Annual Report 2016

Ordinary Shareholders' Meeting of 12 April, 2017

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), with Research Centres and Units in Italy (Brindisi, Ferrara, Mantua, Novara and Ravenna), sales networks in Italy, Belgium, Czech Republic, Slovak Republic, Denmark, France, Germany, Great Britain, Greece, Poland, Slovenia, Romania, Spain, United States, Sweden, Switzerland, Turkey, Hungary and China, and a representative office in Russia.

Boards of Directors and of Statutory Auditors

BOARD OF DIRECTORS(1)

Chairman

Roberto Casula(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 2016.

(2) Co-opted by the Board of Directors on January 10, 2017

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

Eni re-consolidates the Group Versalis

On June 21, 2016, the parent company Eni announced the interruption of ongoing negotiations with the US fund SK Capital for the sale of a majority stake in Versalis SpA. Consequently Versalis, (which in Eni's consolidated financial statements as at December 31, 2015 was classified as discontinued operations), was reconsolidated, and reclassified as continuing operations, starting from the June 2016 reporting, and effective retroactively as at the original classification date (December 31, 2015).
Reintegration into the continuing operations of Eni did not affect the Versalis 2015 financial statements, which remain unchanged.

Workers' safety

The Versalis Group's commitment to workers' safety has enabled a reduction in the accident frequency rate in 2016, when compared with the previous year's rate. In addition, the majority of the sites achieved the goal of one year without injuries to employees, and for the first time in history, there were no accidents involving contractors.

Bio-Butadiene

In 2016, a major milestone was achieved with the production, on a pilot scale, of high purity bio-BDE, subsequently polymerized into bio-rubber (bio-polybutadiene). The 1.3 BDE biotechnology, represents a real milestone, for the rubber industry, and especially for butadiene, one of the most used chemical intermediates in the world. In 2017, the technology for the production of bio-Butadiene, developed by Versalis in partnership with Genomatica, won the Environmental Achievement of the Year for "Tyre Technology International Awards for Excellence and Innovation", the European independent annual award program for the tyre industry.

Distribution of mineral oils in Asia

Versalis Pacific Trading has started the distribution, in the Asian market, of mineral oils for the production of synthetic rubbers, in particular those destined for the tyre industry. The marketing of extender oils, RAE (residual aromatic extract), TDAE (treated distilled aromatic extract) and MES (mild extract solvate), produced by the Eni refinery in Livorno, will be achieved thanks to a well-established sales network, (a strong point for Versalis in the area), in particular in the tyre sector, and to a growing local demand. The availability of these products will enable Versalis to expand its product offering presenting itself in Asia and, particularly in China, as a "solution provider" with a complete product portfolio consisting of synthetic rubbers and process oils, both from fossil and renewable source origins.

Agronomic feasibility study for the Guayule Project

In the field of Green Chemistry, in line with the provisions of the Memorandum of Understanding for the Gela area, Versalis completed the study of industrial feasibility and launched the relative agricultural sector experimental project. In this regard, at the beginning of June 2016, 100,000 seedlings of guayule were transplanted at two farms belonging to the Ente Agricultural Development (ESA) of the Sicily Region. Results will be avaible starting from the second half of 2017.

Corporate restructuring

To develop the business of oilfield chemicals, on March 16, 2016, Versalis International set up, in Congo, the company Versalis Sarlu Congo, which deals mainly with the import, purchase, sale, storage and distribution of chemicals.

From October 2016, the Eni Chemicals Trading Shanghai company (100% ownership of Versalis SpA), was no longer consolidated due to supervening irrelevance. The liquidation procedure for the company was started in 2015.

Since November 2016, the Versalis Americas company, founded in 2015 by Versalis International to seize new business opportunities in the United States, has entered the Versalis group consolidation, due to its increased relevance.

Technological innovation

During 2016, 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. Linear products for the application of blow films (with innovative antioxidant formulation) and polystyrene-based EVA (on a pilot scale) have been developed, and innovative solutions to be applied in the project with the Solar Energy Department of Eni have been identified The total research and development expenditure amounted to €37 million and a total of 15 patent applications were filed.

Production

Production amounted to 5,646 thousand tonnes, down by 0.9% with respect to 2015, mainly due to the drop recorded in the business of polyethylene (declining market demand) and styrenics. However, the production of derivatives and of elastomers increased, owing to the recovery of sales compared to 2015. The manufacturing plants that experienced the sharpest drops in production are Ragusa, for a disruption which occurred at the plant, Ravenna and Dunkirk (olefins), Ferrara (elastomers) and Mantua (styrene) for scheduled plant shutdowns. The productions at the Brindisi and Grangemouth plants increased due to the start of the new butadiene-based rubber production lines.

Results

The Versalis Group in 2016 closed with a net profit of €163 million (compared to a net loss of €1,289 in 2015).

The main variations compared to the previous year are in equity (increase of €1,242 million) and net financial debt (reduction of €1,319 million), mainly due to a recapitalization, by the shareholder Eni, amounting to €1,072 million; there was also a significant improvement in net cash flow from operating activities (an increase of €251 million).

Financial highlights

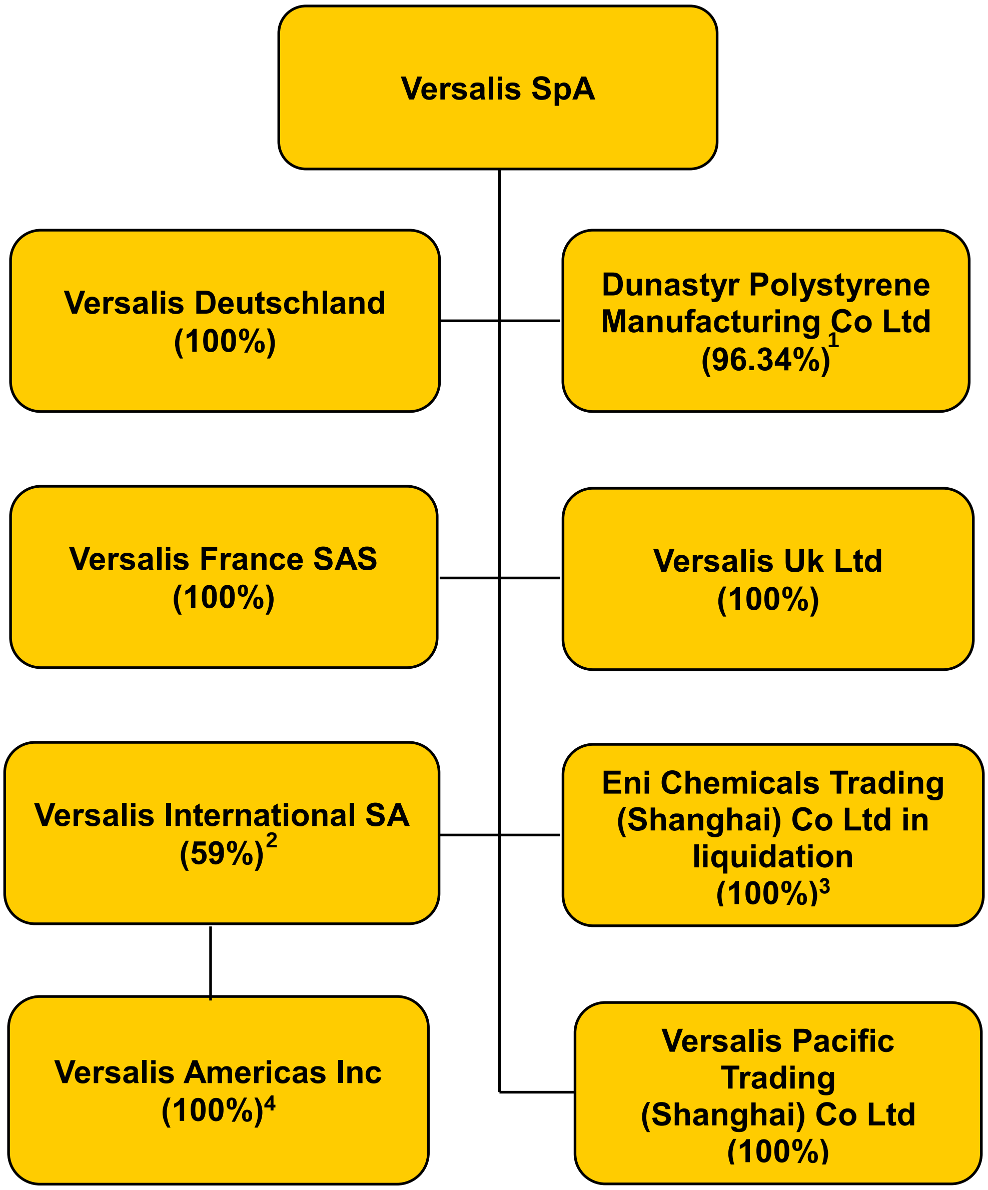
2014	amounts in millions of euros	2015	2016
5,284	Net sales from operations	4,716	4,196
(702)	Operating profit (loss)	(744)	213
(327)	Adjusted operating profit (loss)	313	271
(545)	Net profit (loss)	(1,289)	163
(286)	Adjusted net profit (loss)	344	222
(483)	Net cash flow provided by operating activities	218	469
274	Capital expenditures	218	241
4,254	Total assets	2,835	2,762
407	Shareholders' equity	272	1,514
2,534	Net borrowings	1,452	133
2,941	Net capital employed	1,724	1,647
6.23	Leverage	5.34	0.09

Key operating and sustainability data

2014			2015	2016
5,220	Employees	(number)	5,143	5,085
0.28	Accident frequency rate	(accidents/hours worked x 1,000,000)	0.28	0.22
3.09	Direct emission of greenhouse gases	(mm tonnes CO_2 eq)	2.98	2.99
40	Cost of research and development	(amount in millions of euros)	36	37
5,283	Production	(ktonnes)	5,700	5,646
71.3	Plant utilization rate	(%)	72.7	71.4
98.99	Average price of Brent Dated FOB	(dollars/barrel)	52.46	43.69
805	Average price of Virgin Naphtha FOB Med	(dollars/tonne)	433	367
1.33	Average EUR/USD exchange rate		1.11	1.11

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%) and Versalis France SA (2.86%).
(3) Eni Chemicals Trading deconsolidated on October 1, 2016 and accounted for using the equity method.
(4) Versalis Americas Inc. consolidated on November 1, 2016.

Operating Review

The global economic growth rate recorded in 2016 shows a slight decrease when compared to the previous year, (2.3% versus 2.6% in 2015), and is the lowest growth rate since 2011. This data is in line with the slowdown in the economic growth across almost all geographical areas, particularly the USA, which in 2016 suffered a slowdown in economic growth of 1% compared to 2015.

A similar slowdown, although to a lesser extent than that of both the global and the USA figures, was recorded in Europe (-0.3% compared to 2015), despite the low price of oil, the interest rates at historic lows and the depreciation of the Euro.

Vice versa, the growth rate of the economies of emerging and developing countries is substantially stable at around 4%.

Investments in Europe were down 1% compared to 2015 and, due to the lower level of confidence of businesses and consumers, there was a slight reduction in the level of consumption (-0.1% when compared to 2015).

Inflation in the Euro Zone remained very low also in 2016, averaging 0.3% per annum, slightly higher than 2015, also driven by the downward pressure of energy costs following the fall in the average price of Brent crude ($ 43.7 / bbl).

Chemical production in Europe ended 2016, up by 0.5%. The slowdown in global economic growth, combined with the weakness of international trade, has resulted, for the global chemical industry, in an annual growth of slightly more than 2%. Chemical exports grew and, in particular, the export of specialties continues to grow at high rates (over 5%).

In this context, the Versalis Group recorded, in 2016, an adjusted operating profit of €271 million (adjusted operating profit of €313 million in 2015). The decrease compared to 2015 was due to lower margins in the ethylene, polyethylene and styrene sectors.

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 **net sales** from operations of the Versalis Group for the year ended on December 31, 2016 amounted to €4,196 million compared with €4,716 in 2015 (-11%). This decrease depends on the 10% reduction in average unit sales prices in the wake of the decline in oil-based raw materials prices (virgin naphtha at $367 per tonne in 2016, down compared with $433 per tonne in 2015), and the decrease in average polymer prices (-6.7% for elastomers and -6.3% for styrenics).

Sales decreased by 1.1%. In particular, there were:

- higher sales of olefins (+3.3%), mainly due to higher spot sales of ethylene to third parties (+19%), partly offset by the lower sales of aromatics (-3.8%);

- higher sales of derivatives (+14.8%);

- lower sales of polymers (-6.7%), particularly Styrene sales (-9.1%) recorded a decrease of styrenic polymers (compact and expandable) of 13.9% and higher spot styrene sales to third parties (+ 5.9%), polyethylene reduced sales (-9.8%) on all products; in countertendency the elastomers (+ 6.7%) thanks to a recovery in demand in Tyre and "Polymer modification" sectors and the reduction of imports into Europe in the last quarter of the year.

The decline in the euro crude oil prices in 2016 has affected the prices of monomers, particularly of Butadiene (-2%) and Benzene (-6%), in the light also of market weakness and overcapacity. In the Polymers business, both styrene (-6.3%), which does not benefit from falling raw material, and elastomers (-6.7%), facing price competition from Asian imports products, are both suffering. The Polyethylene prices are also declining(-3.2%).

Production amounted to 5,646 thousand tonnes, 54 thousand tonnes less than in 2015 (-0.9%), due mainly to lower production of styrene (-7.2%) and polyethylenes (-8.6%). Instead the production of intermediates increased by +2.5% and that of elastomers by +7.1%.

The main production drops occured at the following plants: Ragusa (-45%) due to a malfunctioning electrical power substation, Ravenna and Dunkirk (olefins), Ferrara (elastomers) and Mantua (styrene) due to scheduled shutdowns.

The main production improvements involved the Brindisi plant (+15.7%) and Grangemouth (+20.7%), due to the startup of the new butadiene-based rubber production line.

The nominal production capacity is in line with the 2015 capacity. The average rate of plant capacity utilization, calculated on nominal capacity, is thus equal to 71.4%, showing a slight decrease when compared to 2015 (72.7%).

Revenues				
(amount in millions of euros)	**2014**	**2015**	**2016**	***Var. %***
Intermediates	2,310	1,899	**1,688**	(11.1)
Polymers	2,800	2,690	**2,380**	(11.5)
Other income [(a)]	174	127	**128**	0.8
	5,284	**4,716**	**4,196**	**(11.0)**

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

Production				
(ktonnes)	**2014**	**2015**	**2016**	***Var. %***
Intermediates	2,972	3,334	**3,417**	2.5
Polymers	2,311	2,366	**2,229**	(5.8)
	5,283	**5,700**	**5,646**	**(0.9)**

Sales				
(k tonnes)	**2014**	**2015**	**2016**	***Var. %***
intermediates	1,560	1,883	**1,970**	4.6
Polymers	1,902	1,918	**1,789**	(6.7)
	3,462	**3,801**	**3,759**	**(1.1)**

Business review

Intermediates Business Unit

In 2016 **revenues** from **Intermediates** (€1,688 million) decreased by €211 million compared with the previous year (-11.1%), due to the fall in the petroleum products prices which affect the average unit prices of the main products of this Business Unit.

Sales increased by 4.6%, in particular ethylene increased by 19.3%. The volumes of derivatives traded were up by 14.8%.

Average unit selling prices declined overall by 11.1%, with a 7% reduction of the prices of aromatics (benzene), 7.7% of the derivatives and 17.8% of olefins.

The **production** of **Intermediates** (3,417 thousand tonnes) increased by 2.5% compared to 2015: aromatics (+2.7%) and derivatives (+10.2%) increased, whilst olefins (+0.8%) were stable.

Polymers Business Unit

In 2016, **revenues** from **Polymers** (€2,380 million) decreased by €310 million compared to 2015 (-11.5%). The reduction is related to both the sales volumes (-6.7%) and the average unit prices (-5.5%).

The **styrenics** business contracted too, due to the fall in prices of raw materials that resulted in a decrease in average prices of 6.3%, and also due to a decrease in sales volume of 9.1%.

The sales volume of **polyethylene** decreased (-9.8%), and average prices decreased (-3.2%).

As regards the sales volumes of **elastomers**, in 2016 there was a partial recovery in sales of thermoplastic rubber (+5.9%), rubber commodities (BR +12.6%) and special EPDM rubber (+3.6%), SBR (+7.8%) and latex (+2%). The decrease in sales volumes of **styrene** (-9.1%) is attributable in particular to the lower sales of compact polystyrene (-13.8%), and expandable polystyrene (-14.4%) only partly offset by increased sales of ABS and SAN (+11.4%) and styrene monomers (+5.9%). Overall, the sales volumes for the **polyethylene** business declined (-9.8%), lower sales were recorded for EVA (-10.6%), LDPE (-24.4%) and LLDPE (-3.5%). The volumes increased instead for HDPE (+7.8%).

Production of **Polymers** (2,229 thousand tonnes) decreased by 5.8% compared to 2015. In particular, with regard to **Styrene** business the production decreased (-7.2%), due to the lower production of styrene (-6.4%) following a scheduled plant shutdown, and of compact polystyrene (-11.2%). The ABS/SAN productions increased (+9.9%). The **Polyethylene** production decreased (-8.6%), in particular due to the decreased production of LDPE (-21.5%) and LLDPE (-5.9%), only partly offset by the increased production of HDPE (+9.4%). The production of the **Elastomers** business increased (+7.1%), especially the BR rubbers (+15.2%) and NBR (+11.8%).

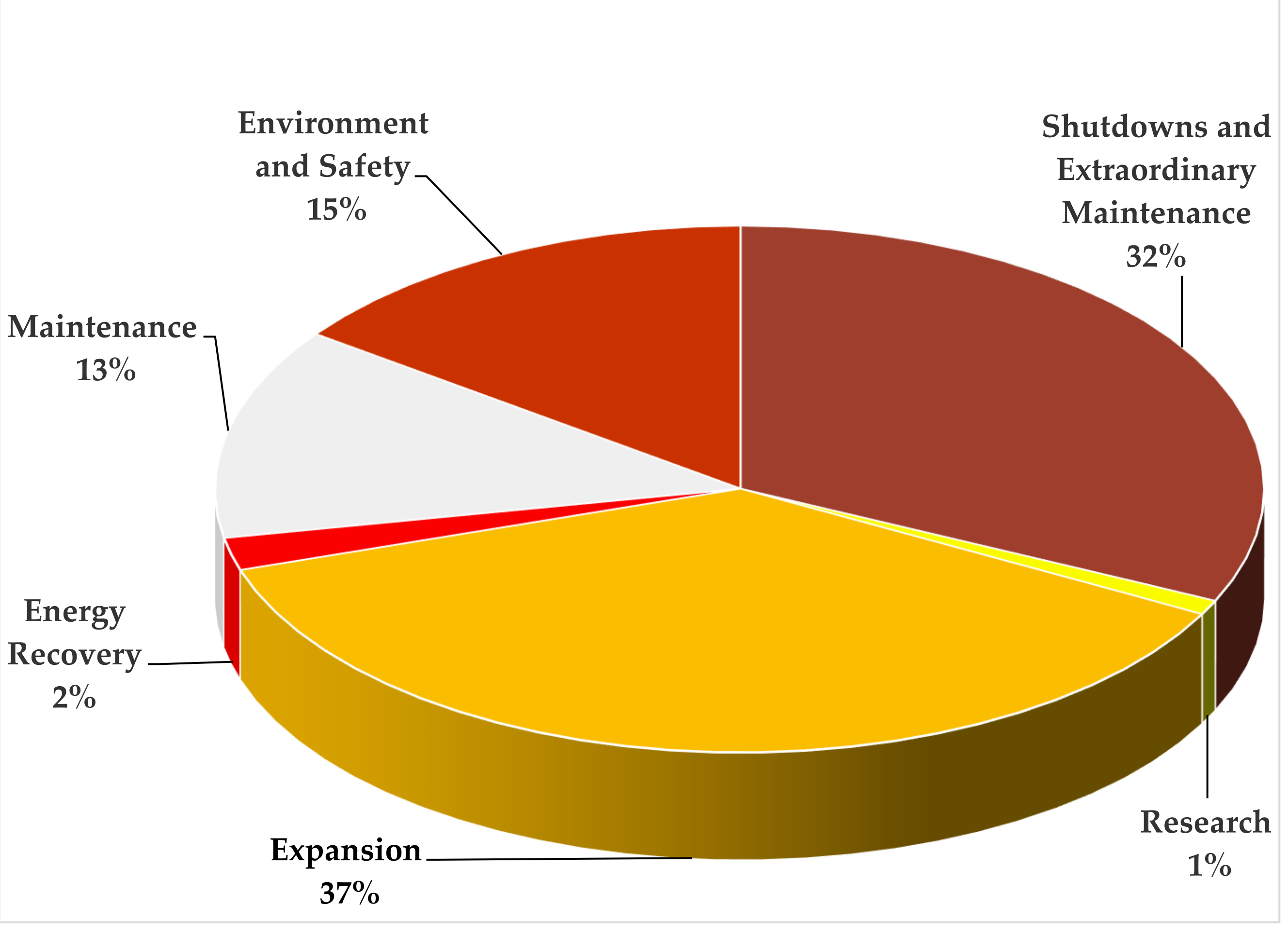
Investments

Net investment in tangible and intangible assets for the year amounted to €241 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)	2014	2015	2016	Var. %
Olefins	69	39	67	74.0
Aromatics	7	18	12	(33.3)
Derivatives	8	2	1	(50.0)
Styrenes	12	10	8	(20.0)
Elastomers	117	83	68	(18.1)
Polyethylene	7	17	24	41.2
Green Chemistry	3		1	..
Industrial Services	52	37	53	43.2
Staff and financial expenses	8	8	7	(12.5)
Gross Investments in property, plant and equipment	**283**	**214**	**241**	**12.9**
Syndial Grants	(7)		(2)	..
Grants, refunds from third parties and change in advances	(6)	(3)	(1)	(66.7)
Investments in property, plant and equipment	**270**	**211**	**238**	**13.1**
Investments in intangible assets	**4**	**7**	**3**	**(57.1)**
Total	**274**	**218**	**241**	**10.8**

Net investment by type



The main investments for the year were the following:

- upgrade work (€87 million) mainly related to strategic projects undertaken for the development of the Elastomers business in Ferrara (€58.1 million), for the restructuring and conversion of the Porto Marghera plant (€9.9 million) and Priolo (€7.8 million);

- scheduled maintenance on the ethylene and polyethylene plant in Dunkirk , elastomers in Ferrara, intermediates in Mantua and butadiene in Ravenna for a total of €65.3 million;

- work to ensure plant compliance with safety and environmental regulations (€37.3 million);

- minor maintenance work and improvements in the reliability of the plants at various facilities (€27.9 million);

- recoiling work on the furnaces at the Brindisi, Dunkirk, Porto Marghera and Priolo ethylene plants (€10.2 million);

- Energy recovery work relating to the installation of a new column in Dunkirk (€4.6 million);

- work on the buildings and utility networks at the Porto Torres site in preparation for the Green Chemistry project (€3 million);

- research activities (€2.6 million), mainly for the new "one step" facility in the Mantua plant (€1.7 million).

