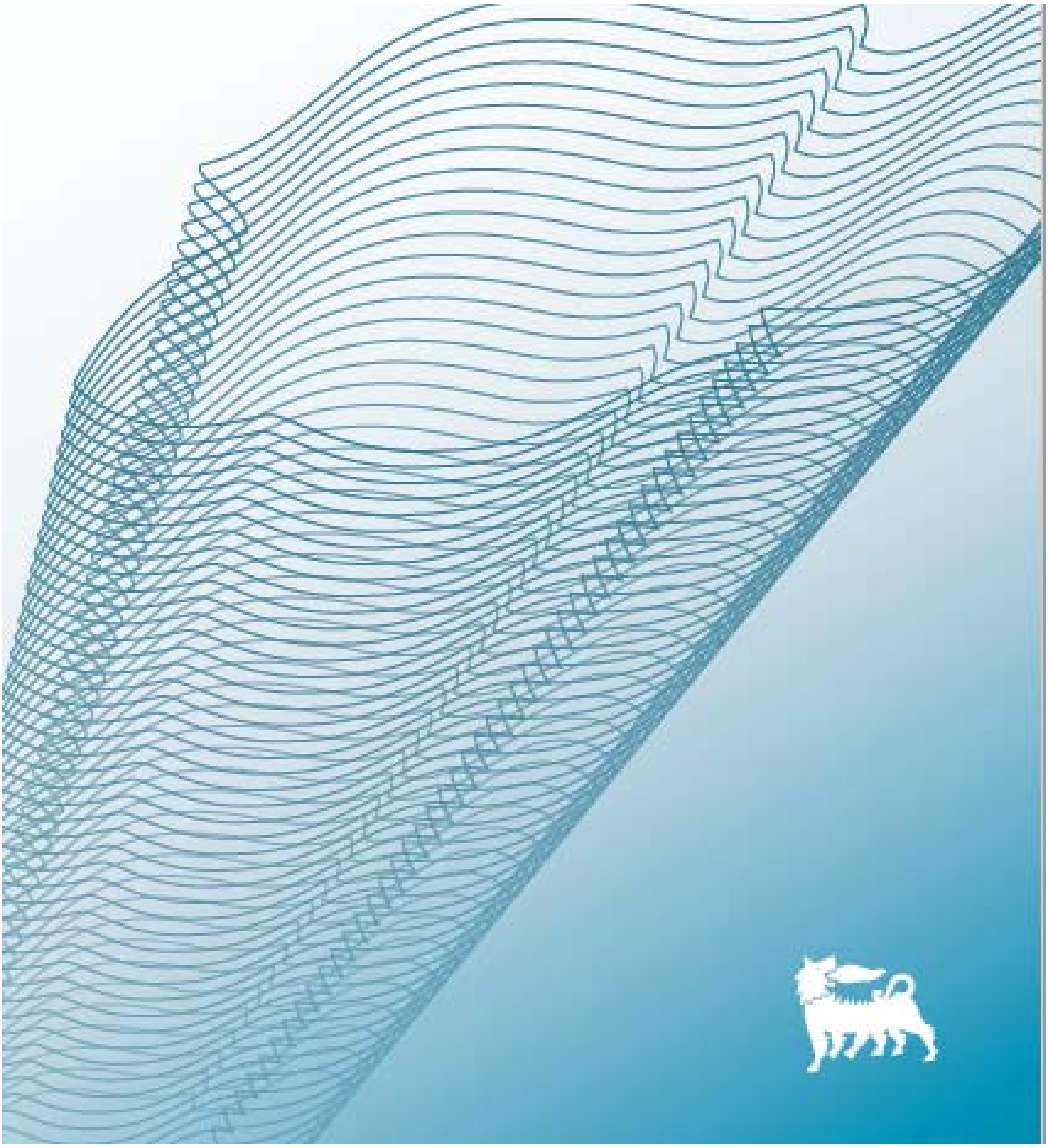
Versalis
Annual Report
2020



English translation for reference only. Should there be any inconsistency between the Italian and English versions, the Italian version shall prevail.

Mission

Versalis SpA is Eni's chemical company operating globally in the basic and intermediate chemical sectors, plastics, rubbers and renewable sources chemistry. It focuses on development of an integrated technological platform in line with its strategy.

Governance

Versalis, leader in Italian chemical sector and one of the main international players, is a company wholly owned and controlled by Eni SpA and subject to its direction and coordination. Versalis Corporate Governance is structured according to the traditional model, which- notwithstanding the tasks of the Shareholders' meeting - assigns management responsibility to the Board of Directors, supervisory functions to the Board of Statutory Auditors and the statutory audit functions to independent auditing company.

