following:

(amounts in millions of euros)	**2017**	**2018**
Income from commodity derivatives	2	
Expenses from commodity derivatives		(16)
	2	**(16)**

Other operating expenses of €16 million (€2 million in 2017) relate to the recording in the income statement of net expenses incurred on commodity derivatives that 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 include the following:

(amounts in millions of euros)	**2017**	**2018**
Depreciation and amortization:		
- Property, plant and equipment	75	108
- Intangible assets	5	6
	80	**114**
Impairment losses/(value reinstatements):		
- Property, plant and equipment	(80)	187
- Intangible assets		16
	(80)	**203**
		317

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 (expenses)

Financial income (expenses) includes the following:

(amounts in millions of euros)	2017	2018
Financial income	69	48
Financial expenses	(193)	(36)
Derivatives	(3)	(5)
	(127)	**7**

The net amount of financial income (expenses) are detailed as follows:

(amounts in millions of euros)	2017	2018
Financial income (expenses) related to net borrowings		
- Interest and other expenses to banks and other financial institutions	(5)	(5)
Positive (negative) exchange differences		
- Positive exchange differences	60	43
- Negative exchange differences	(59)	(39)
Derivatives	(3)	(5)
Other financial income and expenses		
- Capitalized financial expenses	7	6
- Interest and other income on financing receivables and securities related to operations	(125)	4
- Other financial income (expenses)	(2)	3
	(127)	**7**

Net income (expenses) 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 stated in the income statement. Net income on derivative instruments of €3 million regards contracts on currencies.

Income (expenses) on derivative contracts is determined as a result, essentially, of the recording 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 recording 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.

Interest and other charges on financial receivables and securities used in operating activities of €4 million concern interest on the financial credit granted to Matrìca.

31. Income (expenses) from investments

(amounts in millions of euros)	2017	2018
Valuation effects using the equity method	(23)	(43)
Other net income (expenses)	(38)	(27)
	(61)	**(70)**

The effects of valuation with the equity method are commented on in note no. 9.

The other charges of €27 million concern the commitment to meet the financial requirements for the 2019 financial year of the jointly controlled company Matrìca.

32. Income taxes

The income tax details are as follows:

(amounts in millions of euros)	**2017**	**2018**
Current tax assets:		
- Italian companies	(16)	1
- foreign companies	21	4
	4	**5**
Net deferred (prepaid) taxes:		
- Italian companies	(2)	101
- foreign companies	(3)	4
	(5)	**105**
Total Income Taxes	**(1)**	**110**

Net deferred tax assets are described in Notes 12 and 23.

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

(%)	**2017**	**2018**
Theoretical tax rate	**24.0**	**20.8**
Items increasing (decreasing) compared to theoretical tax rate:		
- (impairments) reversal of deferred taxes	(35.2)	(50.7)
- permanent differences	(9.3)	(0.3)
- prior year taxes	(5.3)	(1.6)
- different tax burden on foreign companies	23.3	(3.8)
- expenses and income from investments	2.0	3.1
- changes in tax rates	0.3	1.1
- other changes	**(24.3)**	**(52.2)**
	(0.3)	**(31.4)**

An analysis of the temporary differences between the statutory and fiscal values is provided in Notes 12 and 23.

33. Related party transactions

The transactions with related parties carried out by Versalis SpA mainly regard 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 associated companies, and with other companies owned or controlled by the Italian State. All of the transactions 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, treasury services and administrative activities;

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

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

e) 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;

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

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

h) Matrìca SpA: financing of assets instrumental to operating activities, industrial services;

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

j) Saipem SpA: receiving goods and services related to the construction and upgrading of plants;

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

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

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

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

o) Gruppo Ferrovie dello Stato: rail transport.

Trade and other transactions with the parent company, consolidated subsidiaries, unconsolidated subsidiaries, associated companies and jointly controlled companies and with other companies owned or controlled by Eni SpA or by the State are detailed as follows:

(amounts in millions of euros)	31.12.2018				2018					
					Costs			Revenue		
RName	Trade and other receivables	Trade and other payables	Positive derivatives	Negative derivatives	Goods	Services	Other operating expenses	Goods	Services	Other
Associated Companies										
Brindisi Servizi Generali Scarl						6				
Priolo Servizi Scarl		3				19				
Ravenna Servizi Industriali ScpA	6	5				9		1		1
Servizi Porto Marghera Scarl		3				22		1		
	6	**11**				**56**		**2**		**1**
Joint ventures										
Matrìca SpA	2	2							5	
Lotte Versalis Elastomers Co Ltd										2
	2	**2**							**5**	**2**
Parent company										
Eni SpA	63	178	1	3	380	484	16	18	82	62
	63	**178**	**1**	**3**	**380**	**484**	**16**	**18**	**82**	**62**
Eni Group companies										
Ecofuel SpA	8	6			42			110	9	
Eni Corporate University SpA		1				2				
Eni Insurance Ltd	4	1				7				4
Eni Lubricants Trading Shanghai Co Ltd										1
Eni Mediterranea Idrocarburi SpA								1		
Eni Petroleum Co Inc	10	1				1		7		
EniPower SpA	3					1			9	1
Societa' EniPower Ferrara Srl						1				
EniPower Mantova SpA	1								4	
EniProgetti SpA		1								
EniServizi SpA		3			2	6				
Eni Trading and Shipping SpA	15	97			1.398	96		72		7
ETS SpA (G&P) Trading										
Ing. Luigi Conti Vecchi SpA	1	1			12				1	
Raffineria di Gela SpA		1								
Serfactoring SpA		7								
Syndial SpA	86	66			1	37			3	19
	128	**185**			**1.455**	**151**		**190**	**26**	**32**
Entities owned or controlled by the State										
Gruppo Ferrovie dello Stato		1				5				
Gruppo Terna	1								1	
	1	**1**				**5**			**1**	
	200	**377**	**1**	**3**	**1.835**	**696**	**16**	**210**	**114**	**97**

Financial transactions with the parent company, consolidated subsidiaries, non-consolidated subsidiaries, associated companies and jointly controlled companies and with other companies owned or controlled by Eni SpA or by the State include the following:

(amounts in millions of euros)	31.12.2018		2018		
Name	Receivables	Payables	Charges	Gains	Derivatives
Parent company					
Eni SpA		70	6	1	(3)
Eni Group companies					
Eni Trading and Shipping Spa				6	
Serfactoring SpA	2				
eni finance international SA (ex ECC)		140			
Eni Finance USA Inc		4			
Joint ventures					
Matrica SpA			(4)	4	
	35	**644**	**(4)**	**10**	**(5)**

Impact of transactions and balances with related parties on the Group's balance sheet, income statement and cash flow statement.

The impact on the Group's balance sheet, income statement and cash flow statement of transactions or balances with related parties are disclosed in the tables here below:

(amounts in millions of euros)	31.12.2017			31.12.2017		
	Total	Related parties	Proportion %	Total	Related parties	Proportion %
Cash and cash equivalents	201	195	97	44	33	75
Trade and other receivables	726	151	21	706	200	28
Other current assets	4	3	75	3	1	37
Other financial assets	2	2	100	2	2	100
Other non-current assets	1			1		
Short-term debt	88	70	80	592	587	99
Trade and other payables	858	414	48	793	377	48
Other current liabilities	8	5	63	16	3	19
Long-term debt (including short-term portions)	67	66	99	66	57	86

The impact on the income statement of transactions with related parties is indicated in the table here below:

(amounts in millions of euros)		**2017**			**2018**	
	Total	Related parties	Proportion %	Total	Related parties	Proportion %
Net sales from operations	4.851	230	5	5.123	324	6
Other income and revenues	153	119	78	123	97	79
Purchases, services and other costs	(4.174)	(2.040)	49	(4.841)	(2.531)	52
Payroll and related costs	(341)			(356)		
Other operating income and expenses	2	(2)	(100)	(16)	(16)	100
Financial income	69	9	13	47	10	21
Financial expenses	(194)	(6)	3	(36)	(4)	12
Derivatives	(3)	(3)	100	(5)	(5)	100
Charges on investments	(61)	(61)	100	(70)	(70)	100

The principal cash flows with related parties are described in the following table:

(amounts in millions of euros)	**2017**	**2018**
Revenues and other income	349	421
Costs and expenses	(2.043)	(2.547)
Net change in trade and other receivables, and other assets	59	(48)
Net change in trade and other liabilities, and other liabilities	106	(39)
Dividends, interest and taxes	11	(2)
Net cash flow provided by operating activities	**(1.518)**	**(2.214)**
- investments and securities	(63)	(99)
- financial receivables	(13)	5
- change in payables and receivables relating to investments	(22)	16
Cash flow from investments	*(98)*	*(78)*
Net cash flow from investment activities	**(98)**	**(78)**
- Change in financial liabilities	(100)	508
Net cash flow from financing activities	**(100)**	**508**
Total financial flows to related parties	**(1.716)**	**(1.784)**