Financial review Versalis Group

Profit and Loss Account

2014	(amounts in millions of euros)	2015	2016	Variance	Var. %
5,284	Net sales from operations	4,716	4,196	(520)	(11.0)
122	Other income and revenues	115	48	(67)	(58.3)
(5,896)	Operating expenses	(4,735)	(3,986)	749	(15.8)
(27)	Other operating (expense) income	(7)	(7)		
(185)	Depreciation, depletion, amortization and impairments	(833)	(37)	796	(95.6)
0	Losses due to eliminations/disposals		(1)	(1)	..
(702)	**Operating profit (loss)**	**(744)**	**213**	**957**	**..**
(30)	Net financial income (expense)	(16)	(97)	(81)	..
(3)	Net income (expense) from investments	(30)	(19)	11	(36.7)
(735)	**Profit (Loss) before income taxes**	**(790)**	**97**	**887**	**..**
190	Income taxes	(499)	66	565	..
25.9	*Tax Rate (%)*	..	*(68.0)*	*63.7*	..
(545)	**Net profit (loss)**	**(1,289)**	**163**	**1,452**	**..**

Net Profit

In 2016, the Versalis Group recorded a **net profit** of €163 million, with an improvement of €1.452 million compared to 2015: the difference is mainly due to the fact that in 2015 there were write-downs of assets and deferred tax assets amounting to €1,205 million, primarily as a consequence of the effects deriving from the exit from the Eni group (hypothesis subsequently abandoned), whilst in 2016 the write-back for those items amounted to €69 mln.

The operating results increased by €957 million, mainly due to the following factors:
- (i) €796 million reduction of amortizations and write-downs of property and equipment and intangible assets following the results of the impairment test in 2016;
- (ii) €749 million decrease in operating costs, mainly due to the reduction, compared to 2015, of the oil cargoe euro prices together with a slight decrease of the quantities purchased.

The effects of the above situation were attenuated by the following factors:
- (i) the €520 million decrease in sales revenues (11%), due to the decrease in market prices and a slight decrease in quantities sold;
- (ii) € 67 million reduction in other revenue and income mainly due to the decrease in income from royalties and income from the sale of Energy Efficiency Certificates.

Adjusted net profit

2014	(amounts in millions of euros)	2015	2016	Variance	Var. %
(545)	**Net profit (loss)**	**(1,289)**	**163**	**1,452**	**..**
170	Exclusion of inventory holding (gains) losses	322	76	(246)	(76.4)
89	Exclusion of *special items*	1311	(17)	(1,328)	..
(286)	**Adjusted net profit/(loss)** [a]	**344**	**222**	**(122)**	**(35.5)**

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

The **adjusted net profit** for the year 2016 amounted to €222 million, decreased by €122 million compared to the previous year (€344 million). The decrease is mainly attributable to a reduction in contribution margins in the polyethylene and styrenic sectors due to both a less favorable scenario and a decrease in sales volumes; these effects were partially offset by increased margins in elastomers and intermediates. The result was also affected by lower product availability due to unscheduled plant shutdowns.

Analysis of profit and loss account items

Net sales from operations

2014	(amounts in millions of euros)	2015	2016	Variance	Var. %
1,305	Olefins	1,275	1,087	(188)	(14.7)
610	Aromatics	327	290	(37)	(11.3)
394	Derivatives (*)	297	311	14	4.7
628	Elastomers	543	539	(4)	(0.7)
745	Styrenes (*)	764	647	(117)	(15.3)
1,428	Polyethylene	1,383	1,194	(189)	(13.7)
174	Corporate and services	127	128	1	0.8
5,284		**4,716**	**4,196**	**(520)**	**(11.0)**

Net sales from operations decreased by €520 million, due to the reduction in average unit selling prices and a slight decrease in quantities sold.

Other income and revenues

Other income and revenues decreased by €67 million compared to 2015, mainly due to lower revenues from foreign royalties (€35 million) and the sale of Energy Efficiency Certificates (€11 million) and lower cost recovery of the Syndial guarantee fund (€10 million). To be noted that the gain related to the price adjustment recorded on the sale of Aromatics Sarroch business unit amounting to €12 million had been accounted for in 2015. These factors were partially offset by higher income from contractual penalties, settlements and lawsuits (€5 million) and the increase in insurance refunds (€4 million).

Operating expenses

2014	(amounts in millions of euros)	2015	2016	Variance	Var. %
4,074	Production costs – raw, ancillary and consumable materials & goods	3,150	2,481	(669)	(21.2)
1,263	Service costs	1,154	1,109	(45)	(3.9)
26	Operating leases and other	21	22	1	4.8
28	Net provisions for contingencies	10	9	(1)	(10.0)
148	Other expenses	59	21	(38)	(64.4)
357	Payroll and related costs	341	344	3	0.9
5,896		**4,735**	**3,986**	**(749)**	**(15.8)**

Operating expenses decreased by 749 million euro (-15.8%), as shown in the table above.

The reduction of 21.2% in the cost of raw, ancillary and consumable materials and goods and inventory changesis mainly due to the decrease of the average unit price in euro of the virgin naphtha, compared to 2015, and to a slight decrease of the quantities purchased.

Service costs decreased by 3.9% mainly due to the reduction in the utility prices (methane, electric power and steam), reduction in the costs related to logistics, projetcs, insurance, design and works supervision, as well as the costs for ecological treatment and maintenance.

Other expenses decreased by €38 million, mainly due to the reduction of contractual penalties (€19 million) and indirect taxes (€6 million).

Other operating (expense) income

Other operating expenses of €7 million (same amount in 2015) are related to derivatives used to hedge the price risk of virgin naphtha that, although not held for speculative purposes, cannot be classified as a "hedge" under IFRS standards.

Depreciation, amortization and impairment

2014	(amounts in millions of euros)	2015	2016	Variance	Var. %
85	Tangible assets	96	51	(45)	(46.9)
4	Intangible assets	5	4	(1)	(20.0)
89	**Depreciation and amortization**	**101**	**55**	**(46)**	**(45.5)**
96	**Impairments (write-back)**	**732**	**(18)**	**(750)**	**..**
185		**833**	**37**	**(796)**	**(95.6)**

Depreciation and amortization decreased by €46 million compared with 2015, owing to the impairment test, carried out in 2015, which has reduced the value of assets.

Following the outcome of the impairment test performed in 2016, the value of the tangible and intangible assets, previously depreciated in 2015, has been restored in the amount of €18 million (€14 million euro relating to tangible assets and €4 million euro to intangible assets).

The **impairment losses** were reduced by €750 million due to the outcome of the impairment test in 2016, which resulted in **plants write-back**, (written down in 2015), for €18 million. The utilization of the impairment provision refers to tangible assets (€14 million) and to intangible assets (€4 million).

The revaluations and impairments of tangible assets, with a net effect of €14 million, refers mainly to the following Cash Generating Units (CGUs): Olefines and polyethylenes in Dunkirk (€59 million revaluation); Ethylenes and Polyethylenes Brindisi (€50 million revaluation); Styrenes Mantua (€45 million revaluation); Elastomers Ferrara (€27 million revaluation),other Elastomers Ravenna (€11 million revaluation); Oberhausen plant (€1 million revaluation); E-SBR and latex plants at the Ravenna site (€58 million impairment loss); Porto Marghera plant (€35 million impairment loss); Priolo plant (€29 million impairment loss); butadiene Brindisi (€15 million impairment loss), intermediates Mantua (€14 million impairment loss), polyethylene Ferrara (€ 9 million impairment loss), Sarroch (€7 million impairment loss), plant Ragusa (€6 million impairment loss), other services of Porto Torres (€4 million impairment loss) and the establishment of Dunastyr (€ 2 million impairment loss).

Versalis Group's non-financial fixed assets have been grouped into Cash Generating Units (CGUs) and the impairment loss (or write-back) was determined by comparing the book value of each

CGU with its value in use, (determined by discounting to present value the expected cash flows deriving from the use of the assets over a period coinciding with the remaining average useful life of the CGU itself). For further details, see Note 7) "Property, plant and equipment", of the Notes to the Consolidated Financial Statements.

The **write-backs of impairment losses** of intangible assets, amounting to € 4 million, refer to the property rights relating to the license agreement with Union Carbide recorded in the Brindisi production site CGU.

Net financial expenses

2014	(amounts in millions of euros)	2015	2016	Variance	Var. %
(39)	Finance income (expense) related to net borrowings	(35)	(15)	20	57.1
	Income (expense) on loans & securities related to operations	11	(84)	(95)	..
	Finance Income (expense) on derivative contracts	8	(1)	(9)	..
(8)	Exchange differences	(3)		3	..
	Other finance income (expense)	(4)	(3)	1	25.0
6	Capitalized finance expense	7	6	(1)	14.3
(30)		**(16)**	**(97)**	**(81)**	**..**

N**et financial expenses** increased by €81 million, due essentially to: (i) the write-down of the financial receivables for operating purposes, of €93 million, towards Matrica, in order to take into account the repayment capacity, in line with the risk of the initiative ; (ii) decreased expenses, in the amount of €9 million, from the fair value measurement of non-speculative commodity derivatives on exchange rate risks . These factors were partially offset by a €21 million reduction of interest expenses related to financial debt and €3 million fewer expenses for negative exchange rate differences.
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

2014	(amounts in millions of euros)	2015	2016	Variance	Var. %
(5)	Share of profit (loss) of equity-method investments	(30)	(6)	24	80.0
2	Dividends				..
	Other net income (expense)		(13)	(13)	..
(3)		**(30)**	**(19)**	**11**	**36.7**

The **net expense from investments** of €19 million concerns the write-down of the equity investments held in Genomatica (€13 million), Matrica (€4 million) and Newco Tech SpA (€3 million). The write-down of the investment in Genomatica was performed taking into account the losses incurred in the current year and prior years that are believed to be enduring. Furthermore, Versalis has not adhered to the share capital, following the waiver of pre-emption rights. This has resulted in the dilution of Versalis' ownership in Genomatica from 5.12% to 0.01%.

Income taxes

2014	(amount in millions of euros)	2015	2016	Variance
	Profit before income taxes			
(626)	Italy	(717)	(68)	649
(109)	Abroad	(73)	165	238
(735)		**(790)**	**97**	**887**
	Income taxes			
(174)	Italy	459	(53)	(512)
(16)	Abroad	40	(13)	(53)
(190)		**499**	**(66)**	**(565)**
	Tax rate (%)			
27.8	Italy	(64.0)	77.9	(512)
14.7	Abroad	(54.8)	(7.9)	46.9
25.9		**(63.0)**	**(68.0)**	**(5.0)**

For a description of the principal changes in the *reported* tax rate, see the paragraph "Income Taxes" of the notes to consolidated financial statements.

Non-GAAP measures

Reconciliation of the reported operating profit and reported net profit with the adjusted results

The Versalis management assesses the company's performance on the basis of adjusted operating profit and adjusted net profit, which are arrived at by excluding special items and inventory gains (losses) from operating profit and from reported net profit. The tax effect of items excluded from adjusted net profit is determined on the basis of the nature of each excluded item, with the exception of financial income/financial expenses to which the Italian statutory tax rate of 27.5% is conventionally applied. Adjusted operating profit and adjusted net profit are not envisaged by the IFRS. Management believes that these performance measures facilitate the comparison of the performance of the businesses across periods and allows the financial analysts to evaluate the company's performance on the basis of their forecasting models.

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

The inventory gains (losses) are given by the difference between the realizable value based on the prices of products sold and that resulting from the weighted average cost.

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

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

2014	(amounts in millions of euros)	2015	2016	Variance
(702)	**Operating profit (loss)**	**(744)**	**213**	**957**
170	**Exclusion of inventory holding (gains) losses**	**322**	**76**	**(246)**
205	**Exclusion of special items**	**735**	**(18)**	**(753)**
(327)	**Adjusted operating profit (loss)**	**313**	**271**	**(42)**
(34)	Net finance income (expense) (*)	(21)	(2)	19
(3)	Net income (expense) from investments (*)	4	(19)	(23)
78	Income taxes (*)	48	(28)	(76)
(21.4)	*Tax rate (%)*	*16.2*	*(11.2)*	*(27)*
(286)	**Adjusted net profit (loss)**	**344**	**222**	**(122)**

(*) Excluding special items

Details of special items:

2014	(amounts in millions of euros)	2015	2016
	Other special items		
58	- provision for environmental charges	21	4
	- provision for redundancy incentives	3	3
3	- valuation provisions for operating charges on derivatives	(4)	(1)
4	- exchange rate differences and derivatives	5	(2)
	- impairment/(value write-back) of tangible assets	13	(4)
	- income / (expense) related to settlement agreements		(4)
96	- impairment (value write-back) of tangible assets	719	(14)
	- adjustment for the sale of the Sarroch aromatics business	(12)	
45	- losses on disposal of tangible assets		
(1)	- gains	(3)	
	- provision for revocation expenses	(7)	
205	**Special items of operating profit (loss)**	**735**	**(18)**
	Finance (income) expense	**(5)**	**95**
	of which:		
(4)	- reclassification of exchange rate differences and derivatives in operating profit/(loss)	(5)	2
	- impairment of financial receivables related to operations		93
	Expense (income) from investments	**33**	
	of which:		
	- impairment of investments	33	
(112)	**Income taxes**	**548**	**(95)**
	of which:		
	- Impairment/(value write-back) of deferred tax assets	473	(51)
(60)	- taxes on special items of operating profit (loss)	104	(19)
(52)	- taxes on exclusion of inventory losses	(101)	(25)
	- tax rate adjustment	72	
89	**Total special items of net profit (loss)**	**1,311**	**(18)**

Reclassified Balance Sheet

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

Reclassified Balance Sheet (*)

(amounts in millions of euros)	31.12.2015	31.12.2016	Variance
Fixed assets			
Property, plant and equipment	549	739	190
Intangible assets	56	59	3
Investments	187	186	(1)
Receivables and securities held for operating activities	211	126	(85)
Net payables related to capital expenditure	(28)	(64)	(36)
	975	**1,046**	**71**
Net working capital			
Inventories	670	592	(78)
Trade receivables	636	588	(48)
Trade payables	(624)	(671)	(47)
Tax receivables (payables) and provisions for net deferred tax liabilities	124	217	93
Provisions for risks and charges	(128)	(87)	41
Other current assets and liabilities	138	32	(106)
	816	**671**	**(145)**
Provisions for employee benefits	**(67)**	**(70)**	**(3)**
NET CAPITAL EMPLOYED	**1,724**	**1,647**	**(77)**
Shareholders' equity	**272**	**1,514**	**1,242**
Net borrowings	**1,452**	**133**	**(1,319)**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**1,724**	**1,647**	**(77)**

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

Fixed assets

Property, plant and equipment, amounted to €739 million, showing an increase of €190 million mainly due to capital expenditures for the year (€238 million) and for the outcome of the impairment test which resulted in a reversal of an impairment of the manufacturing plants of €14 million, partially offset by the depreciation for the period (€51 million).

Intangible assets, amounted to €59 million, with an increase of €3 million due mainly to impairment write-back (€4 million) and investments made during the year (€3 million), partially offset by depreciation (€4 million).

Financial receivables and securities held for operating activities of €126 million relate essentially to the loan granted to Matrica SpA, a joint venture with Novamont SpA, to meet the financial requirements related to the "Green Hub" project of Porto Torres. Decreased by €85 million mainly due to the devaluation of the above receivable (€93 million) and for the accrued interests (€9 million). The impairment loss takes into account the repayment ability of Matrica, in line with the related business plan.

Net payables related to capital expenditures, amounting to €64 million, increased by €36 million mainly due to provisions made in the last two months of 2016 and due to the deferrals of debt payments falling due in the last days of the year.

Net working capital

The decrease of €78 million in **inventories** is attributable: (i) to the decrease of €60 million in inventories of finished products resulting from the reduction of stock and the reduction in value based on the market prices; (ii) the reduction of €18 million in inventories of raw materials, ancillary materials and consumables. These amounts include net allowances for impairment losses for the period of €21 million for the adjustment to market value of the remaining stock.

The decrease of €48 million in **trade receivables** results mainly from the assignments to the factoring companies, which in December 2016 was significantly higher than that of the end of 2015, partially offset by an increase in revenues from higher sales volumes (+ 9.5%) over the last two months compared to the same period last year.

The increase of €47 million in **trade payables** is primarily due to the deferral of debt payments falling due in the last days of the year.

The increase in **tax assets and net provisions for taxes** of €93 million is mainly due to: (i) the write-back of previously incurred impairments of deferred tax assets for €99 million; (ii) the net increase of €35 million in loans to the parent company Eni SpA for membership to the National Fiscal Consolidation. The above is offset by an increase in deferred tax liabilities of €59 million and the decrease of €7 million in receivables for Group VAT.

The decrease of €41 million in **provisions for risks and charges** was due primarily to the utilization of €15 million of the disposals and restructuring provision for the closure of the Hythe (UK) site, the use of €14 million of the environmental risks and charges provision and net use of the renovations provision of €3 million and the use of provisions for termination benefits (€ 2 million). Added to this is the utilization against expenses of € 8 million of the provision for losses of Polimeri Europa France Elastomere.

The increase of €106 million in **other current net assets** is mainly due to the following: €34 million decrease in receivables from the Eni group, €33 million decrease in advances to suppliers, €25 million decrease in receivables from third party companies, €3 million decrease in receivables from subsidiaries, €2 million increase of payables to employees, increase of €2 million in advances from customers and a reduction of €1 million in receivables for the sale of licenses.

Statement of Comprehensive Profit (Loss)

(amounts in millions of euros)	2015	2016
PROFIT (LOSS) FOR THE PERIOD	**(1,289)**	**163**
Other items of comprehensive profit (loss):		
Valuations of defined-benefit plans for employees	5	(2)
Foreign currency translation differences	4	1
Tax effect relative to the other components of the comprehensive loss that cannot be reclassified to the profit and loss account	(1)	1
TOTAL COMPREHENSIVE PROFIT (LOSS) FOR THE YEAR	**(1,281)**	**163**

Shareholders' equity

(amounts in millions of euros)	
Shareholders' equity as at December 31, 2015	**272**
Total comprehensive profit for the year	**163**
Waiver of credit by the shareholder to cover losses	**1,072**
Exchange differences and other changes	**7**
Shareholders' equity as at December 31, 2016	**1,514**

Shareholders' equity amounted to €1,514 million and increased by €1.242 million compared to 2015, as a result of the comprehensive profit for the year of €163 million and the waiver by Eni of the financial receivables to cover losses of 1,072 million euro during the year.

Leverage and net borrowings

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

(amounts in millions of euros)	31.12.2015	31.12.2016	Variance
Short-term debt	919	179	(740)
Medium/long-term debt	682	76	(606)
Cash and cash equivalents	(149)	(122)	27
Net borrowings	**1,452**	**133**	**(1,319)**
Shareholders' equity	**272**	**1,514**	**1,242**
Leverage	**5.34**	**0.09**	**(5.25)**

The decrease in **net borrowings** of €1,319 million was primarily the result of the increase in capital flows following the recapitalization by Eni (€1,072 million) through the partial waiver of its financial receivables, the improvement in the net cash flow from operating activities (€469 million increase), partially offset by a negative net cash flow from investing activities (€235 million reduction). For further information, see the section Reclassified Cash Flow Statement.

Leverage, the ratio of net borrowings to shareholders' equity, increased from 5.34 in 2015 to 0.09 in 2016.