Corporate bodies

Shareholders' Meeting

BOARD OF DIRECTORS[1]

CHAIRMAN

Marco Petracchini[5]

CHIEF EXECUTIVE OFFICER

Adriano Alfani[3]

DIRECTORS (NON-EXECUTIVE)

Cristiana Argentino
Rosanna Fusco
Luigi Piro

BOARD OF STATUTORY AUDITORS[1]

CHAIRMAN

Giulia De Martino

STATUTORY AUDITORS

Angelo Cremonese

Alberto Luigi Gusmeroli

ALTERNATE STATUTORY AUDITORS

Roberto Colussi
Livia Anna Schivardi

SUPERVISORY BODY[4]

Francesco di Ciommo CHAIRMAN

Marco Fiorani

Antonio Cristodoro

INDIPENDENT AUDITORS[2]

PwC SpA

(1) Appointed by the Shareholders' Meeting of April 15, 2019 for a three-year period which expires upon the approval of the financial statements for the year 2021.
(2) Appointed by the Shareholders' Meeting of July 11, 2018 for a three-year period which expires upon approval of the financial statements for the year 2021.
(3) Appointed by co-option by the Board of Directors of December 23, 2020 with effects from January 1, 2021.
(4) Organizational Notice N°1/2020 of July 13, 2020.
(5) Appointed by co-option by the Board of Directors of February 1, 2021.

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COMPANY PROFILE

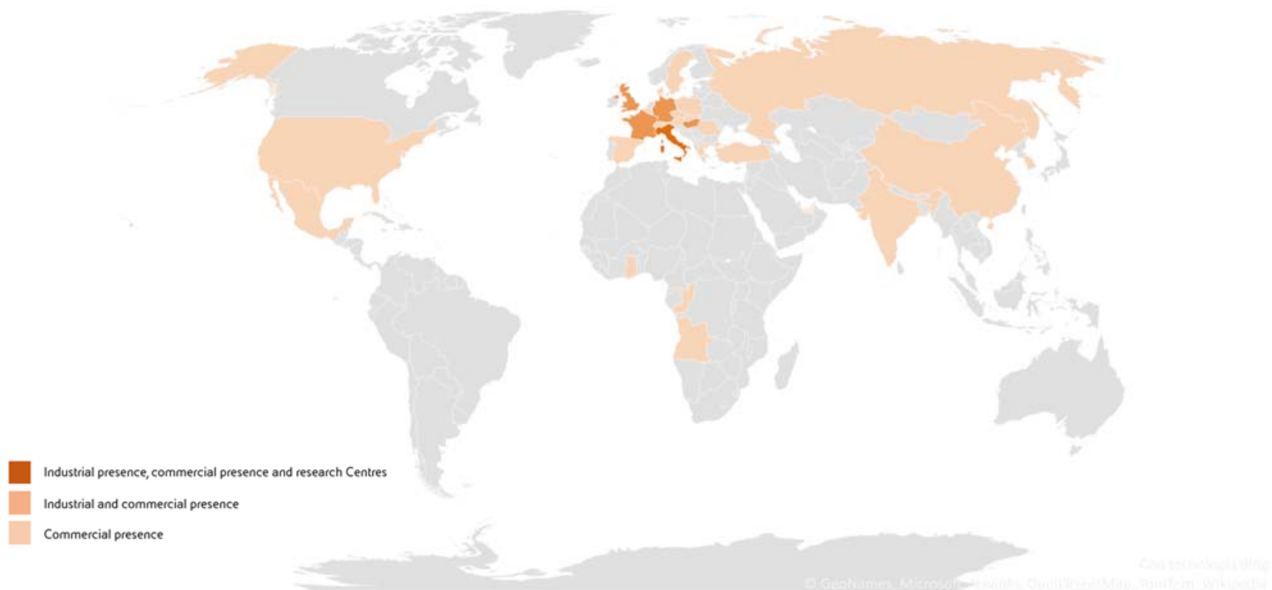
Activity

Versalis is Eni's chemical company operating globally in the basic and intermediate chemical sectors, plastics, rubbers and renewable sources chemistry. It focuses on development of an integrated technological platform in line with its strategy.