The impact of cash flows with related parties is shown in the summary table below:

(amounts in millions of euros)	2017			2018		
	Total	Related parties	Proportion %	Total	Related parties	Proportion %
Cash provided by operating activities	478	(1.518)	n.s.	(121)	(2.214)	n.s.
Cash provided by investment activities	(309)	(98)	3	(230)	(78)	34
Cash provided by financing activities	(95)	(100)	106	195	508	260

34. Significant non-recurring events and operations

Effective November 1, 2018, Versalis SpA acquired the business segment related to the “organic perimeter” of the Mossi & Ghisolfi group, relating to the bioenergy sector and advanced technologies for the synthesis of biofuels and new generation “green” molecules from renewable biomass and research, development and commercial exploitation of these technologies. The purchase offer made by Versalis for the "organic" Activities and Technologies of the Mossi & Ghisolfi Group, subjected to insolvency proceedings, was awarded at the conclusion of the competitive procedure ordered by the Court of Alessandria. The scope of the activities of the acquired branch includes: (i) research and development and engineering activities including research and development assets: (ii) intellectual property (IP) and marketing activity of 2G sugar production technologies from biomass; (iii) the bioethanol production plant with Proesa technology; (iv) the power plant that uses coproduced lignin; (v) 124 employees; (vi) the warehouse of raw materials and consumables used in the plants.

The purchase price of the Bio business unit was overall determined as €75 million plus the finance lease for the plant for a maximum amount of €19 million. The branch sales contract also provides for an earn-out mechanism up to a maximum amount of €20 million upon reaching certain sales targets over a defined time period. The valuation at fair value of this liability for contingent consideration has had no effect.

The purchase of the “Bio” business can be configured as a "Business Combination" pursuant to IFRS3. The fair value of the identifiable assets and liabilities of the “Bio” business on the acquisition date was determined with the support of a third expert whose outcome was as follows:

	(amounts in millions of euros)
Intangible assets (concessions, licenses, trademarks and similar)	47
Goodwill deriving from the acquisition	26
Bioethanol plant	-
Inventories	4
Power Plant	16
Funds for employee benefits	(1)
Payables to personnel	(1)
Total acquired	**91**
Disbursement	(75)
Leasing of the power plant - discounted value	(16)
Total paid	**(91)**

The fair value of licenses and of the power plant was estimated by discounting expected cash flows, applying a discount rate of 14.5% for licenses and 7.5% for the power plant and the related financial liability. Goodwill, amounting to €26 million, includes the value that the licenses are able to generate beyond the period of observation used and which, therefore, have not been recognized separately among intangible assets with a

definite useful life. Goodwill also includes the benefits deriving from human capital and from the know-how that has been acquired.
Given the proximity of the transaction to the end of the year, the "Bio" business did not contribute to the Group's revenues.

35. 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.

36. Assets held for sale and in disposal groups
At December 31, 2018 there were no assets held for sale and in disposal groups.

37. Main events subsequent to December 31, 2018
There were no main events subsequent to December 31, 2018.

38. List of investments

Versalis SpA Group companies and equity investments as at December 31, 2018
In accordance with the provisions of Arts 38 and 39 of Italian Legislative Decree No. 127/1991, Art 126 of Consob Resolution No. 11971 dated 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 31st December 2018, 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 accounting method) for investments in non-consolidated companies.

Subsidiary and associated companies of Versalis SpA as at 31st December 2018

CONSOLIDATING COMPANY

Name	Registered office	Currency	Share Capital	Shareholders	% Ownership	% Consolidated pertaining to the Group	Method of consolidation or criterion of measurement (*)
Versalis SpA	San Donato Milanese	EUR	1,364,790,000	Eni SpA	100.00	100.00	L.b.L.

(*) L.b.L. = line by line, N.E. = measurement at net equity, Co. = measurement at cost

SUBSIDIARY
In Italy

Name	Registered office	Currency	Share Capital	Shareholders	% Ownership	% Consolidated pertaining to the Group	Method of consolidation or criterion of measurement (*)
Consorzio	San Donato Milanese (MI)	EUR	124,000	Versalis SpA	53.55	53.55	N.E.
Industriale				Raffineria di Gela SpA	18.74		
Gas Naturale				Eni SpA	15.37		
(in liquidation)				Syndial SpA	0.76		
				Raffineria di Milazzo SpA	11.58		

(*) L.b.L. = line by line, N.E. = measurement at net equity, Co. = measurement at cost