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)	2015	2016	31.12.2015	31.12.2016
As recorded in annual Financial Statements of Versalis SpA	**(1,229)**	**150**	**319**	**1,539**
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	(4)	**(3)**	8	**(36)**
Consolidation adjustments:				
- elimination of tax adjustments and compliance with accounting policies	(24)	**(17)**	(33)	**(15)**
- deferred taxation	(32)	**33**	(22)	**26**
As recorded in Consolidated Financial Statements	**(1,289)**	**163**	**272**	**1,514**

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, which is a non-GAAP performance measure, ends alternatively with: (i) changes in cash and cash equivalents for the period after adding/deducting cash flows relative to 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 (*)

2014	(amounts in millions of euros)	2015	2016	Variance
(545)	**Net profit (loss) for the period**	**(1,289)**	**163**	**1,452**
	Adjustments to reconcile net profit (loss) to net cash provided by operating activities:			
191	- depreciation and amortization and other non monetary items	861	151	(710)
5	- net gains on disposal of assets	(3)		3
(153)	- dividends, interest, taxes and other charges	517	(66)	(583)
51	Changes in working capital	153	259	106
(32)	Dividends received, taxes (paid) received, interest (paid) received	(21)	(38)	(17)
(483)	**Net cash flow provided by operating activities**	**218**	**469**	**251**
(274)	Investments in fixed assets	(218)	(241)	(23)
(13)	Investments and purchase of consolidated subsidiaries and businesses	(33)	(23)	10
2	Disposals	1	1	
(101)	Financial investments	(19)	(9)	10
2	Other cash flow related to investing activities	(7)	36	43
(867)	**Free cash flow**	**(58)**	**233**	**291**
866	Change in short-term and long-term debt	(1,018)	(260)	758
	Cash flow from capital and reserves	1,146		(1,146)
(1)	**NET CASH FLOW FOR THE PERIOD**	**70**	**(27)**	**(97)**

Change in Net Borrowings

2014	(amounts in millions of euros)	2015	2016	Variance
(867)	**Free cash flow**	**(58)**	**233**	**291**
(3)	Exchange differences on net borrowings and other changes	(6)	1,086	1,092
	Cash flow from capital and reserves	1,146		(1,146)
(870)	**CHANGE IN NET BORROWINGS**	**1,082**	**1,319**	**237**

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

In 2016, the net cash flow from operating activities, a €469 million increase, was eroded mainly by outlays for capital expenditure (€241 million), for investment in equity investments (€23 million), partially offset by the change in receivables related to investing activities (€36 million). These events have generated a free cash flow of €233 million, a significant improvement compared to 2015 (with financing needs of €58 million). The item "**Exchange differences on net borrowings and other changes**" includes the waiver of the financial receivables from the parent company Eni SpA of €1,072 million contributing, together with the positive free cash flow of €233 million, to the reduction of the €1,319 million financial debt.

Reconciliation of the reclassified consolidated financial statements with the statutory financial statements

Reclassified Consolidated Balance Sheet		**31.12.2015**		**31.12.2016**	
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	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
Fixed assets					
Property, plant and equipment			549		739
Intangible assets			56		59
Equity accounted investments			171		183
Other investments			16		3
Receivables & securities for operating activities, made up of:			211		126
- other receivables		9		18	
- other non-current financial assets		202		108	
Net payables related to capital expenditures, made up of:			(28)		(64)
- payables related to capital expenditures	(see note 16)	(28)		(64)	
Total fixed assets			**975**		**1,046**
Net working capital					
Inventories			670		592
Trade receivables			636		588
Trade payables			(624)		(671)
Tax receivables (payables) & provisions for tax, made up of:			124		217
- income tax payables	(see note 17)	(9)		(14)	
- other tax payables	(see note 18)	(12)		(10)	
- deferred tax liabilities	(see note 23)	(104)		(75)	
- payables for tax consolidation	(see note 16)	(6)			
- current tax assets	(see note 4)	9		9	
- other current tax assets	(see note 5)	8		17	
- deferred tax assets	(see note 12)	213		243	
- receivables for tax consolidation				29	
- receivables for Group VAT	(see note 2)	25		18	
Provisions for risks and charges			(128)		(87)
Other current assets and liabilities, made up of:			138		32
- other receivables	(see note 2)	203		105	
- other (current) assets	(see note 6)	5		3	
- other receivables and other assets	(see note 13)	1		1	
- advances, other payables	(see note 16)	(60)		(69)	
- other (current) liabilities	(see note 19)	(11)		(8)	
Total net working capital			**816**		**671**
Provisions for employee benefits			**(67)**		**(70)**
NET CAPITAL EMPLOYED			**1,724**		**1,647**
Shareholders' equity			**272**		**1,514**
Net borrowings					
Total debt, made up of:					
- long-term debt	(see note 20)	374		71	
- current portion of long-term debt	(see note 20)	308		5	
- short-term debt	(see note 14)	919		179	
Less: Cash and cash equivalents	(see note 1)	(149)		(122)	
Total net borrowings			**1,452**		**133**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY			**1,724**		**1,647**

Reclassified Consolidated Cash Flow Statement	2015		**2016**	
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)	Partial amounts from the consolidated cash flow statement	Amounts from the reclassified statement	Partial amounts from the consolidated cash flow statement	Amounts from the reclassified statement
Net Profit (Loss)		**(1,289)**		**163**
Adjustments to reconcile net profit (loss) to net cash provided by operating activities:				
Depreciation and amortization and other non-monetary items		861		151
- depreciation and amortization	101		55	
- net impairment of tangible and intangible assets	732		(18)	
- eliminations			1	
- share of profit (loss) of equity-accounted investments	30		7	
- currency translation differences from alignment	2		(1)	
- economic effects on securities and financial receivables			93	
- valuation of equity investments valued at cost			13	
- net change in provision for employee benefits	(4)		1	
Net gains on disposal of assets		(3)		
Dividends, interest, income taxes and other charges		517		(66)
- interest income	(11)		(8)	
- interest expense	29		9	
- income taxes	499		(67)	
Changes in working capital		153		259
- inventories	410		75	
- trade receivables	27		50	
- trade payables	(230)		49	
- provisions for risks and charges	(27)		(32)	
- other assets and liabilities	(27)		117	
Dividends received, taxes paid, interest (paid) received during the period		(21)		(38)
- dividends received	1			
- interest received	2			
- interest paid	(41)		(16)	
- Income taxes received (paid) including tax credits rebated	17		(22)	
Net cash flow provided by operating activities		**218**		**469**
Capital expenditures		(218)		(241)
- tangible assets	(211)		(238)	
- intangible assets	(7)		(3)	
Investments and purchase of consolidated subsidiaries and businesses		(33)		(23)
- non consolidated investments	(37)		(23)	
- investments and purchase of consolidated subsidiaries and businesses	4			
Divestments and partial disposals of consolidated investments		1		1
- tangible assets	1		1	
Other changes related to investment activity		(26)		27
- financial investments: financial receivables	(19)		(9)	
- change in payables and receivables related to investments	(7)		36	
Free cash flow		**(58)**		**233**
Change in short-term and long-term debt		(1,018)		(260)
- proceeds from long-term finance debt	8			
- payments from long-term finance debt	(154)		(5)	
- change in short-term finance debt	(873)		(251)	
- foreign currency exchange differences	1			
- change in the consolidation of cash & cash equivalents			(4)	
Cash flow from equity capital:		**1,146**		
- dividends distributed to third parties	1,146			
Net cash flow for the period		**70**		**(27)**

Financial review – Versalis SpA

Profit and Loss Account

2014	(amounts in millions of euros)	2015	2016	Variance	Var. %
4,186	Net sales from operations	4,003	3,455	(548)	(13.7)
115	Other income and revenues	119	48	(71)	(59.7)
(4,771)	Operating expenses	(4,107)	(3,368)	739	(18.)
(27)	Other operating (expense) income	(7)	(7)		
(91)	Depreciation, amortization and impairment	(665)	(74)	591	(88.9)
(588)	**Operating Profit (Loss)**	**(657)**	**54**	**711**	**..**
(31)	Net finance income (expense)	(18)	(97)	(79)	..
(148)	Net income (expense) from investments	(97)	139	236	..
(767)	**Profit (Loss) before income taxes**	**(772)**	**96**	**868**	**..**
173	Income taxes	(457)	54	511	..
(594)	**Net Profit (Loss)**	**(1,229)**	**150**	**1,379**	**..**

Net profit

The financial statements of Versalis SpA show a net profit for the period of €150 million (€1,229 million loss in 2015), determined by the operating profit of €54 million, net finance expenses of €97 million and net investment income of €139 million and by proceeds from income taxes of €54 million.

The operating result improved by €711 million, mainly as a consequence of the following factors:

- €591 million reduction of amortization and impairment of property and equipment and intangible assets, due to the results of the impairment test in 2016, as more fully treated in note 7 "Property, Plant and Equipment" and Note 8 "Intangible assets" of the financial statements of Versalis SpA.

- 18% decrease of operating costs, mainly due to the reduction, compared to 2015, of the euro prices of petroleum feedstocks and utilities;

The effects of the above positive factors were partly offset by the following factors:

- 13.7% decrease of operating revenues due to the reduction in market prices and quantities sold;
- € 71 million reduction in other revenues and income mainly due to the decrease in foreign royalties and proceeds from the sale of Energy Efficiency Certificates.

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

2014	(amounts in millions of euros)	2015	2016	Variance	Var. %
903	Olefins	1,243	925	(318)	(25.6)
610	Aromatics	327	290	(37)	(11.3)
394	Derivatives	297	311	14	4.7
507	Elastomers	469	462	(7)	(1.5)
693	Styrenes	696	595	(101)	(14.5)
923	Polyethylene	857	751	(106)	(12.4)
156	Corporate and services	114	121	7	6.1
4,186		**4,003**	**3,455**	**(548)**	**(13.7)**

Net sales from operations decreased by €548 million following the fall in unit sales prices and decrease in volumes sold.

Other income and revenues

Other income and revenues decreased by €71 million compared with 2015 due mainly to the following: decreased revenue from royalties (€34 million) and the sale of Energy Efficiency Certificates (€11 million), lower cost recovery of the Syndial guarantee fund (€10 million) and reduced income from investment properties (€1million). To be noted that in 2015 the following had been accounted for: the gain related to the price adjustment recorded on the sale of Aromatics Sarroch business unit amounted to €12 million and €2 million gain on the sale of the TAC branch to Ravenna Servizi Industriali. These effects were partially offset by higher income from contractual penalties, settlements and lawsuits (€5 million) and the increase in insurance compensation (€4 million).

Operating expenses

2014	(amounts in millions of euros)	2015	2016	Variance	Var. %
3,184	Production costs – raw, ancillary and consumable materials and goods and inventory changes	2,699	2,047	(652)	(24.2)
1,163	Service costs	1,056	1,007	(49)	(4.6)
19	Operating leases and other	16	16		
20	Net provisions for contingencies	27	20	(7)	(25.9)
107	Other expenses	41	7	(34)	(82.9)
278	Payroll and related costs	268	271	3	1.1
4,771		**4,107**	**3,368**	**(739)**	**(18.0)**

Operating expenses decreased by €739 million, equal to 18%, as shown in the table above.

The decrease of 24.2% in the **cost of raw, ancillary and consumable materials and goods and inventory changes** was primarily due to a decrease in the average unit price in euros of virgin naphtha compared to 2015, to a slight decrease of the quantity purchased and the reduction of the raw materials and finished products inventories.

Service costs decreased by 4.6%, mainly due to the drop in utilities prices (electric power, methane, steam), due to a reduction of: logistics and transport costs, engineering and works management costs, general services costs and maintenance costs. The above decreases were partially offset by increased costs for ecological treatments, consultancy fees, internal works costs and construction costs.

The €20 million in net **provisions for contingencies** refers mainly to the following: (i) €19 million to the provisions for risks and charges for litigations, ii) by increased accruals of €7 million to the provision for restructuring and divestitures, iii) the utilization of €7 million of the provision for risks and environmental liabilities. There is a reduction from the previous year where there were higher provisions for disposals and for restructuring fund, and the risks and environmental fund.

Other expenses decreased by €34 million mainly due to reduced contractual penalties (€19 million), increased utilization of provisions for litigations (€6 million) and the lower other duties and taxes (€4 million).

Other operating (expense) income

Other operating expenses of €7 million (same amount in 2015) 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

2014	(amounts in millions of euros)	2015	2016	Variance	Var. %
53	Tangible assets	62	30	(32)	(51.6)
4	Intangible assets	4	4		
57	**Depreciation and amortization**	**66**	**34**	**(32)**	**(48.5)**
34	**Impairments**	**599**	**40**	**(559)**	**(93.3)**
91		**665**	**74**	**(591)**	**(88.9)**

Depreciation and amortization decreased by €32 million compared with the previous year, owing mainly to the effects of the 2015 impairment test.

The **impairment** of €40 million, reduced by €559 million compared to 2015, refers to €44 million euro for tangible assets and to the €4 million write-down of the provision for the impairment of intangible assets.

The €44 million **impairment of tangible assets** stems from the results of the impairment tests and refers mainly to the following CGUs: E-SBR and Latex in Ravenna (write-down of €58 million), Porto Marghera plant (write-down of €35 million) Priolo plant (write-down of €29 million), Butadiene in Brindisi (write-down of €15 million), Intermediates in Mantua (write-down of €14 million), Polyethylene in Ferrara (write-down of €9 million), Sarroch plant (write-down of €7 million), Ragusa plant (write-down of €6 million) and Other Services in Porto Torres (write-down of €4 million);

: Ethylene-Polyethylene in Brindisi (write-back of €50 million), Styrenes in Mantua (write-back of €45 million), Elastomers in Ferrara (write-back of €27 million) and Other Elastomers in Ravenna (write-back of €11million).

The Versalis Group's non-financial fixed assets have been grouped into Cash Generating Units (CGUs) and the impairment loss was determined by comparing the book value of each CGU with its value in use (determined by discounting to present value the expected cash flows deriving from use of the assets over a period coinciding with the remaining average useful life of the CGU itself). For further details, see Note 7 "Property, plant and equipment" of the Notes to the financial statements.

The **write-back of intangible assets** of €4 million refer mainly to property rights relating to the license agreement with Union Carbide regarding the Ethylene-Polyethylene Brindisi Cash Generating Unit.

Net financial expenses

2014	(amounts in millions of euros)	2015	2016	Variance	Var. %
(43)	Financial income (expense) related to net borrowings	(34)	(14)	20	(58.8)
	Income (expense) on loans and securities related to operations	11	(85)	(96)	..
10	Income (expense) on derivative contracts	8	(1)	(9)	..
(4)	Exchange differences	(6)		6	(100.0)
	Other financial income (expense)	(4)	(3)	1	(25.0)
6	Financial expenses capitalized	7	6	(1)	(14.3)
(31)		**(18)**	**(97)**	**(79)**	**..**

Net financial expenses increased by €79 million essentially owing to: (i) the write-down of financial receivables related to operations with Matrica of €93 million, to take into account the repayment capacity in line with the initiative risk; (ii) the €9 million decrease in income from the fair value of non-hedge derivative contracts on exchange risks. The above factors are partially offset by: a decrease of €20 million in interest expense related to the financial debt, an improvement of €6 million, net of exchange rate differences, on commercial transactions.

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

2014	(amounts in millions of euros)	2015	2016	Variance	Var. %
1	Dividends	11	16	5	45.5
(78)	(Allocations to) Utilization of provisions for impairment of investments	(108)	123	231	..
(71)	(Allocations to) Utilization of provisions to cover losses				..
(148)		**(97)**	**139**	**236**	**..**

The **net income from investments** increased by €236 million mainly due to the write-back of €231 million on equity investments value, and the increase of €5 million in dividends received (€12 million of dividends distributed by Versalis Deutschland, €3 million from Versalis International and €1 million from Dunastyr).

The write-back of the equity investments value amounting to €188 million refers mainly to Versalis France (€186 million) and Dunastyr (€1 million); the impairment losses relative to equity investments of €65 million refers mainly to Versalis UK Ltd. (€44 million), Genomatica (€13 million), Matrìca (€4 million) and Newco Tech SpA (€3 million). The write-back of Versalis France was carried out in line with the positive results the company achieved during the year, expected results in the four-year plan, as well as for the impairment test results conducted on the CGU "Olefins and Polyethylene Dunkirk". The write-down of the investment in Genomatica was carried out taking into account the losses, considered to be permanent, incurred in the current and prior years. Furthermore, Versalis has not adhered to the share capital increase, following the waiver of its option right. This led to a dilution of Versalis's percentage of ownership of Genomatica, from 5.12% to 0.01%

Income taxes

2014	(amounts in millions of euros)	2015	2016	Variance
	Current tax assets			
(8)	IRES	(5)	(28)	(23)
(8)		**(5)**	**(28)**	**(23)**
(3)	Deferred taxes	(7)	15	22
(162)	Prepaid taxes	469	(41)	(510)
(165)		**462**	**(26)**	**(488)**
(173)		**457**	**(54)**	**(511)**

The decrease in income taxes of €511 million, compared with 2015, was due primarily to the write-back of previously written down net deferred tax assets; the increase of current income taxes (IRES); and the fact that last year there was a decrease of deferred tax assets due to the modification of the IRES tax rate.

Reclassified Balance Sheet [1]

Reclassified Balance Sheet (*)

(amounts in millions of euros)	31.12.2015	31.12.2016	Variance
Fixed assets			
Property, plant and equipment	418	493	75
Intangible assets	53	57	4
Investments	248	462	214
Receivables and securities held for operating activities	212	126	(86)
Net payables related to capital expenditure	(24)	(55)	(31)
	907	**1,083**	**176**
Net working capital			
Inventories	527	453	(74)
Trade receivables	562	526	(36)
Trade payables	(568)	(566)	2
Tax receivables (payables) and provisions for deferred tax	133	187	54
Provisions for risks and charges	(166)	(76)	90
Other current assets (liabilities)	172	76	(96)
	660	**600**	**(60)**
Provisions for employee benefits	**(65)**	**(67)**	**(2)**
NET CAPITAL EMPLOYED	**1,502**	**1,616**	**114**

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

Shareholders' equity	**319**	**1,539**	**1,220**
Net borrowings	**1,183**	**77**	**(1,106)**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**1,502**	**1,616**	**114**

(*) 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.

Fixed assets

Property, plant and equipment amounted to €493 million, increased by €75 million due essentially to the capital expenditures (€151 million), partially offset by the results of the impairment tests, which have determined net impairment losses of €44 million, as well as depreciation for the period (€30 million).

Intangible assets amounted to €57 million, increased by €4 million mainly due to the write-backs (€5 milioni), investments for the year (€3 million) and depreciation (€4 million).

Equity investments amounted to €462 million, representing an increase of €214 million due to the effect of the write-back of equity investments value in Versalis France (€186 milioni), capital subscriptions in Versalis UK (€77 million) in the Lotte Versalis Elastomers Co. Ltd joint venture (€10 milioni di euro) and in Polimeri Europa Elastomeres France SA in liquidation (€7 milioni). These effects were partially offset by allocations, to the provisions for the impairment of investments, of the investments in Versalis UK (€44 million), Genomatica (€13 million), Matrìca (€4 million) and Newco Tech SpA (€3 million).

Financial receivables and securities held for operating activities of €126 million refer mainly to the loan granted to Matrìca SpA, joint venture with Novamont SpA, in order to meet the financial requirements of the "Green Hub" project in Porto Torres. These financial receivables have decreased by € 86 million mainly due to the aforementioned write-down, which takes into account the repayment capacity in line with the risk of the initiative.

Net working capital

The decrease of €74 million in **inventories** is attributable to: (i) the decrease of €59 million in inventories of finished products due both to the reduction of stock levels and the reduction in the estimable value on the basis of market prices; (ii) a decrease of €13 million in inventories of raw materials, ancillaries and consumables; (iii) a decrease of €2 million in the work in progress and semi-finished products inventories. These amounts include the utilization of the provision for the impairment of investments of €16 million, (net utilization of €33 million of the said provision in 2015), for the adjustment to market value of inventories in stock.

The decrease of €36 million in **trade receivables** is mainly due to the sale of receivables to the factoring companies that, in December 2016, was significantly higher than at the end of 2015. The above was partially offset by an increase in revenue, due to higher sales volumes (+ 18.3%), in the last two months compared to the same period of the previous year.

The increase in **tax assets and net provisions for taxes** of €54 million is mainly due to: (i) the increase in deferred tax assets (€26 million) and (ii) the increase in net receivables from Eni for the national tax consolidation (€34 million). These effects are partially offset by lower receivables for the Group's VAT (€7 million).

The decrease of €90 million in **provisions for risks and charges** was due primarily to the closing of the provisions to cover the losses of Versalis France (€71 million) and Polimeri Europa Elastomeres France (€8 million), utilization due to surplus of €7 million of the provision for environmental liabilities and €3 million of the provision for disposals and restructuring.

The decrease of €96 million in **other current net assets** is mainly due to the decrease of €34 million in receivables from the Eni Group, the €33 million decrease of advances to suppliers, the €25 million reduction in receivables from third party companies, the €2 million increase in payables to employees and a €1 million decrease in receivables for the sale of licenses.

Shareholders' equity

(amounts in millions of euros)	
Shareholders' equity as at December 31, 2015	**319**
Total comprehensive profit (loss) for the year	**150**
Waiver of credit by the shareholder to cover losses	**1,072**
Reserves relating to employee benefits	**(2)**
Shareholders' equity as at December 31, 2016	**1,539**

Shareholders' equity amounted to €1,539 million representing an increase of €1,220 million. This increase was due essentially to the waiver by Eni of its financial receivables, amounting to €1,072 million, to cover losses and the €150 million profit. Other variations of €2 million concerned the effects on the reserve relating to employee benefits in compliance with IAS 19.

Net borrowings

(amounts in millions of euros)	31.12.2015	31.12.2016	Variance
Short-term debt	916	98	(818)
Medium/long-term debt	374	71	(303)
Cash and cash equivalents	(107)	(92)	15
Net borrowings	**1,183**	**77**	**(1,106)**
Shareholders' equity	**319**	**1,539**	**1,220**
Leverage	**3.71**	**0.05**	**(3.66)**

The decrease of €1,106 million in **net borrowings** was primarily the result of the increase in equity capital flow following the recapitalization by Eni (€1,072 million) through the waiver of its financial receivables, the improvement in the net cash flow from operating activities (a €336 million increase), partially offset by net cash flow from investment activity (€302 million). For further information, see the comment on the Reclassified Cash Flow Statement.