Versalis is the main chemical Italian company operating globally in the basic and intermediate chemicals sectors, plastics, rubbers and renewable sources chemistry. In details, it operates in production and trading of intermediates, polyethylene, styrenics, elastomers and renewable sources chemistry. The Company interacts with markets by offering global strategies and a product portfolio oriented towards satisfying a constantly evolving market, focusing on R&D and Licensing activities and further expanding its technological and business influence globally. To achieve these goals, Versalis relies on its expertise in the industrial area, its wide range of proprietary technologies, a wide-reaching distribution network and post-sales service activity. As part of a wider Eni strategy, for Versalis circularity is a decisive factor from an integrated and synergistic perspective ranging from use of resources and processes up to product life cycles, and it includes eco-design, feedstock diversification and recycling of polymers. Versalis commitment is highlighted by participation in innovative initiatives and programs. They include the Alliance to Help End Plastic Waste, a revolutionary project uniting major chemical companies and operators along the entire value chain of the sector to speed up the transition towards a global circular economy and make its contribution to the fight against dispersion of plastic waste in the environment, with specific focus on *marine litter*.

Countries of activity

Versalis Group is present with manufacturing plants in Italy (Brindisi, Crescentino, Ferrara, Mantova, Porto Marghera, Porto Torres, Priolo, Ragusa, Ravenna), in France (Dunkerque), in Germany (Oberhausen), in UK (Grangemouth), in Hungary (Szàzhalombatta) and in South Korea; with Research Centers and Units in Italy (Brindisi, Ferrara, Mantova, Novara, Ravenna, Rivalta Scrivia); sales networks in Angola, Austria, Belgium, China, Czech Republic, Congo, Denmark, France, Germany, Ghana, Great Britain, Greece, Hungary, India, , Italy, Mexico, Poland, Slovak Republic, Romania, Russia, Singapore, Spain, Sweden, Switzerland, Turkey, United Arab Emirates and United States of America.



Business model

Versalis operates in manufacturing and marketing petrochemical products (intermediates, polyethylene, styrenics elastomers and Biotech).

In the Intermediates Business Unit, the main objective is to ensure adequate availability of monomers to cover the needs of the downstream businesses. In detail, olefins (ethylene and butadiene) are integrated with the elastomer and polyethylene business, and aromatics are integrated with the phenol/hydrogenated derivatives and styrene business.

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

Thanks to Biotech business unit, Versalis continues its commitment to strengthen its competitive position in chemical from renewable sources, creating synergies between its research projects, and to develop technological platforms in line with the development strategy undertaken in recent years.

Intermediates

Basic monomers obtained from cracking, destined for use in important industrial processes to produce plastic materials and other components needed for rubber, fibers, solvents and lubricants

Polyethylene

Semi-Finished industrial products obtained from ethylene and used in the production of a wide range of finished products, such as packaging Film (for agricultural, food and industrial products), bottles, containers, and compounds for the construction and automotive industries

Styrenics

Highly versatile, light and recyclable plastic materials, with good mechanical characteristics and high insulating properties, used in the production of industrial and food packaging materials, appliances, insulation, electrical and electronic devices, and car parts.

Elastomers

Elastic polymers used for a variety of applications, such as tires, footwear, stickers, construction and automotive components, tubes, electrical cables, appliances, modifiers and additives for plastic materials and bitumen, synthetic latex for paper coating and molded foam.

Biotech

Commitment to renewable sources in the chemical field starts by recognizing and enhancing the molecular complexity of bio-based feedstock, with the goal to develop innovative supply chains, technologies and products within the framework of a circular economy. Versalis leverages this approach also to foster full integration with local communities, offering real opportunities for growth.

HIGHLIGHTS

Safety

Versalis Group's constant commitment to the safety of people continued in 2020. Ten accidents occurred in 2021, of which five related to contractor personnel, linked to episodes mainly attributable to behavioral reasons. During the year, 21 out of 23 sites achieved the goal of "one year without employee accidents", including Brindisi (eleventh consecutive year) and Szàzhalombatta (tenth consecutive year).

News of the year

Versalis joined the Circular Plastics Alliance

Versalis joined the Circular Plastics Alliance (CPA) to actively contribute to boost plastic recycling in Europe and, at the same time, develop the market for secondary raw materials. By joining CPA, Versalis submitted its voluntary pledges in line with its circular economy strategy that is defined by three main pillars: eco-design, recycling technologies and alternative feedstocks.

Invix™, bioethanol-based disinfectant at Crescentino

On July 2020, in the plant in Crescentino, Versalis started to produce new hand disinfectant, marketed under Invix™ brand, to meet the growing demand for sanitizers as result of the spread of Covid-19 pandemic. Invix™, developed on the formulation of the World Health Organization and authorized by the Ministry of Health, is a Surgical Medical Device, having ethanol from vegetable raw materials as an active ingredient.
The product acts as an effective disinfectant, thanks to the alcohol and hydrogen peroxide content, and as an emollient, thanks to its glycerin content.