SUBSIDIARIES

Outside Italy

Name	Registered office	Currency	Share Capital	Shareholders	% Ownership	% Consolidated pertaining to the Group	Method of consolidation or criterion of measurement (*)
Dunastyr Polystyrene Zrt	Budapest	HUF	8,092,160,000	Versalis SpA	96,34	100.00	L.b.L.
	(Hungary)			Versalis International	1.83		
				Versalis Deutschland GmbH	1.83		
Versalis Americas Inc.	Dover, Delaware	USD	100.000	Versalis International SA	100.00	100.00	L.b.L.
	(USA)						
Versalis Congo Sarlu	Tchitembo Pointe-Noire	CDF	1,000,000	Versalis International SA	100.00	100.00	N.E.
	(Congo)						
Versalis Deutschland GmbH	Eschborn	EUR	100,000	Versalis SpA	100.00	100.00	L.b.L.
	(Germany)						
Versalis France SAS	Mardyck	EUR	126,115,583	Versalis SpA	100.00	100.00	L.b.L.
	(France)						
Versalis International SA	Brussels	EUR	15,449,174	Versalis SpA	59.00	100.00	L.b.L.
	(Belgium)			Dunastyr Zrt			
				Versalis Deutschland GmbH	23.71		
				Dunastyr Polystyrene Ltd	14.43		
				Versalis France SAS	2.86		
Versalis Kimya Ticaret Limited Sirketi	Istanbul	TRY	20,000	Versalis International SA	100.00	100.00	N.E.
	(Turkey)						
Versalis Pacific	Mumbai	INR	238,700	Versalis Pacific Trading	99.99	99.99	N.E.
(India) Private Limited	(India)			Third parties	0.01		
Versalis Pacific Trading (Shanghai) Co Ltd	Shanghai	CNY	1,000,000	Versalis SpA	100.00	100.00	L.b.L.
Versalis Singapore PTE. LTD.	Singapore (Singapore)	SGD	80.000	Versalis Spa	100,00	100.00	N.E.
Versalis UK Ltd	Lyndhurst	GBP	4,004,042	Versalis SpA	100.00	100.00	L.b.L.
	(Great Britain)						

(*) L.b.L. = line by line, N.E. = measurement at net equity, Co. = measurement at cost

ASSOCIATED COMPANIES

In Italy

Name	Registered office	Currency	Share Capital	Shareholders	% Ownership	% Consolidated pertaining to the Group	Method of consolidation or criterion of measurement (*)
Brindisi Servizi Generali Scarl	Brindisi (BR)	EUR	1,549,060	Versalis SpA	49.00	49.00	N.E.
				Syndial SpA	20.20		
				EniPower SpA	8.90		
				Third parties	21.90		
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	28.100.000	Versalis SpA	33.16	33.16	N.E.
				Syndial SpA	4.38		
				Third parties	62.46		
Ravenna Servizi Industriali ScpA	Ravenna (RA)	EUR	5,597,400	Versalis SpA	42.13	42.13	N.E.
				EniPower SpA	30.37		
				Ecofuel SpA	1.85		
				Third parties	25.65		
Servizi Porto Marghera Scarl	Venice, Porto Marghera (VE)	EUR	8.695.718	Versalis SpA	48.44	48.44	N.E.
				Syndial SpA	38.39		
				Third parties	13.17		

(*) L.b.L. = line by line, N.E. = measurement at net equity, Co. = measurement at cost

ASSOCIATED COMPANIES
Outside Italy

Name	Registered office	Currency	Share Capital	Shareholders	% Ownership	Consolidated pertaining to the Group	consolidation or criterion of measurement (*)
LVE China Co. Ltd	Shangai (China)	USD	250,000	Lotte Versalis Elastomers	100.00	100.00	N.E.

(*) L.b.L. = line by line, N.E. = measurement at net equity, Co. measurement at cost

JOINT VENTURES
In Italy

% Consolidated	Method of consolidation

Name	Registered office	Currency	Share Capital	Shareholders	% Ownership	pertaining to the Group	or criterion of measurement (*)
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	179,000	Versalis SpA	80.00	80.00	N.E.
				Genomatica Inc	20.00		

JOINT VENTURES

Outside Italy

Name	Registered office	Currency	Share Capital	Shareholders	% Ownership	% Consolidated pertaining to the Group	Method of consolidation or criterion of measurement (*)
Lotte Versalis Elastomers Co Ltd	Yeosu (Jeollanam) (South Korea)	KRW	301,800,000,000	Versalis SpA	49.99	50.00	N.E.
				Third parties	50.00		
Versalis Zeal Ltd	‹hana)	GHS	5,650,000	Versalis International SA	80.00	80.00	N.E.
				Third parties	20.00		

