versalis

Annual Report 2012

Ordinary Shareholders' Meeting of April 23, 2013

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 styrenics) and the sale of licences relating to technology and know how.

Countries in which Versalis operates

The Versalis Group[1] is present in Italy (Brindisi, Ferrara, Gela[2], Mantua, Porto Marghera, Porto Torres, Priolo, Ragusa, Ravenna, Sarroch, Settimo Milanese[3]), Belgium[4], France (Dunkirk), Germany (Oberhausen), Great Britain (Grangemouth, Hythe), Portugal and Hungary (Szàzhalombatta), with Research Centres and Units in Italy (Brindisi, Ferrara, Mantua and Ravenna), a sales network in Italy, Belgium, Czech Republic, Croatia, Denmark, France, Germany, Great Britain, Greece, Poland, Portugal, Slovakia, Slovenia, Romania, Spain, Sweden, Switzerland, Turkey, Hungary and China, and representative offices in Egypt and Russia.

Company bodies

BOARD OF DIRECTORS(1)
Chairman
Domenico Dispenza
Chief Executive Officer
Daniele Ferrari

Directors
Davide Calabrò
Modestino Colarusso
Paolo Grossi

(1) Appointed by the Shareholders' Meeting of March 4, 2010 for a three-year period which expires upon approval of the financial statements for the year 2012.
(2) Appointed by the Shareholders' Meeting of April 15, 2010 for a three-year period which expires upon approval of the financial statements for the year 2012.

BOARD OF STATUTORY AUDITORS(2)
Chairman
Franco Fontana
Statutory auditors
Gian Luca Officio(3)
Alessandro Ridolfi
Alternate auditors
Marco Mencagli
Laura Guazzoni(4)

INDEPENDENT AUDITORS(5)
Reconta Ernst & Young SpA

(3) Appointed by the Shareholders' Meeting of December 21, 2011.
(4) Appointed by the Shareholders' Meeting of April 19, 2012.
(5) Appointed by the Shareholders' Meeting of April 15, 2010 for a nine-year period which expires upon approval of the financial statements for the year 2018.

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[1] The Versalis Group is the chemicals subsidiary of Eni.

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

[3] The site at Settimo Milanese was decommissioned during 2012.

[4] The manufacturing plant at the Feluy site was sold in 2010. Up until September 2011 a subcontract was in place with Total, the company that acquired the plant.

Directors' Report and Consolidated Financial Statements

Directors' Report on Operations

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Highlights

Renaming

In April 2012 Polimeri Europa SpA changed its name to Versalis SpA, in accordance with the new industrial and commercial strategy aimed at creating an efficient, sustainable and market-oriented company, a leader at the international level.

Results

As a result of the global economic crisis, in 2012 the Versalis Group recorded a drop of €215 million in its adjusted operating income with respect to the previous year. The financial year ended with a net loss of €573 million (€426 million adjusted net of special items), shareholders' equity of €592 million, net capital employed of €2,540 million, net borrowings of €1,948 million and negative net cash flow from operating activities of €653 million.

Versalis SpA has recorded a loss for the year of €593 million which, added to the losses of €509 million from previous years, and given that the company has a fully paid-up share capital of €1,553 million and reserves of €102 million, exceeds the limits set by Article 2446 of the Italian Civil Code.

Production

Total production amounted to 6,090 thousand tons, down 2.5% compared with 2011. The most significant decreases regarded the production of styrenics (due to the end of the sub-contract work for Total at the Feluy site), elastomers (due to the crisis in the "automotive" industry) and polyethylene (due to the decrease in market demand).

The "Porto Torres Green Hub" project

In 2012 Matrìca SpA, a company owned jointly by Versalis SpA and Novamont SpA, continued work on the "Porto Torres Green Hub" project, which is aimed at the reconversion and relaunch of the Porto Torres industrial site through the construction of a bio-refinery for the manufacture of highly biodegradable products (bio-lubricants, bio-additives), made with raw materials from renewable sources of vegetable origin. This industrial upgrading, being carried out through a reconversion programme divided into three phases over the period 2011-2016, involving a total investment of €387 million, saw the construction of the two Phase 1 plants at an advanced stage by the end of 2012. The work was entirely financed by payments made by the two partners totalling €30 million.

In order to ensure that the above project is not limited to the simple construction of a production site and is also able to maximize synergies between the parties, in January 2012 Versalis SpA subscribed to a €35 million capital share increase in Novamont SpA, in accordance with the Framework Agreement signed on December 20, 2011 by Eni SpA, Mater-Bi SpA (shareholder of Novamont SpA) and Novamont SpA.

Developments in Asia

In 2012, the Versalis Group strengthened its presence in Asia through the incorporation, on April 28, 2012, of the company Versalis Pacific Trading (Shanghai) Co. Ltd., which is 100% controlled by Eni Chemicals Trading (Shanghai) Co Ltd. (incorporated in 2011). This new company aims to become a market leader in the trading of chemical products in the Asia-Pacific area. In 2012 the two companies entered into the Versalis Group's consolidation area.

Versalis commenced negotiations with local partners in Asia regarding joint ventures for new manufacturing complexes.
The project in partnership with Petronas involves the setting up of a joint venture in Malaysia for the production of various types of elastomers, in which Versalis will provide the technology and contribute mainly with regard to licensing, while Petronas will supply raw materials, utilities and services.
The joint initiative with Honam provides for the set up of a joint venture in South Korea with the aim of constructing an elastomers plant.

Strategic agreement with Genomatica Inc. for the production of butadiene from renewable sources

In July 2012 a "Memorandum of Understanding" was signed by Versalis SpA, Novamont SpA and Genomatica Inc. (an American company specialized in bio-technological research), following which Versalis SpA subscribed €12 million to a share capital increase in Genomatica Inc. The aim of the joint project is to create new technologies for the production of butadiene from biomass, a strategic raw material for Versalis SpA, used in the manufacture of its principal elastomers. The ultimate aim of this project is to build the world's first plant for the production, on an industrial scale, of butadiene from renewable sources.

Reorganization of corporate activities abroad

With the change of company name on September 11, 2012 from "Polimeri Europa Benelux SA" to "Versalis International SA", with registered offices in Brussels, the EMEA project was launched. The aim of this project is to create a single point of contact to operate as an intermediary with the market, resulting in the simplification of the organizational structure of the foreign network. It was therefore decided to create a single legal entity at a European level for the coordination of commercial activities, creating branch offices throughout the EMEA (Europe, the Middle East and Africa) region.

On December 28, the Shareholders' Meeting of Versalis International SA approved the merger by incorporation, with effect from January 1, 2013, of the direct subsidiary Polimeri Iberica SA and the companies Polimeri Europe Hellas SA and Polymers Europe Polska Sp.Zo.o., which are owned indirectly by Versalis SpA, as well as the simultaneous opening of branch offices in Spain, Portugal, Greece and Poland.

The project will continue into 2013, with the merger of the commercial companies, Polimeri Europa Norden A/S and Polimeri Europa Kimya Urunleri Ticaret Limited Sirket, as well as the opening of other branch offices in various European countries.

Extraordinary operations

With effect from January 1, 2012, Versalis SpA sold to Syndial SpA, the business segment, with a net book value of €0.16 million, referred to as "Trattamento acque di falda" in Brindisi, consisting of groundwater treatment plants, tanks, reservoirs and personnel (16 people) together with the related receivables and payables and provisions for employee benefits. This operation is part of the plan to rationalize and to centralize the environmental activities of the Eni Group into the company Syndial SpA.

Workers' safety

The accident frequency rate for 2012 shows an improvement compared to the previous year of 49% for employees and 63% for contract workers.

Technological innovation

In 2012 research and development activities contributed to the strengthening and renewal of the Group's business, by constantly improving processes and products. Work also continued on enhancing the value of research through the sale of technology to third parties. Overall expenditure on Research and Development amounted to €38 million. 18 patent applications were filed.

Financial highlights

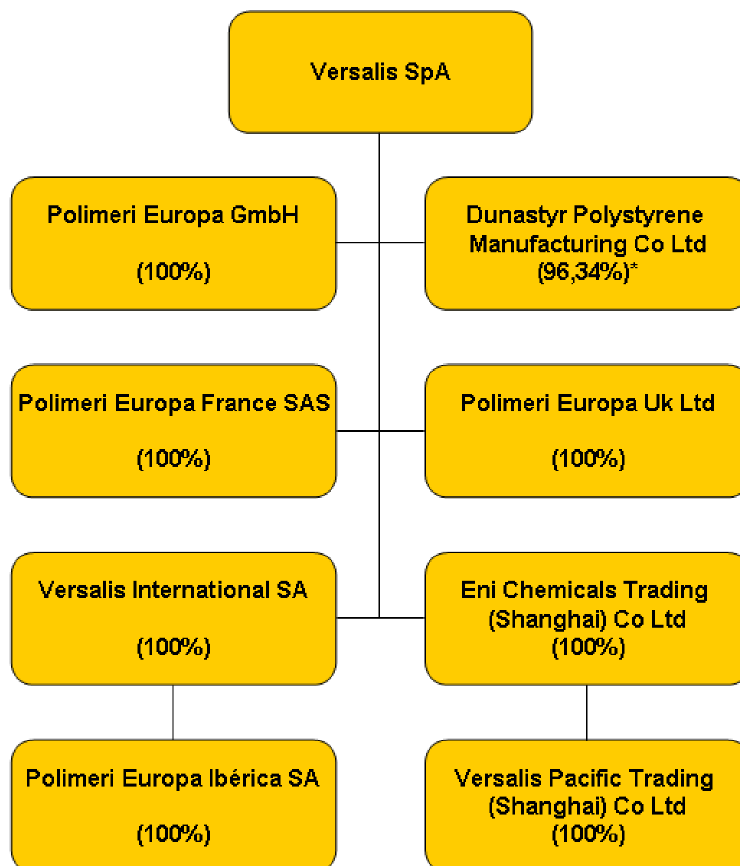
2010	€ million	2011	2012
6,141	Net sales from operations	6,491	6,418
(87)	Operating loss	(409)	(688)
(136)	Adjusted operating loss	(276)	(491)
(71)	Net loss	(320)	(573)
(93)	Adjusted net loss	(222)	(426)
25	Net cash flow provided by operating activities	(345)	(653)
238	Capital expenditure	200	156
3,346	Total assets	3,542	3.800
1,452	Shareholders' equity	1,157	592
488	Net borrowings	1,068	1.948
1,940	Net capital employed	2,225	2.540
0.34	Leverage	0.92	3.29

Key operating and sustainability data

2010			2011	2012
5,961	Employees	(number)	5,840	5,724
1.54	Employee accident frequency rate	(accidents/hours worked x 1,000,000)	1.47	0.75
5.94	Contract workers' accident frequency rate	(accidents/hours worked x 1,000,000)	4.6	1.66
4.69	Direct emission of greenhouse gases	(mm tonnes CO_2 eq)	4.12	3.69
31	Cost of research and development	(amount in € million)	32	38
7,219	Production	(ktonnes)	6,245	6,090
72.9	Plant utilization rate	(%)	65.3	67.0
79.47	Average price of Brent Dated FOB	(dollars/barrel)	111.27	111.58
690	Average price of Virgin Naphtha FOB Med	(dollars/barrel)	906	910
1.327	Average EUR/USD exchange rate		1.392	1.285

Versalis Group Structure

A chart of the Versalis Group structure, showing the companies included within the Group's consolidation area, is presented below. The companies are consolidated on a line-by-line basis. The percentage indicated refers to the interest held by the parent company.



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

Operating Review

Despite the significant slowdown registered during the latter part of 2011, expectations of a general recovery of the European economy in 2012 remained high, and numerous indicators supported such expectations. Among these, production levels in the chemical industry (precursor to numerous economic activities) saw a sharp reversal in trends during the first quarter of 2012 and recorded growth with respect to the previous quarter. Sales volumes also showed signs of recovery compared with the last few months of 2011, although they were still down compared to the previous year. The sharp rise in crude oil prices during the first quarter of the year (related to the price of virgin naphtha, a strategic raw material for Versalis) led operators to stockpile supplies and therefore boosted the demand for petrochemical products on the market. Profits nonetheless remain under significant pressure, as the continuing increases in the cost of liquid feedstock have not been fully passed on to the final market.

In the second quarter of 2012 the progressive slowing down of growth in Asia, with the consequent drop in the price of crude oil, and the severe deterioration in the financial condition of several European countries, led to another slump in demand. Even those sectors that up until this point had seemed impervious to the economic situation showed worrying signs of deceleration. This was particularly the case with regard to the Elastomer business in the automotive and industrial sectors. In the second quarter, however, profitability indicators improved significantly as a result of the falling price of crude oil. At the same time, the sales prices of finished products remained stable.

In the first two months of the third quarter, the price of crude oil once more underwent a sudden dramatic change, reaching a price of 110 dollars a barrel. Low demand and the high levels of volatility of the monthly variations made it impossible for operators to fully recoup the increased production costs through sales prices.

Oil prices were much more stable in the last quarter of the year, even though by this time the level of demand had dropped significantly compared with previous levels, resulting in the lowest sales figures for the quarter since 2009. Profitability has in any case remained significantly below break-even point, although it shows an improvement with respect to the previous quarter.

Demand in those sectors of interest to Versalis has decreased with respect to the previous year by an average of 5% in the Polyethylene and Styrene sectors and by 10% in the Elastomer sector. The decline was limited by the fact that the stock levels of the market operators are getting steadily lower, as a result of the restrictions in the granting of credit on the part of the banking system.

The Italian economy has suffered more than any other European country from the lack of growth. Restrictive financial policies, increased taxation on property, together with the prospect of low growth in the coming years, have had a negative impact on investment decisions by firms and consumers, both for durable goods and consumer goods, with serious repercussions on the level of economic activity. This was compounded by the effect of the earthquake in Emilia in May 2012, with many companies unable to operate due to the damage suffered.

Against this background, the Versalis Group recorded an adjusted operating loss of €491 million in 2012 (€276 million in 2011) and a net loss for the period of €573 million, compared to a net loss of €320 million in 2011. This deterioration is mainly attributable to the decrease in the contribution margin, with an average reduction of 40% in unit contribution margins, as a result of the market recession and the fall in demand in the Group’s principal sales sectors.

The Group continued the steps which it had taken towards improving company management with the optimization of processes, both in terms of production (energy saving measures and rationalization of production) and sales, and these have contributed to an overall improvement in operating efficiency. The substantial deterioration in results has led, in the impairment review, to net write-downs of €111 million (compared with €147 million for the previous year), which mainly concern the plants at Brindisi, Dunkirk, Porto Marghera, Sarroch and the Polyethylene Cash Generating Unit (CGU) in Ferrara, as well as the Polyethylene CGU in Priolo, which is scheduled to shut down definitively in 2013.

Revenues and production

Versalis manufactures and sells petrochemical products (intermediates, polyethylene, styrenics and elastomers). In the Intermediates Business Unit, the main objective is to ensure an adequate supply of monomers to cover the needs of the businesses further down the production process; in particular olefins (ethylene and butadiene) are integrated with the polyethylene and elastomer businesses, and the aromatics are integrated with the phenol / hydrogenated derivatives and styrenics businesses.

Versalis is among the leading European manufacturers of polystyrene and polyethylene, which are mainly used in the flexible packaging sector, and it is one of the world's leading manufacturers of elastomers, with a presence in almost all major sectors (in particular the motor industry).

The net sales from operations of the Versalis Group for the year ended December 31, 2012 amounted to € 6,418 million, compared to € 6,491 million in the previous year (-1.1%), with higher average unit prices compensating for the lower sales volumes (-2.1%) following the continuing weak demand caused by the economic recession. Average unit prices have increased by approximately 1.3% compared to 2011, with the situation differentiated between the various businesses: aromatics (+12%), phenol / derivatives (+10%) and styrenes (+ 6%) have all increased and olefins have remained stable, whereas there has been a drop in the price of elastomers (-1.3%), due to the slowdown in the automotive industry, and of polyethylene (-0.4%).

Total production amounted to 6,090 thousand tons, 155 thousand tons less than in the previous year, equivalent to a drop of 2.5%, with the most significant reductions being found in styrene and elastomers (-10.3% and -9.4% respectively). Excluding the effects of structural changes (the closure of the Porto Torres plant in the second half of 2011, with the exception of the nitrile rubber production units and the expiry of the production subcontract with Total at the Feluy site in September 2011), the total production volume increased by approximately 2.2% in 2012. Abroad, there was an increase in production at the Dunkirk site (+20%), which had suffered from initial difficulties in 2011 with the new EVA/LDPE swing line.

Nominal production capacity decreased with respect to the previous year as a result of the aforementioned termination of the production subcontract at the Feluy site and the shutdown of the Porto Torres plant. The average plant utilization rate, calculated on the basis of nominal capacity, was 67% (65% in 2011).

Revenue

(€ million)	2010	2011	2012	% Ch.
Intermediates	2,833	2,987	3,110	4.1
Polymers	3,126	3,299	3,128	(5.2)
Other income	182	205	180	(12.2)
	6,141	**6,491**	**6,418**	**(1.1)**

Production

(ktonnes)	2010	2011	2012	% Ch.
Intermediates	4,859	4,101	4,112	0,3
Polymers	2,360	2,144	1,978	(7,7)
	7,219	**6,245**	**6,090**	**(2,5)**

Business review

Intermediates Business Unit

Revenue from intermediates amounted to € 3,110 million, compared to € 2,987 million in 2011, representing an increase of 4.1%. The positive performance of the derivatives, both in terms of volume (+21%) and of average unit price (+10%), was due to a more dynamic market and greater product availability. Sales volumes fell for olefins (-2%) and aromatics (-4.5%), which were negatively affected by the shutdown of the polyethylene plant in Sicily due to lack of profitability, and also by the drop in demand. The average price of olefins remained stable while that of aromatics rose by 12%, driven up by the rise in the price of benzene (+18.7%).

The **production** of ***intermediates*** (4,112 thousand tons) was in line with that of the previous year (+0.3%). Production of derivatives increased by 12%, thanks to the phenol/derivatives and styrene monomer

businesses, which were negatively affected last year by the programmed long-term shut-down of the Mantua site. Production of olefins and aromatics fell (by -2.7% and -5.4% respectively). The latter are affected by the programmed long-term shut-down at the Sarroch site and the reduction in production at the Priolo cracker plant as a result of the economic recession.

Polymers Business Unit

Polymer revenues amounted to €3,128 million in 2012, representing a decrease of €171 million compared with the year 2011 (-5.2%); this decrease was due mainly to reduced sales volumes (-5.8%) as a result of the significant drop in demand, particularly on the European and Italian markets, partially offset by modest growth in demand in the Eastern European market. Average unit prices for elastomers decreased (-1.3%) due to the fall in the unit price of SBR/BR rubber, which in turn was affected by the crisis in the automotive industry, and in the unit price of polyethylene (-0.4%), in spite of an improvement during the second part of the year. The average price of styrenes rose by 6%, pushed up by the price of expandable polystyrene.

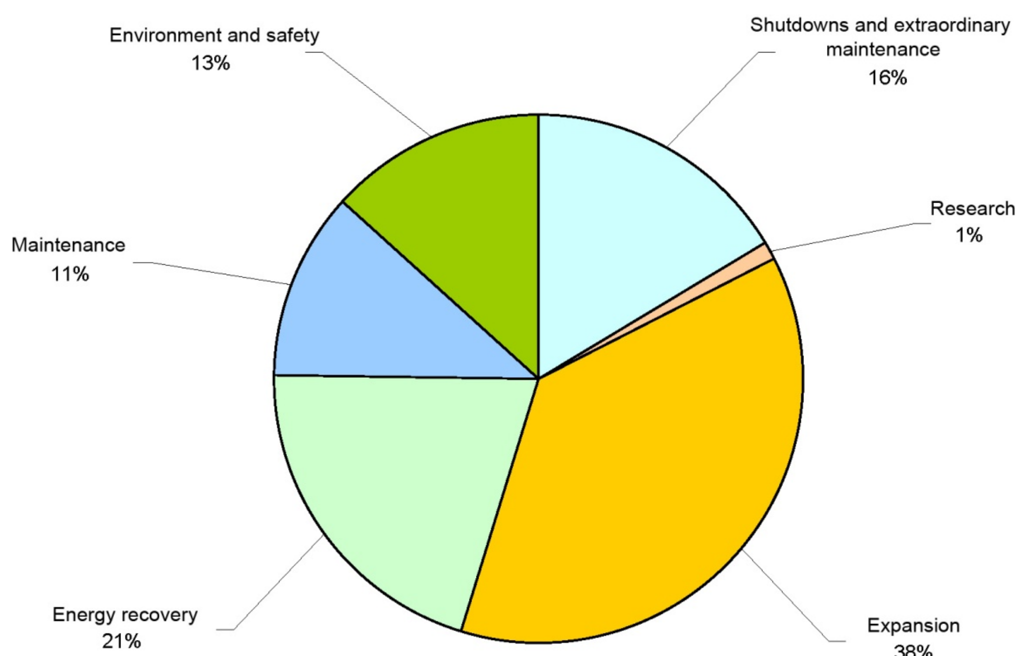
The **production** of ***polymers*** (1,978 thousand tons) showed a decrease of 166 thousand tons compared with 2011 (-7.7%), due mainly to the reduction in the production of elastomers (-9.4%) in Ravenna and Ferrara as a result of the crisis in the automotive industry, and also due to the reduction in the production of polyethylene (-6%). Production at the plant in Sicily was interrupted during the first few months of the year owing to the sharp drop in demand for polyethylene. The reduction in the production of styrenes (-11%) was due to the aforementioned expiry of the production subcontract at the Feluy site.

Investments

Net investment in tangible and intangible assets amounted to €156 million during the year; this is analysed by business unit and nature of expenditure in the table and subsequent graph below.

Investments

(€ million)	2010	2011	2012	% Ch.
Olefins	76	74	64	(13.6)
Aromatics	9	28	23	(19.1)
Derivatives	6	10	2	(79.9)
Styrenes	18	5	4	(25.5)
Elastomers	6	7	13	75.2
Polyethylene	101	46	15	(67.2)
Industrial Services	47	41	39	(4.7)
Staff and financial expenses	2	6	5	(12.3)
Syndial Grants	(13)	(16)	(16)	(2.3)
Grants, refunds from third parties and changes in advances to suppliers	(15)	(1)	(2)	67.6
Investments in property, plant and equipment	**237**	**200**	**147**	**(26.5)**
Investments in intangible assets	**1**		**9**	**n.s.**
	238	**200**	**156**	**(22.0)**



Gross investments amounted to €174 million (€217 million in 2011), offset by grants of €16 million received from Syndial (€16 million in 2011) and grants of €2 million received from third parties (€1 million in 2011).

The principal gross investments for the year related to the following:

- work to ensure compliance with safety and environmental regulations (€38.2 million), including work to improve safety in accordance with the Regional Technical Committee rules in Priolo (€8.7 million), the installation of a thermal oxidizer at the Neocis plant in Ravenna (€2.7 million), work to improve the efficiency of the torches in Brindisi (€2.1 million) and work to ensure compliance with the IPPC (Integrated Pollution Prevention and Control) Directive at the Brindisi, Mantua and Sarroch sites (€1.9 million);
- work related to strategic projects launched at the Dunkirk plants, work related to the development and expansion of the elastomer business at the Ferrara and Ravenna plants and the reorganization of the plants at Porto Marghera and Priolo (€28.2 million);
- minor maintenance work and improvements to the reliability of the plant at various production sites (€23 million);
- minor works related to expansion and energy recovery at various facilities (€19.7 million);
- long-term maintenance work on the aromatics plants in Sarroch, the polyethylene plants in Ferrara and Oberhausen and the ethylene plant in Priolo (€13.3 million);
- recoiling work on four furnaces at the Priolo ethylene plant, using new technology (€13.2 million);
- work on reducing the energy index at the Priolo aromatics plant (€7.2 million);
- inter-company project with Ecofuel SpA for the extraction of Butene 1, selective hydrogenation of Refinate 2 and buried tanks (€6.8 million);
- recoiling work on the furnaces at the Brindisi and Porto Marghera ethylene plants (€5.2 million);
- work on the buildings and utility networks at the Porto Torres site in preparation for the Green Chemistry project (€3.6 million);
- work on optimizing heat recovery from the hot zone at the Porto Marghera ethylene plant (€1.8 million);
- research activities (€1.5 million).

Financial review - Versalis Group

Profit and Loss Account

2010	(€ million)	2011	2012	Change	% Ch.
6,141	Net sales from operations	6,491	6,418	(73)	(1.1)
111	Other income and revenues	92	103	11	12.0
(6,218)	Operating expenses	(6,768)	(7,007)	(239)	3.5
2	Other operating income/(expense)	1	(9)	(10)	n.s.
(123)	Depreciation, amortization and impairment	(225)	(193)	32	(14.2)
(87)	**Operating loss**	**(409)**	**(688)**	**(279)**	**68,2**
(4)	Net financial income (expense)	(21)	(49)	(28)	n.s.
1	Net income (expense) from investments	1	2	1	100.0
(90)	**Loss before income taxes**	**(429)**	**(735)**	**(306)**	**71.3**
19	Income taxes	109	162	53	48.6
21.1	*Tax Rate (%)*	*25.4*	*0,9*	*(3.4)*	*(13.3)*
(71)	**Net loss**	**(320)**	**(573)**	**(253)**	**79.1**

Net loss

In 2012 the Versalis Group recorded a **net loss** of €573 million, €253 million more than in 2011. The operating loss increased by €279 million, mainly as a consequence of the following factors:

- appreciation of the dollar against the euro (7.7% compared with 2011), which had a severe impact on the purchase cost of virgin naphtha;
- sharp increases in average prices of raw materials and of utilities compared with 2011; these increases could not be passed on in full to the selling prices of products, as these were affected by weak demand due to the economic recession;
- the general economic climate, which led to a sharp drop in sales and which also, in the first part of the year, imposed a temporary shutdown of one of the production lines at the Priolo cracker plant due to falling demand;
- the temporary shutdown, for periodic long-term maintenance, of the Sarroch production site.