Reclassified Cash Flow Statement

Reclassified Cash Flow Statement (*)

2014	(amounts in millions of euros)	2015	2016	Variance
(594)	Net profit (loss) for the period	(1,229)	150	1,379
	Adjustments to reconcile net profit (loss) to net cash provided by operating activities:			
240	- depreciation, depletion, and amortization and other non monetary items	771	45	(726)
4	- net gains on disposal of assets	(3)		3
(138)	- dividends, interest, taxes and other charges	462	(71)	(533)
77	Changes in working capital	83	217	134
(33)	Dividends received, taxes (paid) received, interest (paid) received	(6)	(5)	1
(444)	Net cash flow provided by operating activities	78	336	258
(207)	Capital expenditures	(177)	(154)	23
(13)	Investments and purchase of consolidated subsidiaries and businesses	(35)	(171)	(136)
2	Disposals	1	1	
(101)	Financial investments: financial receivables	(19)	(9)	10
(3)	Other changes related to investment activity	2	31	29
(766)	Free cash flow	(150)	34	184
761	Change in short-term and long-term debt	(913)	(49)	864
	Dividends paid and changes in non-controlling interest and reserves	1,146		(1,146)
(5)	NET CASH FLOW FOR THE PERIOD	83	(15)	(98)

Change in net borrowings

2014	(amount in millions of euros)	2015	2016	Variance
(766)	Free cash flow	(150)	34	184
(3)	Exchange differences on net borrowings and other changes	(2)	1,072	1,074
	Dividends paid and changes in non-controlling interest and reserves	1,146		(1,146)
(769)	CHANGE IN NET BORROWINGS	994	1,106	112

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

In 2016, the **net cash** provided by **operating activities** of €336 million, was reduced mainly by outlays for capital expenditures (€154 million), for equity investments (€171 million, partially offset by the positive investment activities variation of €31 million. This generated a positive free cash flow of €34 million, an improvement compared to 2015 (requirement of €150 million). The "Exchange differences on net borrowings and other changes" item includes the waiver of the financial receivables, by the parent company Eni SpA, in the amount of €1,072 million contributing, together with the positive free cash flow of €34 million, to the reduction of the €1,106 million financial debt. Despite improvements in the free cash flow and net debt, the net cash flow generated a negative balance of 15 million euro during the year.

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 statutory financial statements) (amounts in millions of euros)	**31.12.2015** Partial amounts from the statutory financial statements	 Amounts from reclassified financial statements	**31.12.2016** Partial amounts from the statutory financial statements	 Amounts from reclassified financial statements
Fixed assets				
Property, plant and equipment		418		493
Intangible assets		53		57
Other investments		248		463
Receivables and securities held for operating activities, made up of:		212		126
- other receivables	10		18	
- other non-current financial assets	202		108	
Net payables related to capital expenditures, made up of:		(24)		(56)
- payables related to capital expenditures	(24)		(56)	
Total fixed assets		**907**		**1,083**
Net working capital				
Inventories		527		453
Trade receivables		562		526
Trade payables		(568)		(566)
Tax receivables (payables) and provisions for tax, made up of:		133		187
- other payables to joint ventures for fiscal transparency	(2)		(2)	
- other current tax liabilities	(8)		(8)	
- payables for tax consolidation	(6)			
- receivables for tax consolidation			28	
- current tax assets	9		9	
- deferred tax assets	115		142	
- receivables for Group VAT	25		18	
Provisions for risks and charges		(166)		(76)
Other current assets and liabilities, made up of:		172		76
- other receivables	224		131	
- other (current) assets	1		2	
- other receivables and other assets	1		1	
- advances, other payables	(45)		(51)	
- other (current) liabilities	(9)		(7)	
Total net working capital		**660**		**600**
Provisions for employee benefits		**(65)**		**(67)**
NET CAPITAL EMPLOYED		**1,502**		**1,616**
Shareholders' equity		**319**		**1,539**
Net borrowings				
Total debt, made up of:				
- long-term debt	373		71	
- current portion of long-term debt	308		5	
- short-term debt	609		93	
less:				
Cash and cash equivalents	(107)		(92)	
Total net borrowings		**1,183**		**77**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**1,502**		**1,616**

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)	**2015** Partial amounts from statutory format	**2015** Amounts from reclassified format	**2016** Partial amounts from statutory format	**2016** Amounts from reclassified format
Net proft (loss)		**(1,229)**		**150**
Adjustments to reconcile net profit (loss) to net cash provided by operating activities:				
Depreciation and amortization and other non-monetary items		771		45
- depreciation and amortization	66		34	
- net impairment of tangible and intangible assets	599		40	
- impairments (write-backs) of investments	108		(122)	
- currency translation differences from alignment	1		(1)	
- economic effects on securities and financial receivables			93	
- net change in provision for employee benefits	(3)		1	
Net gains on disposal of assets		(3)		
Dividends, interest, income taxes and other charges		462		(71)
- dividend income	(11)		(16)	
- interest income	(11)		(9)	
- interest expense	27		8	
- income taxes	457		(54)	
Changes in working capital		83		217
- inventories	305		74	
- trade receivables	(1)		37	
- trade payables	(189)		(2)	
- change in provisions for contingencies			(11)	
- other assets and liabilities	(32)		119	
Dividends received, taxes paid, interest (paid) received during the period		(6)		(5)
- dividends received	11		16	
- interest received	1			
- interest paid	(38)		(15)	
- income taxes received including tax credits rebated	20		(6)	
Net cash flow provided by operating activities		**78**		**336**
Capital expenditures		(177)		(154)
- tangible assets	(170)		(151)	
- intangible assets	(7)		(3)	
Investments and purchase of consolidated subsidiaries and businesses		(35)		(171)
- investments	(37)		(171)	
- businesses	2			
Disposals and partial sales of investments		1		1
- tangible assets			1	
- investments	1			
Other cash flow related to capital expenditures, investments and disposals		(17)		22
- financial investments: financial receivables	(19)		(9)	
- change in payables and receivables relating to investments	2		31	
Free cash flow		**(150)**		**34**
Change in short-term and long-term debt		(913)		(49)
- proceeds from long-term finance debt	8			
- payments of non-current finance debt	(3)		(5)	
- change in finance debt	(918)		(44)	
Dividends paid and changes in non-controlling interests and reserves:		1,146		
- net contributions (refunds) of own capital	1,146			
Net cash flow for the period		**83**		**(15)**

Risk factors and uncertainties

Introduction

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

Country risk

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

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

Operational risk

The Versalis Group's business, by nature, involves industrial and environmental risks and is subject, in most 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 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, 2016 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).

On the basis of the estimates of the emissions made, at December 31, 2016, the Versalis Group presents an overall surplus emissions rights position (a so-called "long position")[(2)]; therefore, in accordance with the accounting criteria adopted, management shall recognize the income from the surplus rights at the moment of sale thereof.

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

Business outlook

The global economic trend for 2017 is expected to have an appreciable improvement (+ 2.8%) compared to 2016. However, at the level of the key world regions, contrasting trends are forecast. In particular, for the United States in 2017 a significant improvement in the rate of economic growth of + 2.4% (+ 0.8% compared to 2016) is expected, whilst for Europe "EU 28" (1.8% in 2016) and for the "Euro Area" (1.6% in 2016) a reduction of 0.2% and 0.1% respectively, is forecast.

In Italy, for 2017 a growth rate of the economy is forecast, still rather modest (+ 1.0%), although a slight recovery compared to 0.8% in 2016.

Both China and India should incur a slight decline in their growth rate compared to 2016, respectively 0.4% and 0.3%.

As far as the Eurozone industrial production is concerned, whose growth rate in 2016 recorded a +1.0%, estimates for 2017 indicate a significant improvement of 1.6%. The expected improvement in Italy is altogether similar, with a possible doubling from 0.7% in 2016 to 1.5% in 2017.

In 2017, the rate of Euro/Dollar exchange rate is expected to remain stable, increasing from 1.07 in 2016 to 1.08 in 2017. This trend should continue to support European exports and slowing imports.

In 2017 exports, which have historically driven the Italian growth, should increase more than the imports. To support this forecast there will be, on the one hand the expected recovery of international trade, and on the other hand domestic demand that should be supported more by investments rather than by private consumption, for the first a slight increase (+0.1%) is forecast, whilst for the latter a decline is expected (-0.4%).

In this macroeconomic environment, for 2017, the global chemical industry is expected to improve from +2.0% in 2016 to +2.8% in 2017, which benefits from the recovery of confidence in the industrial trend in China since the same has been driving for years the global investment in the petrochemical industry and aims at becoming self-sufficient in many sectors. This could lead to a transfer of exports to Europe from North American and Middle Eastern products, which in the recent past were largely destined to China.

For 2017 a highly competitive marketplace is expected, impacted by the offer stemming from the Middle East and the United States of America, whose producers have a more favorable cost structure than the producers in Europe (particularly in commodities). This scenario, nevertheless, is expected to be mitigated by the weakness of the Euro/Dollar exchange rate, which will support European exports and, conversely, attenuate the imports.

In the light of the sector framework described above, for the year 2017, sales volumes are expected to be substantially stable with a decline in the margins of polyethylenes, intermediates and styrenes. However, the specialties, (especially elastomers), are forecast to perform better.

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

Significant events after the reporting date

Versalis and SONATRACH, signed a Protocol of Intent, in order to perform feasibility studies jointly for the realization, in Algeria, of an integrated petrochemical complex.

This agreement follows the cooperation agreement, signed last November between Eni and SONATRACH, and provides for the terms of a study, aimed at enhancing hydrocarbons via the production of petrochemical products with higher added value, for the development, in Algeria, of one or more world-scale petrochemical plants.

This agreement represents for Versalis an opportunity to cooperate with an integrated oil company, to which it will provide its industrial experience, in managing large petrochemical plants, and its technologies, in a framework of strategically important joint projects.

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, 2016 amounted to 5,131.

2014	Employees	2015	2016
4,306	Italy	4,241	**4,182**
952	Abroad	964	**949**
5,258		**5,205**	**5,131**

The reduction of 74 staff compared with December 31, 2015 was determined by the following:

- increases:
  - 89 persons were recruited, 28% of whom were graduates;
  - 4 employees of Versalis Americas re-entered the consolidation scope from November;
  - 1 employee, representing the positive balance resulting from transfers within the Eni Group.

- reductions:
  - 147 employees left the company for ordinary reasons (retirement, resignation, consensual termination, and transfer to Matrìca SpA);
  - 15 employees left the Company under ordinary redundancy procedures, in accordance with Law No. 223/91;
  - 6 employees, were transferred to Eni, together with the FORSU plant activity in Novara.

The breakdown by category is as follows:

2014	Employees	2015	2016
112	Senior Management	112	**110**
3,201	Middle Management & Staff Employees	3,196	**3,168**
1,945	Workers	1,897	**1,853**
5,258		**5,205**	**5,131**

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

Age group	Total	%
< 30	364	7.1
30-39	1,263	24.6
40-49	1,716	33.4
50-59	1,592	31.0
> 60	196	3.8
	5,131	100.0

As at December 31, 2016 the number of employees in service in the Group companies was 5,085.

Employees	2015	2016
Senior Management	107	**106**
Middle Management & Staff Employees	3,165	**3,138**
Workers	1,871	**1,841**
	5,143	**5,085**

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 81, while those seconded to Versalis SpA from other companies of the Eni Group numbered 35.

Training

The training programmes in Italy and in the foreign subsidiaries covered 149,000 man-hours in 2016. This activity was provided mostly using internal resources, but also with the support of Eni Corporate University SpA. Consolidation of the know-how of certain specialist areas was provided by qualified trainers from outside the Eni Group.

The financial resources used included €1.5 million of direct costs, €1.2 million of which towards Eni Corporate University SpA. The use of funding from inter-professional funds (Fondirigenti and Fondimpresa), enables the recovery of more than 28% of this amount.

Specific examples over the year include:

- ongoing commitment to the institutional training of new recruits, carried out in-house for those just graduated from high school, and also using the services of Eni Corporate University SpA for young graduates; 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 74,000 hours, made both in the classroom and in "training on the job", with particular reference to compulsory HSE training;
- training initiatives with the objective of extending to the staff, in Italy and abroad, 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 and Eni SpA business (in particular, the two-year program 2015/2016 to update the Model 231, the anti-corruption code of ethics and the online path of Business & Human Rights, was completed);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.

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 2016, 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 2016 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:

- €172 million for expenses in the period (€174 million in 2015)
- €38 million for capitalized investments (€36 million in 2015).

Environmental activities amounted to €113 million (€116 million in 2015) (including soil and aquifer management activities), **safety** activities amounted to €71 million (€65 million in 2015), **Management and Health** activities amounted to €6 million (€5 million in 2015) and integrated **HSE** amounting to 21 million euro (23 million euro in 2015).

With regard to the control of **greenhouse gas emissions**, , 2016 ended with a final balance of CO_2 emissions, for the company, subject to Emission Trading, of 2.99 million tonnes[3] in 2016, substantially in line with both 2015 and 2014.

The results for 2016, therefore, can be summarized as:

- quotas allocated in 2016[4]: 2.78 million tonnes of CO_2;
- 2016 emissions: 2.99 million tonnes of CO_2;
- deficit: 0.21 million tonnes of CO_2.

The events that characterized 2016 from the emissions point of view are:

[3] Provisional final balance pending completion of certification activities.

[4] Allocation estimate based on the documentation submitted to the Competent Authority, which has yet to complete the investigation of Porto Marghera and Porto Torres

- Dunkirk: the shutdown of the plant for scheduled maintenance (2 months);
- Grangemouth: the start-up, beginning of 2016, of the fourth production line for finishing tyres;
- Mantua: the shutdown for scheduled maintenance of the facility for the production of styrene monomers ST40 (40 days);
- Ragusa: in early January an event occurred which caused production to be halted. In June central heating restarted and by the end of June production activities resumed;
- Ravenna: the shutdown for scheduled maintenance of the facility for the production of butadiene (45 days) and butene-1 (70 days).

In 2016, the Versalis commitment, to ensure the reduction of indirect CO2 emissions, continued through the development of energy-saving projects.

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

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

Italian and abroad	2015	2016
No. of incapacitating accidents	4	3
Frequency rate	0.28	0.22
Severity index	0.002	0.030

During 2016 the following accidents occurred:

- A total of 3 accidents, all involving company empoyees;
- The 3 accidents are mainly due to uncoordinated movements, neglect, failure to use proper personal protective equipment, failure to follow instructions provided in the risk assessment documents and authorization documents for carrying out the work;
- For the first time, in the history of the chemical industry, no contractor personnel was injured.

16 Versalis sites/offices, (i.e. excluding Mantua and Ravenna), achieved the safety target of "one year without employee accidents": Versalis International SA (fourth consecutive year), Green Chemistry research center in Novara (fourth consecutive year), Dunkirk (fourth consecutive year), Porto Marghera (fourth consecutive year), Grangemouth (third consecutive year), Oberhausen (third consecutive year), Sarroch (third consecutive year), Hythe (fifth consecutive year), Priolo (eighth consecutive year), Ragusa (nineth consecutive year), Brindisi (seventh consecutive year), Ferrara (third consecutive year), Porto Torres (third consecutive year), San Donato Milanese and Trieste (nineth consecutive year), Szazhalombatta (sixth consecutive year), Eni Chemicals Trading Shanghai (fourth consecutive year).

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

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

The 2016 **System Certification** results, regarding the company's manufacturing sites, are as follows:

- the plants in Brindisi, Mantua, Porto Marghera, Priolo, Ragusa, Ravenna, Ferrara, Sarroch, Porto Torres, Dunkirk, Százhalombatta, Grangemouth, Oberhausen, Versalis International, Versalis Pacific Trading, Versalis Kimya, Green Chemistry research center in Novara, Brindisi General Services and the offices in San Donato Milanese and Trieste have been subject to OHSAS 18001 verification for the maintenance of the safety and health management system in the workplace;

- the plants in Brindisi, Ferrara, Mantova, Priolo, Porto Marghera, Ragusa, Ravenna and Porto Torres, Sarroch, Dunkirk, Versalis International, Grangemouth, Oberhausen and Százhalombatta have been subject to checks for maintaining the ISO 14001;

- the plants of Mantua and Ferrara were subject to inspection for the Emas registration;

- all plants, including the headquarters in SanDonato Milanese and sales office in Trieste, in Italy and foreign sites (Dunkirk, Grangemouth, Százhalombatta and Oberhausen) have been awarded the Certificate of Excellence, for having effectively integrated the management systems for Quality, Environment, Health and Safety.

With regard to **remediation of soil and groundwater**, the characterization activities, provided for by the plans presented and approved, and the subsequent supplementary activities have been 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 2016, pump an estimated total of 6.7 million cubic metres of water a year, in line with forecasts. The Mantua, Ravenna, Ferrara, Brindisi and Sarroch sites are being or have been monitored for soil gas, in order to directly assess the risks associated with volatilization paths.

With regard to remediation, the authorization procedure provided for by law was completed with the approval of projects at the sites in: Brindisi (groundwater), 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 reclamation project of the soil and groundwater for the Mantua site has been approved limited to the removal of the supernatant and to some specific areas. Work has begun at all the sites involved. At the Porto Torres facility, the groundwater and soil situation is monitored and managed by Syndial, since Versalis operates under leasehold at this site.

With regard to **Quality** Control in 2016, internal audits were carried out on the Quality Management System (ISO 9001) at all of the Italian production sites, including the headquarters in San Donato Milanese, the sales office in Trieste, Green Chemistry research center in Novara (whose certificate to be extended to include all related processes/activities of Versalis SpA)

All the production sites outside of Italy, the Versalis International SA in Brussels and the related branch offices in UK, Hungary, France and Germany have also been audited.

Audits were carried out on 27 companies that perform on behalf of Versalis SpA contract work, storage of Versalis products, chemical analysis, procurement, packaging, handling, storage, shipment, calibration and weighing.

In 2016, the certification of the management system for quality has been extended to the Novara site for the "Research and development in the field of chemicals obtained from renewable sources, both by biochemical processes and by conventional processes, and in the field of catalysis for chemical products both from renewable sources and from fossil fuels " activities, by completing the certification to all processes and sites of Versalis SpA.

Quality Management Certifications have also been retained for all the directly controlled foreign production companies: Versalis France SAS, Versalis UK Ltd, Versalis International SA (including its branches), Dunastyr and Versalis Deutschland GmbH.

Technological innovation

During 2016 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. Moreover, research and development activities in the green chemistry sector have been strengthened, in synergy with other businesses. In addition to the above some breakthrough initiatives are being developed.

In particular, the most interesting results include the following:

Green chemistry

As part of the development of the technological platform for butadiene production from renewable sources (partnership with Genomatica), through significant improvements in the proprietary catalytic processes involved, significant results have been achieved in the continuous production of bio-butadiene and bio-polibutadiene. Butadiene is an important monomer for the production of elastomers.

Matrìca, joint venture between Versalis and Novamont, has initiated the development of new vegetal products, of the Matrilox family, in many application areas (construction, inks, compatibilizers, plasticizers, bitumens).

The agronomic protocol of the innovative technology platform, aimed at the full exploitation of alternative non-food biomass of Guayule, has been strengthened and, in line with expectations, has produced natural rubber made via innovative proprietary technologies. The saccharification technology of residual biomass of the guayule (about 80% of total) is being developed, to produce second-generation sugars that perform well and are comparable to the first generation sugars, in the fermentations to bio-based chemicals of interest.

The technology for the metathesis from ethylene and butene, and the development of related products, is currently being developed.

Elastomers

Utilizing the new proprietary catalytic systems for the manufacture of EPDM rubbers, the change of the product portfolio is being developed, with the best performances and low residual catalyst content; among these products there is now a new grade for the cable industry and the automotive/building profiles industry.

The eSBR grade (with low styrene) was produced on an industrial scale for the agricultural tyre industry, using Matrilox (Matrica) thereby expanding the range of bio grades.

The performance of a material coming from the recycling of PFU was studied for an interesting enhancement in application compounds, where a good thermo-oxidative resistance is required.

At the Grangemouth site, a first new grade of sSBR is being manufactured, functionalized for carbon black, which enables the broadening of the specialties range and, at the Ravenna site, a first new grade sSBR, functionalized for silica, allowing the Company to compete in the high product range of the tyre industry where it is essential to combine performance with energy savings. The manufacture of these grades made it possible to cover the full product sSBR range by aligning Versalis with competition and gearing it to meet the needs of the ever-impelling technological innovations of the leading tyre makers.

A major breakthrough is being developed through partnership with Ecombine, based on KH, with the owners Versalis, for sSBR and Nd-HCBR tyres, and Ecombine, for the wet mixing; this has enabled the creation of an innovative integrated technology platform enabling it to achieve levels, which up to date have not been reached by other technologies, in the performance of new compounds designed for the production of high-performance green tyres. Joint tests with major manufacturers are confirming the value of these materials.

Polyethylene

Linear products for blown film application, having an innovative antioxidant formulation and with the limit of zero specific migration of antioxidants, a key property in food packaging, were developed. During the year, the Brindisi plant produced thousands of tons of LLDPE, positively received by the market with strong sales volumes.

Research in the compounding industry, focused on special products, has led to the industrial production of polyethylene/elastomer compounds for the industrial packaging sector. Film, obtained with this compound, are utilized in formulations with several layers in the stretch-hood sector, with excellent performances in the elasticity of the packaging and in load stability.

A breakthrough initiative is being developed through the collaboration with the Italian Institute of Technology, which has led to the production of Few Layer Graphene (FLG) in a suitable solvent mixture to provide a paste utilized in the preparation of polyethylene matrix products. The next steps of this collaboration have the goal of finding the right concentration of FLG, for the development of polyethylene/graphene nanocomposites with high properties, such as mechanical strength, thermal and electrical conductivity and the barrier effect against gases, in order to identify new market applications.