Closing signed to acquire 40% of Finproject's share capital

On July 2020, Versalis completed the acquisition of a 40% stake in the Finproject capital, aiming at extends its position towards the business of compounding and moulding. Finproject group is a market leader in the production of crosslinkable and thermoplastic compounds and in the moulding of products for the footwear sector, and products in ultra-light materials under the brand XL EXTRALIGHT®. The integration will bring innovations to countless strategic sectors such as *wires and cables*, footwear, *automotive*, design and fashion.

New compact polystyrene products with up to 75% recycled raw material

Versalis and Forever Plast SpA, the leading Italian company at European level in the post-consumer plastic recovery and recycling sector, signed an agreement aimed at the development and marketing of a new range of compact polystyrene products made from recycled packaging. New products Versalis Revive® PS - Series Forever products, a compact polystyrene-based compound containing up to 75% of recycled polystyrene, guarantee performance capable of meeting the needs of multiple applications, such as thermal insulation, non-food packaging and objects for the home. The recycled polystyrene used in the production of the Revive range comes from domestic separate waste collection, such as the yogurt containers and disposable tableware, supplied by the COREPLA circuit.

Versalis Lighthouse: the digitization of the Brindisi plant

Digitalizing Brindisi site began on September. It was originating at the end of 2017, starting as Industry 4.0 initiative, which involved Versalis in two areas: Integrated Asset Management and Smart Operator, aiming at significantly improving safety and asset integrity parameters of the plants. As an integral part of the project, a methodology for measuring the expected benefits from production strategies was developed. The benefits may result in reductions of the shutdown and unscheduled maintenance, in lower consumption of various raw materials, in the increase in productions and in the dematerialization of paper documentation.

Agreement with AlphaBio Control to produce bio-based herbicides and biocides

Versalis entered the market for agricultural protection products, thanks to the alliance with AlphaBio Control, a research and development company specialized in the production of natural formulations for the protection of crops. This collaboration aims at producing bio-based and biodegradable herbicides and biocides for the disinfection of surfaces, using as active ingredients productions from the bio-chemical platform in Porto Torres.

Licensing LDPE-EVA technology for MTO project in Uzbekistan

On February 2021,Versalis licensed to Enter Engineering Pte. Ltd. a Low Density Polyethylene/Ethyl Vinyl Acetate (LDPE/EVA) swing unit to be built as part of a new Gas to Chemical Complex based on MTO-Methanol to Olefins technology to be located in the Karakul area in the Bukhara region of the Republic of Uzbekistan. The plant is part of the project to build a world-scale chemical complex of major importance in Central Asia due to its size and technologies involved.

LDPE and EVA are ethylene polymers and co-polymers having a suitable balance between processability and mechanical properties, which are widely used in the industry for the production of materials covering a variety of applications including film, coating, injection moulding, packaging, medical appliances, foams and as a base component for hot melt adhesives.

Two new grades in the Pharmalene® family

The Pharmalene® product range is growing and including elastomers. These products are thermoplastic elastomers, in particular hydrogenated styrene/butadiene block copolymers (SEBS), manufactured by Versalis with proprietary technology at the Ravenna plant (Italy). The two new Pharmalene® grades, SOL TH 2312 MED and SOL TH 2315 MED, have achieved the compliance with ISO 10993-5 standard (cytotoxicity by elution test) resulting not cytotoxic.

New certified product range for sustainability

Versalis has obtained ISCC PLUS certification for monomers, intermediates, polymers, and elastomers produced with sustainable raw materials, from bionaphtha and chemical recycling, at the Brindisi, Porto Marghera, Mantua, Ferrara and Ravenna plants. This represents an important step towards the goal of putting decarbonized and circular products on the market with a new "bio attributed" and "bio-circular attributed" range made from bionaphtha, and "circular attributed" in the case where the raw material is a "recycled oil", a pyrolysis oil obtained from the chemical recycling process of mixed plastic waste.

ISCC PLUS is part of the ISCC certification scheme (International Sustainability & Carbon Certification), which is voluntary and allows companies throughout the supply chain to monitor and be able to demonstrate the sustainability of their products based on the sustainability, traceability and mass balance requirements.

Technological innovation

In 2020, research and technological innovation activities were aimed, in continuity with previous years, to the improvement of the processes and products of the existing business lines. Research and development activities in the sector of chemical from renewable sources were also consolidated. The commitment to sustainability and the circular economy has become the core of the new projects. New specific activities were launched relating to the enhancement of lignin, a co-product of bioethanol, in various fields of application, in particular resins, paints, and composite materials with thermoplastics. Research activities also continued in the field of bio-plastics produced from renewable sources, including through the use of second-generation sugars produced with the proprietary Proesa™ technology and the development of new processes for the production of bio-lubricating bases, starting from sources of vegetal origin.