The effects described above were attenuated by reduced purchasing costs, as a result of lower production levels, general increases in sales prices, particularly in the second half of the year, lower write-downs of tangible assets, and reduced labour costs as a result of workforce rationalization.

Revenue from income taxes increased by €53 million compared with the previous year, mainly as a result of the increase in the tax loss. This has led both to the recognition of deferred tax assets for the portion of loss transferred and not yet used by the Group, which will be paid in subsequent years, and the income derived from current tax resulting from the participation in the Eni SpA national tax consolidation.

Adjusted net loss

2010	(€ million)	2011	2012	Change	% Ch
(71)	**Net loss**	**(320)**	**(573)**	**(253)**	**79.1**
(105)	Exclusion of inventory (gains) losses	(40)	63	103	n.s.
83	Exclusion of *special items*	138	84	(54)	(39.1)
(93)	**Adjusted net loss [a]**	**(222)**	**(426)**	**(204)**	**91.9**

[a] For a definition and reconciliation of the adjusted net loss, which excludes inventory (gains) losses and special items, reference should be made to the paragraph "*NON-GAAP Measures*".

The special items of the **operating loss** relate to the results of the impairment test on the petrochemical plants (€111 million), provisions for revocatory actions (€15 million), redundancy incentive costs (€14 million), provisions for future antitrust fines (€3 million), environmental provisions (€1 million) and exchange rate differences and derivatives (€10 million).

The **adjusted net loss** increased by €204 million.

Analysis of profit and loss account items

Net sales from operations

2010	(€ million)	2011	2012	Change	% Ch.
1,705	Olefins	1,754	1,792	38	2.2
704	Aromatics	835	819	(16)	(1.9)
424	Derivatives	398	499	101	25.4
834	Elastomers	1,062	979	(83)	(7.8)
695	Styrenes	741	715	(26)	(3,5)
1,597	Polyethylene	1,496	1,434	(62)	(4.1)
182	Corporate and services	205	180	(25)	(12.2)
6,141		**6,491**	**6,418**	**(73)**	**(1,1)**

Net sales from operations fell by €73 million due to the reduction in sales (-2.1%), which was caused by an overall drop in demand and by the crisis of confidence in the market, and which was only partially offset by an increase in average unit sales prices (+1.3%).

Other income and revenues

Other **income and revenues** increased by €11 million compared with 2011, due mainly to an increase of €30 million in income from licensing and royalties, partially offset by a drop of €12 million in income from the sale of carbon dioxide emission rights and a €2 million reduction in the environmental costs recovered under the agreements with Syndial SpA.

Operating expenses

2010	(€ million)	2011	2012	Change	% Ch.
4,364	Production costs – raw, ancillary and consumable materials and goods	4,909	5,409	140	2.9
1,426	Service costs	1,402	1,511	109	7.8
28	Operating leases and other	23	25	2	8.7
(4)	Net provisions for contingencies	11	19	8	72.7
33	Other expenses	48	35	(13)	(27.1)
371	Payroll and related costs	375	368	(7)	(1.9)
6,218		**6,768**	**7,007**	**239**	**3.5**

The increase of €140 million in the **cost of raw, ancillary and consumable materials and goods** and changes in inventories was primarily due to an increase of 10% in the price of virgin naphtha, an effect

partially offset by the lower volumes purchased, as a result of the drop in production levels due to falling demand for products in the chemical sector.

The increase of €109 million in **service costs** was mainly due to the increased cost of utilities.

Payroll and related costs decreased by €7 million, mainly as a result of a reduction of 141 in the average number of employees, due in part to normal staff turnover and also to extraordinary operations and reorganization which are described in greater detail in the paragraph "Personnel" in the section "Commitment to sustainable development".

Other operating income/(expense)

Other operating income and expenses went from a net income of €1 million in 2011 to a net loss of €9 million in 2012, due to the increase of €11 million in expenses incurred on derivative contracts, partially offset by an increase of €1 million in gains realized on derivative contracts.

Depreciation, amortization and impairment

2010	(€ million)	2011	2012	Change	% Ch.
71	Property, plant and equipment	73	77	4	5.5
5	Intangible assets	5	5		
	Depreciation and amortization	**78**	**82**	**4**	**5.1**
47	**Impairment**	**147**	**111**	**(36)**	**(24.5)**
123		**225**	**193**	**(32)**	**(14.2)**

Depreciation and amortization increased by €4 million compared with 2011, owing to the depreciation of newly commissioned investments in property, plant and equipment.

The write-downs of €111 million stem from the results of impairment tests and refer to the following Cash Generating Units (CGU): the cracker and polyethylene plant in Brindisi (€52 million); facilities at Dunkirk (€ 25 million), Porto Marghera (€18 million), Sarroch (€10 million); the polyethylene plant in Ferrara (€3 million); olefins, aromatics and polyethylene plants in Porto Torres (€2 million); the polyethylene plant in Priolo (€1 million). These CGUs are the most affected by the deterioration in price/margin resulting from the drop in demand and increased pressure from competitors. These values are net of utilization of government grants relating to the Gas Phase plant in Brindisi (€19 million) and the contractual guarantees provided by Syndial concerning the plant subject to devaluation (€2 million).

For further details see Note 7 "Property, plant and equipment" in the Notes to the consolidated financial statements.

Net financial expenses

2010	(€ million)	2011	2012	Change	% Ch.
(23)	Financial income (expense) related to net borrowings	(27)	(39)	(12)	44.4
(9)	Income (expense) on derivative contracts	5	(2)	(7)	n.s.
26	Exchange differences	(2)	(8)	(6)	n.s.
	Other financial income (expense)	(1)	(3)	(2)	n.s.
2	Financial expenses capitalised	4	3	(1)	(25.0)
(4)		**(21)**	**(49)**	**(28)**	**133.3**

Net financial expenses increased by €28 million, due essentially to: (i) the increase of €12 million in interest charges on financial debt as a result of higher average debt; (ii) increase of €7 million in expenses from the fair value measurement of non-speculative derivative contracts to cover exchange rate risk; (iii) increase of €6 million in net exchange losses 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 changes in fair value are recognized in profit or loss.

Net income (expense) from investments

A breakdown of **net income (expense) from investments** is shown in the table below:

2010	(€ million)	2011	2012	Change	% Ch.
1	Share of profit (loss) of investments accounted for at equity value		2	2	n.s.
	Net gains on disposals of equity investments	1		(1)	(100.0)
1		**1**	**2**	**1**	**100.0**

Income taxes

2010		2011	2012	
	Profit/(loss) before income taxes			
(132)	Italy	(425)	(613)	(188)
42	Abroad	(4)	(122)	(118)
(90)		**(429)**	**(735)**	**(306)**
	Income taxes			
(31)	Italy	(119)	(171)	(52)
12	Abroad	10	9	(1)
(19)		**(109)**	**(162)**	**(53)**
	Tax Rate (%)			
23.5	Italy	28.0	27.9	(0.1)
29.3	Abroad	n.s.	n.s.	n.s.
21.1		**25.4**	**22.0**	**(3.4)**

Income from **income taxes** (€162 million) increased by €53 million compared with 2011, as a result of the following factors: (i) increased recognition of net deferred tax assets of €73 million, largely due to the recognition of deferred tax assets on the unpaid tax loss for the period,[5] and (ii) a decrease of €17 million in the current income taxes related to companies outside Italy. These effects were partially offset by the lower income from participation in Eni SpA's National Tax Consolidation of €40 million.

Deferred tax assets were recognized given that their recovery was considered probable, taking account of Versalis SpA's participation in Eni SpA's National Tax Consolidation and in virtue of the provisions of Article 23, paragraph 9, of Italian Law Decree No. 98 of July 6, 2011 which establishes the unlimited recoverability of tax losses at the date of the Decree.

The reported tax rate decreased by 3.4 percentage points mainly as a result of the greater write-down of Polimeri Europa France SAS's deferred tax assets compared with 2011.

The adjusted tax rate, given by the ratio between taxes and the loss before income taxes net of inventory gains/losses and of special items, amounted to 19.3% (24.5% in 2011).

[5] Although the tax loss was greater than in the previous year, following the amendment of the National Tax Consolidation agreement with Eni SpA, the loss reimbursed by Eni SpA for the present year is lower as a result of the changes to the "Regulations for participation in the National Tax Consolidation system for Eni Group companies" (as described in greater detail in the section "Accounting policies - Income Taxes").

Non-GAAP measures

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

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

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

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

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

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

2010	(€ million)	2011	2012	Change
(87)	**Operating loss**	**(409)**	**(688)**	**(279)**
(105)	**Exclusion of inventory (gains) losses**	**(40)**	**63**	**103**
56	**Exclusion of special items**	**173**	**134**	**(39)**
(136)	***Adjusted* operating loss**	**(276)**	**(491)**	**(215)**
13	Net financial income (expense) (*)	(18)	(39)	(21)
1	Net income (expense) from investments (*)		2	2
29	Income taxes (*)	72	102	30
(23.8)	Tax rate (%)	(24.5)	(19.3)	5.17
(93)	***Adjusted* net loss**	**(222)**	**(426)**	**(204)**

(*) Excluding special items

Details of special items:

2010	(€ million)	2011	2012
	Other special items		
47	- impairment of property, plant and equipment	147	**111**
	- provision for revocation expenses		**15**
21	- provision for redundancy incentives	15	**14**
	- provision for antitrust fines	10	**3**
	- provision for environmental risks	1	**1**
17	- exchange rate differences and derivatives	3	**(10)**
5	- costs for services recharged by Eni Group companies for redundancy incentives	2	
	- gains on disposal of assets	1	
90	**Special items of operating loss**	**179**	**134**
(17)	**Finance (income) expense**	**(3)**	**10**
	of which:		
(17)	- reclassification of exchange rate differences and derivatives in operating loss	(3)	**10**
	Expense (income) from investments	**(1)**	
	of which:		
	- gains on disposals	(1)	
10	**Income taxes**	**(37)**	**(60)**
	of which:		
(22)	- taxes on special items of operating loss	(48)	**(41)**
32	- taxes on exclusion of inventory losses	11	**(19)**
83	**Total special items of net loss**	**138**	**84**

Reclassified Balance Sheet

The reclassified balance sheet aggregates asset and liability amounts derived from the statutory balance sheet according to function, under three basic areas: operating, investing and financing. Management believes that this reclassified balance sheet provides useful information to help investors assess the Company's capital structure and to analyse its sources of funds and investments in fixed assets and working capital. Management uses the reclassified balance sheet to calculate the key ratios for measuring company profitability (Return on Average Capital Employed - ROACE) and the solidity/evenness of the financial structure (debt to equity ratio - leverage).

Reclassified Balance Sheet (*)

(€ million)	31.12.2011	31.12.2012	Change
Fixed assets			
Property, plant and equipment	931	893	(38)
Intangible assets	65	69	4
Investments	40	101	61
Receivables and securities held for operating activities	1		(1)
Net payables related to capital expenditure	(27)	(15)	12
	1,010	**1,048**	**38**
Net working capital			
Inventories	1,145	1,251	1,250
Trade receivables	873	851	(22)
Trade payables	(979)	(861)	118
Tax receivables (payables) and provisions for deferred tax	238	331	93
Provisions for risks and charges	(83)	(110)	(27)
Other current assets and liabilities	84	92	8
	1,278	**1,554**	**276**
Provisions for employee benefits	**(63)**	**(62)**	**1**
NET CAPITAL EMPLOYED	**2,225**	**2,540**	**315**
Shareholders' equity	**1,157**	**592**	**(565)**
Net borrowings	**1,068**	**1,948**	**880**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**2,225**	**2,540**	**315**

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

As at December 31, 2012 the **net capital employed** had increased by €315 million compared with December 31, 2011 as a result of: (i) the increase of €38 million in fixed assets, (ii) the increase of €276 million in net working capital, as illustrated below, and (iii) the decrease of €1 million in provisions for employee benefits.

Fixed assets

Property, plant and equipment amounted to €893 million, showing a decrease of €38 million due essentially to write-downs of €111 million and depreciation charges of €77 million; partially offset by additions during the period of €147 million and exchange rate differences of €3 million.

Intangible assets amounted to €69 million, showing an increase of €4 million as a result of capital expenditure of €9 million during the period, partially offset by amortization charges of €5 million.

Investments amounted to €101 million, showing an increase of €61 million due mainly to the purchase of shares in Novamont SpA (€35 million) and in Genomatica Inc. (€12 million) as well as to the subscription to the share capital increase of Matrìca SpA (€12 million).

The decrease of €12 million in **net payables related to capital expenditure** was caused by the lower level of investments made during the year.

Net working capital

The increase of €106 million in **inventories** is attributable to: (i) the increase of €94 million in inventories of finished products, resulting from fewer sales due to falling demand; (ii) an increase of €23 million in inventories of raw materials, supplies and consumables owing to the increase in unit prices, which is offset against the reduction in quantities purchased; (iii) a decrease of €11 million in inventories of work in process and semi-finished products. These amounts include net impairments for the period of €13 million (€54 million in 2011) for adjustment to market value of the remaining stock.

The decrease of €22 million in **trade receivables** derived mainly from higher factoring - sales without recourse - of receivables in December 2012 for €21 million, compared with 2011, and an increase in the bad

debt provision of €18 million. These effects were partially offset by the higher turnover during the last two months of 2012, with respect to the corresponding period of the previous year.

The decrease of €118 million in **trade payables** is due primarily to a reduction in the quantities purchased of petroleum feedstock (Virgin Naphtha) during the last few months of the year compared with the same period in 2011, partially offset by the increase in the average purchase price of Virgin Naphtha compared with the previous year.

The change of €93 million in **tax assets and net provisions for taxes** is mainly due to: (i) the allocation of net prepaid taxes of €127 million as a result of Versalis SpA's higher tax loss, (ii) the increase of €42 million in VAT receivables of the Group, (iii) the decrease of €8 million in tax liabilities related to the assessment (received in December 2011 and paid in January 2012) on the disputed tax for transactions in 2006 relating to subjects resident in states or territories with preferential tax regimes. These effects were partially offset by the reduction of €56 million in receivables from the parent company Eni SpA for participation in the national tax consolidation and the assignment of €33 million in liabilities to the parent company for participation in Eni SpA's national tax consolidation, due to excessive advance payments received.

The increase of €27 million in **provisions for risks and charges** was due primarily to the accrual of €20 million for litigation risks and the net accrual of €9 million for redundancy incentives, partially offset by the utilization, for €3 million, of the provision for environmental risks and charges.

Return On Average Capital Employed (ROACE)

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

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 the relative proportion of sources of financing between own and third-party assets, and for benchmarking against industry standards.

(€ million)	31.12.2011	31.12.2012	Change
Short-term debt	669	1,208	539
Medium/long-term debt	443	800	357
Cash and cash equivalents	(44)	(60)	(16)
Net borrowings	**1,068**	**1,948**	**880**
Shareholders' equity	**1,157**	**592**	**(565)**
Leverage	**0.92**	**0,15**	**2.37**

Short-term debt increased by €539 million as a result of operations and to fund investments in the period. **Long-term debt** increased by €357 million due substantially to loans of €300 million received by Versalis SpA (from the parent company Eni SpA) and of €57 million received by Polimeri Europa France SAS (from Eni Finance International SA, formerly Eni Coordination Center SA) to fund investment plans. **Cash and cash equivalents** increased by €16 million for reasons of ordinary management (owing substantially to unforeseen collections of receivables).

Leverage, the ratio of net borrowings to shareholders' equity, rose from 0.92 in 2011 to 3.29 in 2012. This increase was the result of the combined effect of the increase in net borrowings (to cover investments and to cover operations during the year) and of a decrease in shareholders' equity (mainly as a result of the loss for the period).

Statement of Comprehensive Loss

(€ million)	2011	2012
Loss for the period	**(320)**	**(573)**
Other items of comprehensive loss:		
Foreign currency translation differences	(3)	4
Total comprehensive loss	**(323)**	**(569)**

Shareholders' equity

(€ million)		
Shareholders' equity at December 31, 2011		**1,157**
Total comprehensive loss for the year	(569)	
Effect of the acquisition of non-consolidated investments	4	
Total change		**(565)**
Shareholders' equity at December 31, 2012		**592**

Shareholders' equity amounted to €592 million, showing a decrease of €565 million. This decrease was due essentially to the comprehensive loss for the year of €569 million, partially offset by the acquisition by Versalis SpA of Polimeri Europa Polska Sp.zo.o from Dunastyr Polystyrene Manufacturing Company Ltd.

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

	Profit (loss)for the year		Shareholders' equity	
(€ million)	2011	2012	31.12.2011	31.12.2012
As reported in the Statutory Financial Statements of Versalis SpA	**(269)**	**(593)**	**1,147**	**553**
Difference between the net equity value of consolidated subsidiaries and the corresponding carrying value of the investment therein in the statutory accounts of the parent company	(85)	**23**	(62)	**(4)**
Consolidation adjustments:				
- elimination of tax adjustments and compliance with accounting policies	28	**8**	78	**60**
- deferred taxation	6	**(11)**	(6)	**(17)**
As reported in the Consolidated Financial Statements	**(320)**	**(573)**	**1,157**	**592**

Reclassified Cash Flow Statement

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

Reclassified Cash Flow Statement (*)

2010	(€ million)	2011	2012	Change
(71)	**Net loss for the period**	**(320)**	**(573)**	**(253)**
	Adjustments to reconcile net loss to net cash provided by operating activities:			
118	- depreciation, amortization and other non-monetary items	224	189	(35)
	- net gains on disposal of assets	'(1)		1
1	- dividends, interest, taxes and other charges	(87)	(127)	(40)
(100)	Changes in working capital	(66)	(220)	(154)
77	Dividends received, taxes (paid) received, interest (paid) received	(95)	78	173
25	**Net cash flow provided by operating activities**	**(345)**		**(308)**
(238)	Investment in fixed assets	(200)	(156)	44
(49)	Purchase of equity investments, consolidated subsidiaries and businesses	(9)	| (60)	(51)
3	Disposals of investments in consolidated subsidiaries	2		(2)
35	Other cash flow related to investing activities	(26)	(9)	17
(224)	**Free cash flow**	**(578)**	**(878)**	**(300)**
(71)	Change in short-term and long-term debt	586	894	308
313	Cash flow from capital and reserves			
18	**NET CASH FLOW FOR THE PERIOD**	**8**	**16**	**8**

Change in net borrowings

2010	(€ million)	2011	2012	Change
(224)	**Free cash flow**	**(578)**	**(878)**	**(300)**
	Exchange differences on net borrowings and other variations	(2)	(2)	
313	Cash flow from capital and reserves			
89	**CHANGE IN NET BORROWINGS**	**(580)**	**(880)**	**(300)**

* See 'Reconciliation of reclassified financial statements used in the Directors' report to statutory financial statements".

The **net cash flow provided by operating activities** (€653 million), the financial requirement relating to capital expenditure (€156 million), equity investments (€60 million) and other changes related to investment activity (€9 million), were funded by the increase in short-term and long-term debt of €894 million, generating a net cash flow in the period of €16 million. Information on investments made in the year is provided in the paragraph "Investments".

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

Reclassified Consolidated Balance Sheet

Items of the Reclassified Consolidated Balance Sheet (where not expressly indicated, the item derives directly from the statutory) (€ million)	Reference to the notes to the statutory	**31.12.2011** Partial amounts from statutory	Amounts from reclassified	**31.12.2012** Partial amounts from statutory	Amounts from reclassified
Fixed assets					
Property, plant and equipment			931		893
Intangible assets			65		69
Investments in subsidiary, associated and joint venture companies and other equity investments			40		101
Receivables and securities held for operating activities			1		
Net payables related to capital expenditures, comprised of:			(27)		(15)
- payables related to capital expenditures	(see note 15)	(27)		(15)	
Total fixed assets			**1,010**		**1,048**
Net working capital					
Inventories			1,145		1,251
Trade receivables			873		851
Trade payables			(979)		(861)
Tax receivables (payables) and provisions for tax, comprised of :			238		331
current income tax liability	(see note 16)	(11)		(1)	
other current tax payables	(see note 17)	(12)		(9)	
- deferred tax liabilities	(see note 23)	(8)		(18)	
- payables for tax consolidation and VAT	(see note 15)			(33)	
current income tax assets	(see note 4)	10		15	
- other current tax assets	(see note 5)	14		9	
- deferred tax assets	(see note 11)	152		289	
- receivables for tax consolidation and VAT	(see note 2)	93		79	
Provisions for risks and charges			(83)		110
Other current assets and liabilities comprised of:			84		92
- other receivables	(see note 2)	170		180	
- other (current) assets	(see note 6)	3		2	
other receivables and other assets (non-current)	(see note 12)	2		1	
- advances, other payables	(see note 15)	(80)		(78)	
other liabilities (current)	(see note 18)	(3)		(6)	
other payables and other liabilities (non current)	(see note 23)	(8)		(7)	
Total net working capital			**1,278**		**1,554**
Provisions for employee benefits			**(63)**		**(62)**
NET CAPITAL EMPLOYED			**2,225**		**2,540**
Shareholders' equity			**1,157**		**592**
Net borrowings					
Total debt, made up of:					
- long-term debt	(see note 19)	443		800	
- current portion of long-term debt	(see note 19)	6		3	
- short-term debt	(see note 13)	663		1,205	
less:					
Cash and cash equivalents	(see note 1)	(44)		(60)	
Total net borrowings			**1,068**		**1,948**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY			**2,225**		**2,540**

Items of Reclassified Cash Flow Statement and confluence/reclassification of items in the statutory format (€ million)	2011 Partial amounts from statutory format	2011 Amounts from summarized format	**2012** Partial amounts from statutory format	**2012** Amounts from summarized format
Net loss		**(320)**		**(573)**
Adjustments to reconcile net loss to net cash provided by operating activities:				
Depreciation, amortization and other non-monetary items		224		189
depreciation and amortization	78		82	
- net impairment of tangible and intangible assets	147		111	
- share of profit (loss) of equity-accounted investments	(1)		(2)	
- currency translation differences from alignment	2		(1)	
- net change in provision for employee benefits	(2)		(1)	
Net gains on disposal of assets		(1)		
Dividends, interest, income taxes and other charges		(87)		(127)
- interest income	(1)			
- interest expense	23		36	
- income taxes	(109)		(163)	
Changes in working capital		(66)		(220)
- inventories	(147)		(102)	
- trade receivables	84		24	
- trade payables	23		(118)	
- provisions for risks and charges	3		27	
- other assets and liabilities	(29)		(51)	
Dividends received, taxes paid, interest (paid) received during the period		(95)		78
- dividends received	2		3	
- interest received	1			
- interest paid	(28)		(35)	
- income taxes received including tax credits rebated	(70)		110	
Net cash flow provided by operating activities		**(345)**		**(653)**
Capital expenditures		(200)		(156)
property, plant and equipment	(200)		(147)	
- intangible assets			(9)	
Purchase of equity investments, consolidated subsidiaries and businesses		(9)		(60)
- non consolidated investments	(9)		(60)	
companies entered into consolidation area and business segments				
Disposals of investments in consolidated companies		2		
property, plant and equipment	1			
- investments	1			
Other variations relative to investing activities		(26)		(9)
change in payables and receivables relating to investing activities	(26)		(9)	
Free cash flow		**(578)**		**(878)**
Change in short-term and long-term debt		586		894
- proceeds from long-term finance debt	60		358	
- payments from long-term finance debt	(14)		(4)	
- change in short-term finance debt	540		540	
Net cash flow for the period		**8**		**16**

Financial review - Versalis SpA

Profit and Loss Account

2010	(€ million)	2011	2012	Change	% Ch.
5,059	Net sales from operations	5,296	5,220	(76)	(1.4)
108	Other income and revenues	86	97	11	12.8
(5,194)	Operating expenses	(5,589)	(5,740)	(151)	2.7
2	Other operating (expense) income	1	(9)	(10)	n.s.
(102)	Depreciation, amortization and impairment	(201)	(139)	62	(30.8)
(127)	**Operating loss**	**(114)**	**(52)**	**63**	**40.3**
(7)	Net finance income (expense)	(17)	(43)	(26)	n.s.
(1)	Net income (expense) from investments	36	(150)	(186)	n.s.
(135)	**Loss before income taxes**	**(388)**	**(764)**	**(376)**	**96.9**
31	Income taxes	119	171	52	43.7
(104)	**Net loss**	**(269)**	**(593)**	**(324)**	**n.s.**

Net loss

The financial statements of Versalis SpA show a net loss for the period of €593 million (€296 million in 2011), determined by the operating loss of €571 million, net finance expenses of €43 million and net investment expenses of €150 million, partially offset by income from income taxes of €171 million.