Styrenes

A high impact polystyrene-based EVA has been developed, on a pilot scale, with a balance between mechanical properties and chemical resistance much higher than those of the current Versalis grade, currently the quality and market benchmark in the refrigerator sector. The industrial production is expected to start next year.

As part of a project with Solar Energy Dept. Eni, solutions of interest have been identified for LSC windows (Luminescent Solar Concentrator), based on transparent styrenic materials with the addition of pigments.

A new range of compound products, including high thermal resistant materials for the automotive industry and fire resistant materials for electrical/electronic applications, entered into the industrialization phase.

The breakthrough initiatives include the following:

(i) construction of a pilot plant with new ABS production technology, called One Step, which produces materials with innovative performance profiles, currently not available with other existing technologies, in addition to lower production costs;

(ii) development, in collaboration with the Italian Institute of Technology, of styrenic polymers with graphene: expanded polystyrene products have been developed with very interesting properties in areas such as thermal insulation and high-tech materials (helmets), for improved performances in isolation and mechanical strength;

(iii) a new range of ABS is being developed, with very low investment and to be manufactured soon, based on a bio-based innovative formulation, with a set of mechanical properties far superior to those of the best competition.

Basic Chemistry

A pilot plant is operational for the production of butadiene through the dehydrogenation/isomerization of butene to butadiene plant, with catalysis and innovative processes.

Different proprietary catalysts are being developed for the company's plants and also for licensing activities and commercialization of the same to third parties, such as:

(i) new zeolites for cumene and ethylbenzene;

(ii) a catalyst to nickel, and as a second step nickel-free, for the hydrogenation of phenol to cyclohexanone and KA oil;

(iii) a catalyst for the hydrogenation of ethyl benzene to styrene.

A new technology is being developed for the recycling of acetone (co-product of phenol, with lower demand) through hydrogenation in IPA and alkylation/transalkylation of IPA to cumene with proprietary catalysts and process.

Other compliance information

Declaration in accordance with Legislative Decree No. 196 dated June 30, 2003

Versalis SpA declares that the Data protection document required under the terms of Legislative Decree No. 196 dated June 30, 2003 has been drawn up and updated.

Secondary head offices

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

Administrative and Accounting separation of the electricity business

In addition to the petrochemical sector, Versalis SpA also operates in the power sector, producing energy almost exclusively for internal consumption and selling modest quantities to third parties. As of 2013, the ratio between the quantity of electric energy and thermal energy that can be produced in a cogeneration arrangement at Versalis' three thermoelectric power plants is less than one. Furthermore, the plants do not satisfy the definition set forth in Resolution no. 42/02. This results in the exclusion of the three power plants from "Production of electric energy" and their classification in "Other activities".

It should also be noted that, as of January 1, 2014 Versalis SpA became a provider for the "sale of electric power to free market customers". For this reason, also for 2016, Versalis SpA prepares separate annual accounts in accordance with Resolution 11/2007 of the Italian Electrical Energy & Water System Authority.

Consolidated Financial Statements 2016

Balance Sheet

(amounts in millions of euros)	Notes	31.12.2015 Total	31.12.2015 *of which with related parties*	31.12.2016 Total	31.12.2016 *of which with related parties*
ASSETS					
Current assets					
Cash and cash equivalents	*(1)*	149	*149*	122	*109*
Trade and other receivables	*(2)*	874	*208*	757	*211*
Inventories	*(3)*	670		592	
Current income tax assets	*(4)*	10		9	
Other current tax assets	*(5)*	8		17	
Other assets	*(6)*	5	*1*	3	*2*
		1,716		**1,500**	
Non-current assets					
Property, plant and equipment	*(7)*	549		739	
Inventories – compulsory stock		0		0	
Intangible assets	*(8)*	56		59	
Investments valued at net equity	*(9)*	171		183	
Other investments	*(10)*	16		3	
Other financial assets	*(11)*	202	*202*	108	*108*
Deferred tax assets	*(12)*	124		169	
Other assets	*(13)*	1		1	
		1,119		**1,262**	
Assets held for sale					
TOTAL ASSETS		**2,835**		**2,762**	
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities					
Short-term debt	*(14)*	919	*912*	179	*166*
Current portion of long-term debt	*(15)*	308	*303*	5	
Trade and other payables	*(16)*	720	*364*	805	*308*
Income tax payables	*(17)*	8		12	
Other taxes payable	*(18)*	12		10	
Other liabilities	*(19)*	11	*7*	9	*5*
		1,978		**1,020**	
Non-current liabilities					
Long-term debt	*(20)*	374	*370*	71	*70*
Provisions for risks and charges	*(21)*	128		87	
Provisions for employee benefits	*(22)*	67		70	
Deferred tax liabilities	*(23)*	16			
		585		**228**	
Liabilities directly associated with assets held for sale					
TOTAL LIABILITIES		**2,563**		**1,248**	
SHAREHOLDERS' EQUITY	*(24)*				
Capital and reserves attributable to minority shareholders					
Share capital [(a)]		1,553		1,365	
Other reserves		(18)		29	
Profit (Loss) relating to previous years		25		(43)	
Profit (Loss) for the period		(1,289)		163	
TOTAL SHAREHOLDERS' EQUITY		**272**		**1,514**	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**2,835**		**2,762**	

(a) Fully paid-up share capital consisting of 1.364.800.000 shares with no face value.

Profit and Loss Account

(amounts in millions of euros)	Notes	2015 Total	2015 of which with related parties	2016 Total	2016 of which with related parties
REVENUES	*(26)*				
Net sales from operations		4,716	*190*	4,196	*165*
Other income and revenues		115	*79*	48	*47*
Total revenues		**4,831**		**4,244**	
OPERATING EXPENSES	*(27)*				
Purchases, services and other costs		(4,394)	*(1,704)*	(3,642)	*(1,581)*
Payroll and related costs		(341)		(345)	
OTHER OPERATING (EXPENSES) INCOME	*(28)*	**(7)**	*(7)*	**(7)**	*(7)*
DEPRECIATION, AMORTIZATION AND IMPAIRMENT	*(29)*	**(833)**		**(37)**	
		(5,575)		**(4,031)**	
OPERATING PROFIT (LOSS)		**(744)**		**213**	
FINANCIAL INCOME (EXPENSES)	*(30)*				
Financial income		62	*18*	39	*13*
Financial expenses		(86)	*(50)*	(135)	*(22)*
Derivatives		8	*8*	(1)	*(1)*
		(16)		**(97)**	
INCOME (EXPENSES) FROM INVESTMENTS	*(31)*				
Share of profit (loss) of equity-accounted investments		(30)		(6)	
Other income (expenses) from investments				(13)	
		(30)		**(19)**	
PROFIT (LOSS) BEFORE INCOME TAXES		**(790)**		**97**	
Income taxes	*(32)*	(499)		66	
PROFIT (LOSS) FOR THE PERIOD		**(1,289)**		**163**	

Statement of Comprehensive Profit (Loss)

(amounts in millions of euros)	2015	2016
PROFIT (LOSS) FOR THE YEAR	**(1,289)**	**163**
Other items of comprehensive profit (loss):		
Valuations of defined-benefit plans for employees	5	(2)
Foreign currency translation differences	4	1
Tax effect relative to the other components of the comprehensive profit (loss) that cannot be reclassified to the profit and loss account	(1)	1
TOTAL COMPREHENSIVE PROFIT (LOSS) FOR THE YEAR	**(1,281)**	**163**

Statement of Changes in Shareholders' Equity

(amounts in millions of euros)	**Share capital**	**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**	**Profit (Loss) for the period**	**Total**
Balances at December 31, 2014 (a)	**1,553**	**(2)**		**(11)**	**2**	**(590)**	**(545)**	**407**
Changes to accounting criteria								
Balances at January 1, 2014 (a)								
Loss for the year 2015							(1,289)	**(1,289)**
Other items of comprehensive loss:								
Revaluation of defined-benefit plans for employees net of tax effect				4				**4**
Foreign currency translation differences		4						**4**
Total comprehensive loss for the year 2015 (b)								
Transactions with shareholders:								
Allocation of loss for the year 2014						(545)	545	
Reduction of share capital and loss coverage	(1,146)					1,146		
Contribution by the sole shareholder	1,146							**1,146**
Total transactions with shareholders (c)								
Other changes:								
Business combination under common control								
Advances on Porto Torres contribution								
Cost related to stock options awarded								
Total other changes (d)								
Balances at December 31, 2015 (e=a+b+c+d)	**1,553**	**2**		**(7)**	**2**	**11**	**(1,289)**	**272**
Profit (Loss) for the year 2016							*163*	**163**
Other items of comprehensive profit (loss):								
Revaluation of defined-benefit plans for employees net of tax effect				(1)				**(1)**
Foreign currency translation differences		1						**1**
Total comprehensive profit (loss) for the year 2016 (f)		**1**		**(1)**			**163**	**163**
Transactions with shareholders:								
Allocation of loss for the year 2015						(1,289)	1,289	
Reduction of share capital and loss coverage	(188)		32			1,229		**1,073**
Contribution by the sole shareholder								
Total transactions with shareholders (g)	**(188)**		**32**			**(60)**	**1,289**	**1,073**
Other changes:						6		
Total other changes (h)						**6**		**6**
Balances at December 31, 2016 (i=e+f+g+h)	**1,365**	**3**	**32**	**(8)**	**2**	**(43)**	**163**	**1,514**

Cash Flow Statement

(amounts in millions of euros)	*Notes*	**2015**	**2016**
Profit (Loss) for the period		(1,289)	163
Adjustments to reconcile net profit (loss) to net cash provided by operating activities:			
Depreciation and amortization	*(29)*	101	55
Net impairments (value reinstatements) on plant, property, equipment and intangible assets	*(29)*	732	(19)
Share of profit (loss) of equity-method investments		30	7
Currency translation differences from alignment	*(31)*	2	(1)
Gains/Losses on securities &Financial receivables, investment, disinvestment			94
Equity investments valued at cost			13
Net gains on disposal of equity investments		(3)	
Interest income	*(30)*	(11)	(8)
Interest expenses	*(31)*	29	9
Current, deferred and advance income taxes for the period	*(33)*	499	(67)
Changes in working capital:			
- inventories	*(3)*	410	75
- trade receivables	*(2)*	27	51
- trade payables	*(16)*	(230)	49
- provisions for risks and charges	*(21)*	(27)	(32)
- other assets and liabilities		(27)	117
Cash flow provided by changes in working capital		*243*	*506*
Net changes in provisions for employee benefits	*(22)*	(4)	1
Dividends received		1	1
Interest received		2	
Interest paid		(41)	(17)
Income taxes received (paid) including tax credits rebated		17	(22)
Net cash flow provided by operating activities		**218**	**469**
of which with related parties	*(33)*	*(1,664)*	*(1,382)*
Investments:			
- tangible assets	*(7)*	(211)	(238)
- intangible assets	*(8)*	(7)	(3)
- investments	*(9) e (10)*	(46)	(23)
- changes in payables relating to investment activities	*(16)*	(7)	36
- financial receivables instrumental to the operating activity – investment		(10)	(9)
Cash flow from investments		*(281)*	*(237)*
Disposals:			
- tangible assets	*(7)*	1	1
- sale of business units		4	
Cash flow from disposals		5	1
Net cash flow from investment activities		**(276)**	**(236)**
of which with related parties	*(33)*	*(41)*	
Long-term debt obtained	*(20)*	8	
Increase (decrease) in short-term debt	*(14)*	(1,027)	(256)
Cash flow from share capital	*(24)*	1,147	
Other changes		1	(4)
Net cash flow from financing activities		**128**	**(260)**
of which with related parties	*(33)*	*128*	*(277)*
Net cash flow for the period		**70**	**(27)**

Cash and cash equivalents - beginning of the year	*(1)*	**79**	**149**
Cash and cash equivalents - end of the year	*(1)*	**149**	**122**

Cash Flow Statement Supplementary information

(amounts in millions of euros)	Notes	**2015**	**2016**
Analysis of disposals (sales of business units)			
Non-current assets:			
Tangible assets	*(7)*	4	
Net effect of disposal		**4**	
CASH FLOW FROM DISPOSALS		**4**	

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") 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.[9]

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

The financial statements has been prepared on the going concern principle. During the year, the sole shareholder Eni SpA, provider of management and coordination to the Company, has carried out a recapitalization amounting to €1,072 million, after partial waiver of its financial receivables.

The financial statements at December 31, 2016, approved by the Board of Directors of Versalis SpA at its meeting on the February 27, 2017, are audited by EY SpA. The EY network, being the main independent auditor, is responsible for auditing the Group's consolidated financial statements.

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

Consolidation principles

Consolidated subsidiaries

The consolidated financial statements include the financial statements of Versalis SpA and the Italian and foreign subsidiaries controlled by Versalis SpA (hereinafter referred to as the "Group"). Control of an investee exists when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To have power over an investee, the investor must have existing rights that give it the current ability to direct the relevant activities of the investee, i.e. the activities that significantly affect the investee's returns.

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

When shareholdings are acquired after control was obtained (acquisition of minority interests), any positive difference between the purchase cost and the proportionate share of shareholders' equity is 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 recording in the profit and loss account of: (i) any gain/loss calculated as the difference between the consideration received and the corresponding transferred share of equity; (ii) any gain or loss recorded as a result of the remeasurement of any investment retained in the former subsidiary to its fair value; and (iii) any amount related to the former subsidiary previously recorded in other comprehensive income which can be reclassified subsequently to profit and loss account.[10]

Any investment retained in the former subsidiary is recorded at its fair value at the date when control is lost and shall be accounted for in accordance with the applicable measurement criteria.

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[9] The international accounting standards used in preparing the consolidated financial statements substantially coincide with those issued by the IASB in force for financial year 2015 because the current differences between the IFRSs endorsed by the European Commission and those issued by the IASB concern cases not present in the Group's businesses.

[10] On the contrary, any values related to the former subsidiary included in other components of comprehensive income, which cannot be reversed n the income statement, are charged to retained earnings.

Interests in joint arrangements

A joint arrangement is an arrangement of which two or more parties have joint control. 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 arrangement whereby the parties have enforceable rights to the assets, and enforceable obligations for the liabilities, relating to the arrangement. When existing, Versalis’ share of the assets/liabilities and revenues/expenses of the joint operations is recorded in the Consolidated Financial Statements based upon the rights and obligations to the related contractual agreements. 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 investee, but does not control nor joint control those policies. 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 note 38 "Companies and equity investments of Versalis SpA as at 31st December 2016". In the same note 38, the consolidation variations, which occurred during the year, are also indicated.

The financial statements of the consolidated companies are audited by external auditors, who also audit the information required for the preparation of the Consolidated Financial Statements.

The equity method of accounting

Investments in unconsolidated subsidiaries, joint ventures and associated companies are accounted for using the equity method [11].

Under the equity method, investments are initially recorded at cost, allocating, (assigning to the assets/ liabilities of the subsidiary as is provided for the business combinations), the cost incurred on the assets/liabilities of the subsidiary together with any difference between the cost incurred and the share of interest, to the fair value of net identifiable assets of the subsidiary. The allocation of the said difference, carried out on a provisional basis at the date of the initial recording in the books, is rectifiable, with retroactive effect, within the next twelve months, to take into account any new information about facts and circumstances existing at the time of the initial recording. 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 profit and loss account,

[11] 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.

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 paragraph "Principles of consolidation"). 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". Unconsolidated subsidiaries, joint ventures and associated companies are accounted for at cost, net of 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 profit and loss account in "Other gains (lossess) 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 profit and loss account 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[12]; and (iii) any amounts related to the former subsidiary previously recorded in other comprehensive income which can be transferred to the profit and loss account[13]. 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 to the extent that the company is required to fulfill legal or implicit obligations of the subsidiary, or in any case, to cover its losses.

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 exchange rates prevailing as at the balance sheet date for assets and liabilities, historical exchange rates for equity and average exchange rates for the profit and loss account (source: Bank of Italy).

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[14]. 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). In such cases, the recording in the income statement of the reserve is carried out in "Other income (expenses) from investments." 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 financial statements used for converting are those denominated in the functional currency.

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[12] 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.

[13] 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.

[14] 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 2015**	**Exchange rate at Dec. 31, 2015**	**Annual average exchange rate 2016**	**Exchange rate at Dec. 31, 2016**
US Dollar	1.39	1.29	1.11	1.05
Pound Sterling	0.73	0.73	0.82	0.86
Hungarian Forint	310.00	315.98	311.44	309.93
Chinese Renminbi	6.97	7.06	7.35	7.32

Accounting policies

The most significant accounting policies adopted in the preparation of the Consolidated Financial Statements, unchanged from the previous yer, are described below.

Tangible Assets

Tangible assets, 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. When you require a significant period of time to make the asset ready for use, the purchase price (or the cost of production) includes the financial expenses incurred which, theoretically would have been saved, during the period necessary to make the asset ready for use, if such investment had not been made.

In the case of current obligations for the dismantling and removal of assets and site remediation, the book value includes the estimated costs (discounted) to be incurred at the time the structures are actually abandoned, recorded as a contra-entry to a specific provision. The accounting treatment of the changes in the estimates of these costs, the passing of time and the discount rate is specified under "Provisions for risks and charges". Given that the uncertainty in determining the time of abandonment of the assets prevents the possible estimation of the relative discounted costs of abandonment; the dismantling and site restoration costs of tangible assets are only recorded when the date such costs will actually be incurred can be determined and the amount of the obligation can be reliably estimated. In this regard Versalis periodically evaluates the requirements of the activity, in order to verify the occurrence of changes, circumstances or events that may lead to the need for detecting dismantling and site restoration costs, relating to its tangible assets.

The revaluation of tangible assets is not allowed, not even pursuant to specific laws.

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, and depreciated according to the criteria described below. When there is no reasonable certainty of exercising the right of redemption, the asset is depreciated over the period of either the lease term or the useful life of the asset, whichever is the briefest.

The costs for improvements, modernization and transformation, which are expected to increase the value of tangible assets, are capitalized when it is probable that such costs will increase the future economic benefits expected from such assets. Items purchased for safety or environmental reasons, which even though not directly increasing the future economic benefits of existing activities, are also recorded as assets when such items are necessary for obtaining the benefits of other tangible assets.

Tangible assets, from the time the use of the asset starts (or should have started), are systematically amortised over their useful life, estimated as the period over which the assets will be utilized by the company. When the tangible asset consists of several significant components with different useful lives, the depreciation is applied to each component. The value to be depreciated is the book value less the estimated residual value at the end of its useful life, if material and reasonably determinable. Land, (even if purchased together with a building), and assets held for sale are not subject to the depreciation (see item "Assets held for sale and discontinued operations"). Any changes to the amortization schedule, resulting from the revision of the useful life of the asset, the residual value, or of how to derive the economic benefits of the asset, are recorded prospectively.

Assets which are transferable free of charge, are amortised over the duration of the concession and the useful life of the asset.

The replacement costs of identifiable components of complex assets are capitalized and depreciated over their useful life; the residual book value of the replaced component is stated in the income statement. Improvements to leased assets are depreciated over the useful life of these improvements, or the minor remaining period of the lease, taking into account the possible renewal period if its occurrence depends solely on the conductor 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.

When events occur that imply a reduction in value of tangible assets, their recoverability is tested by comparing the book value with the recoverable amount, being the higher of fair value, (net of disposal costs), and the value in use. Value in use is determined by discounting the expected cash flows deriving from the use of the asset and, if material and reasonably determinable, from its disposal at the end of its useful life, net of disposal costs. Value in use is determined net of tax as it gives substantially equivalent results to those obtained using an evaluation before taxes. The expected cash flows are calculated on the basis of reasonable and documented assumptions that represent the best estimate of future economic conditions occurring over the asset's useful life remaining, giving more weight to external indicators.

Discounting is carried out at a market rate that reflects current market assessments of the time value of money and the risks specific to the asset not reflected in the estimates of the cash flows. In particular, the discount rate used is the Weighted Average Cost of Capital (WACC), adjusted for the specific country risk in which the asset, being valued, is located. The value estimation of the specific country risk to be included in the discount rate is based on information provided by external sources. The assessment is made for individual assets or for the smallest identifiable group of assets that generate independent cash inflows, resulting from the continuous (ie. Cash Generating Units), which are represented by the production facilities and related facilities. When the reasons for the previous write-downs (impairment losses) cease to apply, assets are revalued and the adjustment is recorded in the income statement as a revaluation (value reinstatement). The asset revaluation (value reinstatement) is the lower of the fair value and the book value, (prior to previous writedowns), and is reduced by the depreciation that would have been made if it had not been written down.

Intangible assets

Intangible assets include assets lacking physical substance, controlled by the company and capable of producing future economic benefits, as well as goodwill when purchased against payment. An asset is identifiable when there is the possibility of distinguishing the intangible asset from goodwill. This condition is normally met when: (i) the intangible asset can be traced back to a legal or contractual right, or (ii) the asset is separable, i.e. can be sold, transferred, licensed, rented or exchanged either individually or as an integral part of other assets. An entity controls an asset if it has the power to obtain the future economic benefits flowing from the asset and to restrict the access of others to these benefits.

Intangible assets are accounted for at cost, using the same criteria as that utilized for tangible assets. Revaluations (value reinstatements) are not permitted, even in application of specific laws.

Intangible assets, with a defined useful life, are amortised on a straight-line basis over their useful life, estimated as the period over which the assets will be used by the company. The amount to be amortised and the recoverability of their book value are calculated in accordance with the criteria described in the section “Tangible Assets”.