Versalis' commitment to the circular economy continued with important developments in the field of chemical recycling (Hoop® project). Versalis concluded a joint development agreement with Italian company "Servizi di ricerche e Sviluppo (S.R.S.) to develop an innovative pyrolysis technology to transform mixed plastic waste (the plasmix), that cannot be mechanically recycled, into raw material to produce new virgin polymers.

Production

The **production** of petrochemical products of 8,073 thousand tons increased by 5 thousand tons (up by 0.1%), mainly due to higher production in olefins business (up by 1.7%), offset by the decrease in the production of polymers (down by 1.7%). The main production decreases were recorded in the sites of Priolo (down by11.0%), due to the prolonged scheduled shutdown, and Grangemounth (down by 22.3%), partially offset by the recovery in the production at Porto Marghera site (up by 20.9%).

Results

Versalis' results in 2020 were affected by the depressed macroeconomic scenario due to the global pandemic, by the consequent slowdown in the demand for polymers, particularly in the sectors of application for durable goods (elastomers for automotive, styrenes for household appliances), partially offset by the increased demand for plastics (styrenes and polyethylene) for single-use applications (packaging).
In this context, Versalis group achieved an operating loss of 489 million euros and a negative net cash flow from operating activities of 364 million euro. For an illustration of the results for the year, please refer to the paragraph "Comment on the economic and financial results of the Versalis Group".
The parent company Versalis SpA presents a net loss of 633 million euros which, against a fully paid-up share capital of 1,365 million euros, reserves of 13 million euros and losses carried forward of 312 million euros, configures the details provided by art. 2446 of the Civil Code.

Strategy

Versalis pursues the following strategic guidelines, consistent with the sustainable development objectives defined by the United Nations Organization:

- **Specialization** of the portfolio towards high performance products with greater added value
- **Development of chemistry from renewables** with new processes and products
- **Initiative of circular economy** by the developing of mechanical and molecular recycling
- **Gradual reduction of emissions,** increasing the energy efficiency
- **Optimization of internal processes** to improve resilience to fluctuations in the scenario

Key performance indicators

2018	amounts in millions of euros	2019	2020
5.123	Net sales from operations	4.123	3.387
(287)	Operating profit (loss)	(478)	(489)
(460)	Net profit (loss)	(534)	(588)
(120)	Net cash flow provided by operating activities	(214)	(364)
150	Capital expenditures	118	182
2.762	Total assets	2.650	2.657
1.044	Shareholder's equity	507	222
630	Net borrowings	1.071	1.404
1.674	Net capital employed	1.578	1.626
0,60	Leverage	2,11	6,32

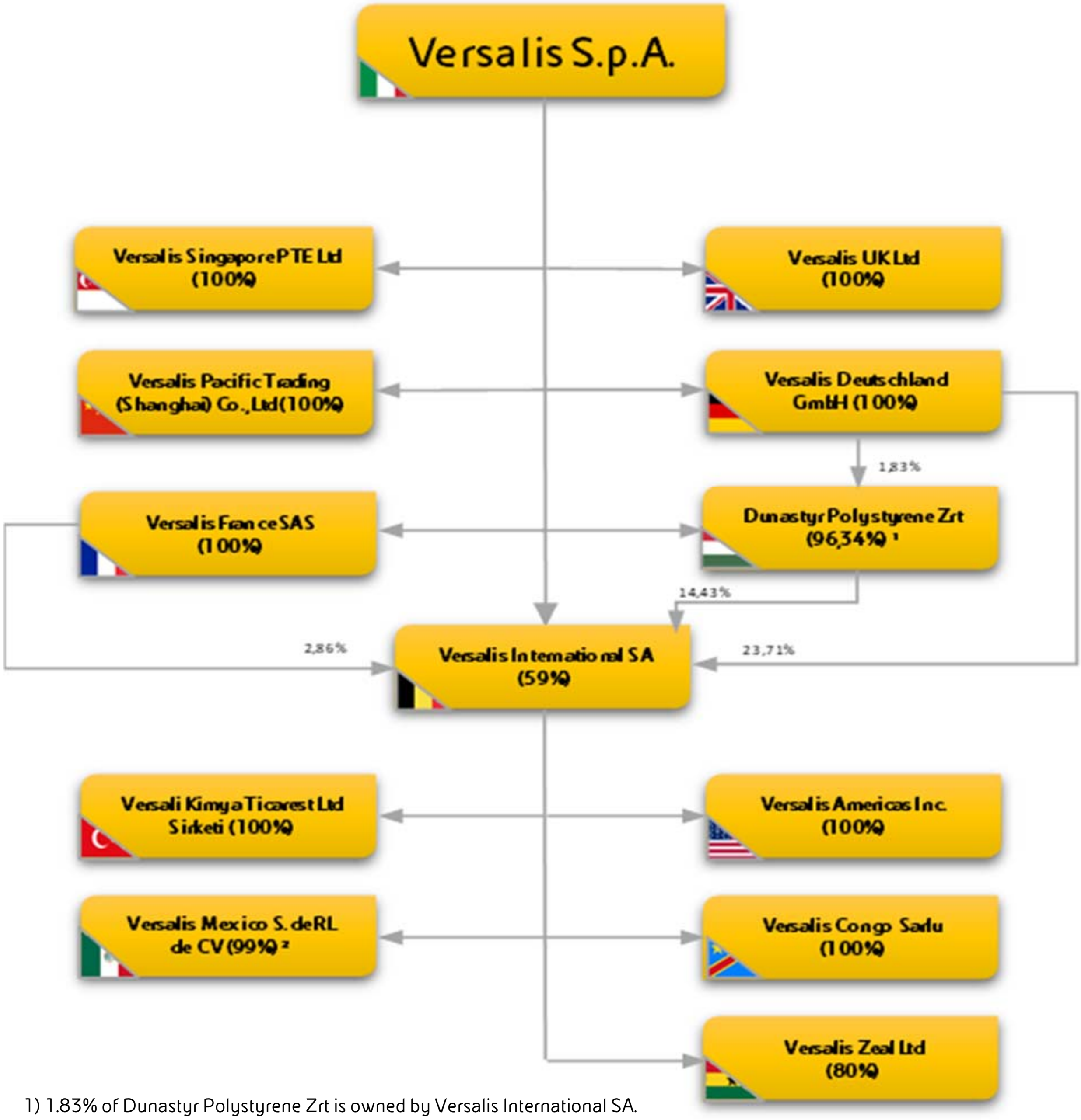
Key operating and sustainability indicator