The operating loss increased by €164 million with respect to the previous year, mainly as a consequence of the following factors:

- appreciation of the dollar against the euro (7.7% compared with 2011), which had a significant impact on the purchase cost of Virgin Naphtha;
- sharp increases in average prices of raw materials and utilities compared with 2011; these increases were not entirely passed on in the form of higher selling prices, as the economic recession signified weak demand;
- the general economic climate, which led to a sharp drop in sales and which also imposed a temporary shutdown of one of the production lines at the Priolo cracker plant during the first part of the year as a result of falling demand;
- the shutdown for long-term maintenance work at the Sarroch production site.

The effects described above were mitigated by: reduced purchase costs, as a result of lower production levels; general increases in sales prices, particularly in the second half of the year, lower net write-downs of tangible assets and reduced labour costs as a result of workforce rationalization.

Analysis of profit and loss account items

The reasons for the most significant variations in Versalis SpA's profit and loss items are commented upon in the Notes to the financial statements of Versalis SpA, unless expressly indicated below.

Net sales from operations

2010	(€ million)	2011	2012	Change	% Ch.
1,394	Olefins	1,315	1,334	19	1.4
704	Aromatics	835	819	(16)	(1.9)
654	Derivatives	606	630	24	4.0
617	Elastomers	796	723	(73)	(9.2)
355	Styrenes	446	537	91	20.4
1,167	Polyethylene	1,107	989	(118)	(10.7)
168	Corporate and services	191	188	(3)	(1.6)
5,059		**5,296**	**5,220**	**(76)**	**(1.4)**

Net sales from operations fell by €76 million as the increase in the average unit sales price only partially offset the reduction in quantities sold. Information on the analysis of net sales from operations by business segment is provided in the "Financial Review" section.

Other income and revenues

The increase of €11 million in **other income and revenues** compared with 2011 is due to: (i) an increase of €29 million in income from licenses and royalties, (ii) an increase of €3 million in sundry costs and expenses recharged to other companies working at the production sites, offset by: (i) a decrease of €12 million in income from the sale of carbon dioxide emission rights, (ii) a decrease of €5 million in insurance payouts, (iii) a drop of €2 million in the recovery of environmental costs under agreements with Syndial SpA, (iv) a decrease of €1 million in income from contract penalties, (v) a decrease of €1 million in income from other sources.

Operating expenses

2010	(€ millions)	2011	2012	Change	% Ch.
3,593	Production costs – raw, ancillary and consumable materials and goods and inventory changes	3,953	3,996	43	1.1
1,267	Service costs	1,268	1,380	112	8.8
18	Leasing and rental charges	18	19	1	5.6
2	Net provisions for risks and charges	11	22	11	100.0
21	Other net sundry charges	36	32	(4)	(11.1)
303	Payroll and related costs	303	291	(12)	(4.0)
5,194		**5,589**	**5,740**	**151**	**2.7**

Operating expenses amounted to €5,740 million, representing an increase of €151 million due essentially to: (i) an increase of €112 million in service costs, due mainly to the increase in the cost of utilities; (ii) an increase of €43 million in the cost of raw, ancillary, and consumable materials and goods and change in inventories as a result primarily of the increase in the price of Virgin Naphtha, in spite of the reduced quantity purchased; (iii) the €11 million rise in net provisions for risks and charges. These effects were partially offset by the reduction in payroll and related costs of €12 million, mainly as a result of a reduction of 148 in the average number of employees, as a consequence of normal staff turnover and also of extraordinary operations and reorganization which are described in greater detail in the paragraph "Personnel" in the section "Commitment to sustainable development".

Other operating (expenses) income

Other operating (expenses) income increased by €10 million owing to the rise of €11 million in expenses on commodity derivatives, partially offset by the increase of €1 million in income from commodity derivatives.

Depreciation, amortization and impairment

2010	(€ million)	2011	2012	Change	% Ch.
51	Property, plant and equipment	50	49	(1)	(2.0)
4	Intangible assets	4	4		
	Depreciation and amortization	**54**	**53**	**(1)**	**(1.9)**
47	**Impairment**	**147**	**86**	**(61)**	**(41.5)**
102		**201**	**139**	**(62)**	**(30.8)**

The write-downs of €86 million stem from the results of impairment tests and refer to the following Cash Generating Units (CGU): the cracker and polyethylene plant in Brindisi (€52 million); the plant in Porto Marghera (€18 million) and Sarroch (€10 million); the polyethylene plant in Ferrara (€3 million); the olefins, aromatics and polyethylene plants in Porto Torres (€2 million); the polyethylene plant in Priolo (€1 million). These CGUs are the most affected by the deterioration in price/margin resulting from the drop in demand and the increased pressure from competitors. These values are net of utilization of government grants relating to the Gas Phase plant in Brindisi (€19 million) and the contractual guarantees provided by Syndial concerning the plant subject to devaluation (€2 million).

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

Net financial expenses

2010	(€ million)	2011	2012	Change	% Ch.
(22)	Financial income (expense) related to net borrowings	(23)	(34)	(11)	47.8
(9)	Income (expense) on derivative contracts	4	(2)	(6)	(150.0)
21	Exchange differences	(2)	(8)	(6)	300.0
1	Other financial income (expense)		(2)	(2)	n.s.
2	Financial expenses capitalized	4	3	(1)	(25.0)
(7)		**(17)**	**(43)**	**(26)**	**152,9**

Net financial expenses increased by €26 million, due essentially to: (i) the increase of €11 million in interest charges on financial debt as a result of higher average debt; (ii) the increase of €6 million in expenses from the fair value measurement of non-speculative derivative contracts on exchange rate risk; (iii) the increase of €6 million in net exchange losses on commercial transactions. The derivative instruments do not possess the formal requisites to be classified as "hedges" in accordance with IAS 39 and therefore the related fair value changes are recognized in profit and loss.

Net income (expense) from investments

2010	(€ million)	2011	2012	Change	% Ch.
1	Dividends	32	41	9	n.s.
	(Additions to) Utilisation of provisions for impairment of investments	5	(111)	(116)	n.s.
(2)	(Additions to) Utilisation of provisions to cover losses	(1)	(80)	(79)	n.s.
(1)		**36**	**(150)**	**(186)**	**n.s.**

The decrease of €186 million in **net income (expense) from investments** resulted from the increase of €116 million in provisions for impairment of investments and the increase of €79 million in provisions for losses, partially offset by the increase of €9 million in dividends received.

Dividends were received from Polimeri Europa GmbH (€23 million), Polimeri Europa UK Ltd (€10 million), Polimeri Europa Iberica SA (€3 million), Versalis International SA (€3 million), Polimeri Europa Norden AS (€1 million) and Polimeri Europa Kimya Ltd (€1 million).

Provisions for impairment of investments (€111 million) and provisions to cover losses (€80 million) related to the equity investment in Polimeri Europa France SAS.

Income taxes

2010	(€ million)	2011	2012	Change
	Current tax assets			
(45)	IRES	(76)	(36)	40
5	IRAP	3	1	(2)
11	Additions to provisions for tax disputes	1		(1)
(29)		**(72)**	**(35)**	**37**
(8)	Deferred taxes	(9)	(17)	(8)
21	Prepaid taxes	(38)	(119)	(81)
(15)	Impairments (reversals) of deferred tax assets			
(2)		**(47)**	**(136)**	**(89)**
(31)		**(119)**	**(171)**	**(52)**

The increase in income from income taxes of €52 million compared with 2011 was due primarily to higher net advance taxation of €89 million, due essentially to the recognition of deferred taxes on the unpaid tax loss for the period, partially offset by the lower income resulting from participation in Eni SpA's national tax consolidation of €40 million. Although the tax loss was greater than the previous year, following the amendment of the National Tax Consolidation agreement with Eni SpA, the loss paid by Eni SpA for the present year is lower as a result of the amendments to the "Regulations for participation in the National Tax Consolidation system for Eni Group companies" as further described in the section "Accounting policies - Income Taxes").

Reclassified Balance Sheet[6]

Reclassified Balance Sheet (*)

(€ million)	31.12.2011	31.12.2012	Change
Fixed assets			
Property, plant and equipment	643	637	(6)
Intangible assets	63	60	(3)
Investments	225	173	(52)
Receivables and securities held for operating activities		1	1
Net payables related to capital expenditure	(26)	(13)	13
	905	**858**	**(47)**
Net working capital			
Inventories	892	960	68
Trade receivables	763	729	(34)
Trade payables	(877)	(780)	97
Trade receivables (payables) and provisions for net deferred tax liabilities	239	335	96
Provisions for risks and charges	(78)	(180)	(102)
Other current assets and liabilities	99	106	7
	1,038	**1,170**	**132**
Provisions for employee benefits	**(59)**	**(58)**	**1**
NET CAPITAL EMPLOYED	**1,884**	**1,970**	**86**
Shareholders' equity	**1,147**	**553**	**(594)**
Net borrowings	**737**	**1,417**	**680**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**1,884**	**1,970**	**86**

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

The reasons for the most significant changes in Versalis SpA's balance sheet items, if not expressly indicated below, are commented on in the Notes to the financial statements of Versalis SpA, to which the reader is referred.

At December 31, 2012 the **net capital employed** had increased by €86 million compared with December 31, 2011 as a result of the increase in net working capital of €132 million, partially offset by the decrease of €47 million in fixed assets.

Fixed assets

Property, plant and equipment amounted to €637 million, showing a decrease of €6 million due essentially to the effect of write downs of €86 million and of depreciation charges for the year of €49 million, effects partially offset by capital expenditure of €129 million.

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

Investments amounted to €173 million representing a decrease of €52 million as a result of: (i) the write-down of the investment in Polimeri Europa France SAS (€111 million); (ii) the sale of the investment in Polimeri Europa France SAS to Versalis International SA (€5 million). These effects were partially offset by the acquisition of the investment in Novamont SpA (€35 million) and Genomatica Inc (€12 million); the share capital subscription in Matrìca SpA (€12 million) and the acquisition of shares in the company Polimeri Europa Polska Sp. Zo.o. from the Dunastyr Polystyrene Manufacturing Company Ltd (€5 million).

[6] See the Financial review for a methodological illustration of the reclassified statements.

The decrease of €13 million in **net payables related to capital expenditure** was caused mainly by the lower investments made during the year.

Net working capital

The €68 million increase in **inventories** was attributable to: (i) the increase of €57 million in inventories of finished products, following lower sales due to falling demand; (ii) the increase of €19 million in inventories of raw, ancillary and consumable materials, deriving from the increase in unit prices, set against the lower quantities purchased; (iii) the decrease of €8 million in inventories of work in progress and semi-finished products. These amounts include net write-downs for the period of €24 million (€50 million in 2011) for adjustment to market value of the remaining stock.

The decrease of €34 million in **trade receivables** derived mainly from higher factoring of receivables without recourse in December 2012 for €21 million, more than in 2011, and from the allowance for impairment losses for receivables of €17 million. These effects were partially offset by increased turnover during the last two months of 2012, which was more than in the corresponding period in the previous year.

The decrease of €97 million in **trade payables** was due essentially to the reduction in the quantity of petroleum feedstock (Virgin Naphtha) purchased in the last months of the year compared with the same period in 2011, partially offset by the increase in the average purchase price of virgin naphtha compared with the previous year.

The change in **tax assets and net provisions for taxes** of €96 million is mainly due to: (i) the allocation of net deferred tax assets of €136 million as a result of higher tax loss, (ii) the increase of €42 million in VAT receivables of the Group, (iii) the decrease of €8 million in tax liabilities related to the assessment (received in December 2011 and paid in January 2012) on the tax dispute relative to transactions in 2006 with subjects resident in states or territories with preferential tax regimes. These effects were partially offset by the reduction of €56 million in receivables to the parent company Eni SpA for participation in the national tax consolidation and the recognition of €33 million in liabilities to the parent company for participation in Eni SpA's national tax consolidation, due to excessive advance payments received, as well as the decrease of €2 million in receivables from countries outside of Italy for recovery of VAT.

The increase of €102 million in **provisions for risks and charges** was due primarily to the accrual of €80 million to the provision to cover losses relating to the investment in Polimeri Europa France SAS and the provision of €20 million for litigation risks.

Net borrowings

(€ million)	31.12.2011	31.12.2012	Change
Short-term debt	455	851	396
Medium/long-term debt	302	601	299
Cash and cash equivalents	(20)	(35)	(15)
Net borrowings	**737**	**1,417**	**680**
Shareholders' equity	**1,147**	**553**	**(594)**
Leverage	**0.64**	**2.56**	**1.92**

Short-term debt increased by €396 million as a result of operations and in order to fund investments during the period. **Long-term debt** increased by €299 million, due largely to loans received from the parent company Eni SpA. **Cash and cash equivalents** increased by €15 million for normal operational reasons (owing mainly to unforeseen collections of receivables).

Shareholders' equity

Shareholders' equity amounted to €553 million, showing a decrease of €594 million. The change is mainly due to the loss for the year.

Reclassified Cash Flow Statement

2010	(€ million)	2011	2012	Change
(104)	**Net loss for the period**	**(269)**	**(593)**	**(324)**
	Adjustments to reconcile net loss to net cash provided by operating activities:			
100	- depreciation, depletion, and amortization and other non-monetary items	196	328	132
	- net gains on disposal of assets		(1)	(1)
(13)	- dividends, interest, taxes and other charges	(132)	(181)	(49)
(95)	Changes in working capital	6	(160)	(166)
82	Dividends received, taxes (paid) received, interest (paid) received	(45)	130	175
(30)	**Net cash flow provided by operating activities**	**(244)**	**(477)**	**(233)**
(93)	Capital expenditures	(157)	(131)	26
(68)	Investments and purchase of consolidated subsidiaries and businesses	(9)	(64)	(55)
	Disposals of investments in consolidated subsidiaries and businesses		5	5
24	Other investing activities	(13)	(13)	
(167)	**Free cash flow**	**(423)**	**(680)**	**(257)**
(141)	Change in short-term and long-term debt	438	695	257
313	Dividends paid and changes in non-controlling interests and reserves			
5	**NET CASH FLOW FOR THE PERIOD**	**15**	**15**	

Change in net borrowings

2010	(€ million)	2011	2012	Change
(167)	**Free cash flow**	**(423)**	**(680)**	**(257)**
313	Dividends paid and changes in non-controlling interests and reserves			
146	**CHANGE IN NET BORROWINGS**	**(423)**	**(680)**	**(257)**

The net cash from operating activities (€477 million), the financial requirement relating to capital expenditure (€131 million), share investments (€59 million) and other investing activities (€13 million), were covered with an increase in short-term and long-term debt of €695 million, generating a net cash flow in the period of €15 million. Information on investments made in the year is provided in the paragraph "Capital expenditure".

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

Reclassified Balance Sheet

Items of the Reclassified Balance Sheet (where not expressly indicated, the item derives directly from the statutory scheme) (€ million)	Reference to notes on the statutory financial statements	**31.12.2011** Partial amounts from statutory format	**31.12.2011** Amounts from reclassified format	**31.12.2012** Partial amounts from statutory format	**31.12.2012** Amounts from reclassified format
Fixed assets					
Property, plant and equipment			643		637
Intangible assets			63		60
Investments in subsidiaries, associates and joint ventures and other investments			225		173
Receivables and securities held for operating activities					1
Net payables related to capital expenditures, made up of:			(26)		(13)
- payables related to capital expenditures	(see note 15)	(26)		(13)	
Total fixed assets			**905**		**858**
Net working capital					
Inventories			892		960
Trade receivables			763		729
Trade payables			(877)		(780)
Tax receivables (payables) and provisions for net deferred tax, made up of:			239		335
current income tax payables		(6)			
other current tax payables	(see note 16)	(10)		(8)	
- payables for tax consolidation	(see note 15)			(33)	
current income tax assets	(see note 4)	10		9	
- other current tax assets	(see note 5)	2		1	
- deferred tax assets	(see note 11)	150		287	
- receivables for tax consolidation and Group VAT	(see note 2)	93		79	
Provisions for risks and charges			(78)		(180)
Other current assets and liabilities made up of:			99		106
- other receivables	(see note 2)	171		179	
- other (current) assets	(see note 6)	2		1	
- other receivables and other assets	(see note 12)	1		1	
- advances, other payables	(see note 15)	(63)		(60)	
other current liabilities	(see note 17)	(2)		(6)	
- other payables and other liabilities	(see note 21)	(10)		(9)	
Total net working capital			**1,038**		**1,170**
Provisions for employee benefits			**(59)**		**(58)**
NET CAPITAL EMPLOYED			**1,884**		**1,970**
Shareholders' equity			**1,147**		**553**
Net borrowings					
Total debt, made up of:					
- long-term debt	(see note 18)	302		601	
- current portion of long-term debt	(see note 18)	7		4	
- short-term debt	(see note 13)	448		847	
less:					
Cash and cash equivalents	(see note 1)	(20)		(35)	
Total net borrowings			**737**		**1,417**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY			**1,884**		**1,970**

Reclassified Cash flow statement

Items of Reclassified Cash Flow Statement and confluence/reclassification of items in the statutory scheme (€ million)	**2011** Partial amounts from statutory format	**2011** Amounts from reclassified format	**2012** Partial amounts from statutory format	**2012** Amounts from reclassified format
Net loss		**(269)**		**(593)**
Adjustments to reconcile net loss to net cash provided by operating activities:				
Depreciation, amortization and other non-monetary items		196		328
depreciation and amortization	53		53	
- net impairment of tangible and intangible assets	147		86	
- impairments (writebacks) of investments	(4)		191	
- currency translation differences from alignment	2		(1)	
- net change in provision for employee benefits	(2)		(1)	
Net gains on disposal of assets				(1)
Dividends, interest, income taxes and other charges		(132)		(181)
- dividend income	(32)		(41)	
- interest expense	19		31	
- income taxes	(119)		(171)	
Changes in working capital		6		(160)
- inventories	(76)		(68)	
- trade receivables	80		33	
- trade payables	35		(95)	
change in provisions for risks and charges	3		22	
- other assets and liabilities	(36)		(52)	
Dividends received, taxes paid, interest (paid) received during the period		(45)		130
- dividends received	32		41	
- interest paid	(23)		(30)	
- income taxes received including tax credits rebated	(54)		119	
Net cash flow provided by operating activities		**(244)**		**(477)**
Capital expenditures		(157)		(131)
property, plant and equipment	(157)		(129)	
- intangible assets			(2)	
Purchases of Investments, consolidated subsidiaries and business segments		(9)		(64)
- investments	(9)		(64)	
Disposals and partial sales of investments				5
property, plant and equipment				
- investments			5	
Other cash flow related to investing activities		(13)		(13)
- change in payables and receivables relating to investing activities	(13)		(13)	
Free cash flow		**(423)**		**(680)**
Change in short-term and long-term debt		438		695
proceeds from long-term debt			300	
repayments of long-term debt	(1)		(3)	
change in short-term debt	439		398	
Changes in share capital and reserves:				
net contributions (refunds) of capital				
Net cash flow for the period		**15**		**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. Therefore the Group has no significant interests in countries which are politically or economically unstable.

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

Operational risk

The Versalis Group's business, by nature, involves industrial and environmental risks and is subject, in most of the countries in which the Versalis Group operates, to laws and regulations on 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 assess the industrial and environmental risks using specific procedures.

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

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

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

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

Capital management

Versalis management uses leverage to assess the degree of solidity and efficiency of the asset structure in terms of relative proportions of sources of financing between own and third-party assets, as wells as to carry out benchmarking analysis against 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 with a leverage ratio of not more than 1.

Fair value of financial instruments

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

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

In relation to the above, the Versalis Group's financial instruments carried at fair value at December 31, 2012 regard "level 2" derivative contracts.

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

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

Environmental regulations

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

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

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 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, 2012 the Versalis Group presents an overall surplus emissions rights position (a so-called "long position")[7]; therefore, in accordance with the accounting criteria adopted, management will recognize the income from the surplus rights at the time of their sale.

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

Business outlook

After the sharp drop in the levels of manufacturing business recorded in Europe in the second half of 2012, in the wake of the serious crisis of business and consumer confidence and the slowdown in the global economy, another difficult year is expected in 2013, particularly for the first six months of the year, even though there are signs of improvement in the economic situation outside of Europe and also with regard to internal demand, which is expected to stimulate growth during the second half of 2013.

A gradual improvement (from 2.3% in 2012 to 2.9% in 2013) in worldwide economic activity is expected in all areas. In particular, growth in emerging markets is expected to increase (from 5.2% to 6.2%), driven by the Chinese economy, which should see growth rates of more than 8% (the downwards trend that had continued for more than a year was already reversing by the third quarter of 2012) and by India (with an increase in growth rates of around 2%). The economies of the developed countries should see their growth rates rise by about half a percentage point, with a steady growth in the USA of +2% following a stable 2012, and in Europe, which should see a return to growth after a year of recession (-0.4% to + 0.3%). A more dynamic global context will stimulate international trade, which is expected to grow from 3% to 5% in 2013.

At the start of 2013 the economic health of the Eurozone will appear much more robust compared with a year ago. The risk of the imminent break-up of the European Union or of a prolonged credit crunch has decreased significantly and the external economic environment also appears to be much more stable compared with 2012. Growth, however, will not be rapid, since, despite the improvements in the banking system and the dilution of the Basel III accord, many companies and families will continue to encounter difficulties in obtaining access to credit. Furthermore, in order to meet budgetary constraints, fiscal policies will continue to be restrictive, thus potentially reducing growth in the Eurozone by 1%. Families' expectations continue to be negative, with the difficult employment situation and tighter fiscal policies negatively influencing planned spending levels. Forecasts therefore predict a marginal growth of the economy of 0.3%, helped by increased investment by businesses in order to prepare for the new economic cycle and by the continued strength of exports on a more dynamic global market.

The Eurozone considerations also apply to Italy. Annual growth will remain marginally negative, while still showing a considerable improvement compared with 2012 (from -2.3% to -0.3%). Excessive caution has caused internal demand to contract far beyond levels warranted by the budgetary constraints of families and businesses; purchase of durable goods decreased by much more than the drop in available real income; investments in relation to GDP are at a historic low and stock levels continue to be extremely low. The improvement in external conditions and the dilution of the terms of the Basel III accord ought to stimulate a return to growth in Italy, particularly in the second half of the year.

The petrochemical industry, which saw a sharp drop in demand in many consumer areas in 2012, particularly in Europe, is expected to show positive signs of growth (CEFIC estimate +2% in 2013), due partly to the global economic recovery and partly to the recovery of internal demand. Fluctuations in demand are still at risk, as the considerable pessimism of European consumers may have led to a radical change in consumer habits, which, even in an improved economic situation, may not entirely disappear. In particular the trend in the automotive industry could heavily affect the European petrochemical industry. Although weak, the industry has, for years, been carrying out operations to reduce and consolidate capacity, in order to optimize use of the available capacity. Lower growth could make further rationalization necessary, albeit within a context of economic improvement.

The signs of recovery recorded at the start of the year are maintaining the market for crude oil, which, in spite of all the difficulties, remained stable throughout 2012, showing no signs of contraction. The acceleration of the positive momentum of the economy could lead to oil prices again reaching $120 a barrel and beyond, despite the increased availability on the market of shale oil.

Sales by the Versalis Group are expected to grow in 2013 compared with 2012, in light of the anticipated improvement in demand. Economically, the year should confirm an overall picture of weak results, albeit better than in 2012.

The new strategy (approved in 2011) will see the implementation during the year of the first steps in the rationalization of production, with the reduction in capacity of the ethylene cracker at Priolo and the shutdown of the polyethylene line at the same site. Alongside a reduction in commodities, negotiations continue with partners for the international expansion of the elastomer business (in richer consumer segments and in more

dynamic markets than the current ones) and the implementation of the new market-orientated business course (development of emerging markets and commercial reorganization in Europe). The development/repositioning of the Business will also entail sustainable growth in the field of green chemistry, with the entry into operation of the agreements with Genomatica Inc., and Yulex, and the continuation of the joint venture between Versalis SpA and Novament SpA in Porto Torres.

Other information

Transactions with related parties

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

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

Treasury shares and shares in parent company

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

Advances against services received from Syndial

As regards the transfer of the "Production plants, services and utilities of the Porto Torres works" business unit, with effect from January 1, 2007, in accordance with the agreements signed by the parties, the conferrer Syndial SpA paid the receiver Versalis SpA the sum of €96 million as an advance against the obligation assumed by Versalis SpA to keep the plants received operating for at least five years (that is, until December 31, 2011). During this five-year period, Versalis SpA formally advised Syndial SpA. at the end of each year that the plants had been in operation and that, therefore, the annual portion of the advance payment was considered effectively earned and due. The agreements also envisage that, had the above plants been definitively shut down, Versalis SpA would have promptly notified Syndial SpA, returning the portion not accrued relating to the period running from the definitive shutdown to December 31, 2011 (€1.6 million per full month or fraction of a month of more than 15 days). On this point, the shutdowns that occurred in June 2011 following the "Memorandum of Understanding for Green Chemistry at Porto Torres" (signed by the Government, the Regional authorities, Eni, Novamont, Versalis SpA, Syndial, Enipower and the trade unions) did not entail the return of the advances.