Goodwill and other intangible assets with an indefinite useful life are not amortised. The recoverability of their book value is reviewed at least annually and whenever events or changes in circumstances indicate a loss in value. With reference to goodwill, a test is performed on the smallest aggregate level through which

Management assesses, directly or indirectly, the return on investment (which also includes the goodwill). When the book value of the Cash Generating Unit, including goodwill attributed thereto, determined by taking into account any write-downs of non-current assets that are part of the Cash Generating Unit, exceeds its recoverable value[15], the difference is subject to impairment (i.e. primarily charged against goodwill up to its total value). Any excess amount is allocated on a pro rata basis to the value of the assets that form the Cash Generating Unit, up to the recoverable value of assets with a finite useful life. The goodwill write-downs cannot be reversed[16].

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

Capital Grants

Capital grants are are accounted for when there is reasonable assurance that the conditions laid down by government bodies for obtaining them have been met and recorded as a reduction of purchase price or production cost of the relevant assets.

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

Financial instruments

Current Financial assets

Cash and cash equivalents include cash in hand, sight deposits and financial assets originally due within 90 days, readily convertible into cash and subject to insignificant risk of changes in value.

Financial assets available for sale include financial assets, (other than derivatives), loans and receivables, financial assets held for trading and held-to-maturity.

Financial assets held for trading and available-for-sale financial assets are stated at fair value, with gains or losses stated in the income statement under the heading “Financial income (expenses)” and in the shareholders’ equity reserve[17] under “Other items of comprehensive income” respectively. In the latter case, changes in fair value recorded in equity are charged to the income statement when the asset is sold or impaired. Assets are assessed for objective evidence of an impairment loss. This may include, among other things, significant breaches of contracts, serious financial difficulties or the high risk of insolvency of the counterparty. Asset write downs are included in the book value.

Interest matured and dividends declared on financial assets available-for-sale are accounted for on an accrual basis as “Financial income (expenses)” [18] and “Other income (expenses) from investments”, respectively. When the purchase or sale of financial assets occurs under a contract whose terms require delivery of the asset within the timeframe established generally by regulations or conventions in the market place concerned, the transaction is accounted for at the settlement date.

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

[15] For the definition of the recoverable value see the section "Tangible Assets".

[16] The write-down recorded in an interim period is not reversed even if, on the basis of conditions in a subsequent interim period, the devaluation would have been lower or not detected.

[17] The changes in fair value of financial assets available for sale in foreign currency, due to changes in the exchange rate, are recorded in the income statement.

[18] Accrued interest income on financial assets held for trading contribute to the overall assessment of the instrument's fair value and are recorded in "Other income (expenses)", in the item "Net income from financial assets held for trading." However, accrued interest income on financial assets available for sale are accounted for as "Income (expenses)", in the item "Financial income".

Non-current financial assets

Investments

Investments in equity instruments[19] are measured at fair values, with gains or losses recorded in the equity reserve related to "Other comprehensive income"; changes in the fair value recorded in equity are charged to the profit and loss account when the investment is impaired or realized. When investments are not traded in a public market and their fair value cannot be reasonably determined, they are accounted for at cost, net of impairment losses; impairment losses cannot be reversed[20].

The risk deriving from losses exceeding shareholders' equity is accounted for in a specific provision to the extent that the Company is required to fulfill legal or implicit obligations towards the subsidiary or to cover its losses.

Receivables and held-to-maturity financial assets

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

If there is objective evidence that an impairment loss has occurred (see also "Current financial assets"), the impairment is calculated by comparing the book value with the present value of the expected cash flows discounted at the effective interest rate computed at the initial recording in the books or at the time of its updating to reflect contractually specified re-pricings. Receivables and held-to-maturity financial assets are accounted for net of the provision for impairment losses. When the impairment loss is assessed, the provision is utilized either to cover expenses or for excess.

The economic effects of the valuation at amortized cost are accounted for as "Financial income (expenses)".

Financial liabilities

Financial liabilities, other than derivatives, are valued at amortized cost (see item "Non-current financial assets").

Derivative financial instruments

Derivatives, including embedded derivatives that are separated from the host contract, are assets and liabilities stated at their fair value.

Derivatives are designated as hedging instruments when the relationship between the derivative and the hedged item is formally documented and the effectiveness of the hedge, which is checked regularly, is demonstrated to be high. When derivatives hedge the risk of fluctuations in the fair value of the hedged instruments (fair value hedges, e.g. hedging against changes in the fair value of fixed-rate assets/liabilities), the derivatives are stated at fair value with changes taken to the income statement. Hedged items are adjusted to reflect, in the income statement, the changes in fair value attributable to the hedged risk, regardless of the forecast of a different valuation criteria generally applicable to this type of instrument.

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19 For investments in joint ventures and associated companies see above "Equity method".

20 The write-down recorded in an interim period cannot be reversed even if, on the basis of conditions in a subsequent interim period, the write-down would have been lower or not detected.

When derivatives hedge the cash flow variation risk of the hedged item (cash flow hedge; e.g. hedging the variability of the cash flows of assets/liabilities as a result of the fluctuations of exchange rates), changes in the fair value of the derivatives considered effective are initially entered in net equity and then accounted for in the income statement, consistently with the economic effects generated by the hedged transaction.

Changes in the fair value of derivatives which do not satisfy the conditions required to qualify as hedging instruments are disclosed in the income statement. Specifically, changes in the fair value of non-hedging interest rates and exchange rates derivatives are accounted for in the income statement under “Financial income (expenses)”; conversely, changes in the fair value of non-hedging commodity derivatives are accounted for in the income statement under “Other operating (expenses) income.”

The derivatives embedded in hybrid instruments are separated from the host contract and accounted for separately, are unbundled, and recorded as derivatives if the hybrid instrument as a whole is not measured at fair value through profit and loss account and if the characteristics and risks of the derivative are not closely related to those of the main contract. The existence of such embedded derivatives to be separated is verified, (and the conditions evaluated separately), when the company becomes part of the contract and, subsequently, when there are changes in the contract conditions, (i.e. which result in significant changes in cash flows generated by the same).

The economic effects of transactions which relate to purchase or sales contracts for commodities stipulated for the purpose of the company’s normal operating requirements and for which settlement is envisaged when the goods are delivered, are accounted for on an accruals basis (the so-called “normal sale and normal purchase exemption” or “own use exemption”).

Offsetting of financial assets and liabilities

Financial assets and liabilities are offset in the balance sheet when a company has the legal, currently exercisable, right to such offsets and intends to settle on a net basis (i.e. to realize the asset and settle the liability simultaneously).

Derecognition of financial assets and liabilities

The financial assets are derecognized when the contractual rights relating to the cash flows associated with the financial assets are realized, expired or transferred to third parties. Financial liabilities are derecognized when they are extinguished, i.e. when the obligation specified in the contract is discharged, canceled or expired.

Provisions for risks and charges

Provisions for risks and charges concern risks and charges of a definite nature and whose existence is certain or probable, but for which at period end the amount or date of occurrence remains uncertain. Provisions are 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 (expenses)”.

When the liability regards tangible assets (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 show 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 tangible assets (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 profit and loss account.

The provisions for risks and charges, illustrated in Note 21, includes contingent liabilities represented by: (i) a possible, but not probable obligation 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) a present obligation 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. In the presence of net assets, value changes different from the item included in net interest are also accounted for 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.

Revenues and costs

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

The accruals for revenues, related to partially rendered services, are based on the payments accrued, providing this can be measured reliably and that there is no significant uncertainty regarding the collectability of the amount and the related costs. Otherwise, they are accounted for only to the extent of the recoverable costs incurred.

Revenues are recorded based on the amount equal to the fair value of the amount received or receivable, net of returns, discounts, allowances and bonuses and directly related taxes. Amounts received or receivable, on behalf of third parties, are not considered revenues.

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

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

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

Operating lease instalments are stated in the profit and loss account over the duration of the contract.

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

Operating grants are disclosed in the income statement on an accruals basis, in line with the related costs 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 in currencies other than the functional currency are converted by applying the year-end exchange rate and the resulting gains/losses are disclosed in the income statement. Non-monetary assets and liabilities in currencies, other than the functional one measured at cost, are translated at the initial exchange rate. Non-monetary assets and liabilities, that are evaluated at fair value, recoverable amount or realizable value, are stated at the exchange rate applicable on the date of the evaluation.

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. In particular, the recovery of deferred taxes is considered probable when sufficient taxable income is expected for the year in which the temporary difference is reversed.

Similarly, the unused tax credits and deferred tax assets on tax losses are accounted for only to the extent of their recoverability.

The tax assets, which are characterized by elements of uncertainty, are recorded only when their recovery is considered probable.

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.

Financial Statements

Balance sheet assets and liabilities are classified as current and non-current. Income statement items are presented by nature[21].

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 (expenses) for the year, transactions with shareholders and other changes in shareholders' equity.

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

Changes to accounting criteria

There are no changes in the accounting policies applicable to the Versalis Group.

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[21] 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".

Use of accounting estimates

The preparation of financial statements in accordance with generally accepted accounting standards requires Management to make accounting estimates based on complex or subjective judgements, past experience and assumptions deemed to be reasonable and realistic based on the information available at the time. The use of these estimates and assumptions affects the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of income and expenses during the reporting period. Actual results may differ from these estimates given the uncertainty surrounding the assumptions and conditions upon which the estimates are based, especially in the current context characterized by the economic and financial crisis which made it necessary to make assumptions regarding the future which are marked by significant uncertainty.

The principal accounting estimates used that required subjective judgements, assumptions and estimates relating to issues which, by their very nature, are uncertain, are summarized below. Changes in the conditions on which such assumptions and estimates are based may have a significant effect on future results.

Impairment of assets

Impairment losses are accounted for if events or changes in circumstances indicate that their book value amount is no longer recoverable.

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

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

Recoverability of deferred tax assets

Management has identified the necessary requisites for the recording of the deferred tax assets in the financial statements, based on the assumptions of future profitability of the Versalis Group, during the period of the Business Plan. It is also important to note that Art. 23, paragraph 9, of Law Decree No. 98 of the 6th July 2011 stipulates that the recoverability of tax losses in effect at the date of the decree has no time limit.

Dismantling and remediation of production sites

At present, the companies of the Versalis Group have no obligation to restore sites, in compliance with legislation, administrative regulations or contractual clauses and, therefore, in consideration also of the current corporate plans, which do not envisage any decommissioning of the operational industrial sites, given the strategic importance of these sites for the achievement of the corporate objectives, Management considers the probability of incurring costs relating to the decommissioning and reclamation of these sites to be remote.

Environmental liabilities

Versalis is subject to numerous laws and regulations concerning environmental protection, at EU, national, regional and local level, including laws implementing international conventions and protocols relating to activities in the field of the petrochemical industry, to products and other activities. The related costs are accrued when it is likely that a liability has been incurred and the amount can be reasonably estimated.

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

Employee benefits

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

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

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

Provisions for risk and charges

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

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

Recent accounting standards

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

Regulation No. 2016/1905 issued by the European Commission on September 22, 2016, approved IFRS 15 "Revenue from contracts with customers" (hereinafter "IFRS 15"), which defines the recording and measurement criteria of revenue arising from customer contracts (including contracts related to construction contracts). In particular, the IFRS 15 requires that the recording of revenue be based on the following 5 steps: (i) identification of the contract with the customer; Ii) identification of the performance obligation (ie the contractual pledge to transfer goods and/or services to a customer); (Iii) determination of the price of the transaction; (Iv) allocation of the transaction price to the performance obligation identified on the basis of the standalone selling price of each good or service; and v) recording of the revenue when the relative performance obligation is satisfied. In addition, the IFRS 15 integrates the financial statement disclosures to provide reference to the nature, amount, timing and uncertainty of revenues and related cash flows. The IFRS 15 provisions are effective for the accounting periods beginning on, or after, January 1, 2018. The retroactive application of the principle is provided for, with the possibility of recording, as at January 1, 2018, the change in the shareholders' equity, taking into consideration the circumstances at that date.

During 2016, a project was started aimed at identifying the cases considered potentially critical for the various operational areas, assessing the potential impact on the budget, and making any adjustments to the internal control system for the financial reporting. At present an analysis, still in progress, indicates that the following areas are potentially affected by the new provisions of this standard: (i) reporting of some partnerships in mining initiatives in relation to their nature as non customers; (ii) reporting, on a gross or net basis, of certain types of costs closely associated to the supply of goods or services; (iii) the contracts characterized by a plurality of contractual obligations; (iii) the capitalization of costs to acquire customers mainly in Gas & Power sector;(iv) contracts with options to purchase additional goods/services, at better conditions than those offered to new customers;(v) contracts that provide for variable fees;(vi) the license agreements of intellectual property, mainly in the Refining & Marketing and Chemicals.

Regulation no. 2016/2067 issued by the European Commission on November 22, 2016, ratified the full version of IFRS 9 "Financial Instruments" (IFRS 9). In particular, the new provisions of IFRS 9: (i) change the classification and measurement model for financial assets, basing it on the characteristics of the financial instrument and the business model adopted by the Company; (ii) introduces new financial assets impairment methodology that takes into account any expected credit losses and (iii) modifies the provisions relating to hedge accounting.The IFRS 9 provisions are effective for the accounting periods beginning on, or after, January 1, 2018.

During 2016, a project was started regarding the updating of the three main areas mentioned above. More specifically, ongoing verification activities of the current classification methods, indicate that, based on the current state of the analysis, the new accounting policy provisions had no significant impact on the financial instruments. An analysis is underway, on the method of determining the market value of the minority interests that are evaluated at cost, i.e. under the current provisions when the fair value cannot be reliably determined.

With reference to the application of the expected credit losses model, the activities currently underway mainly involve: (i) for positions vis-à-vis the counterparties, for which a representative factor of the credit (e.g. credit rating risk) has been identified, the implementation of models of expected loss adjusted to represent the exposure, (having regard also to the risk mitigation instruments credit in place, such as, for example, collateral, guarantees, insurance policies, etc.); (ii) for retail customers, the provision of matrix implementation, adequate to represent the credit risk of the counterparty and (iii) the review and optimization of business processes, (which are aimed at ensuring the availability of information for the implementation of the valuation models and for the preparation of financial reporting).

With reference to the application of the expected credit losses model (impairment of receivables), the activities being carried out mainly involve the following: (i) for the customer, for which a representative factor of the credit (e.g. credit rating risk) is identified, the adoption of the expected loss model, defined taking into consideration the instruments for mitigating credit risk (such as, for example, collateral, guarantees, insurance etc.); ii) for retail customers, the provision of matrix implementation, suitable for representing the credit risk of the counterparty and (iii) the definition of the operational process, essential for ensuring the availability of information for the preparation of financial reporting.

Finally, with regard to hedge accounting, the analysis of the applicability of the new effectiveness of hedging criteria (established by the principle) and for the implementation of the balancing mechanisms of the hedge ratio were started, for the duration of coverage (rebalancing), to ensure the continuous adjustment of the relation between the hedging instruments and the related exposures.

In view of the current state of the analysis, the possible impacts, (deriving from the application of the new IFRS 15 and IFRS 9 standards), cannot be reasonably estimated.

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

On September 11, 2014, IASB issued the IFRS 10 and IAS 28 amendments "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture" (hereinafter referred to as the *amendments* to IFRS 10 and IAS 28) which has defined the procedure for the detection of the related economic effects, mainly with regard to the loss of control of a subsidiary as a result of its transfer to an associated company or a joint venture. On the December 17, 2015, IASB issued an amendment that postpones indefinitely the entry into effect of the amendments to IFRS 10 and IAS 28.

On January 13, 2016, IASB issued IFRS 16 "Leases" (IFRS 16) which replaces IAS 17 and interpretations thereof. In particular, IFRS 16 defines leasing as a contract that gives the customer (the lessee) the right to use an asset for a specified period of time, in exchange for a payment.The new standard eliminates the classification of leases, as operating or finance leases, in the financial statements of the companies that operate as lessees. IFRS 16 requires the recording of all leases with a duration exceeding 12 months, (representive of the right of use, of a liability, and of the obligation to make payments under the contract). Conversely, for the preparation of the lessor's financial statements, the distinction between operating and finance leases is maintained. IFRS 16 enhances the financial reporting for both the lessee and for the lessor. The provisions of IFRS 16 are effective from January 1, 2019.

On January 19, 2016, IASB issued amendments to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses", which clarify the recognition of deferred tax assets with particular reference to the unrealized losses from the valuation of financial assets at fair value against the tax base, defined using the cost method: i) confirm the existence of a deductible temporary difference when there is a book value of assets measured at fair value less than the tax base (e.g. a fixed-rate for which fair value is less than the tax value);

(ii) provide for the possibility that future taxable income will consider, in the presence of adequate evidence supporting such possibility, that some business activities are recovered at a higher value than the book value in the financial statements. Such a situation can occur in the presence of fixed rate securities, whose fair value at the balance sheet date is less than the redemption value, which the company intends to hold to maturity date and for which it expects to collect the contractually specified cash flows; (iii) specify that future taxable income, to be considered for the recording of a deferred tax asset, should not include the tax deductions, arising at the cancellation date of these deductible temporary differences; (Iv) request, where an enterprise assesses the probability of achieving sufficient taxable income in the year of the reversal of deductible temporary differences, to consider any restrictions, posed by tax regulations, to the types of taxable income against which tax deductions are made. The amendments to IAS 12 are effective for the accounting periods beginning on, or after January 1, 2017.

On January 29, 2016, IASB issued amendments to IAS 7 "Disclosure Initiative", which strengthen the disclosure requirements in case of changes, monetary and non-monetary, of non-financial liabilities. The amendments to IAS 7 are effective for the accounting periods beginning on, or after January 1, 2017.

On April 12, 2016, IASB issued the document "Clarifications to IFRS 15 Revenue from Contracts with Customers" (hereinafter referred to as the amendments to IFRS 15) containing clarifications on certain aspects of the implementation of the new accounting standard. The amendments to IFRS 15 are effective for the accounting periods beginning on, or after January 1, 2018.

On December 8, 2016, IASB issued IFRIC Interpretation 22 "Foreign Currency Transactions and Advance Consideration" (hereinafter IFRIC 22), according to which the rate of exchange to be used upon the initial recording of an asset, cost or revenue related to an advance, previously paid/received in a foreign currency, is the rate applicable at the recording date of the asset/non-monetary liability related to such advance. IFRIC 22 is effective for the accounting periods beginning on, or after January 1, 2018.

On December 8, 2016, IASB issued the "Annual Improvements to IFRSs 2014-2016 Cycle Standards" document, that includes mainly the changes of a technical and reporting nature of the international accounting standards. The amendments to the standards are effective for accounting periods beginning on, or after January 1, 2018.

Versalis is currently analyzing the above standards and is assessing whether, or not, their adoption will have a significant impact on the financial statements.

Current assets

1. Cash and cash equivalents

Cash and cash equivalents amounted to €122 million (€149 million as at December 31, 2015) 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)	**31.12.2015**	**31.12.2016**
Trade receivables	636	588
Financial receivables:		
instrumental to operating activities	10	18
Other receivables	228	151
	874	**757**

Financial receivables of €18 million relate to the interests due on the medium and long-term loans made to the joint venture company Matrìca SpA, in order to meet the financial requirements of the Green Hub project in Porto Torres.

Receivables are shown net of provisions for impairment of €149 million:

(amounts in millions of euros)	**Amount at 31.12.2015**	**Additions**	**Deductions**	**Amount at 31.12.2016**
Provisions for impairment of trade receivables	146	7	(4)	149
	146	**7**	**(4)**	**149**

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.

The utilizations refer to receivables written off as non-collectible.

Trade receivables and other overdue receivables are detailed as follows:

	31.12.2015			31.12.2016		
(amounts in millions of euros)	Trade receivables	Other receivables	Total	Trade receivables	Other receivables	Total
Receivables neither overdue nor written off	599	205	804	529	86	615
Receivables written down (net of write down)	3		3	3		3
Net receivables overdue nor written down:						
- up to 90 days overdue	14	3	17	18	4	22
- between 3 to 6 months overdue	4	1	5	5	6	11
- between 6 to 12 months overdue	6	8	14	10	4	14
- over 12 months overdue	10	11	21	23	51	74
	34	**23**	**57**	**56**	**65**	**121**
	636	**228**	**864**	**588**	**151**	**739**

The other receivables are comprised of the following:

(amounts in millions of euros)	31.12.2015	31.12.2016
Receivables from Eni Group companies	118	79
Receivables from parent company	30	51
Advances for services and guarantee deposits	37	12
Receivables relating to personnel	2	5
Receivables for patents and royalties	6	4
Other receivables	35	
	228	**151**

Receivables from Eni Group companies mainly relate to Syndial SpA (€72 million), Matrica (€4 million) and Eni Trading & Shipping SpA (€3 million)

Receivables from the parent company Eni SpA relate mainly to Versalis SpA's adhesion to the Group's VAT (€18 million) and credits for participation in the consolidated National Tax IRES (€29 million).

Trade receivables and other receivables in currencies other than the euro amounted to €110 million (€52 million as at 31st December 2015) and are mainly denominated in US dollars.

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 are comprised of the following:

	31.12.2015				**31.12.2016**			
(amounts in millions of euros)	Petroleum products	Chemical products	Other	Total	Petroleum products	Chemical products	Other	Total
Raw materials and consumables	43	107	54	204	31	100	55	186
Work in progress and semi-finished products		9		9		9		9
Finished products and goods	22	435		457	20	377		397
	65	**551**	**54**	**670**	**51**	**486**	**55**	**592**

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**	**Additions**	**Utilizations**	**Foreign currency translation differences**	**Other movements**	**Value at the end of the year**
31.12.2015							
Gross value	1,168	(447)			3		724
Provisions for impairments	(91)		(7)	44			(54)
Net inventories	**1,077**	**(447)**	**(7)**	**44**	**3**		**670**
31.12.2016							
Gross value	724	(96)			(4)	(5)	619
Provisions for impairments	(54)		(2)	23	1	5	(27)
Net inventories	**670**	**(96)**	**(2)**	**23**	**(3)**		**592**

The inventories variation (decrease of €96 million) is mainly due to the decrease of the average unit price in euro of the virgin naphtha compared to 2015, and to a slight decrease in the quantities purchased.