2018			2019	2020
5.224	Employees	(number)	5.324	5.268
0,72	Accident frequency rate	(accidents/hours worked x 1,000,000)	0,26	0,64
3,13	Direct emission of greenhouse gases	(mm tonnes CO2 eq)	2,84	2,72
38	Cost of research and development	(amount in millions of euros)	42	42
9.483	Production	(k tonnes)	8.068	8.073
76,2	Plant utilization rate	(%)	66,8	64,9
71,04	Average price of Brent Dated FOB	(dollars/barrel)	64,30	41,67
582	Average price of Virgin Naphtha FOB Med	(dollars/tonne)	481	330
1,18	Average EUR/USD exchange rate		1,12	1,14

VERSALIS GROUP STRUCTURE

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

On 01/01/2020, Versalis Zeal Ltd, Versalis Kimya Ticarest Ltd Sirketi and Versalis Mexico S. de RL de CV, owned directly by Versalis International SA, entered the consolidation area of Versalis Group due to exceeding the relevant parameters.



1) 1.83% of Dunastyr Polystyrene Zrt is owned by Versalis International SA.

2) 1% of Versalis Mexico is owned by Versalis S.p.A.

OPERATING REVIEW

The year 2020 was heavily influenced by a depressed macroeconomic scenario due to the global pandemic of Covid-19 which caused a strong recession in the world's major economies and the consequent drastic contraction of demand in all economic sectors.

The global economic growth rate slowed down sharply in 2020, from 2.4% in 2019 to -4.5% in 2020. The phenomenon involved all geographic areas without distinction, including the USA (from 2.2% in 2019 to -5.0% in 2020) and the Far East countries, apart from China which suffered only a slowdown (from 6.1% to 2.0%). Also, the Middle East experienced a severe recession (from 0% in 2019 to -8.7% in 2020). At European level (EU 28), the already modest growth recorded in 2019 (around 1.5%) got worse into the heaviest recession in the last decades (-7.4%).

The EU28 area, starting from a 1.5% growth in 2019 compared to 0% growth in Middle East countries, recorded the more marked worsening in GDP than the global economy, due to the drop in industrial production and the slowdown in private consumption, caused by the lockdown measures imposed by authorities to contain the spread of Covid-19 pandemic since March 2020.

In this context, during 2020 the scenario of the Chemical Sector showed a moderate level of resilience to the shock wave created by the pandemic crisis. The strong contractions in demand involved most of the main chemical businesses, with some exceptions such as the ethylene/polyethylene. Ethylene benefited from particularly low cost of Virgin Naphtha, as result of the drop in crude oil price, while polyethylene benefited from high demand in packaging and medical sector due to the pandemic. The year low average price of Brent and Virgin Naphtha, both at their lows in the last 17 years, limited the competitive pressure (competitiveness) on margin by producers benefiting from more efficient cost structures (cracker to Ethane in the United States and availability of low-cost raw material in Middle East).