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

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

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

Significant post balance sheet events

In view of the growing interest in the field of green chemistry, Versalis bought from Eni SpA the business unit of the Donegani Research Institute known as “Catalysis and Sustainable Chemistry”, comprising 38 members of staff, receivables, payables, laboratories and equipment, in order to directly manage research activities aimed at the production of bio-butadiene. The agreement was finalized with the payment to the parent company Eni SpA in December 2012 of a deposit of €3.4 million. The purchase of the business unit is effective as of January 1, 2013.

With regard to the “Green Hub Project”, on February 5, 2013 the Board of Directors of Versalis SpA approved an amendment to the Framework Agreement signed with Novamont SpA on December 20, 2011, in order to provide financing of €130 million to the subsidiary Matrìca SpA, for a period of up to 7 years. Furthermore, in accordance with the aforementioned Framework Agreement, in January 2013 Versalis SpA subscribed a further increase in the share capital of Novamont SpA of €41 million, increasing its shareholding therein from 15% to 25%. A further payment of €1.7 million to Matrìca SpA is expected to be made prior to 31 March 2013, in order to increase share capital.

In January 2013 Versalis and Yulex, a manufacturer of agricultural-based biomaterials, signed a strategic partnership deal for the production of guayule-based bio rubber and for the realization of an industrial production complex in Southern Europe. The agreement covers the entire production chain, from cultivation, extraction of bio rubber, to the construction of a biomass power plant. Versalis will produce materials for application in consumer product markets in the medical and tyre industries. The partnership will take advantage of Yulex‘s agronomic expertise and bio rubber extraction technologies in order to expand Versalis’ green products portfolio. The investment also entails an ambitious research project in order to develop ad hoc bio rubber technologies for the tyre industry.

Already a leader in the field of elastomers, Versalis SpA intends to expand its innovative technologies in the field of synthetic rubber, adding guayule rubber to its portfolio of products, as an additional opportunity for business and commercial diversification.

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, 2012 was 5,724.

2010	Number of Employees	2011	2012
4,902	Italy	4,796	**4,674**
1,059	Abroad	1,044	**1,050**
5,961		**5,840**	**5,724**

The reduction of 116 staff compared with December 2011 was determined by the following:

- increases:

  129 people were recruited, 43% of whom were graduates;

- reductions:

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

  43 employees were transferred to the company Matrìca SpA;

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

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

The breakdown of workforce by category is as follows:

2010	Employees	2011	2012
103	Managers	106	**111**
3,334	Supervisors and clerical staff	3,308	**3,341**
2,524	Manual workers	2,426	**2,272**
5,961		**5,840**	**5,724**

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

Age group	Total	%
< 30	645	11,3
30-39	1.652	28,9
40-49	2.018	35,3
50-60	1.212	21,2
> 60	197	3,4
	5.724	100,0

As at December 31, 2012 the number of employees in service within the Group companies was 5,668.

Employees	2011	2012
Managers	104	106
Supervisors and clerical staff	3,283	3,322
Manual workers	2,417	2,240
	5,804	**5,668**

The number of employees in service at the end of the year was down by 136 compared to the beginning of the year. The number of employees in service is obtained by subtracting those employees seconded to other companies from the total number of employees on the payroll and adding those seconded from other companies.

Employees of Versalis SpA and of its subsidiaries seconded to other companies of the Eni Group, to other entities, or on leave, numbered 81, while those seconded to Versalis SpA from other companies of the Eni Group numbered 25.

Training

The training programmes in Italy and in the foreign subsidiaries covered 211,000 man-hours in 2012. 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 €2.6 million of direct costs, over half of which related to Eni Corporate University SpA. Specific examples over the year include:

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

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

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

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

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

Incentive and remuneration systems

In keeping with the merit-based policy linked to roles and responsibilities, Versalis SpA consolidated its variable performance-based incentive system for senior managers and managers, setting individual targets in line with the company's general objectives. In 2012, performance assessment involved almost all senior managers and managers, identified on the basis of assigned operating and management responsibilities. The incentive policy is linked to the achievement of results and the level of contribution provided. Furthermore, on an experimental basis, a new incentive system has been launched for the sales force operating within Europe. A long-term incentive system, in line with the practices and policies of the Eni Group, is in place for those executives with strategic responsibilities, whose actions have an impact on the results of operations.

Environmental responsibility

The final figures, which give a significant indication of the commitment of financial resources by Versalis SpA for the protection of the health of its workers and 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 works, are as follows:

- €187 million for expenses in the period (€180 million in 2011), including €32 million for ordinary maintenance (€30 million in 2011) and €155 million of current expenses (€150 million in 2011);
- €38 million for capital expenditure (€45 million in 2011).

The cost of environmental activities amounted to €99 million (including polluted area and ground water management activities), safety activities amounted to €116 million and health management activities amounted to €10 million.

The control of greenhouse gas emissions, another important issue for environmental protection, produced the following results:

- Quotas available in 2012: 7,320,864 tons of CO_2 (of which 5,770,435 tons of CO_2 issued by the Competent Authority in 2012 and 1,550,429 tons of CO_2 post compliance/sale between Eni Group companies, in accordance with the provisions of the Eni 2011 balancing plan);
- 2012 emissions: 3,598,897 tons of CO_2
- Surplus: 3,721,967 tons of CO_2

As we all know, in the past few years, as a result of both cyclical nature of trends in the chemicals market, and of the economic crisis which afflicted all markets, production volumes, and consequently the emissions related to energy production, have been steadily decreasing.
This trend is apparent from the data relating to global CO_2 emissions in the last four years. In this regard it should be noted that the difference between the provisional data of 2012 and that of 2011 (amounting to around 415,000 tons of CO_2) is due mainly to the shutdown in June 2011 of part of the Porto Torres plant (Steam Cracking and Aromatics units, accompanied by a reduction of the CTE) and to the restructuring of production at Priolo over the year (around -200,000 tons of CO_2 compared with 2011).

With regard to emissions in 2012, it is also important to note:

- the completion in 2012 of various energy saving projects, with a reduction of around 12,000 tons of CO_2 (these steps shall lead in the coming years to an annual drop in CO2 emissions of approximately 34,000 tons per year);
- a series of significant events, from a production perspective:
    - Porto Torres: shutdown of the CTE turbo generator and modification of the CTE structure from production of HP steam and electrical energy to LP steam only, with a reduction in emissions of around 66,000 tons of CO2/year;
    - Priolo: shutdown for one and a half months at the start of the year and, thereafter, changes in the plant operating rate, again for reasons related to market trends, with a consequent reduction in emissions. With the exception of approximately one month, the steam cracking unit ran only one line from the middle of July to the end of the year;
    - Sarroch: general planned shutdown of the site (one and a half months).

With regards to accident prevention the following results were achieved:

	Italy		Abroad		Total	
	2011	2012	2011	2012	2011	2012
No. of incapacitating accidents	8	5	6	2	14	7
Frequency Rate	1.03	0.66	3.44	1.14	1.47	0.75
Severity index	0.07	0.05	0.17	0.02	0.09	0.05

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

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

In 2012, the following fifteen sites achieved the target of "**an entire year without employee accidents**": Oberhausen (tenth consecutive year), Settimo Milanese (seventh consecutive year), Porto Marghera, Ferrara, Sarroch, Grangemouth (fifth consecutive year), Hythe, Porto Torres, Priolo (fourth consecutive year), Ragusa (fifth consecutive year), Ravenna (second consecutive year), San Donato Milanese (fifth consecutive year), Brindisi (third consecutive year), Mantua and Szàzhalombatta (second consecutive year).

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

The following initiatives are also worthy of mention:

Accident and Injury Data Bank: work continued on the recording of injuries/accidents/near misses/unsafe conditions/medication, using the Accident and Injury Data Bank management software at the Italian and foreign sites, integrated with the QlikView data management software.

SharePoint integration capability is also available for sharing information between the different sites.

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

Company Procedure pro env 002	Management of environmental liabilities.
Company Procedure hse 002	Management of activities related to environmental matrices such as potential contamination of soil, subsoil, sediments, and ground water.
Company Procedure hse 003	Roles, responsibilities and duties with regard to safety, health, environment, public safety and sustainability in the workplace, in accordance with Legislative Decree 81/2008 and subsequent amendments and supplements.
Company Procedure hse 005	Monitoring of seismic behaviour in the case of a seismic event.
Company Procedure hse 006	HSE Management System
Company Procedure hse 001	Management of the company's emissions quotas in accordance with the Emissions Trading System.
Company Procedure hse 007	Management of substances subject to the REACH regulations.
O.P.I. hse 126	Activities related to the presence of materials containing asbestos and insulating materials.
O.P.I. hse 105	Accident management.
O.P.I. hse 116	QHSE analysis of the modification management process.

O.P.I. hse 163	Execution of excavations and operating procedures for the reuse of land.
O.P.I. hse 129	Assessment of risks relating to explosive atmospheres (pursuant to Art. 294 of Legislative Decree 81/08 and subsequent amendments/supplements).
O.P.I. hse 161	Criteria and procedures for verification of the safety management system - pursuant to Art. 25 of Legislative Decree 334/99 and subsequent amendments/supplements.
O.P.I. hse 139	Intervention plan for the prevention of accidents.
O.P.I. hse 158	Management of the sources of ionizing radiation.
O.P.I. hse 001	Assessment of risks for the health and safety of workers in accordance with Art. 28 of Legislative Decree 81/2008 and subsequent amendments/supplements
O.P.I. hse 164	Safety Integrity Level (SIL) Verification
O.P.I. hse 165	Due diligence standards with regards to QHSE
O.P.I. hse 138	Control and management of fugitive emissions.
O.P.I. hse 157	Passive fire protection.
O.P.I. hse 106	Means of identifying, assessing and controlling major accident risks.
O.P.I. hse 141	Criteria for active fire protection.
O.P.I. hse 142	Issue or renewal of fire prevention certificate.
O.P.I. hse 134	Industrial Hygiene.
O.P.I. hse 136	Definition, approval, issue and amendment of the operating safety standards (OSS) and the critical operating parameters (COP).
O.P.I. hse 123	Supervision, inspection and maintenance of fire safety, safety and emergency equipment.
O.P.I. hse 003	Management and use of the chemical agents database (Athos “Advanced Tool for Handling of Substances”).

Personal Protective Equipment (PPE) and Collective Protective Equipment (CPE), Warning Signs and fire-fighting materials: material agreements are in place for safety shoes and gloves, safety warning signs, hire and cleaning of antistatic clothing, other PPE/CPE and fire fighting materials, foam extinguishers and micelle encapsulator fire extinguishers.

Fire-fighting/Extinguishers: an agreement was reached for the supply of a micelle encapsulator extinguisher with high extinguishing power, compared to the normal extinguishers provided; studies are being completed regarding the use of miscelle encapsulator extinguishers in existing plants.
Framework Agreements on Safety Analysis: the agreements relating to Title IV of Legislative Decree 81/08 and subsequent amendments and additions (Safety and Coordination Plan), the activities relating to Legislative Decree 81/08 and Legislative Decree 334/99 and subsequent amendments and additions, the SIL allocation and SIL Verification activities in accordance with the IEC61508 standard are all in course. An agreement is in place for the performance of process safety audits, and SIL, HAZOP and Root Cause Analyses associated with the relevant guidelines.
Support for sites: work is continuing towards supporting Italian and foreign sites regarding safety aspects; in particular, specific support was provided to the following sites:

- Versalis International SA, for due diligence following the incorporation of companies, which changed the commercial and organizational structure of the Group;
- Donegani Novara, for the acquisition of the "green chemistry" business unit, with effect from 1st January 2013.

Working Parties: Versalis SpA continues to participate in Eni working parties on the subject of safety. In particular we note the following working parties: 3TER software update, INDACO Incident Data Bank software update, Emergency response, Integrated HSE Data Bank/INDACO Data Bank software interface, Work Permits Procedure, Work Surveillance Procedure, Industrial Risk Assessment Procedure, Supplier Qualification and Feedback Procedure, Management Model, Rail Tanker Transport, Communicating Safety and Leadership in Safety, Worker Training and Supervisor Training, Specific Training DPI III category E on Protection from Noise, MSG HSE Eni and attachments, Security in Safety.

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

Health protection activities are structured according to a management system strongly focused on prevention. The integration of annual programmes of environmental surveys and health check-up campaigns also makes it possible to tackle the risks of exposure to carcinogenic and mutagenic chemical agents. Environmental measurements and personal exposure measurements are supplemented by biological monitoring aimed at assessing the dose absorbed by workers.

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

The commitment in 2012 has been to further explore the theme of dermal exposure, with the development of an internal methodology currently being tested at our sites, based both on the German Ministry of Health documentation and the principles and methods of the REACH Regulations.

2012 has been an important year as regards the development of a new IT system called Aramis (Advanced Risk Assessment and Medicine Information System), designed to manage industrial hygiene and occupational medicine. It was created in accordance with Eni standards and will be available in the first months of 2013.

Another theme requiring attention and economic resources during the year 2012 was the development of "product safety" into "product stewardship". In order to achieve more ethical and responsible management of the health, safety and environmental aspects of a product throughout its life cycle, Versalis began designing a Product Stewardship programme involving both internal resources (business departments responsible for different aspects of the product) and external contributors (suppliers, distributors, transporters and customers), covering the entire supply chain.

One of the prevailing operational activities of 2012 was the fulfilment of obligations in relation to the REACH Regulations and CLP. The former regulates the obligations of "registration" and "authorization" of products, as a prerequisite for their manufacture. The latter regulates the obligations of classification and labelling of all products as a prerequisite for their introduction onto the market.
The main activities in 2012 were:

- Updating registrations following analytical, process, commercial and other changes, and preparing new registrations after introducing new substances;

- Preparing all the necessary documentation for the application for authorization of a substance, which will continue into 2013;
- Preparing and sending specific documentation requested by the national authorities or by the ECHA Agency;
- Monitoring activities of the Consortia (Steering Committee and Technical Committee);
- Consolidating the control strategy for all supplies of chemicals, auxiliaries and raw materials strategic for the purposes of REACH Compliance;
- Creation of a company database called Athos (Advanced Tool for the Handling Of Substances) for the management of all substances and mixtures at Versalis' Italian sites;
- Development with ICT of a more complete database, to be extended also to all foreign Legal Entities, in order to manage the information in Athos and also the Safety Data Sheets.

The 2012 **System Certification** results, for the company's manufacturing sites, are as follows:

- **Italian Sites:** all facilities (Priolo and Ragusa are considered as a single site) including the San Donato Milanese office, are ISO 14001 and OHSAS 18001 certified. Two sites are also EMAS certified (Mantua and Ferrara). As of 2013, Settimo Milanese is not included in the consolidated group, having been disposed of.
- **Foreign Sites:** all sites are ISO 14001 and OHSAS 18001 certified. The Oberhausen site obtained the OHSAS 18001 certification in 2012.
- Registration with the "Responsible Care" programme promoted by Federchimica was obtained. Only those industrial plants owned and managed by Versalis were taken into consideration.

Certifications:

- The facilities at Brindisi, Mantua, Porto Marghera, Priolo, Ragusa, Ravenna, Ferrara, Sarroch, Settimo Milanese, Porto Torres, Dunkirk, Szàzhalombatta, Grangemouth and Hythe, as well as the San Donato Milanese headquarters, were subject to OHSAS 18001 inspections regarding the workplace health and safety management system;
- The facilities at Brindisi, Ferrara, Mantua, Priolo, Porto Marghera, Ragusa, Ravenna, Porto Torres, Sarroch, Settimo Milanese, Dunkirk, Hythe, Grangemouth, Oberhausen and Szàzhalombatta were subject to ISO 14001 inspections.
- The facilities at Mantua and Ferrara underwent surveillance tests for EMAS registration;
- All facilities in Italy and the foreign sites (Dunkirk, Hythe, Grangemouth and Szàzhalombatta) obtained the Certificate of Excellence, for having integrated effectively their Quality, Environment, Health and Safety Management Systems. The certificate of excellence will be issued to the Oberhausen site in 2013.

Audits: as part of the process to implement both the Eni MSG and the Versalis Management System, as well as the company's Health, Safety and Environment (HSE) policy, audits were planned and carried out during 2012 on the environmental and safety systems at production units.

In particular:

- the plants at Sarroch, Mantua, Priolo and Hythe were audited, adopting the "compliance check" criteria regarding safety aspects concerning fire prevention and explosion risks;
- the plants at Ferrara, Ragusa, Porto Marghera and Hythe were audited with regard to waste management aspects.
- The plants at Brindisi, Mantua, Priolo, Porto Marghera, Porto Torres, Sarroch, Ragusa, Ravenna, Ferrara, Dunkirk, Szazhalombatta, Grangemouth, Hythe and the San Donato Milanese Headquarters underwent systemic Technical Audits and Inspections of Legislative Compliance on the subject of HSE, in accordance with Eni Circular N. 404 of May 14, 2010.
- Specific action plans and related follow-ups were formalized where room for improvement was found.
- In 2012, the Ministry for the Environment issued the Integrated Environmental Authorization for the plants at Sarroch as did the Sicilian Region for the plant in Ragusa.

- Process Safety audits are continuing for all Italian and foreign sites, to be completed by the end of the first quarter of 2013; the follow-up monitoring will continue until the corrective actions have been completed.
- SIL Allocation audits continued for all Italian and foreign sites in accordance with the IEC61508 and IEC61511 standards and were completed by the end of 2012; the follow-up monitoring will continue until the corrective actions have been completed by April 2013.
- Activation of an audit plan to be carried out at all Italian and foreign sites in order to determine the SIL Verification in accordance with the IEC61508 and IEC61511 standards, to be completed by the end of 2014; follow-up monitoring will continue until the corrective actions have been completed.
- Extraordinary audits at the Hythe and Grangemouth sites; follow-up monitoring will continue until the corrective actions have been completed.
- Due Diligence of Versalis International SA; follow-up monitoring will continue until the corrective actions have been completed.
- Due Diligence of Donegani Novara for the acquisition of assets (Green Chemistry); follow-up monitoring will continue until the corrective actions have been completed.

As regards the **remediation of soil and groundwater**, the investigatory activities in accordance with the plans presented and approved, as well as the subsequent supplementary activities, were completed. Groundwater pumping systems have been installed as a preventive measure at the Brindisi, Ferrara, Mantua, Porto Marghera, Priolo and Sarroch sites. The pumping systems, evaluated at the end of 2012, consent a total flow capacity of approximately 550 cubic metres an hour is achievable. This gives an approximate annual total of 4.8 million cubic metres, which is in line with forecasts. In 2012, the groundwater treatment plant (GTP) in Brindisi was taken off-line, since the plant had been sold to Syndial, and therefore did not figure in the Versalis financial statements. Instead, pumping at Priolo increased following the commissioning of the Syndial GTP which provides a greater treatment capacity compared with current systems.

With regards to remediation, the authorization procedure required by law was completed with the approval of projects at the sites in Gela (groundwater); Porto Marghera (groundwater and soil); Priolo (groundwater and soil in the area south of Vallone della Neve); Ferrara (confined groundwater and remediation of a portion of the soil); Ravenna (groundwater and soil in certain areas), Sarroch (groundwater) and Ragusa (remediation of ex-topping area). Work has commenced at Porto Marghera, Priolo, Ferrara, Sarroch and Ravenna. At the Porto Torres facility the groundwater and soil situation is monitored and managed by Syndial, given that Versalis operates under leasehold at this site.

In 2012 documents regarding the first step of the remediation projects relating to the Mantua site (total value of approximately €71 million) were sent to the Ministry of the Environmental Protection, together with the analysis of site-specific risk.

These documents are currently still under examination.

In line with the role acquired by Syndial as a centre of excellence for remediation activities within the Eni Group, a number of activities were entrusted to it at the Mantua, Ferrara and Brindisi sites, after specific mandates or service contracts were signed.

Furthermore, a general private agreement was signed in 2012, which anticipates a more simplified procedure for entrusting remediation activities at the Versalis sites to Syndial SpA, thus avoiding the need to draw up "ad hoc" contracts for each activity.

With regard to Quality Control, internal audits on the Quality Management System (ISO 9001) were carried out in 2012 at all of the Italian production sites, including the headquarters, and also at production sites outside of Italy and at Versalis International. In addition, audits were carried out on 27 companies performing the following activities/processes on behalf of Versalis SpA: contract work, storage of Versalis products (liquid and solid), chemical analysis, procurement, packaging, handling, storage, shipment, calibration, weighing and packaging supply.

During 2012, we completed the cycle of surveillance audits, with the aim of maintaining certification for the Quality Management System (ISO 9001) for all Italian sites, including the business conducted by Raffineria di Gela SpA.

The following directly-controlled foreign companies also had their Quality Management System certifications maintained and/or renewed: maintenance audits for Polimeri Europa France SA, and Polimeri Europa

GmbH, and renewal audits for Polimeri Europa UK Ltd, Versalis International SA, and Dunastyr Polystyrene Manufacturing Company Ltd.

Versalis SpA and Polimeri Europa Uk Ltd were subjected to 8 audits by customers who operate in the automotive, medical and food industries.

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

- All of the polyethylene produced in Italy, with the exclusion of GREENFLEX, is certified by the Italian Plastics Institute, in accordance with the UNI EN ISO 1872-1 standard with the IIP-UNI No. 010 mark;
- Certain polystyrenes are certified by Underwriters Laboratories (UL - USA) as meeting the UL94 standard for flame-resistant materials for use in the electrical/electronic sector; in 2012 the group of products certified at the Szàzhalombatta site increased, certification for the Settimo Milanese site was cancelled, and the production of compounds through the contract work at Greenplast was recognized by UL. The NSF-51 standard certification issued by the National Sanitation Foundation (NSF-USA) for equipment used in food processing is still valid for Kostil and for certain Sinkral products;
- Steps were taken to continue to meet the DIN 4102 standard for flame-resistant materials for use in the construction industry in Germany and in connected production areas, certified by Materialprfüngsanstalt (MPA) of Stuttgart, for Extir AE and Extir CM AE. At the same time, activities to maintain the flame-resistant materials certification by LNE (Laboratoire National d'Essai) were undertaken in accordance with the standard EN 13501-1 ("Euroclasses"). The MPA and LNE certifications relate to both Mantua and Szàzhalombatta products.

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

With regard to regulatory affairs activities in Plastics Europe, research activities were undertaken aimed at clarifying certain safety aspects of the polymers and their end applications; in particular:

- In the Polyolefins Committee: tests were introduced for the specification and assessment of oligomers and polyolefins;
- In the Styrenes Committee: tests are being designed for the specification and assessment of the oligomers of styrene polymers, and for the testing of migration into food of the residual styrene monomer, in preparation of a dossier in support of styrene to be presented to EFSA (European Food Safety Agency).

In addition, the update to the Life Cycle Assessment (LCA) for styrene polymers has been completed.

The Food Contact Committee and the Food Contact Expert WG continued work on updating Regulation 10/2011 "Plastic materials destined for contact with foodstuffs", which was updated for the third time in 2012.

In Plastics Europe Italy, work continued on completing the guidelines on good manufacturing practice (GMP) with the Italian National Health Institute, in particular with regard to preparation of control checklists for quality management systems.

In the IISRP (International Institute of Synthetic Rubber Producers) the idea was introduced for the first LCA study on synthetic rubber (EU and USA), which could begin in 2013.

Safety Data Records (SDRs): during 2012, 707 SDRs were issued or updated for Versalis products particularly following the change of the company name; 691 supplier SDRs were added or updated; the Versalis SDR database currently contains over 3000 records.

2184 replies were given to customers on the subject of "product compliance", in support of our products and their specific final applications.

Furthermore, in 2012 the standard documentation to be sent to customers to implement the change of the company name (contact with foodstuffs declaration, pharmacopoeia, absence of substances, conformity with REACH regulations, SVHCs, SDS, etc) was updated.

Finally, work continues on monitoring the approval of raw material (strategic, chemicals and auxiliary) and packaging suppliers, on the issue of the relevant specifications and on the issue of product and sales specifications of all the company's products.

In 2012 work began on drafting guidelines for the implementation of good manufacturing practices (GMP) as defined in Commission Regulation (EC) No 2023/2006, which will set out a framework for the identification of risks that endanger the integrity of the products and for the implementation of appropriate controls. The guidelines explain the GMP system and the management of risk during the manufacturing process to ensure the integrity of Versalis SpA products destined for contact with foodstuffs or to be applied in the pharmaceutical field. The checklist for this purpose is currently in the implementation phase.

Work continues on monitoring approval of raw material (strategic, chemicals and auxiliary) and packaging suppliers, on the issue of the relevant specifications and on the issue of product and sales specifications for all the company's products.
In addition to responding to customers on product stewardship issues, work continued on the commitment to respond to customers on other matters related to Versalis' Quality Management System.

The table below summarizes the number of letters sent to customers in 2012, analysed by document type and business unit involved.