There are no secured guarantees on inventories.

4. Current income tax assets

Current income tax assets amounted to €9 million (€10 million as at December 31, 2015) and referred to IRAP advances paid in previous years.Further details are provided in Note 32.

5. Other current tax assets

Other current tax assets include the following:

(amounts in millions of euros)	31.12.2015	31.12.2016
VAT receivables	8	15
Other receivables		2
	8	**17**

6. Other Assets

Other assets include the following:

(amounts in millions of euros)	31.12.2015	31.12.2016
Prepaid Expenses	4	1
Fair value on non-hedging derivatives	1	2
	5	**3**

Other assets amount to €3 million (€5 million as at December 31, 2015) 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 nominal value of a derivative is the contractual amount on the basis of which the differentials are exchanged. This amount can be expressed either on a value basis or on a physical quantities basis (barrels, tonnes, etc.). Monetary amounts expressed in foreign currency are translated into euro by applying the exchange rate at the year end.

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**	**Operations on business units**	**Other variations**	**Net value at the end of the year**	**Gross value at the end of the year**	**Provisions for depreciation and impairments**
31.12.2015										
Land	103							103	111	8
Buildings	61		(5)	(12)			3	47	346	299
Plant and machinery	570	45	(90)	(396)		(2)	75	202	615	413
Industrial and commercial equipment	1		(1)						110	110
Other assets	3							3	55	52
Assets under construction and advances	412	166		(311)	5		(78)	194	853	659
	1,150	**211**	**(96)**	**(719)**	**5**	**(2)**		**549**	**2,090**	**1,541**
31.12.2016								0		
Land	103			(64)			1	40	112	72
Buildings	47		(3)	1	(1)		(8)	36	330	294
Plant and machinery	202	88	(47)	(60)	(13)		246	416	4,913	4,497
Industrial and commercial equipment			(1)				1		108	108
Other assets	3	2	(1)				1	6	50	45
Assets under construction and advances	194	148		137	(2)		(235)	242	592	350
	549	**238**	**(51)**	**14**	**(16)**		**6**	**739**	**6,106**	**5,367**

The investments of €238 million (€211 million in 2015) are discussed in the relevant section of the Directors' report.

Financial expenses capitalized during the year, determined by using a 2.77% interest rate (2.90% in 2015), amounted to €6 million (€7 million in 2015). The amount of the increase on internal work incurred and capitalized during the year amounted to €9 million (€9 million in 2015) and consisted of work carried out by internal personnel.

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

(Annual %)	**2015**	**2016**
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-backs of €14 million stem from the results of impairment tests, carried out based on the 2017 - 2020 plan, and refer to the following Cash Generating Units (CGU):

- Olefins and Polyethylene in Dunkirk (value write-back of €59 million);
- Ethylene and Polythene in Brindisi (value write-back of €50 million);
- Styrenes in Mantua (value write-back of €45 million);
- Elastomers in Ferrara (value write-back of €27 million);
- Other elastomers in Ravenna (value write-back of €11 million);
- Oberhausen plant (value write-back of €1 million)
- SBR e Lattices in Ravenna (impairment loss of 58 million);
- Porto Marghera plant (impairment loss of €35 million);
- Priolo plant (impairment loss of €29 million);
- Butadiene in Brindisi (impairment loss of €15 million).
- Intermediates Mantua (impairment loss of €14 million);
- Polyethylene in Ferrara (impairment loss of €9 million);
- Sarroch plant (impairment loss of €7 million).
- Ragusa plant (impairment loss of €6 million).
- Elastomers + Services in Porto Torres (impairment loss of €4 million);
- Szàzhalombatta plant (impairment loss of €2 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 deriving from use of the assets in a time period coinciding with the average remaining useful life of the CGU.

The cash flows were calculated based on the operating results forecast in the 2017-2020 Strategic Plan, approved by the Board of Directors; cash flows for the subsequent years were determined taking as a reference an average operating profit calculated taking into account the forecast results included in the Plan, in order to represent in an adequate manner the marked cyclical effects that characterize the petrochemical industry.

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

In discounting the cash flows determined with the above methods and according to the above criteria, management adopted the discount rate of 9.0% (12.0% as at December 31, 2015);

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.

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 €21 million (€51 million as at December 31, 2015). The award of public grants entails a number of constraints on the assets in relation to which they were awarded. These constraints consist essentially of the obligation not to remove the subsidized assets from the use envisaged for at least five years from the date of their commissioning. Non-compliance with this obligation entitles the granting body to seek repayment of the grant, plus interest.

8. Intangible assets

Intangible assets are comprised of the following:

(amounts in millions of euros)	Net value at the beginning of the year	Additions	Depreciation and amortization	Impairment losses & value reinstatements	Net value at the end of the year	Gross value at the end of the year	Accumulated amortization and impairment
31.12.2015							
Intangible assets with finite useful lives							
- Research and development costs						3	3
- Industrial patents and intellectual property rights						3	3
- Concessions, licenses, trademarks and similar items	3				**3**	99	96
- Fixed assets in progress and advances	7	7		(7)	**7**	19	12
- Other intangible assets	57		(5)	(6)	**46**	146	99
	67	**7**	**(5)**	**(13)**	**56**	**269**	**213**
31.12.2016							
Intangible assets with finite useful lives							
- Research and development costs				6	**6**	22	16
- Industrial patents and intellectual property rights						54	54
- Concessions, licenses, trademarks and similar items	**3**		(1)	6	**8**	93	85
- Fixed assets in progress and advances	**7**	3		(5)	**5**	9	4
- Other intangible assets	**46**		(3)	(3)	**40**	136	96
	56	**3**	**(4)**	**4**	**59**	**314**	**255**

Concessions, licenses and trademarks relate essentially to industrial licenses.

Other intangible assets relate mainly to intellectual property rights for the license contract with Union Carbide. 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 11 years.

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

(annual %)	**2015**	**2016**
Intangible assets with finite useful lives		
- Concessions, licenses, trademarks and similar items	4 - 33	4 - 33
- Other intangible assets	4 - 15	4 - 15

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

9. Equity-accounted investments

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**
31.12.2015					
Investments in:					
- subsidiaries	4	1	0	(1)	**4**
- associated companies	99	1	0	0	**100**
- joint ventures	52	35	(30)	10	**67**
	155	**37**	**(30)**	**9**	**171**
31.12.2016					
Investments in:					
- subsidiaries	4	8	1	(7)	6
- associated companies	100				100
- joint ventures	67	17	(7)		77
	171	**25**	**(6)**	**(7)**	**183**

Acquisitions and subscriptions relate to the share capital increase of Lotte Versalis Elastomers Co. Ltd (€10 million), Polimeri Europa Elastoméres France SA in Liquidation (€8 million), Matrica (€4 million) and Newco Tech SpA (€1 million). Other changes relate to the reclassification of the provision for losses of Polimeri Europa Elastoméres France SA in Liquidation.

Expenses resulting from the adjustment of the investment values, accounted for utilizing the equity method, amounted to €7 million and relate to Matrica (€4 million), and Newco Tech (€3 million).

The equity-accounted investments relate to the following companies:

(amounts in millions of euros)	**31.12.2015**	**31.12.2016**
Novamont SpA	77	77
Lotte Versalis Elastomers Co Ltd	64	74
Priolo Servizi Industriali Scarl	16	16
Versalis Kimya Ticaret Ltd.	4	4
Eni Chemicals Trading (Shanghai) Co. Ltd.		3
Servizi Porto Marghera Scarl	3	3
Ravenna Servizi Industriali ScpA	2	2
Brindisi Servizi Generali Scarl	1	1
IFM Ferrara Scarl		1
Newco Tech SpA	3	1
Other	1	1
	171	**183**

The ownership percentages are shown in Note 38.

Other information on investments

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

	31.12.2015			31.12.2016		
(amounts in millions of euros)	Subsidiaries	Joint ventures	Associated companies	Subsidiaries	Joint ventures	Associated companies
Current assets	2	26	33	5	7	25
Non-current assets	3	219	87		208	91
Total assets	**5**	**245**	**120**	**5**	**215**	**116**
Current liabilities	9	135	37	(1)	(18)	(32)
Non-current liabilities		31	21		(122)	(21)
Total liabilities	**9**	**166**	**58**	**(1)**	**(140)**	**(53)**
Revenue	**2**	**4**	**93**			**86**
Costs	**(2)**	**(20)**	**(82)**		**(4)**	**(74)**
Operating profit (loss)		**(18)**	**5**		**(4)**	**8**
Profit (Loss) for the period		**(22)**	**3**		**(4)**	**6**

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
31.12.2015			
Investments in:			
- other companies	15	1	**16**
	15	**1**	**16**
31.12.2016			
Investments in:			
- other companies	16	(13)	**3**
	16	**(13)**	**3**

Other investments relate to the following companies:

(amounts in millions of euros)	31.12.2015	31.12.2016
Genomatica Inc.	13	
Consorzio Exeltium SAS	3	3

	16	**3**

The decrease relates to the write-down of the investment in Genomatica (€13 million), which was carried out taking into account the losses incurred in the current year and in previous years, which are considered to be permanent. Furthermore, Versalis has not adhered to the share capital increase, following the waiver of pre-emption rights. This resulted in a dilution of the percentage of ownership of Versalis in Genomatica from 5.12% to 0.01%.

The ownership percentages are shown in Note 38.

11. Other financial assets

Other financial assets of €108 million (€202 million as at December 31, 2015) essentially refer to the loan granted to Matrìca SpA for the Green Hub project in Porto Torres.

The variation compared to the previous year is due to the the impairment loss, made at the end of financial receivable, relating to the above-mentioned loan. The impairment loss takes into account the repayment capacity of Matrica in line with the risk of the initiative.

12. Deferred tax assets

Deferred tax assets amounted to €169 million (€124 million as at December 31, 2015) net of deferred tax liabilities of €128 million (€85 million as at December 31, 2015).

(amounts in millions of euros)	**31.12.2015**	**31.12.2016**
Pre-paid tax assets	209	297
Deferred tax liabilities available for offset	(85)	(128)
Net deferred tax assets	**124**	**169**

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 31.12.2015**	**Additions**	**Deductions**	**(Write-downs)/Wrte-backs**	**Other changes**	**Amount at 31.12.2016**
Deferred tax assets:						
- non-deductible impairment losses	92	79	(70)			101
- tax losses	9	1	(70)	99	27	66
- expenses with deferred deductibility			(2)			(2)
- provisions for risks and charges	10	9	(13)			6
- other	98	41	(18)		5	126
	209	**130**	**(173)**	**99**	**32**	**297**
Deferred tax liabilities:						
- excess amortization/depreciation	48		(13)		39	74
- other	37	16	(8)		9	54
	85	16	(21)		48	128

Net deferred tax assets	**124**	**114**	**(152)**	**99**	**(16)**	**169**

The €99 million Write-back refers to the outcome of the recoverability of receivables evaluations for deferred taxes of Versalis SpA and Versalis France.

The Other Changes totaling €16 million refers to the reclassification of the balances of the companies, which last year closed with a net deferred tax liability and which, in 2016 instead, have a net balance of deferred tax assets.

13. Other Assets

Other assets of €1 million (€1 million as at December 31, 2015) relate essentially to personnel receivables.

Current liabilities

14. Short-term debt

Short-term debt amounting to €179 million (€919 million as at December 31, 2015) relates mainly to loans granted by Eni SpA and by the finance companies of the Eni Group.

(amounts in millions of euros)	31.12.2015	31.12.2016
Payables to parent companies for loans	602	166
Commercial papers	116	
Other financial institutions	201	13
	919	**179**

The reduction in short-term debt is attributable to the recapitalization carried out by the shareholder during the year, after partial waiver of its financial receivables.

Short-term debt in foreign currencies other than euro amounted to €50 million (€112 million as at December 31, 2015), in pounds sterling and US dollars.

The average annual interest rate for the year was 0.9% (0.9% in 2015).

15. Current portion of long-term debt

The current portion of long-term debt amounted to €5 million (€308 million as at December 31, 2015) as illustrated in Note 20 “Long-term debt and current portion of long-term debt”.

16. Trade and other payables

Trade and other payables include the following:

(amounts in millions of euros)	31.12.2015	31.12.2016
Trade payables	624	671
Advances		2
Other payables:		
- relating to capital expenditures	28	64
- other	68	68
	720	**805**

Trade payables of €671 million relate to payables to third party suppliers (€346 million), payables to associated companies, joint ventures and other Eni Group companies (€219 million) and payables to the parent company Eni SpA (€106 million).

Payables related to capital expenditures amounted to €64 million.

Other payables that amounted to €68 million refer mainly to the payables to personnel (€42 million) and payables to the social security authorities (€14 million) and other debts (€12 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 reported in Note 33.

17. Current income tax payable

Income taxes payable of €12 million (€8 million as at December 31, 2015) relate to the income tax of foreign consolidated companies.

18. Other current taxes payable

Other taxes payable of €10 million (€12 million as at December 31, 2015) relate mainly to withholding tax due.

19. Other liabilities

Other liabilities are detailed as follows:

(amounts in millions of euros)	**31.12.2015**	**31.12.2016**
Deferred Income	9	9
Fair value on non-hedging derivatives	2	
	11	**9**

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

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

Non-current liabilities

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

Long-term debt and current portion thereof amounts to €76 million (€682 million as at December 31, 2015), detailed in the table below:

	31.12.2015			31.12.2016		
(amounts in millions of euros)	Portions of long-term	Portions of short-term	Total	Portions of long-term	Portions of short-term	Total
Shareholders for loans	370	303	673	70		70
Other financial institutions	4	5	9	1	5	6
	374	**308**	**682**	**71**	**5**	**76**

The average effective interest rate for the year was 1.3% (4.03% in 2015). 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						
	2015	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**Beyond**	**Total**
Shareholders for loans	673	70		4	9	9	9	39	70
Other financial institutions	9	6	5					1	6
	682	**76**	**5**	**4**	**9**	**9**	**9**	**40**	**76**

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:

	31.12.2015			31.12.2016		
(amounts in millions of euros)	Current	Non-current	Total	Current	Non-current	Total
A. Cash and cash equivalents	149		149	122		122
B. Available-for-sale securities						
C. Liquidity (A+B)	**149**		**149**	**122**		**122**
D. Financial receivables						
E. Short-term debt towards banks						
F. Long-term debt towards banks						
G. Bonds						
H. Short-term debt towards related entities	912		**912**	166		**166**
I. Long-term debt towards related entities	303	370	**673**	5	71	**76**
L. Other short-term debt	7		**7**	13		**13**
M. Other long-term debt	5	4	**9**			
N. Total borrowings (E+F+G+H+I+L+M)	**1,227**	**374**	**1,601**	**184**	**71**	**255**
O. Net borrowings (N-C-D)	**1,078**	**374**	**1,452**	**62**	**71**	**133**

21. Provisions for risks and charges

(amounts in millions of euros)	**31.12.2015**	**31.12.2016**
Provisions for disposal and restructuring	50	32
Provision for environmental risks	35	21
Provisions for redundancy incentives	15	14
Other provisions	11	11
Provision for legal and other proceedings	6	6
Provision for tax litigation risks	2	2
Provision for OIL insurance	2	1
Provision for losses on investments	8	
	128	**87**

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**
31.12.2015						
Provisions for disposal and restructuring	59	24	(17)	(19)	3	**50**
Provision for environmental risks	22	19	(2)	(4)		**35**
Provisions for redundancy incentives	17		(1)	(1)		**15**
Other provisions	4	3			5	**11**
Provision for legal and other proceedings	34	2	(16)	(14)		**6**
Provisions for tax litigation	2					**2**
Provision for OIL insurance	2					**2**
Provision for losses on investments	7	1				**8**
	147	**49**	**(36)**	**(38)**	**7**	**128**
31.12.2016						
Provisions for disposal and restructuring	50	7	(12)	(11)	(2)	**32**
Provision for environmental risks	35		(7)	(7)		**21**
Provisions for redundancy incentives	15		(1)			**14**
Other provisions	11	1	(1)			**11**
Provision for legal and other proceedings	6	20	(20)			**6**
Provisions for tax litigation	2					**2**
Provision for OIL insurance	2		(1)			**1**
Provision for losses on investments	8				(8)	
	128	**28**	**(41)**	**(18)**	**(10)**	**87**

Provisions for disposal and restructuring of €32 million are related to the shutdown of the Hythe (UK) site and divestment of the Sarroch Aromatics business.
The provisions for environmental risks of €21 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 (see "Accounting policies - Grants").

Provisions for redundancy incentives of €14 million relate to expenses for ordinary redundancy procedures.

The provision for risks and charges for litigation of € 6 million relates mainly to litigation from revocatory actions, more extensively covered in the section "Litigation".

Provisions for tax litigation of €2 million are commented on in the section "Litigation".

Provisions for OIL insurance of €1 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 €11 million consist mainly of social security contributions and employee termination benefits relating to the deferred cash incentive for senior managers and future charges for the purchase of 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)	**31.12.2015**	**31.12.2016**
Employee termination indemnities (TFR)	45	47
Supplementary medical reserve for Eni managers (FISDE) and other foreign medical plans	10	9
Foreign pension plans	1	2
Other benefits	11	12
	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:

	31.12.2015				
(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	**50**	**38**	**10**	**13**	**111**
Current cost		1		4	5
Interest costs	1				1
Revaluations:	(4)	(1)		(3)	(8)
- Actuarial gains and losses from changes in demographic assumptions					
- From financial assumptions		*(1)*		*(3)*	*(4)*
- From past experience	*(4)*				*(4)*
Benefits paid	(3)	(2)		(3)	(8)
Currency exchange differences and other changes		2			2
Present value of obligations at the end of the period (a)	**45**	**38**	**10**	**11**	**104**
Plan assets at the beginning of the year		**35**			**35**
Interest income		1			1
Return on plan assets		(1)			(1)
Contributions to the scheme:		1			1
Benefits paid		(1)			(1)
Currency exchange differences and other changes		2			2
Plan assets at the end of the year (b)		**37**			**37**
Redemption rights at the end of the year (c)					
Assets/liabilities ceiling incurred at the end of the year (d)					
Net liabilities recorded in the financial statements (a-b±d)	**45**	**1**	**10**	**11**	**67**

	31.12.2016				
(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	**45**	**38**	**10**	**11**	**104**
Current cost		*1*		*3*	*4*
Interest costs	*1*	*1*			*2*
Revaluations:	*3*	*7*	*(1)*		*9*
- Actuarial gains (losses from changes in demographic assumptions				*(1)*	*(1)*
- From financial assumptions	*2*	*8*			*10*
- From past experience	*1*		*(1)*		
Benefits paid	*(2)*			*(2)*	*(4)*
Currency exchange differences and other changes		*(5)*			*(5)*
Present value of obligations at the end of the period (a)	**47**	**42**	**9**	**12**	**110**
Plan assets at the beginning of the year		***37***			***37***
Interest income		*1*			*1*
Return on plan assets		*7*			*7*
Currency exchange differences and other changes		*(5)*			*(5)*
Plan assets at the end of the year (b)		**40**			**40**
Redemption rights at the end of the year (c)					
Ceiling of assets/liabilities incurred at the end of the year (d)					
Net liabilities recorded in the financial statements (a-b±d)	**47**	**2**	**9**	**12**	**70**

Other provisions for long-term employee benefits of €12 million (€11 million as at December 31, 2015) primarily concern seniority awards for €4 million (€4 million as at December 31, 2015), deferred monetary incentives for €7 million (€6 million as at December 31, 2015) and the long-term incentive plan for €1 million (€1 million as at December 31, 2015).

The costs relating to liabilities for employee benefits recorded in the income statement include the following:

(amounts in millions of euros)	**TFR**	**Foreign defined-benefit schemes**	**FISDE and other foreign medical plans**	**Other provisions for long-term employee benefits**	**Total**
2015					
Current cost		1		4	**5**
Cost for past services and gains/loss by extinction					
- Interest expenses on the obligation	1				**1**
- Interest income on the plan assets		*(1)*			***(1)***
Total net interest expenses (income)	*1*	*(1)*			
- of which recorded in payroll and related costs	*1*	*(1)*			
Revaluations of long-term plans				*(2)*	***(2)***
Total	**1**	**1**		**2**	**4**
- of which recorded in the cost of labour		2		2	4
- of which recorded in financial income (expenses)	*1*	*(1)*			
2016					
Current cost		1		4	**5**
Cost for past services and gains/loss by extinction					
Net interest expenses (income):					
- Interest expenses on the obligation	1	1			**2**
- Interest income on the plan assets		*(1)*			***(1)***
Total net interest expenses (income)	*1*				***1***
- of which recorded in payroll and related costs	1				**1**
- of which recorded in financial income (expenses)	*1*				***1***
Revaluations of long-term plans					
Total	**1**	**1**		**4**	**6**
- of which recorded in the cost of labour		*1*		*4*	*5*
- of which recorded in financial income (expenses)	*1*				*1*

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

	31.12.2015				**31.12.2016**			
(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						(1)		**(1)**
- Actuarial gains and losses from changes in financial assumptions		(1)		**(1)**	2	8		**10**
- Effect of past experience	(4)			**(4)**	1		(1)	
- Return on plan assets						(7)		**(7)**
	(4)	**(1)**		**(5)**	**3**		**(1)**	**2**

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
2015				
Discount rate	2.0	2,0-3,65	2.0	0,5-2,0
Salary growth trend rate	3.0	2,0-3,45		
Inflation rate	2.0	2,0-2,95	2.0	2.0

(%)				
2016				
Discount rate	1.0	1,0-2,60	1.0	0,0-1,0
Salary growth trend rate	2.0	1,0-3,75		
Inflation rate	1.0	1,0-3,25	1.0	1.0

The discount rate used was determined based on corporate bond yields (rating AA) in countries where the relevant market is sufficiently significant, or otherwise government bond yields. The demographic tables adopted are those used by each country for the assessments of IAS 19. The inflation rate was determined by considering the long-term forecasts issued by national or international banks.
The amount of contributions expected to be paid into defined-benefit plans in the next year totals €6 million.