L.b.L. = line by line, N.E. = measurement at net equity, Co. = measurement at cost

OTHER COMPANIES

In Italy

% Consolidated	Method of consolidation

Name	Registered office	Currency	Share Capital	Shareholders	% Ownership	pertaining to the Group	or criterion of measurement (*)
IFM Ferrara ScpA	Ferrara (FE)	EUR	5,270,466	Versalis SpA	19.74	19.74	Co
				Syndial SpA	11.58		
				Società EniPower Ferrara Srl	10.70		
				Third parties	57.98		
Consorzio Crea Assemini	Cagliari (CA)	EUR	70,000	Versalis SpA	7.14	7.14	Co
				Third parties	92.86		
IAS Industria Acqua Siracusana SpA	Siracusa (SR)	EUR	102,000	Versalis SpA	1.00	1.00	Co
				Third parties	99.00		

Outside Italy

Name	Registered office	Currency	Share Capital	Shareholders	% Ownership	% Consolidated pertaining to the Group	Method of consolidation or criterion of measurement (*)
Genomatica Inc	San Diego (USA)	USD	130,707,445	Versalis SpA	0.04	0.04	Co
				Third parties	99.96		
Sociedad Espanola de Materiales Plasticos SA	Madrid (Spain)	EUR	61,002	Versalis International SA	7.88	7.88	Co
				Terzi	92.12		
BKV Beteiligungs-und Kunststoffverwert-ungsgesellschaft mbH	Frankfurt (Germany)	EUR	14,147,400	Versalis GmbH	1.19	1.19	Co
				Third parties	98.81		
EXELTIUM 2 SAS	Paris (France)	EUR	9,473	Versalis France SAS	1.88	1.88	Co
				Third parties	98.12		
EXELTIUM SAS	Paris (France)	EUR	174,420,200	Versalis France SAS	1.66	1.66	Co
				Third parties	98.34		

(*) L.b.L. = line by line, N.E. = measurement at net equity, Co. = measurement at cost

Changes in the consolidation area

During the year, having exceeded the parameters of relevance, Versalis Singapore Co Ltd was included in the consolidation area.

.

Building a better working world

Versalis S.p.A.

Consolidated financial statements as of December 31, 2018

Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated January 27, 2010

Building a better working world

EY S.p.A.
Via Meravigli, 12
20123 Milano

Tel: +39 02 722121
Fax: +39 02 722122037
ey.com

Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated January 27, 2010
(Translation from the original Italian text)

To the sole shareholder of
Versalis S.p.A.

Report on the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Versalis Group (the Group), which comprise the balance sheet as of December 31, 2018, the statement of income, the statement of comprehensive income (loss), the statement of changes in equity, the statement of cash flows for the year then ended and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of December 31, 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of Versalis S.p.A. in accordance with the regulations and standards on ethics and independence applicable to audits of financial statements under Italian Laws. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The Directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Directors are responsible for assessing the Group's ability to continue as a going concern and, when preparing the consolidated financial statements, for the appropriateness of the going concern assumption, and for appropriate disclosure thereof. The Directors prepare the consolidated financial statements on a going concern basis unless they either intend to liquidate the Parent Company Versalis S.p.A. or to cease operations, or have no realistic alternative but to do so.

EY S.p.A.
Sede Legale: Via Po, 32 - 00198 Roma
Capitale Sociale Euro 2.525.000,00 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 - numero R.E.A. 250904
P.IVA 00891231003
Iscritta all'Albo Revisori Legali 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

A member firm of Ernst & Young Global Limited

Building a better
working world

The statutory audit committee ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we have obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- we have concluded on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to consider this matter in forming our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- we have evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- we have obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We have communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Building a better working world

Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated January 27, 2010

The Directors of Versalis S.p.A. are responsible for the preparation of the Report on Operations of the Group as of December 31, 2018 including its consistency with the related consolidated financial statements and its compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations, with the consolidated financial statements of the Group as of December 31, 2018 and on its compliance with the applicable laws and regulations, and in order to assess whether it contains material misstatements.

In our opinion, the Report on Operations is consistent with the consolidated financial statements of the Group as of December 31, 2018, and comply with the applicable laws and regulations.

With reference to the statement required by art. 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated January 27, 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Milan, March 29, 2019

EY S.p.A.
Signed by: Emilio Patruno - Partner

This report has been translated into the English language solely for the convenience of international readers.