Type of document	Elas	Poly	Styr	Total
Declaration of conformity	-	-	54	54
Corrective action / Replies to complaints	1	23	6	30
Questionnaires / Agreements / Other	10	13	14	37
Total	**11**	**36**	**74**	**121**

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

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

Altogether during 2012 the following documents were opened and managed through these computerized applications:

Procedure	Number of documents
Customer Complaints	1,074
Corrective, Preventive Actions and Non Conformities	626
Polymers sampling to customers	1,293

Monitoring these applications requires constant control of the access rights of the approximately 900 staff members involved in the different units and in all the manufacturing and commercial sites in Italy and abroad, support for correct document management, and ongoing training for those using the applications.
In 2012, 6 training modules on the use of these tools were delivered, with the participation of 65 colleagues from headquarters and from the Sarroch and Ravenna sites.
The necessary improvement specifications were also prepared for these procedures, detailing a total of 65 interventions.

The finishing touches were given to the proposal for a new system of measurement indicators for assessing company performance, in order to monitor internally, through measurable indices, the level of satisfaction of the "external" and "internal" customer.
Parallel to this, a questionnaire was created to be sent to specifically selected customers to assess customer satisfaction with regards to the products and services supplied by Versalis and its subsidiaries.

Both these projects will be subject to approval by the Versalis Board for implementation in 2013.

Territorial relationships and local development

Industrial policy in the chemical sector has an increasingly global and eco-sustainable orientation and therefore it is fundamentally important to support and promote development in this sector, guaranteeing high levels of innovation in order to manufacture products that are both technologically advanced and eco-compatible.

Versalis intends to get ahead of the competition in harnessing the potential of green chemistry. Pursuing green chemistry will allow Versalis to achieve a long-term dual objective:

- the diversification of its core petrochemical business into a sector with high potential, offering products with low environmental impact;
- the resolution through green chemistry and other “green” initiatives of serious issues related to industrial sites, upgrading them and making them more competitive.

In relation to green chemistry, in 2012 the “Porto Torres Green Hub” and “Production of bio-butadiene” projects were launched. The project for the reconversion of the site at Priolo also got underway during the year.

The “Porto Torres Green Hub” project

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

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

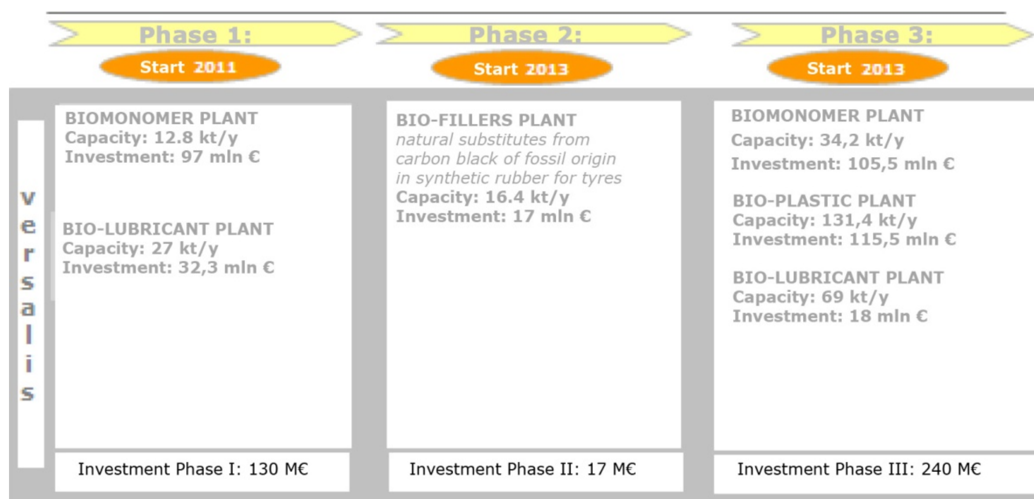
The Memorandum of Understanding signed by the parties with the Presidency of the Council of Ministers in May 2011 in support of the redevelopment of the site anticipated the shutdown of the cracking and polyethylene plants, the development of eco-compatible energy sources, bringing up to standard of professional resources and speeding up of environmental interventions at the site, and is included in the national interest programme for the synchronization of remediation activities with the procedure for approving projects for new plants.

The industrial redevelopment is being carried out by Matrìca, a company jointly owned by Versalis SpA and Novamont SpA, in accordance with the agreement signed in December 2011 by Eni SpA, Versalis SpA, Mater Bi SpA and Novamont SpA.

The redevelopment project involves the transition from traditional petrochemical products to the manufacture of biomonomers and biopolymers, with the construction of the largest industrial-scale bio refinery in the world fuelled by biomass; this will drive the recovery of the local economy in the chemical sector and in connected areas such as agriculture, research and innovation.

The redevelopment project will safeguard and develop employment, both by maintaining current employment levels through launching and developing training courses aimed at gaining knowledge of the production processes at the new plants, and by launching recruitment programmes in order to attract the new professional resources necessary to staff the new plants.

The creation of the new manufacturing plants shall take place in 3 phases:



The realization of the infrastructure and the utilities supply networks for the facilities at Matrìca SpA is the sole responsibility of Versalis SpA, which will also provide the areas and buildings, to be supplied in an ordinary maintenance condition.

In 2012 Matrìca SpA issued orders for €70 million while Versalis completed the remediation of the areas destined for the creation of a Research Centre by Matrìca SpA, where three new pilot plants and offices for technical staff have already been installed. Versalis SpA has also begun reorganization of the utilities distribution and stock networks to be used at the Matrìca SpA plants. In 2012 Versalis SpA reported expenditure of approximately €4 million out of an authorized budget of around €40 million on interventions to support Matrìca SpA activities.

Production of bio-butadiene - Agreement with Genomatica Inc. and Novamont SpA

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

The agreement provides for the incorporation of a company in which Versalis is the majority shareholder holding exclusive rights on the development and marketing of the process that is the subject of the agreement.

Subsequent to the stipulation of the agreement, Versalis SpA became a shareholder of Genomatica Inc. with an investment of €12 million.

Redevelopment of the Priolo site

Priolo, which is an extremely important asset for Versalis, has also seen the launch of a redevelopment project aimed at eliminating the weaknesses that contribute to negative results.

The steam cracker at the site, Versalis' largest in terms of capacity, is extremely inefficient, with poor downstream integration and also high logistical costs in relation to its production output.

The redevelopment project at Priolo aims to tackle these weaknesses through:

- the reorganization of the cracker plant into a single line, using new and more efficient furnaces and with higher output (phase 1);
- the construction of new facilities that can add more value to some cracker production cuts (today used as feedstock or sold) (phase 2).

The planned measures will also contribute to technological improvements and to improved energy performance of the plant.

Phase 1 of the project is expected to be completed in 2013, with an overall investment of around €74 million.

The redevelopment will not change the occupational structure of the company but will consolidate the number of employees working there under a standard contract.

In 2012 specific contracts were issued for critical supplies, with reported costs of around €3 million.

Technological innovation

The research and technology activities carried out during 2012 were directed towards the continuing improvement of processes and products, with a view to strengthening and renewing company businesses and launching new green chemistry projects. Work also continued on enhancing the value of research by transferring technologies to third parties. The most significant results are described below:

Basic chemicals

A new proprietary technology for the production of butadiene from dehydrogenation of butene was developed. The layout of the pilot plant was decided and purchase of the relevant equipment has begun.

Styrenes

A new flame retardant additive was identified and tested at industrial level. This new additive is suitable for the continuous mass production of expandable polystyrene, giving a marked improvement in production continuity and in the fire resistant properties of the end-product, thus enabling high levels of insulation and self-extinguishing capability.

A new proprietary technology was identified and defined at the pilot stage for the production of ABS, which will improve the current continuous mass production technology, expanding the portfolio to include products that can currently only be produced using traditional, less efficient, technologies which have a greater environmental impact (e.g. products for the chrome plating sector).

Polyethylene

A new range of linear low-density polyethylene (LLDPE) was finalized at the pilot stage for the field of "drip irrigation", which has shown improved processability in application, together with valid mechanical properties.

An original ethylene vinyl acetate (EVA) polymer-based formula, for use as an additive to crude oil in order to reduce the pour point, was studied and finalized.

Elastomers

The modified catalytic system for the production of EPDM terpolymers was consolidated, confirming at industrial level the results from the pilot tests, and showing both a substantial reduction in consumption of the catalytic components and an improvement in product quality, thus offering the possibility of exploring more profitable application sectors.

In collaboration with a leading tyre manufacturer, new elastomeric formulas, based on bio-extensor oils and destined for use in the high-performance tyre sector (particularly those used in winter), were successfully tested.

Green chemistry

The aforementioned Memorandum of Understanding signed with Genomatica Inc. and Novamont SpA for the creation of a joint venture will, from a technological innovation perspective, govern the 4 year joint research programme, aimed at the development of new technology for the production of butadiene from renewable sources.

The National Green Chemistry Technological Cluster, which is led by Versalis SpA, Novamont SpA, Mater-Bi and Chemtex, has received authorization from the Italian Ministry of Education, Universities and Research (MIUR). Specifically, Versalis is in charge of the project for Research, Development and Training no. 1 - ALBE (Alternative Lignocellulosic Biomasses for Elastomers).

Administrative and Accounting separation of the electricity business

In addition to the petrochemical sector, Versalis SpA also operates in the power sector, producing almost exclusively for internal consumption and selling modest quantities to third parties. As of 2011, 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 1. Furthermore, the plants, do not satisfy the definition set forth in Resolution no. 42/02. This results in the exclusion of the three power plants, with the consequent classification of the entire financial statement of Versalis under Other activities. For this reason, as of 2011, Versalis no longer prepares separate annual accounts in accordance with Resolution 11/2007 of the Italian Energy Authority.

Other compliance information

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

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

Secondary head offices

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

Consolidated Financial Statements for the year 2012

Balance Sheet

(€ million)	Note	31.12.2011 Total	31.12.2011 *of which with related parties*	31.12.2012 Total	31.12.2012 *of which with related parties*
ASSETS					
Current assets					
Cash and cash equivalents	(1)	44		60	
Trade and other receivables	(2)	1,137	*260*	1,110	*222*
Inventories	(3)	1,145		1,251	
Current tax assets	(4)	10		15	
Other current tax assets	(5)	13		9	
Other Assets	(6)	3	*2*	2	*1*
		2,252		**2,447**	
Non-current assets					
Property, plant and equipment	(7)	931		893	
Intangible assets	(8)	65		69	
Investments accounted for using the equity method	(9)	37		49	
Other investments	(10)	3		52	
Other financial assets		1			
Deferred tax assets	(11)	152		289	
Other Assets	(12)	1		1	
		1,190		**1,353**	
TOTAL ASSETS		**3,542**		**3,800**	
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities					
Short-term debt	(13)	663	*663*	1,205	*1,203*
Current portion of long-term debt	(14)	6	*6*	3	*3*
Trade and other payables	(15)	1,086	*493*	987	*426*
Income tax payables	(16)	11		1	
Other current tax liabilities	(17)	12		9	
Other current liabilities	(18)	3	*1*	6	*2*
		1,781		**2,211**	
Non-current liabilities					
Long-term debt	(19)	443	*440*	800	*798*
Provisions for risks and charges	(20)	83		110	
Provisions for employee benefits	(21)	63		62	
Deferred tax liabilities	(22)	8		18	
Other liabilities	(23)	7		7	
		604		**997**	
TOTAL LIABILITIES		**2,385**		**3,208**	
SHAREHOLDERS' EQUITY	(24)				
Share capital [(a)]		1,553		1,553	
Other reserves		94		102	
Retained earnings/(losses brought forward)		(170)		(490)	
Loss for the period		(320)		(573)	
TOTAL SHAREHOLDERS' EQUITY		**1,157**		**(961)**	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**3,542**		**3,800**	

(a) Fully paid-up share capital consisting of 1,553,400,000 shares with a par value of 1 euro.

Profit and Loss Account

		2011		2012	
(€ million)	Note	Total	*of which with related parties*	Total	*of which with related parties*
REVENUES	(26)				
Net sales from operations		6,491	*306*	6,418	*424*
Other income and revenues		92	*60*	103	*44*
Total revenues		**6,583**		**6,521**	
OPERATING EXPENSES	(27)				
Purchases, services and other costs		(6,393)	*(3,003)*	(6,639)	*(3,244)*
Payroll and related costs		(375)		(368)	
OTHER OPERATING (EXPENSE) INCOME	(28)	**1**	*1*	**(9)**	*(9)*
DEPRECIATION, AMORTIZATION AND IMPAIRMENTS	(29)	**(225)**		**(193)**	
OPERATING PROFIT (LOSS)		**(409)**		**(688)**	
FINANCIAL INCOME (EXPENSE)	(30)				
Financial income		109		75	
Financial expense		(135)	*(27)*	(122)	*(39)*
Derivatives		5	*5*	(2)	*(2)*
		(21)		**(49)**	
INCOME (EXPENSE) FROM INVESTMENTS	(31)				
Share of profit (loss) of equity-accounted investments		1		2	
		1		**2**	
PROFIT (LOSS) BEFORE INCOME TAXES		**(429)**		**(735)**	
Income taxes	(32)	109		162	
LOSS FOR THE PERIOD		**(320)**		**(573)**	

Statement of Comprehensive Loss

(€ million)	**2011**	**2012**
LOSS FOR THE PERIOD	(320)	**(573)**
Other items of comprehensive loss:		
Foreign currency translation differences	(3)	4
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	(323)	**(569)**

Statement of Changes in Shareholders' Equity

(€ million)	Share capital	Exchange differences reserve	Porto Torres contribution reserve	Other available profit reserves	Retained earnings/(losses brought forward)	Other reserves	Loss for the period	Total
Balance at December 31, 2010 (a)	**1,553**	**(6)**	**74**	**1**	**(99)**		**(71)**	**1,452**
Loss for the year 2011							*(320)*	*(320)*
Foreign currency translation differences		*(3)*						*(3)*
Total comprehensive loss for the year 2011 (b)							**(320)**	**(323)**
Transactions with shareholders:								
Allocation of loss for the year 2010					(71)		71	
Total transactions with shareholders ©					**(71)**		**71**	
Other changes:								
Advance payment for Porto Torres conferral			27					27
Cost accruing of stock options awarded				1				1
Total other changes (d)			**27**	**1**				**28**
Balance at December 31, 2011 (e=a+b+c+d)	**1,553**	**(9)**	**101**	**2**	**(170)**		**(320)**	**1,157**
Loss for the year 2012							*(573)*	*(573)*
Other items of comprehensive loss:								
Foreign currency translation differences		4						4
Total comprehensive loss for the year 2012 (f)		**4**					**(573)**	**(569)**
Transactions with shareholders:								
Allocation of loss for the year 2011					(320)		320	
Total transactions with shareholders (g)					**(320)**		**320**	
Other changes:								
Effect of the acquisition of non-consolidated investments						4		**4**
Total other changes (h)						**4**		**4**
Balance at December 31, 2012 (i=e+f+g+h)	**1,553**	**(5)**	**101**	**2**	**(490)**	**4**	**(573)**	**592**

Cash Flow Statement

(€ million)	Note	2011	2012
Loss for the period		(320)	(573)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	(29)	78	82
Net impairments (writebacks) on property, plant and equipment and intangible assets	(29)	147	111
Share of profit (loss) of equity-accounted investments	(31)	(1)	(2)
Currency translation differences	(30)	2	(1)
Net gains on disposal of assets		(1)	
Interest income	(30)	(1)	
Interest expense	(30)	23	36
Current, deferred and advance income taxes for the period	(32)	(109)	(163)
Changes in working capital:			
- inventories	(3)	(147)	(102)
- trade receivables	(2)	84	24
- trade payables	(15)	23	(118)
- provisions for risks and charges	(20)	3	27
- other assets and liabilities		(29)	(51)
Cash flow provided by changes in working capital		*(248)*	*(730)*
Net changes in provisions for employee benefits	(21)	(2)	(1)
Dividends received		2	3
Interest received		1	
Interest paid		(28)	(35)
Income taxes received (paid) including tax credits rebated		(70)	110
Net cash flow provided by operating activities		**(345)**	**(653)**
of which with related parties	*(33)*	*(2,788)*	*(2,732)*
Investments:			
- property, plant and equipment	(7)	(200)	(147)
- intangible assets	(8)		(9)
- equity investments	(9) & (10)	(9)	(60)
- changes in payables relating to investing activities	(15)	(26)	(9)
Cash provided by investing activities		*(235)*	*(225)*
Disposals:			
- property, plant and equipment	(7)	1	
- equity investments	(9) & (10)	1	
Cash provided by disposals		*2*	
Net cash provided by investing activities		**(233)**	**(225)**
of which with related parties	*(33)*	*(17)*	*(65)*
Proceeds from long-term debt	(19)	60	358
Repayments of long-term debt	(19)	(14)	(4)
Increase (decrease) in short-term debt	(13)	540	540
Net cash provided by financing activities		**586**	**894**
of which with related parties	*(33)*	*590*	*895*
Net cash flow for the period		**8**	**16**
Cash and cash equivalents - beginning of the year	(1)	**36**	**44**
Cash and cash equivalents - end of the year	(1)	**44**	**60**

Notes to the Consolidated Financial Statements

Basis of presentation

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

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

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

The consolidated companies, unconsolidated subsidiaries, joint ventures, associates and significant investments as set forth by Art. 126 of Consob Decision No 11971 of May 14, 1999 and subsequent changes are indicated separately in the paragraph “List of investments”.

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

The financial statements at December 31, 2012, approved by the Board of Directors of Versalis SpA at its meeting on March 8, 2013, are audited by Reconta Ernst & Young SpA. As the main independent auditor, the Reconta Ernst & Young network is responsible for auditing the Group's consolidated financial statements.

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

These financial statements were prepared on the basis of a going concern assumption, given that Versalis SpA is a company wholly owned and controlled by Eni SpA; further information with regard to this is provided in the sections on liquidity risk and business outlook.

Consolidation Principles

Interest in consolidated companies

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

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

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

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[8] The international accounting standards used in the preparation of the consolidated financial statements substantially coincide with those issued by the IASB and in force in 2012, since the current differences between the IFRS endorsed by the European Commission and those issued by the IASB relate to situations that do not affect the Group.

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

Intercompany transactions

Unrealized intercompany profit arising on transactions between consolidated companies is eliminated, as are intercompany receivables, payables, revenues and expenses, guarantees (including performance bonds), commitments and risks between consolidated companies. Inter-company losses are not eliminated since are considered an impairment indicator of the assets transferred.

Foreign currency translation

Financial statements of consolidated foreign companies having a functional currency other than the euro are converted into euro by applying: (i) closing exchange rates for assets and liabilities; (ii) historical exchange rates for equity items; (iii) average exchange rates for the year to the items in the profit and loss account (source: Bank of Italy).
The exchange differences from the translation of non-euro financial statements, deriving from the application of different exchange rates for assets and liabilities, shareholders' equity and the income statement, are recognized under the item "Other reserves". The reserve for exchange differences is charged/credited to the profit and loss account at the point of disposal of the investment or of repayment of the capital employed.

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

(amount of currency for 1 euro)	Annual average exchange rate 2011	Exchange rate at Dec. 31, 2011	Annual average exchange rate 2012	Exchange rate at Dec. 31, 2012
Pound Sterling	0.87	0.84	0.81	0.82
Hungarian Forint	279.37	314.58	289.25	292.30
Chinese Renminbi	9.00	8.16	8.11	8.22

Accounting policies

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

Current assets

Financial assets held for trading and available-for-sale financial assets are stated at fair value, with gains or losses recognized in the profit and loss account under the item "Financial income (expense)" and in the shareholders' equity reserve under "Other items of comprehensive income", respectively. In the latter case, changes in fair value recognized in equity are taken to profit or loss 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 probability of insolvency of the counterparty.
Losses are deducted from the carrying amount of the asset.
Available-for-sale financial assets include financial assets other than derivative financial instruments, loans and receivables, held-for-trading financial assets and held-to-maturity financial assets.
The fair value of financial instruments is represented by market quotations or, in their absence, by the value resulting from the adoption of suitable financial valuation models which take into account all the factors adopted by the market operators and the prices obtained in similar actual transactions in the market.
Interest matured and dividends declared on financial assets available-for-sale are accounted for on an accruals basis as 'Financial income (expense)' and 'Other income (expense) from investments', respectively.
When the purchase or sale of a financial asset occurs under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the market place concerned, the transaction is recognized at the settlement date.
Receivables are stated at amortized cost (see below "Non-current assets - Financial assets").

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

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

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

Non-current assets

Property, plant and equipment

Property, plant and equipment, including real estate investments, are recognized using the cost model and are stated at their purchase or production cost including any costs directly attributable to bringing the asset into operation. In addition, when a substantial amount of time is required to make the asset ready for use, the purchase price or production cost includes borrowing costs that theoretically would have been avoided had the investment not been made.
In the case of current obligations for the dismantling and removal of assets and the remediation of sites, the carrying value includes, with a corresponding entry to a specific provision, the estimated (discounted) costs to be borne at the moment the asset is retired. The accounting treatment of changes in estimates for these provisions, of the passage of time and of the discount rate are recognized under 'Provisions for risks and charges". As the time when the asset will be abandoned is uncertain, making it impossible to estimate the related discounted abandonment costs, the site dismantling and remediation costs related to property, plant and equipment are recognized when the date on which the actual cost to be incurred can be determined, and when the amount of the obligation can be estimated reliably. In this respect Versalis periodically assesses the conditions in which it operates in order to ascertain if there have been any changes, circumstances or events that could result in the need to provide for site dismantling and remediation costs for its property, plant and equipment.

Revaluations are not allowed even in application of specific laws.

Expenditures on renewals, improvements and transformations that extend the useful lives of the related asset or otherwise increase the value thereof are capitalized when it is likely that they will increase the future economic benefits expected from the asset.
Starting from the moment when the asset comes into use or should have come into use, tangible assets are depreciated systematically using a straight-line method over their useful life, which is an estimate of the period over which the assets will be used by the company. When the tangible asset is made up of several significant components with different useful lives, the depreciation is calculated separately for each component.
The depreciable amount of an asset is its cost less the estimated realizable value at the end of its useful life, if significant and reasonably determinable. Land is not subject to depreciation, even if purchased together with a building, and nor are tangible assets held for sale (see "Non-current assets held for sale", below).
The costs of replacing identifiable components in complex assets are capitalized and depreciated over their useful life; the residual carrying value of the component that has been replaced is charged to the profit and loss account. Ordinary maintenance and repair costs are charged to the profit and loss account when incurred.
The carrying value of tangible assets is reviewed for impairment whenever events indicate that the carrying amounts for those assets may not be recoverable. The recoverability of an asset is assessed by comparing its carrying value with the recoverable amount, represented by the higher of fair value less costs to sell and value in use (the so-called impairment test). In the absence of a binding sales agreement, fair value is estimated on the basis of market values, recent transactions, or the best available information that shows the proceeds that the company could reasonably expect to collect from the disposal of assets.
Value in use is determined by discounting the future cash flows expected to be derived from the use of the asset and, if significant and reasonably determinable, from its disposal at the end of its useful life, net of disposal costs. The value in use is calculated net of the tax effect as this produces results substantially equivalent to those obtainable using a pre-tax measurement.
Cash flows are determined on the basis of reasonable and demonstrable assumptions that represent the best estimate of the future economic conditions which could occur during the residual useful life of the asset, giving more importance to independent assumptions. Discounting is carried out at a rate that reflects current market assessments of the time value of money and the risks specific to the asset that are not reflected in the estimate of future cash flows. The discount rate used is the Weighted Average Cost of Capital (WACC) adjusted, as indicated below, for the specific country risk of the asset being measured. The measurement of

the specific country risk to be included in the discount rate is carried out on the basis of information provided by external providers. Valuation is carried out for each single asset or, if the realizable value of a single asset cannot be determined, for the smallest identifiable group of assets that generates independent cash inflows from their continuous use, the so-called "cash generating unit". If the reasons for impairment cease to exist, the impairment loss is reversed to the income statement as income from revaluation. The value of the asset is written back to the lower of the recoverable amount and the original book value before impairment, less the depreciation that would have been charged had no impairment loss been recognized.

Intangible assets

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

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

Intangible assets with a defined useful life are amortized 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 amortized and the recoverability of their carrying value are determined in accordance with the criteria described in the section 'Tangible assets'.

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

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

Grants

Capital grants are recognized as a reduction of purchase price or production cost of the relevant assets when there is reasonable assurance that the conditions laid down by government bodies for obtaining them have been met.
Grants for operating expenditure are credited to the profit and loss account.

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

Financial Assets

Investments in non-consolidated subsidiaries, joint ventures and associated companies are accounted for using the equity-accounting method. Where there exists objective evidence of impairment (see also 'Current assets'), the recoverability is assessed comparing the carrying amount with the recoverable value of the assets determined adopting the criteria indicated in the section "Tangible assets'".
If it does not result in a misrepresentation of the financial situation and income, subsidiaries excluded from consolidation, joint ventures and associated companies are accounted for at cost, adjusted for impairment losses. When the reasons for their impairment cease to exist, equity investments accounted for at cost are written back up to the limit of the impairment recognized and the effects are credited to the profit and loss account under the item "Other income (expense) from investments".
Other equity investments included in non-current assets are recognized at their fair value and their effects are included in shareholders' equity under 'Other items of comprehensive income'. Changes in fair value recognized in equity are recognized in profit or loss when the investment is sold or impaired. When equity

investments are not traded in a regulated market and their fair value cannot be reasonably ascertained, they are accounted for at cost, adjusted for impairment losses; such impairment losses may not be reversed.[9]
The investor's share of any losses exceeding the carrying amount is recognized in a specific provision to the extent that the investor is required to fulfil legal or implicit obligations towards the investee or to cover its losses.