23. Deferred tax liabilities

The opening balance of deferred tax liabilities has been reclassified in the deferred tax assets through "Other changes", in order to display the net deferred tax assets. All the companies which last year closed with a net balance of deferred tax liabilities (€16 million), closed with a net balance of deferred tax assets in 2016.

(amounts in millions of euros)	Amount at 31.12.2015	Provisions	Utilizations	Impairment/ (Value reinstatements)	Other changes	Amount at 31.12.2016
Deferred tax liabilities:						
- excess amortization/depreciation	37				(37)	
- other	11				(11)	
	48				**(48)**	
Deferred tax assets:						
- tax losses	27				(27)	
- other	5				(5)	
	32				**(32)**	

Net deferred tax liabilities	**16**	**(16)**	

24. Shareholders' equity

The shareholders' equity amounts to €1,514 million (€272 million as at December 31, 2015) as detailed below:

(amounts in millions of euros)	**31.12.2015**	**31.12.2016**
Share capital	1,553	1,365
Other reserves	(18)	29
Retained earnings/(losses) brought forward	26	(43)
Profit (Loss) for the period	(1,289)	163
	272	**1,514**

Share capital

The share capital consists of 1,364,800,000 ordinary shares, without par value and owned exclusively by Eni SpA.

The change is mainly due to the following factors:

- Recapitalization made in June, by the sole shareholder Eni SpA, through the waiver of its financial receivables due from Versalis SpA, amounting to €1,072 million;
- Net income of €163 million.

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

25. Guarantees, commitments and risks

Guarantees

Guarantees are detailed as follows:

	31.12.2015			**31.12.2016**		
(amounts in millions of euros)	Fidejussions	Other guarantees	Total	Fidejussions	Other guarantees	Total
Consolidated subsidiaries		100	100		103	103
Other	1	4	5	1		1
	1	**104**	**105**	**1**	**103**	**104**

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

Other guarantees of €103 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, 2016 amounted to €104 million.

Commitments and risks

Commitments and risks are detailed as follows:

(amounts in millions of euros)	31.12.2015	31.12.2016
Commitments		
Operating leases	2	2
	2	**2**
Risks		
Third party assets & other risks	42	39
	42	**39**
	44	**41**

Third-party assets held by the Group relate mainly to virgin naphtha stored at various Versalis Group sites. Other risks concern costs related to the divestment 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[22] 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

[22] 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.

commodity price fluctuations. The Versalis Group does not enter into derivative transactions for speculative purposes.

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

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

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 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 €30 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 counterparty risk in commercial contracts, credit management is the responsibility of the business units and of the dedicated specialist Eni Corporate units, on the basis of formal procedures to assess and grant credit to commercial partners, including credit recovery activities and possible litigation management. At the Corporate level, guidelines and methodologies are defined to quantify and control customer risk.

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

The maximum risk limits are expressed in terms of 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.

During the course of 2016 the trade receivables trend, regarding both third parties and intercompany, revealed a substantial uniformity with the previous year, with a limited exposure in the accounts, evident in correspondence to the quarterly closures, thanks to a level of sales to factoring companies which was more significant than that allowed for in 2015.

The macroeconomic environment and market conditions, of the majority of customer segments, did not show any marked improvement but thanks to constant monitoring and awareness of the client companies, the average amount of past due loans did not suffer any significant increase, together with the number and the amount of the litigation cases, among them there was only one noteworthy case, albeit with an insignificant amount, relative to a counterparty whose French parent company was admitted to the extraordinary administration procedure and consequently determined the liquidation of the Italian subsidiary customer, forcing Versalis to start procedures claiming payment through the previously obtained Parent Company Guarantee, still in progress.

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.

The Versalis group has the right to access, without contractually defined credit limits, to the financial resources granted by the Eni Group companies, 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)	2017	2018	2019	2020	2021	Beyond	**Total**
Short-term debt	179						**179**
Long-term debt including current portion	5	4	9	9	9	40	**76**
Interest on financial debt						2	**2**

Future payments against trade and other payables

	Year of maturity						
(amounts in millions of euros)	2017	2018	2019	2020	2021	Beyond	**Total**
Trade payables	671						**671**
Advances from customers, other payables	134						**134**
	805						**805**

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)	2017	2018	2019	2020	2021	Beyond	**Total**
Costs relating to environmental provisions	5	6	6			4	**21**
Other commitments	178	109	100	18	7	11	**424**
	183	**115**	**106**	**18**	**7**	**16**	**445**

The Other Commitments of €424 million include essentially an undertaking to purchase supplies of petrochemical products.

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)	2017	2018	2019	2020	2021	Beyond	**Total**
Other commitments	116						**116**
	116						**116**

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, 2016 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.

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

On the basis of the estimates of the emissions made, at December 31, 2016, the Versalis Group presented an overall emission rights surplus (a so-called "long position")[23]; 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 the 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.

On September 22, 2011, the Milan Tax Office served a demand for payment of registry, mortgage and cadastral tax of €1.7 million relating to the sale transaction relating to the sale of the equity investment in Raffineria di Gela SpA to Eni SpA as a result of the conferral of the "SPLITTER" business unit. The Company appealed to the Tax Commission together with Eni and Raffineria di Gela SpA. The Tax Office has filed an appeal against judgement no. 2870 of 12/12/2013 filed on 21/03/2014 of the Milan Provincial Tax Commission, which upheld the company's appeal. With sentence no. 3521/16 dated 21/9/2015 filed on 13/06/2016 the Regional Tax Commission of Milan upheld the appeal of the Agency. The companies involved, in agreement with Eni, have decided not to continue the litigation in the Supreme Court. Eni has already paid the tax liability during the proceedings.

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 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 Municipality of Sarroch notified on December 21, 2015 a TARSU tax assessment demand, for the year 2010, in the amount of amount €217 thousand (for taxes, penalties and interest). The Company availed itself of the institution of investigation, with adhesion, defining the tax assessment with a total payment of €118 thousand.

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.

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[23] 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.

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 will comply with the above assessments, thereby taking advantage of the reduction of the sanctions due, and has set aside a total amount of €218 thousand.

The tax inspection, for the outstanding years, is still ongoing.

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)	2015	2016
Sales of petrochemical products	4,585	4,067
Sales of other products	3	1
Other services	128	128
	4,716	**4,196**

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)	2015	2016
Italy	2,154	1,930
Rest of Europe	2,326	2,107
Asia	162	99
America	61	53
Africa	13	7
	4,716	**4,196**

Other income and revenues

Other income and revenues are comprised of the following:

(amounts in millions of euros)	2015	2016
Recovery of other costs and expenses	52	35
Insurance payouts	3	9
Income for emission rights	13	2
License rights and royalties	26	
Other	21	2
	115	**48**

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 (€19 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 (€16 million).

27. Operating expenses

The following is a summary of the main items of the “Operating expenses”.

(amounts in millions of euros)	**2015**	**2016**
Production costs - raw, ancillary and consumable materials and goods	2,748	2,404
Service costs	1,154	1,108
Leasing and rental charges	21	22
Net provisions for risks and charges	10	9
Change in inventories	407	78
Impairment of receivables	7	3
Other expenses	53	21
Decrease of capitalized internal work costs	(6)	(3)
	4,394	**3,642**

Purchases, services and other costs

Purchases, services and other costs include the following:

The service costs of €1,108 million refer mainly to costs for utilities (€436 million), logistics and transport (€237 million), maintenance (€183 million) and professional services and consulting (€19 million).

Leasing and other charges of €22 million consist mainly of fees for concessions and licenses of €6 million, rent for land and buildings of €2 million.

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

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

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

The Other Expenses of €21 million include mainly indirect taxes and duties.

Non-capitalisable research and development costs amounted to €32 million (€36 million in 2015).

Payroll and related costs

Payroll and related costs are detailed as follows:

(amounts in millions of euros)	**2015**	**2016**
Wages and salaries	257	257
Social security contributions	75	75
Costs related to defined benefit plans and defined contribution plans	19	4
Other costs		18
	351	**354**
Less:		
Capitalized direct cost associated with self-constructed assets	(10)	(9)
	341	**345**

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, 2016 amounted to €5 million as follows:

(amounts in millions of euros)	2015	2016
Wages and salaries	4	4
Costs related to defined benefit plans and defined contribution plans	1	1
	5	**5**

The remuneration paid to directors amounted to €126 thousand. The remuneration paid to statutory auditors amounted to €93 thousand. The remuneration includes emoluments and all other kinds of remuneration, and pension and welfare contributions payable for the performance of the duties, which constituted a cost for the company, even if not subject to personal income tax.

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

	2015	2016
Senior Management	106	107
Middle Management and Staff	3,150	3,137
Workers	1,892	1,851
	5,148	**5,095**

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)	2015	2016
Income from commodity derivatives	5	1
Income from evaluation of commodity derivatives	4	
Expenses from commodity derivatives	(16)	(8)
	(7)	**(7)**

Other operating expenses of €7 million (€7 million in 2015) 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)	2015	2016
Depreciation and amortization:		
- Property, plant and equipment	96	51
- Intangible assets	5	4
	101	**55**
Impairment losses/(value reinstatements):		
- Property, plant and equipment	719	(14)
- Intangible assets	**13**	(4)
	732	**(18)**
	833	**37**

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)	2015	2016
Financial income	62	39
Financial expenses	(86)	(135)
Derivatives	8	(1)
	(16)	**(97)**

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

(amounts in millions of euros)	2015	2016
Financial income (expenses) related to net borrowings		
- Interest and other expenses to banks and other financial institutions	(35)	(14)
Positive (negative) exchange differences		
- Positive exchange differences	48	29
- Negative exchange differences	(51)	(29)
Derivatives	8	(1)
Other financial income and expenses		
- Capitalized financial expenses	7	6
- Interest and other income on financing receivables and securities related to operations	11	(85)
- Other financial income (expenses)	(4)	(3)
	(16)	**(97)**

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 €1 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.

31. Income (expenses) from investments

(amounts in millions of euros)	**2015**	**2016**
Gains from valuations using the equity method	3	1
Losses from valuations using the equity method	(33)	(7)
Other net income (expenses)		(13)
	(30)	**(19)**

Capital gains from the valuations using the equity-accounting method concern Polimeri Europa Elastomeres France SA and capital losses from the valuations using the equity-accounting method concern Matrica and Newco Tech SpA, the other charges relate to the devaluation of Genomatica (€13 million) which was carried out taking into account the losses incurred in the current year and in previous years, that are considered to be permanent. Furthermore, Versalis has not adhered to the share capital increase, following the waiver of pre-emption rights. This led to a dilution of the percentage of ownership of Versalis in Genomatica from 5.12% to 0.01%.

32. Income taxes

The income tax details are as follows:

(amounts in millions of euros)	**2015**	**2016**
Current tax assets:		
- Italian companies	(5)	(27)
- foreign companies	8	21
	3	**(6)**
Net deferred (prepaid) taxes:		
- Italian companies	464	(25)
- foreign companies	32	(35)
	496	**(60)**
Total Income Taxes	**499**	**(66)**

The current taxes for the year relating to the Italian companies regard the income for the recording of the fiscal benefit deriving from participation in the eni national tax consolidation (for more details on the benefits deriving from participation in the national tax consolidation see the section “Income taxes” of the Directors’ Report). 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:

(%)	**2015**	**2016**
Theoretical tax rate	**31.0**	**30.1**
Items increasing (decreasing) compared to theoretical tax rate:		
- (impairments) / reversal of deferred taxes	(73.5)	(97.9)
- permanent differences		(4.1)
- prior year taxes	(0.3)	(17.5)
- changes in tax rates	(10.6)	5.2
- different tax burden on foreign companies	(9.1)	16.5
- expenses and income from investments		2.1
- other changes	(0.7)	(2.2)
	(94.2)	**(98.1)**
	(63.2)	**(68.0)**

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;

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)	**31.12.2016**				**2016**							
					Costs				Revenue			
Name	Trade and other receivables	Trade and other payables	Positive derivatives	Negative derivatives	Goods	Services	Other	Other operating expenses	Goods	Services	Other	Other operating income
Associated Companies												
Brindisi Servizi Generali Scarl		1				5						
Priolo Servizi Scarl		5				17						
Ravenna Servizi Industriali ScpA	8	1		5		8					1	
Servizi Porto Marghera Scarl	2	5				23			9			
	10	**12**		**5**		**53**			**9**		**1**	
Joint ventures												
Matrìca SpA	42	3			1				7	1		
Lotte Versalis Elastomers Co Ltd	(12)										5	
	30	**3**			**1**				**7**	**1**	**5**	
Parent company												
Eni SpA	57	100	2		305	174	3	8	7	4	5	1
	57	**100**	**2**		**305**	**174**	**3**	**8**	**7**	**4**	**5**	**1**
Eni Group companies												
Ecofuel SpA	15	6			17		1		56	7	1	
Eni Corporate University SpA		1				2						
Eni Insurance Ltd						7					5	
EniPower SpA	15	27				128			62		1	
EniPower Mantova SpA	1	13				62			3	1		
EniServizi SpA		1			1	5						
Eni Trading and Shipping SpA	4	96			648	95			2	1	2	
IFM Scarl Ferrara		1				4						
Ing. Luigi Conti Vecchi SpA	1	2			7							
Raffineria di Gela SpA	2	9				1					6	
Rosetti Marino SpA		1				2						
Serfactoring SpA		1										
Società EniPower Ferrara Srl		3				18						
Syndial SpA	76	32			1	37	1		2	3	21	
	114	**193**			**674**	**361**	**2**		**125**	**12**	**36**	
Entities owned or controlled by the State												
Gruppo Ferrovie dello Stato						8						
						8						
	211	**308**	**2**	**5**	**980**	**596**	**5**	**8**	**148**	**17**	**47**	**1**

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)	31.12.2016		2016		
Name	Receivables	Payables	Charges	Gains	Derivatives
Parent company					
Eni SpA		150	15		1
Eni Group companies					
Eni Trading and Shipping Spa			7	4	
Eni Adfin SpA		86			
Serfactoring SpA	2				
Joint ventures					
Matrica SpA	106			9	
	108	**236**	**22**	**13**	**1**

Impact of transactions and balances with related parties on the Group's balance sheet, profit and loss account 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)	31.12.2015			31.12.2016		
	Total	Related parties	Proportion %	Total	Related parties	Proportion %
Cash and cash equivalents	149	149	100	122	109	100
Trade and other receivables	874	208	24	757	211	24
Other current assets	5	1	20	3	2	67
Other financial assets	202	202	100	108	108	100
Other non-current assets	1			1		100
Short-term debt	919	912	99	179	166	45
Trade and other payables	720	364	51	805	308	33
Other current liabilities	11	7	64	9	5	63
Long-term debt (including short-term portions)	682	673	99	71	70	99

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

(amounts in millions of euros)	2015			2016		
	Total	Related parties	Proportion %	Total	Related parties	Proportion %
Net sales from operations	4,716	190	4	4,196	165	4
Other income and revenues	115	79	69	48	47	98
Purchases, services and other costs	4,394	1,704	39	(3,642)	(1,581)	43
Payroll and related costs	341			(345)		
Other operating income and expenses	(7)	(7)	100	(7)	(7)	100
Financial income	62	18	29	39	13	33
Financial expenses	(86)	(50)	58	(135)	(22)	16
Derivatives	8	8	100	(1)	(1)	100
Charges on investments	(30)	(30)	100	(19)	(19)	100

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

(amounts in millions of euros)	**2015**	**2016**
Revenues and other income	269	213
Costs and expenses	(1,711)	(1,589)
Net change in trade and other receivables, and other assets	(46)	90
Net change in trade and other liabilities, and other liabilities	(155)	(58)
Dividends, interest and taxes	(21)	(38)
Net cash flow provided by operating activities	**(1,664)**	**(1,382)**
- investments and securities	(46)	(23)
- financial receivables	(10)	(8)
- change in payables and receivables relating to investments	15	31
Cash flow from investments	*(41)*	
Net cash flow from investment activities	**(41)**	
- Change in financial liabilities	(1,019)	(277)
- Capital contribution	1,147	
Net cash flow from financing activities	**128**	**(277)**
Total financial flows to related parties	**(1,577)**	**(1,659)**

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

(amounts in millions of euros)	**2015**			**2016**		
	Total	Related parties	Proportion %	Total	Related parties	Proportion %
Cash provided by operating activities	218	(1,664)	n.s.	468	(1,382)	(295)
Cash provided by investment activities	(281)	(41)	15	(236)		
Cash provided by financing activities	128	128	100	(260)	(277)	107

34. Significant non-recurring events and operations
No significant non-recurring events and operations took place during the year.

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, 2016 there were no assets held for sale and in disposal groups.

37. Main events subsequent to the December 31, 2016
For a description of the main events subsequent to December 31, 2016, see the “Significant events after the reporting date” in the “Other information” section of the Directors' Report.

38. List of investments

Versalis SpA Group companies and equity investments as at December 31, 2016

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 2016, 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 2016

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 (Hungary)	HUF	8,092,160,000	Versalis SpA	96,34	100.00	L.b.L.
				Versalis International	1.83		
				Versalis Deutschland GmbH	1.83		
Eni Chemicals Trading (Shanghai) Co Ltd (in liquidation)	Shanghai	USD	5,000,000	Versalis SpA	100.00	100.00	N.E.
Versalis Americas Inc.	Dover, Delaware (USA)	USD	100.000	Versalis International SA	100.00	100.00	L.b.L.
Versalis Congo Sarlu	Tchitembo Pointe-Noire (Congo)	CDF	1,000,000	Versalis International SA	100.00	100.00	N.E.
Versalis Deutschland GmbH	Eschborn (Germany)	EUR	100,000	Versalis SpA	100.00	100.00	L.b.L.
Versalis France SAS	Mardyck (France)	EUR	126,115,583	Versalis SpA	100.00	100.00	L.b.L.
Versalis International SA	Brussels (Belgium)	EUR	15,449,174	Versalis SpA	59.00	100.00	L.b.L.
				Dunastyr Zrt			
				Versalis Deutschland GmbH	23.71		
				Dunastyr Polystyrene Ltd	14.43		
				Versalis France SAS	2.86		
Versalis Kimya Ticaret Limited Sirketi	Istanbul (Turkey)	TRY	20,000	Versalis International SA	100.00	100.00	N.E.
Versalis Pacific (India) Private Limited	Mumbai (India)	INR	238,700	Versalis Pacific Trading	99.99	99.99	N.E.
				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 UK Ltd	Lyndhurst (Great Britain)	GBP	4,004,042	Versalis SpA	100.00	100.00	L.b.L.

(*) 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

JOINT VENTURES

In Italy

Name	Registered office	Currency	Share Capital	Shareholders	% Ownership	% Consolidated pertaining to the Group	Method of consolidation 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	500,000	Versalis SpA	80.00	80.00	N.E.
				Genomatica Inc	20.00		

Outside Italy

Name	Registered office	Currency	Share Capital	Shareholders	% Ownership	% Consolidated pertaining to the Group	Method of consolidation or criterion of measurement (*)
Lotte Versalis	Yeosu (Jeollanam)	KRW	192,000,010,000	Versalis SpA	49.99	49.99	N.E.
Elastomers Co Ltd	(South Korea)			Third parties	50.01		

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

OTHER COMPANIES

In Italy

Name	Registered office	Currency	Share Capital	Shareholders	% Ownership	% Consolidated pertaining to the Group	Method of consolidation 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	126,035,903	Versalis SpA	0.01	0.01	Co
				Third parties	99.99		
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

In the consolidation, compared to 2015, the following changes were implemented:

1. *Consolidated due to relevance:*

   - *Versalis Americas Inc., from the 1st November 2016.*

2. *Deconsolidated due to irrelevance:*

   - *Eni Chemicals Trading (Shanghai) Co Ltd. in liquidation, from the 1st October 2016.*

Independent Auditors' Report

Building a better working world

Versalis S.p.A.

Consolidated financial statements as of December 31, 2016

Independent auditor's report in accordance with article 14 of Legislative Decree n. 39, dated 27 January 2010 and Art. 165 of Legislative Decree n.58, dated 24 February 1998
(Translation from the original Italian text)

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Building a better
working world

Independent auditor's report in accordance with article 14 of Legislative Decree n. 39, dated 27 January 2010 and Art. 165 of Legislative Decree n.58, dated 24 February 1998

(Translation from the original Italian text)

To the Sole Shareholder of
Versalis S.p.A.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Versalis Group, which comprise the balance sheet as of December 31, 2016, the profit and loss account, the statement of comprehensive income, the statement of changes in Shareholders' Equity, the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

The Directors of Versalis S.p.A. are responsible for the preparation of these consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) implemented in accordance with article 11 of Legislative Decree n. 39, dated 27 January 2010. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's professional judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Versalis Group as of 31 December 2016 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.

EY S.p.A.
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Report on other legal and regulatory requirements

Opinion on the consistency of the Directors' Report on Operations with the consolidated financial statements

We have performed the procedures required under audit standard (SA Italia) n. 720B in order to express an opinion, as required by law, on the consistency of the Directors' Report on Operations with the consolidated financial statements. The Directors of Versalis S.p.A. are responsible for the preparation of the Directors' Report on Operations in accordance with the applicable laws and regulations. In our opinion, the Directors' Report on Operations is consistent with the consolidated financial statements of the Versalis Group as of 31 December 2016.

Milan, March 21 2017

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.