In 2020, the impact of the pandemic overshadowed the pre-existing problems of the sector such as downcycle phase due to increase in the ethylene offer from new ethane cracking plants and the slowdown in global demand due to: weakness in the automotive sector, socio-political pressure on the use of single use plastics and uncertainty arising from the US-China trade tensions on the application of international duties.

Globally, production in 2020 fell by 2.0% compared to 2019. Chemical production reduced by of 3.1% in Europe, 1.7% in Far East and 3.4% in Northern America. At European level, the operating rate of the plant fell by 2.6%, causing the worsening of the profitability of the business in the area.

In this context, in 2020 the European "Net Trade" slightly improved due to fewer imports also due to logistic problems caused by the pandemic.

The results of Versalis Group, in 2020, were heavily affected by the depressed macroeconomic scenario and by the resulting slowdown in the main sector using plastic materials, in particular the automotive sector. Despite the drop in consumption due to the global pandemic, together with the European directive on the reduction in Single use Plastic, positive reactions were observed in sectors such as packaging, where demand and prices were sustained, even for fewer imports, while the remaining sectors experienced a sharp recession.

In this macroeconomic context, Versalis Group achieved an operating loss of 489 million euros and a negative net cash flow from operating activities of 364 million euros.

Annual performance

The 2020 **revenues** from the core business of the Versalis Group amounted to 3,387 million euros, compared to 4,123 million euros in 2019 (down by 17.9%). This reduction was due to the decrease in average unit sale prices of the Intermediates (down by 23.3%) and Polymers business (down by 15.0%).

Sales of petrochemical products of 4,339 thousand tons slightly increased compared to 2019 (up by 44 thousand tons; equal to 1.0%). The most significant changes were recorded in ethylene (up by 7.7%) and in elastomers (down by 4.6%).

The **production** of petrochemical products of 8,073 thousand tons increased by 5 thousand tons (up by 0.1%), mainly due to higher production in olefins business (up by 1.7%), offset by the decrease in the production of polymers (down by 1.7%).

The main production decreases were recorded in the sites of Priolo (down by11.0%), due to the prolonged scheduled shutdown, and Grangemounth (down by 22.3%), partially offset by the recovery in the production at Porto Marghera site (up by 20.9%).

The nominal production capacity is in line with 2019. The average plant utilization rate, calculated on the nominal capacity, was 64.9% lower than in 2019 (66.8%).

2018	Sales Revenues (amount in millions of euros)	2020	2019	Var. ass.	Var. %
2.401	Intermediates	1.385	1.791	(406)	(22,7)
2.589	Polymers	1.888	2.201	(313)	(14,2)
133	Other income (a)	114	131	(17)	(13,0)
5.123		**3.387**	**4.123**	**(736)**	**(17,9)**

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

2018	Production & availability (k tonnes)	2020	2019	Var. ass.	Var. %
7.130	Intermediates	5.861	5.818	43	0,7
2.353	Polymers	2.212	2.250	(38)	(1,7)
9.483	**Production**	**8.073**	**8.068**	**5**	**0,1**
(5.085)	Consumption & Losses	(4.366)	(4.307)	(59)	1,4
548	Purchases & Stock Variances	632	534	98	18,4
4.946	**Total availability**	**4.339**	**4.295**	**44**	**1,0**
3.095	Intermediates	2.549	2.529	20	0,8
1.851	Polymers	1.790	1.766	24	1,4
4.946	**Total sales**	**4.339**	**4.295**	**44**	**1,0**

Business Unit Review

Intermediates Business Unit

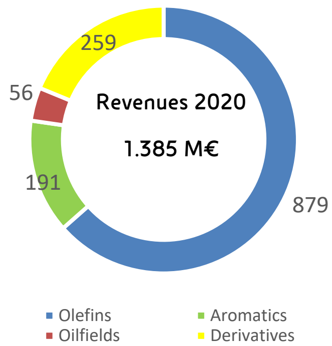
Intermediate revenues (1,385 million euros) decreased by 22.7% (- 406 million euros compared to 2019) due to the decrease in prices.

Sales (2,549 thousand tons) increased by 0.8%, especially in aromatics (+2.4%) and olefins (+0.8%), while they decrease in derivatives (down by 1.4%).

Average prices decreased by 23.3%, in particular aromatics (down by 36.4%), olefins (down by 25.4%) and derivatives (down by 5.9%).