Receivables and held-to-maturity financial assets

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

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

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

Non-current assets held for sale

Non-current assets (or disposal groups), whose carrying amount will be recovered mainly through a sale transaction rather than through their continuing use, are classified as held for sale. Non-current assets held for sale and the liabilities directly associated with them are recognized in the balance sheet separately from the entity's other assets and liabilities.

Non-current assets held for sale are not depreciated and they are measured at the lower of the fair value less costs to sell or their carrying amount.

Any difference between the carrying amount and the fair value less costs to sell is taken to the income statement as an impairment loss; any subsequent reversal is recognized up to the cumulative impairment losses, including those recognized prior to qualification of the asset as held for sale.

Financial liabilities

Debt is carried at amortized cost (see "Financial assets" above).

Provisions for risks and charges

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

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

provisions should be discounted using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The increase in the provision related to the passage of time is recognized in the profit and loss account under the heading “Financial income (expense)”. When the liability regards property, plant or equipment (e.g. decommissioning and site remediation), the provision is stated with a corresponding entry to the asset to which it refers and taken to the profit and loss account through the depreciation process.
The costs that the company expects to bear to carry out restructuring plans are recognized in the year in which the company formally defines the plan and the interested parties have developed a valid expectation that the restructuring will occur.
Provisions are periodically updated to show the variations in cost estimates, realization times and discount rates; increases or decreases for changes in estimates are recognized in the same profit and loss account item used to accrue the provision, or, when the liability regards property, plant or equipment (e.g. dismantling and site remediation), through an entry corresponding to the assets to which they refer.

Employee benefits

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

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

Actuarial gains and losses relating to defined benefit plans deriving from changes in the actuarial assumptions used or in plan conditions are recognized pro rata in the profit and loss account over the average remaining working lives of the employees participating in the plan, if, and to the extent that, the net cumulative actuarial gains and losses unrecognized at the end of the previous financial year exceed the greater of 10% of the present value of the defined benefit obligation and 10% of the fair value of the plan assets (the so-called corridor method).

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

Revenues and costs

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

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

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

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

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

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

Costs related to emission quotas, determined on the basis of the average prices on the main European markets at the end of the year, are recognized in relation to the amount of carbon dioxide emissions exceeding the quotas assigned. Costs related to the purchase of emission rights are capitalized and recognized as intangible assets, net of any negative difference between the amount of emissions recorded

and quotas assigned. Revenues related to emission quotas are recognized when realized through sale. In the case of sale, where present, emission rights purchased are considered sold first. Cash receivables assigned in lieu of free assignment of emission quotas are recognized against the item "Other revenues" in the income statement.

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

Personnel expenses include stock options granted to managers, consistent with their actual remunerative nature. The cost is determined with reference to the fair value of the right awarded to the employee at the date of the award and it is not subject to subsequent adjustment; the portion accruing to the year is calculated pro rata over the period to which the incentive refers (the vesting period). The fair value of stock options is the value of the option calculated with appropriate valuation techniques that take into account the exercise conditions, current share price, expected volatility and risk-free interest rate. The fair value of stock options is recognized as a contra-entry to "Other reserves".

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

Exchange rate differences

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

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

Dividends

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

Income taxes

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

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

Deferred tax assets and liabilities are calculated on temporary differences arising between the carrying amounts of the assets and liabilities and the corresponding amounts recognized for fiscal purposes on the basis of the tax rates and laws enacted or substantively enacted for future years. Deferred tax assets are recognized when their recovery is considered probable.

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

Derivatives

Derivatives, including embedded derivatives which are separated from the host contract, are assets and liabilities recognized at their fair value, estimated using the criteria described in the section “Current Assets”. When there is objective evidence that an impairment loss has occurred (see also the section “Current assets”) derivative assets are recognized net of provisions for impairment losses.

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

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

Financial Statements

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

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

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

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

Use of accounting estimates

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

characterized by the economic and financial crisis, which made it necessary to make assumptions regarding the future marked by significant uncertainty.
Summarized below are the critical accounting estimates used that required subjective judgements, assumptions and estimates relating to issues which, by their very nature, are uncertain. Changes in the conditions on which such judgements, assumptions and estimates are based may have a significant effect on future results.

Impairment of assets

Impairment losses on property, plant, equipment and intangible assets are recognized if events or changes in circumstances indicate that their carrying amount is no longer recoverable.

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

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

Dismantling and remediation of production sites

At present, the companies of the Versalis Group have no obligation to restore sites, in compliance with legislation, administrative regulations or contractual clauses, and therefore, in consideration also of the current corporate plans, which envisage that the operational industrial sites will not be decommissioned as they are strategic for the achievement of the corporate objectives, management considers the probability of incurring costs relating to the decommissioning and remediation of these sites to be remote.

Recoverability of deferred tax assets

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

Business combinations

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

Environmental liabilities

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

Although at present Versalis does not believe that non-compliance with environmental regulations will have a particularly significant adverse impact on the financial statements - taking account of the fact that a

significant part of the assets was acquired with adequate guarantees on January 1, 2002, as well as of work already undertaken, of insurance policies underwritten and of provisions made – it is not possible to exclude the possibility that Versalis may incur additional costs and liabilities, even of a significant amount, given that, at present, it is impossible to foresee the effects of future developments, also taking into account the following aspects: (i) the possibility of as yet unknown contamination; (ii) the results of the on-going surveys and the other possible effects deriving from application of Decree 471/1999 of the Ministry of Environment; (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 return on plan assets, 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 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; (v) the return on plan assets is determined on the basis of the weighted average of expected future yields divided by investment class (fixed income, equity, monetary).

Differences between incurred and expected costs and between expected returns and the actual return on the plan assets routinely occur and are known as actuarial gains and losses. Actuarial gains and losses are recognized on a pro-rata basis in the income statement over the remaining average working life of employees participating in the plan, if, and to the extent to which, their unrecognized net value at the end of the previous reporting period exceeds the greater of (i) 10% of the present value of liability relating to the plan and (ii) 10% of the fair value of the plan assets (the so-called corridor method).

Actuarial assumptions are also adopted to determine obligations for long-term benefits; for this purpose, the effect of changes in actuarial assumptions or in the characteristics of the benefit are taken to the profit and loss account in their entirety.

Provisions

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

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

Recently issued accounting principles

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

Regulation No 475/2012 issued by the European Commission on June 5, 2012 approved the amendments to the IAS 1 "Presentation of Financial Statements — Disclosure of Items of Other Comprehensive Income" (hereinafter "IAS 1") that introduce, among other things, an obligation to group comprehensive income items based on whether they are potentially reclassifiable to profit or loss in accordance with the provisions of the relevant IFRS (so-called reclassification adjustments). The rules are effective starting from periods beginning on, or after July 1, 2012 (for Versalis: the 2013 financial statements).

Regulation 475/2012 issued by the European Commission on June 5, 2012 also approved the new version of the IAS 19 "Employee Benefits" (hereinafter "IAS 19") which introduces, among other things: (i) a requirement to recognize actuarial gains and losses in the statement of comprehensive income, eliminating

the option to adopt the corridor method. Actuarial gains and losses recognized in the statement of comprehensive income may not subsequently be booked to profit or loss; and (ii) elimination of the separate presentation of cost components relating to the defined-benefit liability, represented by the expected return on plan assets and the interest cost, and replacement with the aggregate “net interest”. This aggregate is determined by applying to the liabilities, net of the plan assets, the discount rate defined for the liabilities. The new rules also require a supplement to the accounting disclosure to be provided with particular reference to defined benefit plans. The rules must be applied for annual periods beginning on or after January 1, 2013.

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

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

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

Regulation No 1255/2012 issued by the European Commission on December 11, 2012 approved the IFRS 13 “Fair Value Measurement” (henceforth “IFRS13”) concerning the definition of a single framework for fair value measurements, required or permitted by another IFRS, and the accounting disclosure. Fair value is defined as the price that would be received to sell an asset (or paid to transfer a liability) in an ordinary transaction between market participants. The provisions of IFRS 13 must be applied, at the very latest, for annual periods beginning on or after January 1, 2013.

Regulation No 1256/2012 issued by the European Commission on December 13, 2012 approved the revised version of IAS 32 “Financial Instruments: Disclosure — Offsetting Financial Assets and Financial Liabilities” (henceforth “Amendments to IAS 32”) and Amendments to IFRS 7 “Financial Instruments: “Disclosures — Offsetting Financial Assets and Financial Liabilities” (henceforth “Amendments to IFRS 7”) which establish, respectively, the criteria to be adopted in offsetting financial assets and liabilities and the related disclosure requirements. In particular, the Amendments to IAS 32 establish that: (i) in order to carry out an offset, the right of offsetting must be legally exercisable in every circumstance, that is both in the normal course of business and in cases of insolvency, default or bankruptcy of one of the contractual parties; and (ii) when certain conditions are fulfilled, settlement at the same time of financial assets and liabilities on a gross basis with consequent elimination or significant reduction of credit and liquidity risks, may be considered equivalent to settlement on a net basis. The Amendments to IFRS 7 on accounting disclosure are to be applied for annual periods beginning on or after January 1, 2013. The provisions of IAS 32 on the other hand are to be applied for annual periods beginning on or after January 1, 2014.

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

On November 12, 2009, the IASB issued IFRS 9 "Financial Instruments" (henceforth "IFRS 9") which changes the criteria for recognition and measurement of financial assets and their classification in financial statements. In particular, the new provisions require, among other things, a classification and measurement model of financial assets based exclusively on the following categories: (i) financial assets measured at amortized cost; (ii) financial assets measured at fair value. The new provisions, also require that investments in equity instruments, other than subsidiaries, jointly-controlled entities or associates, shall be measured at fair value, with effects taken to profit or loss. If these investments are not held for trading purposes, subsequent changes in the fair value can be recognized in other comprehensive income, even if dividends are taken to the profit and loss account. Amounts taken to other comprehensive income shall not be subsequently transferred to the profit or loss account even on disposal. Furthermore on October 28, 2010 the IASB made additions to the rules of IFRS 9 including criteria for the recognition and measurement of financial liabilities. In particular, the new rules require, among other things, that, in the case of measurement of a financial liability at fair value through profit or loss, fair value changes attributable to changes in the credit risk of the issuer (the so-called own credit risk) must be recognized in the statement of comprehensive income; recognition of this component in profit or loss is envisaged to ensure the symmetrical representation with other accounting items connected with the liability avoiding accounting mismatches. The document "Mandatory effective date and transition disclosures", issued on December 16, 2011 by the IASB, postponed entry into force of the IFRS 9 rules to financial years beginning on, or after, January 1, 2015 (the previous rules made reference to January 1, 2013).

On June 28, 2012 the IASB issued the document "Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12)" which provides some clarification and simplification regarding the requirements of the IFRS 10, IFRS 11 and IFRS 12 principles. The rules must be applied for annual periods beginning on or after January 1, 2013.

On May 17, 2012 the IASB issued the document "Annual Improvements to IFRSs 2009 - 2011 Cycle" containing amendments of an essentially technical and editorial nature of the international accounting principles. The rules must be applied for annual periods beginning on or after January 1, 2013.

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

Current assets

1. Cash and cash equivalents

Cash and cash equivalents amounted to €60 million (€44 million at December 31, 2011). The average interest rate during the year was 0.06% (0.56% at December 31, 2011).

2. Trade and other receivables

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

(€ million)	31.12.2011	31.12.2012
Trade receivables	873	851
Other receivables	264	259
	1,137	**1,110**

Receivables are shown net of provisions for impairment losses of €128 million (€112 million at December 31, 2011):

(€ million)	Amount at 31.12.2011	Additions	Deduction	Amount at 31.12.2012
Provisions for impairment of trade receivables	112	18	(2)	128
	112	**18**	**(2)**	**128**

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" in Note 25.

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

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

	31.12.2011			31.12.2012		
(€ million)	Trade receivables	Other receivables	Total	Trade receivables	Other receivables	Total
Receivables neither overdue nor written off	803	192	995	802	157	959
Receivables written off (net of the valuation allo	2		2	6		6
Receivables overdue not written off						
- up to 90 days overdue	*25*	*16*	*41*	*26*	*17*	*43*
- 3 to 6 months overdue	*6*	*3*	*9*	*4*	*4*	*8*
- 6 to 12 months overdue	*27*	*8*	*35*	*5*	*21*	*26*
- over 12 months overdue	*10*	*45*	*55*	*8*	*60*	*68*
	68	**72**	**140**	**43**	**102**	**145**
	873	**264**	**1,137**	**851**	**259**	**1,110**

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

Other overdue and unimpaired receivables include €50 million of receivables from the European Union for antitrust fines (see the paragraph "Litigation") and sundry receivables from counterparties with high credit ratings.

The other receivables can be broken down as follows:

(€ million)	31.12.2011	31.12.2012
Receivables from parent company	126	105
Receivables from Eni Group companies	55	53
Advances for services and guarantee deposits	23	6
Receivables relating to personnel	4	4
Receivables for patents and royalties	2	4
Other receivables	54	87
	264	**259**

Receivables from the parent company relate mainly to Versalis SpA's adhesion to the group VAT (€79 million), to advances (€20 million) and to other relations (€6 million).

Receivables from Eni Group companies mainly relate to relations with Syndial SpA (€38 million), and receivables from Eni Insurance Ltd (€12 million).

Trade receivables and other receivables in currencies other than the euro amounted to €75 million and are mainly denominated in US dollars.

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

Receivables with related parties are disclosed in Note 33.

3. Inventories

Inventories are comprised of the following:

	31.12.2011				31.12.2012			
(€ million)	Petroleum products	Chemical products	Other	Total	Petroleum products	Chemical products	Other	Total
Materials and consumables	104	154	46	304	108	170	49	327
Work in progress and semi-finished products	3	25		28	3	14		17
Finished products and goods	47	766		813	56	851		907
	154	**945**	**46**	**1,145**	**167**	**1,035**	**49**	**1,251**

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

(€ million)	Value at the beginning of the year	Variation during the year	Additions	Utilisation	Foreign currency translation differences	Other movements	Value at the end of the year
31.12.2011							
Gross value	1,030	201			(1)	1	1,231
Provisions for impairments	(30)		(55)	1		(2)	(86)
Net inventories	**1,000**	**201**	**(55)**	**1**	**(1)**	**(1)**	**1,145**
31.12.2012							
Gross value	1,231	89			4		1,324
Provisions for impairments	(86)		(20)	33			(73)
Net inventories	**1,145**	**89**	**(20)**	**33**	**4**		**1,251**

There are no secured guarantees on inventories.

4. Current income tax assets

Current income tax assets amounted to €15 million (€10 million as at December 31, 2011) and referred to IRAP advances paid in previous years (€8 million) and tax credits for earnings produced abroad (€7 million). Further details are provided in Note 32.

5. Other current tax assets

Other current tax assets comprise the following:

(€ million)	31.12.2011	31.12.2012
Receivables from foreign states for VAT	12	8
Other receivables	1	1
	13	**9**

6. Other Assets

Other assets can be broken down as follows:

(€ million)	31.12.2011	31.12.2012
Derivatives:		
- Outright	2	
Other Assets	1	2
	3	**2**

Other assets mainly include prepaid expenses, and for amounts of less than €1 million, the fair value of derivatives on exchange rates without the formal requirements to be qualified as hedge accounting.

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

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

The notional amounts of derivatives summarized below do not represent the amounts exchanged by the parties and consequently do not constitute a measure of the company’s exposure to credit risk, which is

limited to the positive market value (fair value) of the contracts at the year end, less the effect of possible general offset arrangements.

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

	31.12.2011		31.12.2012	
€ million	Fair value	Commitments	Fair value	Commitments
Derivatives on exchange rates:				
- Outright	2	186		188
- Currency swap				20
- Over the counter				5
	2	**186**		**213**

Non-current assets

7. Property, plant and equipment

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

(€ million)	Net value at the beginning of the year	Additions	Amortization	Impairment losses and reversals	Currency translation differences	Other movements	Net value at the end of the year	Gross value at the end of the year	Accumulated depreciation and impairment
31.12.2011									
Land	95					1	96	104	8
Buildings	58	5	(6)	(2)	(1)	3	57	324	267
Plant and machinery	543	185	(65)	(58)	(1)	90	694	3,294	2,600
Industrial and commercial equipment	4		(2)			2	4	107	103
Other assets	2						2	54	52
Assets under construction and advances	250	10		(87)		(95)	78	297	219
	952	**200**	**(73)**	**(147)**	**(2)**	**1**	**931**	**4,180**	**3,249**
31.12.2012									
Land	96	1				8	105	113	8
Buildings	57		(4)			2	55	326	271
Plant and machinery	694	18	(71)	(91)	3	28	581	3,343	2,762
Industrial and commercial equipment	4		(2)			1	3	108	105
Other assets	2						2	54	52
Assets under construction and advances	78	128		(20)		(39)	147	386	239
	931	**147**	**(77)**	**(111)**	**3**		**893**	**4,330**	**3,437**

The investments of €147 million (€200 million in 2011) are discussed in the relevant section of the Directors' Report.

Financial charges capitalized during the year, determined using a 3.55% interest rate (3.15% in 2011), amounted to €3 million (€4 million in 2011). Internally constructed assets capitalized during the year amounted to €9 million (the same as in 2011) and consisted of work carried by internal personnel.

The following annual depreciation rates were adopted:

(annual %)	**2011**	**2012**
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 impairment losses of €111 million derive from the results of the impairment test and refer to the following Cash Generating Units (CGUs):

- Cracker and Polyethylene units in Brindisi (€52 million);
- Polyethylene unit in Dunkirk (€25 million);
- Porto Marghera facility (€18 million);
- Sarroch facility (€10 million);
- Polyethylene unit in Ferrara (€3 million);
- Porto Torres olefins, aromatics and polyethylene (€2 million);
- Polyethylene unit in Priolo (€1 million);

Impairment losses are net of the use of government grants for the Gas Phase installation at Brindisi (€19 million) and the use of grants from Syndial (€1 million for the Sarroch facility and €1 million for the Polyethylene unit at Priolo. For more details, see the paragraph “Grants” in the section “Accounting policies”).

The operating loss recorded during the year (mainly relating to the polyethylene business) caused by the ongoing high levels of petrochemical feedstock prices, the low levels of utilisation of production capacity at the production plants, which significantly penalize unit margins, and the still partially negative profit forecasts for the next three years (although showing a trend towards improvement) formulated in the 2013 - 2016 plan, were all indicators of impairment for management. These impairment indicators are discussed in greater detail in the ”Financial Review” and “Business Outlook” of the Directors’ Report to which reference should be made. Consequently management carried out impairment tests on the non-financial fixed assets; for this purpose these assets were grouped together in Cash Generating Units, which correspond mainly to the production sites.

Management has identified the production sites as CGUs, due both to the high operational autonomy of the individual plants and to the fact that, even within the same business sector, their operating and profit conditions can differ. Nevertheless, where present at the same site, or 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 mutual independence, within the same production site, led to the sub-division of the sites involved into a different CGUs.

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

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

The cash flows for the period 2013-2016 were determined on the basis of the forecast for operating profits contained in the plan approved by the Board of Directors; cash flows for subsequent years were determined taking as a reference an average operating profit over a period of the nine-year period, (of which five historical and four forecast), calculated considering both the actual results and the forecasts included in the

2013-2016 Plan, adjusted to eliminate the economic effects of the current crisis, in order to represent in an adequate manner the marked cyclical effects that characterize the petrochemical industry.

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

In discounting the cash flows determined with the above methods and according to the above criteria, management adopted the discount rate of 7.8% (8.0% as of December 31, 2011) communicated by the parent company Eni SpA.

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

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

The net amount of government grants and refunds from third parties recognized as a reduction in the value of property, plant and equipment amounted to €71 million (€86 million as of December 31, 2011). 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 composed of the following:

(€ million)	Net value at the beginning of the year	Additions	Amortization	Other changes	Net value at the end of the year	Gross value at the end of the year	Accumulated amortization and provisions for impairments
31.12.2011							
Intangible assets with finite useful lives							
- Research and development costs						3	3
- Industrial patents and intellectual property rights						3	3
- Concessions, licenses, trademarks and similar items	2				**2**	98	96
- Fixed assets in progress and advances	1				**1**	6	5
- Other intangible assets	66		(5)	1	**62**	137	75
	69		**(5)**	**1**	**65**	**247**	**182**
31.12.2012							
Intangible assets with finite useful lives							
- Research and development costs						3	3
- Industrial patents and intellectual property rights						3	3
- Concessions, licenses, trademarks and similar items	2				**2**	98	96
- Fixed assets in progress and advances	1				**1**	6	5
- Other intangible assets	62	9	(5)		**66**	146	80
	65	**9**	**(5)**		**69**	**256**	**187**

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 (€61 million). It should be noted that this license contract was subjected to an impairment test as it is included within the scope of the Brindisi production plant cash generating unit (for further details on the criteria for identifying cash generating units see Note 7). The remaining amortization period of the Union Carbide royalties is 14 years.

The following annual amortization rates were adopted:

(annual %)	2011	2012
Intangible assets with finite useful lives		
- Concessions, licenses, trademarks and similar items	4 - 33	4 - 33
- Other intangible assets	4 - 15	4 - 15

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

9. Equity-accounted investments

These comprise the following:

(€ million)	Net value at the beginning of the year	Acquisitions and subscriptions	Sales	Share of profit of equity-accounted investments	Deductions for dividends	Other changes	Net value at the end of the year
31.12.2011							
Investments in:							
- subsidiaries	5	4	(1)	3	(2)		**9**
- associates	25	1		(2)			**24**
- joint ventures		4					**4**
	30	**9**	**(1)**	**1**	**(2)**		**37**
31.12.2012							
Investments in:							
- subsidiaries	9			3	(2)		**10**
- associates	24					(1)	**23**
- joint ventures	4	12		(1)		1	**16**
	37	**12**		**2**	**(2)**		**49**

Acquisitions and subscriptions of €12 million relate to Matrìca SpA.
The share of profit (loss) of equity-accounted investments are analysed in Note 31.

The equity-accounted investments relate to the following companies:

(€ million)	31.12.2011	31.12.2012
Priolo Servizi Industriali Scarl	17	17
Matrìca SpA	4	16
Polimeri Europa Polska Sp.zo.o.	1	5
Eni Chemicals Trading (Shanghai) Co. Ltd	4	
Servizi Porto Marghera Scarl	3	3
Ravenna Servizi Industriali ScpA	2	2
Polimeri Europa Norden A/S	2	2
Polimeri Europa Hellas SA	1	1
Polimeri Europa Kimya Urunleri Ticaret Limited Sirketi	1	1
Brindisi Servizi Generali Scarl	1	1
IFM Ferrara Scarl	1	
Other (*)		1
	37	**49**

(*) Amounts of less than €1 million

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:

	31.12.2011			31.12.2012		
(€ million)	Subsidiaries	Joint ventures	Associates	Subsidiaries	Joint ventures	Associates
Current assets	11	4	15	14	1	14
Non-current assets	1		44		26	41
Total assets	**12**	**4**	**59**	**14**	**27**	**55**
Current liabilities	(10)		(33)	(10)	(1)	(31)
Non-current liabilities	(2)		(2)	(3)	(10)	(1)
Total liabilities	**(12)**		**(35)**	**(13)**	**(11)**	**(32)**
Revenue	**12**		**54**	**15**		**52**
Costs	**(9)**		**(53)**	**(9)**	**(1)**	**(51)**
Operating profit (loss)	**3**		**1**	**6**	**(1)**	**1**
Profit (loss) for the period	**2**		**(1)**	**4**	**(1)**	

10. Other investments

Other investments comprise the following:

(€ million)	Net value at the beginning of the year	Acquisitions and subscriptions	Other changes	Net value at the end of the year
31.12.2011				
Investments in:				
- other companies	3			**3**
	3			**3**
31.12.2012				
Investments in:				
- other companies	3	47	2	**52**
	3	**47**	**2**	**52**

Acquisitions and subscriptions of €47 million relate to Novamont (€35 million) and Genomatica Inc. (€12 million). The other changes concern mainly the I.F.M. Ferrara Consortium, reclassified from "Investments valued at net equity" to "Other investments", due to the reduction in the percentage of equity held.

Other investments relate to the following companies:

(€ million)	**31.12.2011**	**31.12.2012**
Novamont SpA		35
Genomatica Inc.		12
Exeltium 2 SAS	3	3
Other (*)		2
	3	**52**

(*) Amounts of less than €2 million

The ownership percentages are indicated in Note 38.

11. Deferred tax assets

Deferred tax assets amounted to €289 million (€152 million as of December 31, 2011) and are shown net of deferred tax liabilities of €67 million (€83 million as of December 31, 2011).

(€ million)	**31.12.2011**	**31.12.2012**
Deferred tax assets	235	356
Deferred tax liabilities available for offset	(83)	(67)
Net deferred tax assets	**152**	**289**

Income taxes are discussed in greater detail in Note 32.

The temporary differences that determined the deferred tax assets are of the following nature:

(€ million)	Amount at 31.12.2011	Additions	Deductions	Amount at 31.12.2012
Deferred tax assets:				
- non-deductible impairment losses	152	17	(19)	150
- expenses with deferred deductibility	37	5	(14)	28
- tax losses	20	122	(1)	141
- provisions for risks and charges	6	10	(2)	14
- other	38	8	(5)	41
- (writedowns)/reversal of deferred tax assets	(18)			(18)
	235	**162**	**(41)**	**356**
Deferred tax liabilities:				
- excess amortization/depreciation	68		(16)	52
- other	15	1	(1)	15
	83	**1**	**(17)**	**67**
Net deferred tax assets	**152**	**161**	**(24)**	**289**

12. Other Assets

Other assets of €1 million (unchanged from December 31, 2011) relate essentially to receivables from employees.

Current liabilities

13. Short-term debt

Short-term debt amounting to €1,205 million (€663 million at December 31, 2011) relates mainly to loans granted by Eni SpA and Eni Finance International SA.

(€ million)	31.12.2011	31.12.2012
Payables to parent companies for loans	449	845
Commercial papers	63	91
Other providers of finance	151	269
	663	**1,205**

Short-term debt in foreign currencies amounted to €83 million (€36 million at December 31, 2011), €74 million of which in British pounds (€30 million at December 31, 2011) and €9 million in US dollars (€7 million at December 31, 2011).

The average annual interest rate for the year was 1.44% (1.42% in 2011).

14. Current portion of long-term debt

The current portion of long-term debt amounted to €3 million (€6 million at December 31, 2011) as indicated in Note 19 “Long-term debt and current portion of long-term debt”, to which reference should be made.

15. Trade and other payables

Trade and other payables comprise the following:

(€ million)	31.12.2011	31.12.2012
Trade payables	979	861
Advances	1	3
Other payables:		
- relating to capital expenditures	27	15
- other	79	108
	1,086	**987**

Trade payables of €861 million relate to payables to suppliers (€459 million), payables to associates, joint ventures and other Eni Group companies (€250 million) and payables to the parent company Eni SpA (€152 million).

Other payables amounted to €108 million and are comprised mainly of payables to personnel (€48 million); payables to Eni SpA for participation in the tax consolidation, in relation to excess advances received (€33 million), and payables to social welfare authorities (€16 million).

Payables related to capital expenditure amounted to €15 million.

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

Payables to related parties are detailed in Note 33.

16. Current income tax payables

Current income taxes payable amount to €1 million (€11 million at December 31, 2011) and relate to the income tax of foreign consolidated companies.

17. Other current taxes payable

Other current taxes payable amount to €9 million (€12 million at December 31, 2011) and relate mainly to withholding tax.

18. Other liabilities

Other liabilities comprise the following:

(€ million)	31.12.2011	31.12.2012
Deferred income	2	4
Fair value on non-hedging derivatives:		
- Outright		1
- Over the counter		1
Other liabilities	1	
	3	**6**

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

	31.12.2011		31.12.2012	
(€ million)	Fair value	Commitments	Fair value	Commitments
Derivatives on exchange rates:				
- Outright		166	1	204
- Swap				9
- Over the counter			1	4
		166	**2**	**217**

The fair value of derivatives (not qualifying as “hedges” but not of a speculative nature) is recognized on the basis of the values determined and communicated by the parent company Eni SpA. These are derivatives

which, while not having a trading or speculative purpose, do not meet the requirements of the IAS/IFRS standards to qualify as hedges.

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

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

Non-current liabilities

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

Long-term debt and current portion thereof amounts to €803 million (€449 million at December 31, 2011), detailed in the table below:

	31.12.2011			31.12.2012		
(€ million)	Non-current portion	Current portion	Total	Non-current portion	Current portion	Total
Banks		1	1			
Shareholders for loans	300	5	305	600	3	603
Other providers of finance	143		143	200		200
	443	**6**	**449**	**800**	**3**	**803**

The average effective interest rate was 4.18% (4.42% in 2011). For further information see the paragraph "Net borrowings and Leverage" of the Directors' Report.

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

(€ million)	Value at December 31		Long-term maturity						
Type	2011	2012	Mat. 2013	2014	2015	2016	2017	Beyond	Total
Banks:									
Subsidized-rate mortgage loans	1	1							
Shareholders for loans	305	602	3			300	300		603
Other providers of finance	143	200				200			200
	449	**803**	**3**			**500**	**300**		**803**

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

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

	31.12.2011			31.12.2012		
(€ million)	Current	Non-current	Total	Current	Non-current	Total
A: Cash and cash equivalents	44		44	60		60
B. Available-for-sale securities						
C. Liquidity (A+B)	**44**		**44**	**60**		**60**
D. Financial receivables						
E. Short-term debt towards banks						
F. Long-term debt towards banks	1		**1**			
G. Bonds						
H. Short-term debt towards related parties	663		**663**	1,203		**1,203**
I. Long-term debt towards related parties	5	440	**445**	3	798	**801**
L. Other short-term debt				2		**2**
M. Other long-term debt		3	**3**		2	**2**
N. Total borrowings (E+F+G+H+I+L+M)	**669**	**443**	**1,112**	**1,208**	**800**	**2,008**
O. Net borrowings (N-C-D)	**625**	**443**	**1,068**	**1,148**	**800**	**1,948**

20. Provisions for risks and charges

(€ million)	31.12.2011	31.12.2012
Provisions for legal and other proceedings	42	62
Provisions for redundancy incentives	8	17
Provisions for environmental risks	12	10
Provisions for losses on investments	9	9
Provisions for tax litigation risks	4	4
Provisions for OIL insurance	4	3
Other provisions	4	5
	83	**110**

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

(€ million)	Value at the beginning of the year	Accrual	Utilisation for charges	Reversal	Value at the end of the year
31.12.2011					
Provisions for legal and other proceedings	34	10	(1)	(1)	42
Provisions for environmental risks	13	2	(3)		12
Provisions for losses on investments	8	1			9
Provisions for redundancy incentives	10	7	(9)		8
Provisions for tax litigation	11	1	(8)		4
Provisions for OIL insurance	4				4
Other provisions	5	1	(1)	(1)	4
	85	**22**	**(22)**	**(2)**	**83**
31.12.2012					
Provisions for legal and other proceedings	42	20			**62**
Provisions for redundancy incentives	8	12	(3)		**17**
Provisions for environmental risks	12	1	(3)		**10**
Provisions for losses on investments	9				**9**
Provisions for tax litigation	4				**4**
Provisions for OIL insurance	4		(1)		**3**
Other provisions	4	1			**5**
	83	**34**	**(7)**		**110**

The provisions for litigation of €62 million relate mainly to litigation related to antitrust legislation (€43 million), dealt with in more detail in the paragraph "Litigation") and revocatory actions (€15 million).

Provisions for redundancy incentives of €17 million relate to expenses for ordinary redundancy procedures.

Provisions for environmental risks of €10 million includes costs for environmental expenses relating to the various Versalis SpA sites for the part not covered by the warranty issued by Syndial SpA at the moment of the transfer of the "Strategic Chemical Activities" business unit (see the paragraph "Accounting policies – contributions") amounting to €6 million and costs relating to Polimeri Europa France SAS' environmental liabilities of €4 million.

Provisions for losses on investments of €9 million comprise provisions made against losses exceeding the shareholders' equity of associated companies and relate to Polimeri Europa Elastomères France SA in liquidation.

Provisions for tax litigation of €4 million are discussed in the paragraph "Litigation".

Provisions for OIL insurance of €3 million comprise the expenses related to the surcharge on insurance premiums to be paid in the next five financial years to Mutua Assicurazione Oil Insurance Ltd, in which the Eni Group, along with other oil companies, has an interest.

The other provisions of €5 million consist mainly of future charges for the purchase of green certificates of €2 million, and social security contributions and employee termination benefits relating to the deferred cash incentive for senior managers of €2 million.

21. Provisions for employee benefits

Provisions for employee benefits amounted to €62 million and are detailed in the table below:

(€ million)	31.12.2011	31.12.2012
Employee termination indemnities (TFR)	39	37
Supplementary medical reserve for Eni managers (FISDE) and other foreign medical plans	6	6
Foreign pension plans	4	3
Other benefits	14	16
	63	**62**

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

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

The supplementary healthcare fund for senior managers of Eni Group companies (FISDE) reflects the evaluation of the expenses, determined on the basis of actuarial techniques, relative to contributions to be paid to the supplementary healthcare reserve for the benefit of employed and retired senior managers.

Other provisions for employee benefits relate mainly to benefits to be paid to employees when they reach twenty-five years' service in the Group (€9 million), the deferred cash incentive for senior managers (€5 million) and the long-term incentive scheme (€1 million). The deferred cash incentive schemes consist of the estimate of that part of remuneration dependent on performance, which will be paid to senior managers who have achieved the individual targets set. The long-term incentive (LTI) scheme replaces the previous stock option assignments and, after three years from assignment, provides for payment of a variable cash benefit linked to a performance parameter. Long-service bonuses are benefits paid upon reaching a minimum service in the company and are paid in kind.

Provisions for employee benefits, measured applying actuarial techniques, can be broken down as follows:

(€ million)	TFR	FISDE	Foreign pension plans		Other schemes	Total
			Foreign pension plans	Plan assets		
2011						
Present value of obligations at the beginning of the year	**43**	**7**	**28**	**(24)**	**13**	**67**
Current cost					3	**3**
Finance expense	2		1			**3**
Return on plan assets				(1)		**(1)**
Contributions paid in				(1)		**(1)**
Actuarial gains/losses	(1)	1	1	(1)	1	**1**
Benefits paid	(4)	(1)	(1)	1	(3)	**(8)**
Foreign currency translation differences and other changes			1	(1)		
Other changes			1			**1**
Present value of assets and liabilities at the end of the year	**40**	**7**	**31**	**(27)**	**14**	**65**
2012						
Present value of obligations at the beginning of the year	**40**	**7**	**31**	**(27)**	**14**	**65**
Current cost					3	**3**
Finance expense	2		1		1	**4**
Return on plan assets				(1)		**(1)**
Contributions paid in				(1)		**(1)**
Actuarial gains/losses	9	2	4		1	**16**
Benefits paid	(4)		(2)	1	(3)	**(8)**
Foreign currency translation differences			1			**1**
Present value of assets and liabilities at the end of the year	**47**	**9**	**35**	**(28)**	**16**	**79**

(€ million)	TFR		FISDE		Foreign schemes		Other schemes	
	31.12.2011	31.12.2012	31.12.2011	31.12.2012	31.12.2011	31.12.2012	31.12.2011	31.12.2012
Present value of liabilities with plan assets					30	34		
Present value of plan assets					(27)	(28)		
Net present value of liabilities with plan assets					**3**	**6**		
Present value of liabilities without plan assets	**40**	**47**	**7**	**9**	**1**	**1**	**14**	**16**
Unrecognized actuarial gains (losses)	(1)	(10)	(1)	(3)		(4)		
Net liabilities recognized in provisions for employee benefits	**39**	**37**	**6**	**6**	**4**	**3**	**14**	**16**

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

(€ million)	TFR	FISDE	Foreign pension plans	Other schemes	Total
2011					
Current cost				3	3
Finance expense	2		1	1	4
Actuarial gains (losses)				1	1
Provisions for employee termination benefits recognized against pension schemes or INPS	14				14
	16		**1**	**5**	**22**
2012					
Current cost				4	4
Finance expense	2			1	3
Actuarial gains (losses)					
Provisions for employee termination benefits recognized against pension schemes or INPS	14				14
	16			**5**	**21**

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

(%)	TFR	FISDE	Foreign pension plans	Other schemes
2011				
Discount rate	4.75	4.8	4.7	3.6 - 4.8
Inflation rate	2.0	2.0	3.4	2.0 - 3.1
2012				
Discount rate	4.8	4.8	2.9 - 3.3	1.2 - 4.8
Inflation rate	2.0	2.0	2.0	2.0

With reference to the Italian plans the demographic tables drawn up by the State General Accounting Office (GR48) have been adopted.

The expected return on plan assets has been determined by making reference to prices on regulated markets.

The amount of contributions expected to be paid into defined benefit plans in the next year amounts to €5 million.

22. Deferred tax liabilities

Deferred tax liabilities amount to €18 million (€8 million at December 31, 2011) and are shown net of deferred tax assets that can be offset of €20 million (€26 million at December 31, 2011).

(€ million)	31.12.2011	31.12.2012
Deferred tax liabilities	34	38
Deferred tax assets available for offset	(26)	(20)
Net deferred tax liabilities	**8**	**18**

The most significant temporary differences are of the following nature:

(€ million)	Amount at 31.12.2011	Additions	Deductions	Amount at 31.12.2012
Deferred tax liabilities:				
- excess amortization/depreciation	33	1		34
- other	1	3		4
	34	**4**		**38**
Deferred tax assets:				
- tax losses	41	39		80
- other	1	4		5
- impairment of deferred tax assets	(16)	(49)		(65)
	26	**(6)**		**20**
Net deferred tax assets	**8**	**10**		**18**

23. Other liabilities

Other liabilities amount to €7 million (unchanged from December 31, 2011) and relate primarily to payables to pensions and social security authorities for redundancy expenses.

24. Shareholders' equity

The shareholders' equity amounts to €592 million (€1,157 million at December 31, 2011), detailed below:

(€ million)	31.12.2011	31.12.2012
Share capital	1,533	1,533
Other reserves:	94	102
Reserve for agreements with Syndial on P.to Torres business contribution	101	101
Reserve from exchange differences	(9)	(5)
Effect of the acquisition of non-consolidated investments		4
Reserve for stock options awarded	2	2
Retained earnings/(losses brought forward)	(170)	(490)
Loss for the period	(320)	(573)
	1,157	**592**

Share capital

The share capital consists of 1,553,400,000.00 ordinary shares with a par value of 1 euro per share, 100% owned by Eni SpA.

Other reserves

Other reserves amount to €102 million (€94 million at December 31, 2011) and relate to the advance received from Syndial SpA relating to the agreements on the contribution of the Porto Torres business unit (€101 million net of the related current tax effects, for further details see the paragraph "Advances against

services received from Syndial" in the "Other information" section of the Directors' Report), exchange differences from translation into euro of the financial statements of companies operating in areas other than the Eurozone (minus €5 million), the effect of the acquisition by Versalis SpA of Polimeri Europa Polska Sp.zo.o. from Dunastyr Polystyrene Manufacturing Company Ltd. (€4 million) and the reserve for stock options assigned (€2 million).

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

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

	Profit (loss) for the period		Shareholders' equity	
(€ million)	2011	2012	31.12.2011	31.12.2012
As recorded in annual Financial Statements of Versalis SpA	**(269)**	**(593)**	**1,147**	**553**
Difference between the net equity value of consolidated subsidiaries and the corresponding carrying value of the investment therein in the statutory accounts of the parent company	(85)	23	(62)	(4)
Consolidation adjustments:				
- elimination of tax adjustments and compliance with accounting policies	28	8	78	60
- deferred taxation	6	(11)	(6)	(17)
As recorded in Consolidated Financial Statements	**(320)**	**(573)**	**1,157**	**592**

25. Guarantees, commitments and risks

Guarantees

Guarantees can be broken down as follows:

	31.12.2011			31.12.2012		
(€ million)	Fidejussions	Other guarantees	Total	Fidejussions	Other guarantees	Total
Consolidated subsidiaries		86	86		86	86
Other	1	4	5	1	3	4
	1	**90**	**91**	**1**	**89**	**90**

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

Other guarantees of €86 million provided on behalf of consolidated companies relate to indemnities given 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 at December 31, 2012 amounted to €63 million.

Commitments and risks

Commitments and risks can be broken down as follows:

(€ million)	31.12.2011	31.12.2012
Commitments		
Operating leases:	2	2
	2	**2**
Risks		
Third party assets	6	11
	6	**11**
	8	**13**

Third-party assets held by the Group relate mainly to the virgin naphtha of third parties (€8 million) and Syndial technical material (€3 million) stored at Versalis Group sites.

Financial risk management

Introduction

The following main financial risks are identified, monitored and, as regards those specified below, actively managed by the Versalis Group: (i) market risk deriving from exposure to fluctuations in interest rates and exchange rates, and to the volatility of commodity prices; (ii) credit risk deriving from the possibility of default by 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 sensitivity analysis[10] or through an indication of the Value at Risk results).

Market risk

Market risk consists of the possibility that changes in foreign currency exchange rates, in interest rates or in commodity prices, will adversely affect the value of the Group's 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, the latter within the limits set by banking legislation on "Concentration Risk") which ensure coverage of the requirements and absorption of financial surpluses of the Versalis Group companies in Italy and abroad. In addition, as regards trading in commodity-based derivatives, management is entrusted to Eni Trading & Shipping SpA.

In particular, all Versalis Group transactions in foreign currency and in derivatives are managed by Eni SpA, together with the trading of emissions certificates. Price risk on commodities is managed by the individual business units, and Eni Trading & Shipping is responsible for negotiating commodities derivatives.

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

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

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

As regards commodity risk, Versalis has set maximum limits on price risk deriving from its business 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 from the timing difference between recognition of foreign currency revenues and costs and their collection/payment (transaction exchange rate risk). Exchange-rate derivatives are measured at fair value on the systematic basis of market prices provided by leading info-providers. The value at risk technique (VaR) deriving from exchange rate risk positions is calculated on a daily basis using the parametric approach (variance/covariance), adopting a 99% confidence level and a 20-day holding period.

Interest rate risk

Fluctuations in interest rates affect the market value of the financial assets and liabilities of the company and the level of its financial charges. The objective of Versalis Group's risk management is to minimize interest rate risk while pursuing the targets defined and approved in the "Financial Plan". In accordance with the centralized finance model, Eni's financial companies receive information on the Group's requirements and manage the resulting positions, including operations of a structural nature, in keeping with "Financial Plan" targets and ensuring that the risk profile remains within set limits.

Commodity risk

The Versalis Group's results are affected by changes in the sales prices of its products. 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 cost of petroleum feedstock leads to a reduction in operating profit and vice versa.

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

Credit risk

Credit risk is represented by the potential exposure of the Group to losses in the event that counterparties fail to fulfil their obligations. Versalis adopts a different approach for the risks relating to counterparties in commercial transactions than for those relating to counterparties in 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 Corporate and Eni Adfin 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 involving commodities and transactions with financial counterparties, the aforementioned "Guidelines" identify the objective of risk management as the optimization of the risk profile in pursuance of the operating targets.

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

During 2012 the trade receivables situation remained substantially stable compared with 2011, albeit in a market weakened by the global economic crisis, which has caused severe liquidity strains in many companies and increased the number of admissions to bankruptcy proceedings. It should be noted that there is a significant exposure in relation to a customer who was admitted to Receivership procedures in June 2009. Both the receivables arising before admission to the procedure, and those arising thereafter, have been written off in full.

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 create, within the framework of the "Financial Plan", a financial structure which, in keeping with the business targets and 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 cost, and maintain a balance in terms of duration and composition of the debt.

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

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

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

Future payments against debt

(€ million)	2013	2014	2015	2016	2017	Beyond	Total
Short-term debt	1,205						**1,205**
Long-term debt including current portion	3			500	300		**803**
Interest on financial debt	35	27	27	26	15		**130**

Future payments against trade and other payables

			Year of maturity				
(€ million)	2013	2014	2015	2016	2017	Beyond	Total
Trade payables	861						**861**
Advances from customers, other payables	126						**126**
	987						**987**

Future payments against obligations

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

			Year of maturity				
(€ million)	2013	2014	2015	2016	2017	Beyond	Total
Costs (charges) relating to environmental provisions	3	3				4	**10**
Other commitments	221	55	6				**282**
	224	**58**	**6**			**4**	**292**

The amount of €282 million includes a commitment by Versalis SpA to purchase supplies of petrochemical products (€269 million).

Investment commitments

Over the next few years the Versalis Group plans to carry out a programme of capital expenditure for a total of €135 million. The table below shows the total investments relating to the more significant committed projects at the reporting date. A project is considered committed when it has obtained the necessary approval from management and the related purchase contracts have been awarded or are being finalized.

	Year of maturity						
(€ million)	2013	2014	2015	2016	2017	Beyond	**Total**
Commitments for share capital subscription	41						**41**
Other commitments (*)	69	25					**94**
	110	**25**					**135**

(*) Commitments for investments will be partially refunded by Syndial for an amount of €16 million (€12 million in 2013 and €4 million in 2014) against existing guarantees. For further information see the paragraph "Accounting policies - Grants".

Commitments of €41 million for share capital subscription relate to Versalis' commitment to subscribe to the reserved Share Capital increase of Novamont SpA, with which it signed an agreement on the "Porto Torres Green Hub" project.

Capital management

Versalis management uses leverage to assess the degree of solidity and efficiency of the asset structure in terms of relative proportions of sources of financing between own and third-party assets, as well as to carry out benchmark analysis with the industry standards. Leverage measures the degree of company indebtedness and is calculated as the ratio between net borrowings and shareholders' equity. The Management's aim in the medium term is to maintain a solid financial structure with a leverage ratio of no more than 1.

Fair value of financial instruments

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

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

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

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

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, 2012 regard "level 2" derivative contracts. During the year there were no transfers between the different fair value hierarchy levels.

Environmental regulations

As regards environmental risk, at present Versalis does not foresee any particularly significant negative effects on the financial statements arising from compliance with environmental legislation, taking into account the steps already taken, the insurance policies signed and the provisions for risks set aside. However, we cannot exclude the risk that Versalis may incur further costs or liabilities in the future as it is currently impossible to foresee the effects of future developments, considering the following: (i) the possibility of as yet unknown contamination; (ii) the results of the ongoing surveys and the other possible effects of statements required by Italian Decree No. 471/1999 of the Ministry of Environment; (iii) new developments in environmental regulation; (iv) the effect of possible technological changes relating to future remediation; (v) the possibility of litigation and the difficulty of determining the eventual consequences, also considering the liability of other parties and possible compensation/indemnities. As explained in greater detail in the paragraph "Accounting policies – Grants", the environmental costs of actions to be taken at the manufacturing facilities acquired by the Versalis Group through the business contribution by Syndial SpA are covered by a specific warranty issued by the latter. This guarantee has a ceiling of €800 million and as at December 31, 2012, €782 million had been used. Any future environmental liabilities that exceed the overall €800 million limit will be at Versalis' expense.

Emissions trading

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

Since January 1, 2005, the European Emissions Trading Scheme (ETS) has been in operation. In relation to this, on November 27, 2008, the National Committee for the 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 the Management and Implementation of Directive 2003/87/EC which expanded the scope of application of the Directive with respect to the provisions in force for the period 2005-2007, extending it to certain types of combustion plants, including those present in the steam cracking plants (see also the paragraph Commitments for sustainable development in the Directors' Report).

On the basis of the estimates of the emissions made, at December 31, 2012 the Versalis Group had an overall surplus emissions rights position (a so-called "long position")[11]; therefore, in accordance with the accounting criteria adopted, management will recognize the income from these surplus rights at the time of sale.

Litigation

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

Antitrust litigation

The European Commission adopted a decision on November 29, 2006 regarding a violation of antitrust legislation and imposed a joint fine of €272.3 million on Eni SpA and Versalis SpA (previously Polimeri Europa) in relation to an alleged anti-competitive agreement in the field of BR/SBR elastomers. In February 2007 both Companies lodged an appeal against this decision with the Court of the European Union. With a judgment issued on July 13, 2011 the Court reduced the original fine imposed jointly on Eni SpA and

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[11] 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.

Versalis SpA to €181.5 million. In particular, the Court annulled the increase of the penalty based on the aggravating circumstance of repeat offence. Both the European Commission and the Companies presented appeals to the European Court of Justice against this judgement. The European Commission also indicated to Eni its intent to relaunch investigative proceedings in order to re-determine the penalty, an initiative against which Eni has appealed. On March 1, the Commission informed Eni and Veralis that it had initiated new proceedings to assess whether or not there are grounds to apply the increase of the penalty based on the aggravating circumstance of recidivism. With regards to the above decision of the European Commission, in August 2007 Eni also initiated proceedings at the Court of Milan aimed at obtaining a ruling that proved the non-existence of alleged damages suffered by manufacturers of tyres using BR/SBR products. The Court of Milan however declared the action inadmissible, with the ruling challenged before the Milan Court of Appeal: the results of this appeal are still pending. With regards to elastomers (CR), the ruling by the European Court of First Instance on December 13, 2012 reduced the original fine of €132.2 million imposed jointly on Eni SpA and Versalis SpA by the European Commission on December 5, 2007, for the alleged violation, along with other chemical companies, of Art. 81 of the EC Treaty and of Art. 53 of the EEA agreement to approximately €106 million. Eni SpA and Versalis SpA are evaluating the possibility of appealing the judgement at the European Court of Justice, in order to overturn the Commission's decision.

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

Polieco litigation

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

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

- definitively confirmed that the obligations set out in Article 48, clause 2 (concerning membership of Polieco) as well as the sanctions set forth in Article 51 of the Ronchi Decree do not apply.

Furthermore the Council of State, with its judgement of October 17, 2006, upheld in full the appeal lodged jointly by Versalis SpA and the other raw material manufacturers, and annulled the "By-laws of the Consortium for the Recycling of Polyethylene Waste", approved with a Decree of the Ministry of the Environment, Industry, Trade and Commerce of July 15, 1998, as regards the part of Art. 4 which extended the obligation of membership to manufacturers and importers of raw materials used to produce polyethylene goods. In the light of this judgment, the case pending before the Court of Rome also had a positive outcome. In fact, with a judgment filed on June 12, 2009, the Court of Rome found that the claims put forward by Polieco were groundless. The grounds of the judgement clarify, in an exhaustive and final manner, the question relating to the obligation of Polieco membership on the part of producers and importers of raw material. The Court of Rome, in fact, stated that the negation of this obligation is not a consequence of the abolition of Legislative Decree 22/97 by Legislative Decree 152 of 2006, but instead derives from a correct interpretation of Art. 48 of Legislative Decree 22/97, as already clarified by the judgment of the Council of State which had annulled Art. 4 of the by-laws of the Consortium.

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

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

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

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

continues, regardless of the above, to:

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

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

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

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

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

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

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

At the evidentiary hearing, held on December 4, 2012, the judge adjourned the case for further consideration. The submission of Versalis SpA's conclusions took place on February 1, 2013.

Meanwhile, the Italian fiscal authorities have challenged the ruling given by the Brindisi Province Tax Commission, which had annulled the notice of assessment, the relative payment order and the related administrative fine of € 485,366.25 for failure to pay the contribution to the Polieco Consortium in the 2002 tax year.

Tax litigation

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

- Versalis SpA presented an appeal for the 2003 tax period against judgement No. 118-01-09 issued by the Brindisi Tax Commission as regards the negative income components for IRPEG/IRAP purposes which, although it was accepted that they were related to transactions that were actually performed, were considered non-deductible for approximately €15 million, with a consequent reduction of the IRPEG tax loss. As yet no date has been set for the hearing.

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

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

  - for the year 2004: taxes, fines and interest of €6.8 million instead of the €152 million originally assessed;
  - for the year 2005: taxes, fines and interest of €3.4 million instead of the €123 million originally assessed;
  - for the year 2006: taxes, fines and interest of €8.6 million (of which €5 million relates to use of the 2003 tax loss which is the subject of the above outstanding litigation) instead of the €115 million originally assessed;
  - for the year 2007: on March 5, 2013 the Lombardy Regional Tax Office, with the institution of the tax verification with acceptance procedure, presented the company with the Notice of Assessment (notified on 14/12/2012) for an overall amount of €2.3 million for taxes, fines and interest.

- work with the Lombardy Regional Tax Office is still ongoing with regards to verification for the years 2008 and 2009.

In management's opinion, the provisions of €4 million are considered adequate, as they are estimated in accordance with the criteria used in the settlement of the previous years.

On february 2,2011 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 aside provisions, having reasonable confidence in a positive outcome of the dispute.

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

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

26. Revenue

The main “Revenue” items are analysed below. The most significant changes in Revenues are explained in the “Financial review“ section of the Directors' Report.

Net sales from operations

Net sales from operations are detailed in the table below:

(€ million)	2011	2012
Sales of petrochemical products	6,224	6,128
Sales of other products	36	58
Other services	231	232
	6,491	**6,418**

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

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

(€ million)	2011	2012
Italy	3,364	3,172
Rest of Europe	2,747	2,826
Asia	182	271
Africa	101	84
Americas	93	61
Other areas	4	4
	6,491	**6,418**

Other income and revenues

Other income and revenues can be broken down as follows:

(€ million)	2011	2012
Recovery of other costs and expenses	44	45
License rights and royalties	14	43
Real estate revenues	7	6
Insurance payouts	5	4
Income for emission rights	15	1
Contract penalties	1	
Other	6	4
	92	**103**

The recovery of other costs and expenses relate to the recharging of operating expenses to Syndial SpA in accordance with the guarantees issued at the time of contribution in 2002 of the "Strategic Chemical Activities" business unit (€30 million, for further details see the paragraph "Accounting policies - Grants") and to the recharging of sundry costs and expenses to other companies operating at the production sites (€15 million).

27. Operating expenses

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

Purchases, services and other costs

Purchases, services and other costs comprise the following:

(€ million)	2011	2012
Production costs - raw, ancillary and consumable materials and goods	5,056	5,152
Service costs	1,402	1,511
Leasing and rental charges	23	25
Net provisions for risks and charges	11	19
Change in inventories	(146)	(103)
Impairment of receivables	19	18
Other expenses	29	17
less:		
Capitalized direct cost associated with internally-constructed assets	(1)	
	6,393	**6,639**

The service costs of €1,511 million refer mainly to costs for utilities (€683 million), logistics and transport (€261 million) and maintenance (€185 million).

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

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

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

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

The Other expenses of €17 million comprise mainly IMU property tax charges of €8 million, membership fees of €3 million and other expenses of €6 million.

Non-capitalizable research and development costs amounted to €38 million (€32 million in 2011).

Payroll and related costs

Payroll and related costs comprise the following:

(€ million)	2011	2012
Wages and salaries	268	264
Social welfare contributions	78	76
Costs related to defined benefit plans and defined contribution plans	22	21
Redundancy incentives	15	14
Other costs	1	2
	384	**377**
Less:		
Net revenue for seconded personnel	(1)	
Capitalisation of direct cost associated with internally-constructed assets	(8)	(9)
	375	**368**

Costs related to employee benefits include expenses for defined contribution plans of €16 million and expenses for defined-benefit plans of €5 million. The expenses for defined contribution and defined benefit plans are analysed in Note 21.

The remuneration for persons responsible for the planning, direction and control functions of the company, including executive and non-executive directors, managers and senior managers with strategic responsibilities (so-called key management personnel) in office at December 31, 2012 amounted to €5 million as follows:

(€ million)	2011	2012
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 €2 million (€3 million in 2011). The remuneration paid to statutory auditors amounted to €108 thousand and €115 thousand respectively, for the financial years 2012 and 2011. The remuneration includes emoluments and all other sums of a similar nature, pensions and welfare contributions payable for the performance of duties, that 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:

	2011	2012
Managers	105	103
Managers/supervisors and clerical staff	3,295	3,285
Manual workers	2,492	2,333
	5,862	**5,721**

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

28. Other operating (expenses) income

The other operating expenses are comprised as follows:

(€ million)	2011	2012
Income from commodity derivatives	1	2
Expenses from commodity derivatives		(11)
	1	**(9)**

Other operating expenses of €9 million (income of €1 million in 2011) relate to the recognition in the income statement of net expenses incurred on commodity derivatives which do meet the requirements to be classified as “hedges” in accordance with IAS 39.

29. Depreciation, amortization and impairments

Depreciation, amortization and impairments are comprised as follows:

(€ million)	2011	2012
Depreciation and amortization:		
- Property, plant and equipment	73	77
- Intangible assets	5	5
	78	**82**
Impairment losses:		
- Property, plant and equipment	147	111
	147	**111**
	225	**193**

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

30. Financial income (expense)

Financial income (expense) is comprised as follows:

(€ million)	2011	2012
Financial income (expense)		
Financial income	109	75
Financial expense	(135)	(122)
Derivatives	5	(2)
	(21)	**(49)**

The net amount of financial income (expense) is comprised as follows:

(€ million)	2011	2012
Financial income (expense) related to net borrowings		
- Interest and other expenses to banks and other financial institutions	(27)	(39)
Gains (losses) on exchange		
Gains on exchange	108	75
Losses on exchange	(110)	(83)
Derivatives	5	(2)
Other financial income and expense		
Capitalized financial expense	4	3
- Other finance (income) expense	(1)	(3)
	(21)	**(49)**

Net income (expense) on derivatives relates to derivative contracts that do not meet the formal conditions to be classified as “hedges” as specified by IAS 39, and therefore the related fair value changes are recognized in the profit and loss account. Net expenses on derivative instruments of €2 million relate to currency contracts.

Income (expense) on derivative contracts is essentially the result of recognition in the profit and loss account 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, do not relate to specific commercial or financial transactions. The same lack of the formal requisites to be considered as derivative hedging contracts entails the recognition of the net payable exchange differences, given that the effects of the adjustment of assets and liabilities in foreign currencies to the year-end exchange rate are not offset in the accounts by the change in fair value of the derivative contracts.

31. Income (expense) from investments

Share of profit (loss) of equity-accounted investments

The share of profit (loss) of equity-method investments can be broken down as follows:

(€ million)	2011	2012
Share of profit of equity-accounted investments	3	3
Losses from equity-accounted investments	(2)	(1)
Net gain on disposals of equity-accounted investments	1	
Decreases (increases) in the provision for losses on investments	(1)	
	1	**2**

Capital gains of €3 million on equity-accounted investments relate to Polimeri Europa Kimya Urunleri T. Ltd (€1 million), Polimeri Europa Norden AS (€1 million) and Polimeri Europa Polska Sp. Zo. o. (€1 million).

Capital losses of €1 million on equity-accounted investments relate to the company Matrìca.

32. Income taxes

The breakdown of income tax is as follows:

(€ million)	2011	2012
Current tax assets:		
- Italian companies	(72)	(35)
- Foreign subsidiaries	16	(1)
	(56)	**(36)**
Net deferred tax (assets) liabilities:		
- Italian companies	(47)	(136)
- Foreign subsidiaries	(6)	10
	(53)	**(126)**
	(109)	**(162)**

The current taxes for the year relating to the Italian companies relate to income from recognition of the fiscal benefit deriving from participation in the Eni national tax consolidation (for more details on the benefits deriving from participation in the national tax consolidation see the paragraph “Income taxes” of the Directors’ Report), from which IRAP of €1 million must be deducted.

Participation in the Eni national tax consolidation results in the deductibility for Versalis SpA of €23 million of interest expenses, otherwise non-deductible, in accordance with the provisions of Art. 96 of the Consolidated Income Tax Act.

The current taxes for the year of the foreign subsidiaries refer to tax income on Polimeri Europa UK Ltd (€4 million), adjusted by the tax charge of Polimeri Europa GmbH (€3 million).

Net deferred tax assets of €126 million are commented upon in Notes 11 and 22.

The incidence of taxes on the pre-tax profit (loss) for the year amounted to 22.0% (25.4% in 2011) compared with a theoretical tax rate of 28.6% (26.2% in 2011) which derives from the application of the rates of 27.5% (IRES) provided for in the Italian tax legislation to pre-tax profit/(loss) and of 4.11% (IRAP) to the net value of production.

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

(%)	2011	2012
Theoretical tax rate	**26.2**	**28.6**
Items increasing (decreasing) statutory tax rate:		
- (impairments) reversal of deferred taxes	(3.9)	(6.6)
- permanent differences	(1.5)	(1.2)
- different tax burden on foreign companies	1.8	(0.4)
- changes in tax rates	(0.2)	(0.1)
- (additions)/deductions to provisions for tax disputes	1.3	(0.1)
- prior year taxes	0.6	0.3
- other	1.1	1.5
	(0.8)	**(6.6)**
	25.4	**22.0**

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

33. Transactions with related parties

The transactions with related parties carried out by Versalis SpA and the companies included in its consolidation area mainly involve the trading of goods, performance of services, provision/receipt of funding and use of financial resources, with the parent company Eni SpA and with companies directly or indirectly controlled by the latter, and with its own non-consolidated subsidiaries and associates, and with other State-owned or controlled companies. All of the transactions carried out formed part of ordinary operations and

took place at arm's length, that is, under conditions that would have been applied by independent parties on the open market, and were carried out in the 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 a financial nature, procurement and information technology services, legal services, research services and services for personnel;

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

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

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

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

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

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

h) 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;

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

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

k) Syndial SpA (controlled by Eni SpA): sale of its products, 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 unconsolidated subsidiaries, associates and jointly controlled companies and with other companies owned or controlled by Eni SpA or by the State can be broken down as follows:

(€ million)

	31.12.2012					2012							
						Costs				Revenue			
Name	Trade and other receivables	Trade and other payables	Derivatives - assets	Derivatives - liabilities	Guarantees	Goods	Services	Other	Other operating expenses	Goods	Services	Other	Other operating income
Unconsolidated subsidiaries													
Polimeri Europa Hellas SA		1					1						
Polimeri Europa Kimya Ur. Ticaret Ltd							1						
Polimeri Europa Norden AS	1						1			3			
Polimeri Europa Polska Sp. Z o.o.							1						
	1	**1**					**4**			**3**			
Associates													
Brindisi Servizi Generali Scarl							5						
Priolo Servizi Scarl		(1)					19						
Ravenna Servizi Industriali ScpA		1					11					4	
Servizi Porto Marghera Scarl	3	4					20			6			
	3	**4**					**50**			**6**		**4**	
Joint ventures													
Matrìca SpA	1												
	1												
Parent company													
Eni SpA	108	172		1	80	684	249	3		5	4	5	
	108	**172**		**1**	**80**	**684**	**249**	**3**		**5**	**4**	**5**	
Eni Group companies													
Ecofuel SpA	23	2				8	1			117	11	1	
Eni Adfin SpA		(1)					11						
Eni Corporate University SpA		1					2						
Eni Insurance Ltd	12						14						
EniPower SpA	17	34					203				95	2	
EniPower Mantova SpA	1	20					114				4		
EniServizi SpA		1					5						
Eni Trading and Shipping SpA	4	130		1		1,654	116		11	128			2
Ing. Luigi Conti Vecchi SpA						1							
Raffineria di Gela SpA	3	23					35	1			1	1	
Saipem SpA		13					12						
Serfactoring SpA		1			1								
Società EniPower Ferrara Srl		3					33						
Syndial SpA	47	17			5	9	9	2		35	10	31	
	107	**244**		**1**	**6**	**1,672**	**555**	**3**	**11**	**280**	**121**	**35**	**2**
Entities owned or controlled by the State													
Gruppo Ferrovie		5					19						
Gruppo Finmeccanica	1												
Gruppo Terna	1										5		
	2	**5**					**19**				**5**		
	222	**426**		**2**	**86**	**2,356**	**877**	**6**	**11**	**294**	**130**	**44**	**2**

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

(€ million)

	31.12.2012			2012		
Name	Receivables	Payables	Guarantees	Charges	Gains	Derivatives
Parent company						
Eni SpA		1,467		34		(2)
		1,467		**34**		**(2)**
Eni Group companies						
Eni Finance International SA		537		5		
		537		**5**		
		2,004		**39**		**(2)**

Impact of transactions and positions with related parties on the Group's balance sheet, profit and loss account and cash flow statement.

The impact of balances with related parties on the Group's balance sheet is indicated in the table below:

(€ million)

	31.12.2011			31.12.2012		
	Total	Related parties	% incidence	Total	Related parties	% incidence
Trade and other receivables	1,137	260	23	1,110	222	20
Other current assets	3	2	67	2	1	50
Short-term debt	663	663	100	1,205	1,203	100
Trade and other payables	1,086	493	45	987	426	43
Other liabilities	3	1	33	6	2	33
Long-term debt (including current portions)	449	446	99	803	801	100
Other non-current liabilities	7			7		

The impact of transactions with related parties on the profit and loss account is indicated in the table below:

(€ million)

	2011			2012		
	Total	Related parties	% incidence	Total	Related parties	% incidence
Net sales from operations	6,491	306	4714	6,418	424	7
Other income and revenues	92	60	65	103	44	43
Purchases, services and other costs	6	3,003	47	6,639	3,244	49
Other operating income and expense	1	1	100	(9)	(9)	100
Finance income	109			75		
Finance expense	135	27	20	(122)	(39)	32
Derivatives	5	5	100	(2)	(2)	100

The main cash flows with related parties are indicated in the table below:

(€ million)	2011	2012
Revenues and other income	367	468
Costs and expenses	(3,003)	(3255)
Net change in trade and other receivables, and other assets	(139)	39
Net change in trade and other liabilities, and other liabilities	56	(61)
Dividends, interest and taxes	(69)	91
Net cash flow provided by operating activities	**(2,788)**	**(2,718)**
Investments:		
- investments and securities	(9)	(60)
- change in payables and receivables relating to investments	(9)	(5)
Cash provided by investment activities	*(18)*	*(65)*
Disposals:		
- investments and securities	1	
Cash provided by disposals	*1*	
Net cash provided by investment activities	**(17)**	**(65)**
- change in financial liabilities	590	895
Net cash provided by financing activities	**590**	**895**
Total financial flows to related parties	**(2,215)**	**(1,888)**

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

(€ million)

	2011			2012		
	Total	Related parties	% incidence	Total	Related parties	% incidence
Cash provided by operating activities	(345)	(2,788)	n.s.	(653)	(2,718)	n.s.
Cash provided by investing activities	(233)	(17)	7	(225)	(65)	29
Cash provided by financing activities	586	590	n.s.	894	895	n.s.

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, 2012 there were no assets held for sale or in disposal groups.

37. Main events subsequent to December 31, 2012

For a description of the main events subsequent to December 31, 2012, see the “Business Outlook” section of the Directors' Report.

38. List of investments

Versalis SpA Group companies and equity investments at December 31, 2012

In accordance with the provisions of Arts. 38 and 39 of Legislative Decree No. 127/1991, Art. 126 of Consob Resolution No. 11971 of May 14, 1999 and subsequent amendments, and Consob Communication No. DEM/6064293 of July 28, 2006, the lists of the subsidiary and associated companies of Versalis SpA at December 31, 2012, and of other significant equity investments are provided below.

The companies are listed in alphabetical order and divided into Italian and foreign companies. For each company the following details are shown: company name, location of registered office, share capital or consortium fund, shareholders and their interests, for consolidated companies the percentage held by Versalis SpA is shown; the accounting criterion (equity or cost method) for investments in non-consolidated companies.

Subsidiary and associated companies of Versalis SpA at December 31, 2012

Company name	Registered office	Currency	Share capital	Shareholders	% held	% Consolidated pertaining to the Group	Method of consolidation or method of valuation (*)
Versalis SpA	San Donato Milanese (MI	EUR	1,553,400,000.00	Eni SpA	100.00	100.00	L.b.L.

(*) L.b.L. = consolidated on a line by line basis, N.E. = valued at net equity, Co. = valued at cost

SUBSIDIARIES

In Italy

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

(*) L.b.L. = consolidated on a line by line basis, N.E. = valued at net equity, Co. = valued at cost

SUBSIDIARIES

Outside Italy

Name	Registered office	Currency	Share capital	Shareholders	% held	% Consolidated pertaining to the Group	Method of consolidation or method of valuation (*)
Dunastyr Polystyrene Manufacturing Company Ltd	Budapest (Hungary)	HUF	8,092,160,000	Versalis SpA	96.34	100.00	L.b.L.
				Versalis International	1.830		
				Polimeri Europa GmbH	1.830		
Eni Chemicals Trading (Shanghai) Co Ltd	Shanghai	USD	5,000,000	Versalis SpA	100.00	100.00	L.b.L.
Kelvin Terminals Koelveem BV	Al Terneuzen (Netherlands)	EUR	36,000	Polimeri Europa UK Ltd	100.00	100.00	N.E.
Versalis International SA	Brussels (Belgium)	EUR	10,000,000	Versalis SpA	99.99	100.00	L.b.L.
				Polimeri Europa France SAS	(..)		
Polimeri Europa Elastomères France SA in liquidation	Champagnier (France)	EUR	13,011,904	Versalis SpA	99.99	100.00	N.E.
				third party shareholder	(..)		
Polimeri Europa France SAS	Mardyck (France)	EUR	126,115,582.90	Versalis SpA	100.00	100.00	L.b.L.
Polimeri Europa GmbH [(1)]	Eschborn (Germany)	EUR	100,000	Versalis SpA	100.00	100.00	L.b.L.
Polimeri Europa Hellas SA	Athens (Greece)	EUR	395,175	Versalis SpA	100.00	100.00	P.N.
Polimeri Europa Iberica SA	Barcellona (Spain)	EUR	2,524,200	Versalis International SA	100.00	100.00	L.b.L.
Polimeri Europa Kimya Urunleri Ticaret Ltd Sirketi	Istanbul (Turkey)	TRL	20,000	Versalis SpA	90.00	100.00	N.E.
				Polimeri Europa GmbH	10.00		
Polimeri Europa Norden AS	Copenhagen (Denmark)	DKK	3,000,000	Versalis SpA	100.00	100.00	N.E.
Polimeri Europa Polska Sp. z o.o.	Warsaw (Poland)	PLN	1,000,000	Versalis Spa	100.00		N.E.
Polimeri Europa UK Ltd	Hythe (Great Britain)	GBP	4,004,040	Versalis SpA	100.00	100.00	L.b.L.
Versalis Pacific Trading (Shanghai) Co Ltd	Shanghai	CNY	1,000,000	Versalis SpA	100.00	100.00	L.b.L.

(*) L.b.L. = consolidated on a line by line basis, N.E. = valued at net equity, Co. = valued at cost

ASSOCIATED

In Italy

Name	Registered office	Currency	Share capital	Shareholders	% held	% Consolidated pertaining to the Group	Method of consolidation or method of valuation (*)
Brindisi Servizi Generali Scarl	Brindisi	EUR	1,549,060	Versalis SpA	49.00	49.00	P.N.
				Syndial SpA	20.20		
				EniPower SpA	8.90		
				Terzi	21.90		
Priolo Servizi Scpa	Melilli (SR)	EUR	25,600,000	Versalis SpA	37.35	37.35	P.N.
				Syndial SpA	4.97		
				Terzi	57.68		
Ravenna Servizi Industriali ScpA	Ravenna	EUR	5,597,400	Versalis SpA	42.13	42.13	P.N.
				EniPower SpA	30.37		
				Ecofuel SpA	1.86		
				Terzi	25.64		
Servizi Porto Marghera Scarl	Porto Marghera (VE)	EUR	8,751,500	Versalis SpA	48.13	48.13	P.N.
				Syndial SpA	38.14		
				Terzi	13.73		

(*) L.b.L. = consolidated on a line by line basis, N.E. = valued at net equity, Co. = valued at cost

JOINT VENTURE

In Italy

Name	Registered office	Currency	Share capital	Shareholders	% held	% Consolidated pertaining to the Group	Method of consolidation or method of valuation (*)
Matrìca SpA	Porto Torres (SS)	EUR	34,100,000	Versalis SpA	50.00	50.00	P.N.
				Novamont SpA	50.00		

OTHER COMPANIES

In Italy

Name	Registered office	Currency	Share capital	Shareholders	% held	% Consolidated pertaining to the Group	Method of consolidation or method of valuation (*)
IFM Ferrara ScpA	Ferrara	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		
Novamont SpA	Novara	EUR	11,765,000	Versalis SpA	15.00	15.00	Co
				Third parties	85.00		

Outside Italy

Name	Registered office	Currency	Share capital	Shareholders	% held	% Consolidated pertaining to the Group	Method of consolidation or method of valuation (*)
Genomatica Inc	San Diego (USA)	USD	130,707,444.76	Versalis SpA	5.12	5.12	Co
				Third parties	94.88		

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Changes in the consolidation area

The following companies entered into the consolidation area as from the year 2012: Eni Chemicals Trading (Shanghai) Co. Ltd. and Versalis Pacific Trading (Shanghai) Co. Ltd.

Independent Auditors' Report

Reconta Ernst & Young S.p.A.
Via della Chiusa, 2
20123 Milano

Tel. (+39) 02 722121
Fax (+39) 02 72212037
www.ey.com

Independent Auditors' Report
pursuant to art. 14 of Legislative Decree n. 39 dated 27 January 2010
and to 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.

1. We have audited the consolidated financial statements of Versalis S.p.A. and its subsidiaries (the "Versalis Group") as of 31 December 2012 and for the year then ended, comprising the balance sheet, the profit and loss accounts, the statement of comprehensive income, the statement of changes in the shareholders' equity, the cash flows statements and the related explanatory notes. The preparation of these financial statements in compliance with International Financial Reporting Standards as adopted by the European Union is the responsibility of Versalis S.p.A.'s Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with the auditing standards issued by the Italian Accounting Profession (CNDCEC) and recommended by the Italian Stock Exchange Regulatory Agency (CONSOB). In accordance with such standards, we planned and performed our audit to obtain the information necessary to determine whether the consolidated financial statements are materially misstated and if such financial statements, taken as a whole, may be relied upon. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, as well as assessing the appropriateness of the accounting principles applied and the reasonableness of the estimates made by Directors. We believe that our audit provides a reasonable basis for our opinion.

   For the opinion on the consolidated financial statements of the prior year, which are presented for comparative purposes, reference should be made to our report dated 30 March 2012.

3. In our opinion, the consolidated financial statements of the Versalis Group at 31 December 2012 have been prepared in accordance with the International Financial Reporting Standards as adopted by the European Union; accordingly, they present clearly and give a true and fair view of the financial position, the results of operations and the cash flows of the Versalis Group for the year then ended.

4. The Directors of Versalis S.p.A. are responsible for the preparation of the Directors' Report in accordance with the applicable laws. Our responsibility is to express an opinion on the consistency of the Directors' Report with the financial statements as required by law. For this purpose, we have perfomed the procedures required under Auditing Standard 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by CONSOB. In our opinion, the Directors' Report is consistent with the consolidated financial statements of the Versalis Group at 31 December 2012.

Milan, 19 March 2013

Reconta Ernst & Young S.p.A.
Signed by: Edoardo Sannazzaro, Partner

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

Reconta Ernst & Young S.p.A.
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