Intermediates production (5,861 thousand tons) registered an increase of 0.7% from 2019. Increases were registered in olefins (up by 1.7%), decreases in derivatives (down by 3.9%) and in aromatics (down by 0.8%).

Intermediates revenues

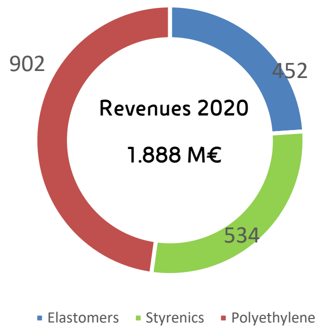


Polymers Business Unit

Polymer revenues (1,888 million euros) decreased by 14.2% (-313 million euros compared to 2019) due to the decrease in average unit prices (- 15.0%).

In the elastomers business, the decrease in volumes sold (down by 4.6%) was attributable to the negative scenario and impacted on the sales of lattices (down by 8.4%), EPR (down by 6.5%), TPR (down by 4.8%), SBR rubbers (down by 4.6%) and BR rubbers (down by 3%). In addition, average sale prices fell by 16.4%.

Polymers revenues



The increase in volumes sold of styrenes (up by 4.0%) is attributable to market recovery in the second half of the year and to lower imports from non-European countries, which led to higher sales of ABS (up by 7.8%), expandable polystyrene (up by 5.1%) and compact polystyrene (4.5%), these higher volumes were partly offset by lower sales of styrene (down by 12.7%). In addition average sale prices decreased ((down by 16.0%).

Overall, the sold volumes of polyethylene business reported an increase (up by 2%) with higher sales of EVA and LDPE (up by 7.3% and 4.6% respectively), while volumes of LLDPE decreased (down by 2.3%). In addition, average sale prices decreased (down by 13.4%).

Polymers productions (2,212 thousand tons) decreased compared to 2019 due to the lower productions of elastomers (down by 6.7%), polyethylene (down by 1.9%).

Biotech Business Unit

The power production of Crescentino plant in the year was about 55 GWh and the quantity sold to network was about 41.7 GWh. Due to the health emergency caused by Covid-19, the production line of the plant was converted to produce also disinfectant, made using ethanol from vegetable raw materials (Bioethanol). This product is a Surgical Medical Device authorized by the Ministry of Health. During the second half of the year, the plant produced almost 1000 tons of disinfectant, available both in liquid and gel, mainly delivered to entities responsible to manage Covid-19 emergency in Italy. In the last quarter 2020, disinfectant was marketed also to third party clients and distributors using e-commerce too. For 2021, there is an agreement to supply directly all the schools throughout the country.

TECHNICAL INVESTMENTS

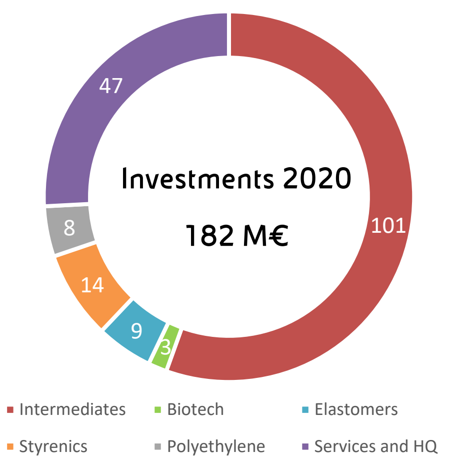
Net investments in tangible and intangible fixed assets of the year, equal to 182 million euros, are analyzed by business in the following table and by type in the following chart.

2018	Investments (milion of euro)	2020	2019	Var. ass.	Var. %
29	Olefins	80	37	43	116,2
9	Aromatics	19	9	10	111,1
2	Derivatives	2	2		
4	Styrenics	14	12	2	16,7
38	Elastomers	9	14	(5)	(35,7)
16	Polyethylene	8	4	4	100,0
	Green chemistry	3		3	
40	Industrial Services	33	28	5	17,9
7	Staff and financial charges	5	4	1	25,0
145	Investments in tangible assets	173	110	63	57,3
5	Investments in intangible assets	9	8	1	12,5
150	Total	182	118	64	54,2

The main technical investments of the year concerned:

- Scheduled maintenance work on the Mantua, Priolo and Brindisi plants for a total of 75 million euros;
- Interventions to adapt plants to safety and environmental regulations (31 million euros);
- Interventions to maintain and improve the reliability of the plants on various sites (37 million euros);
- Decarbonization works of 11 million euro related to the Upgrading of two furnaces in the *cracking* plants of Brindisi and to the Dunkirk Auxiliary boiler on gas only project;
- Cyclical maintenance interventions mainly for recoil on the furnaces of the ethylene plants of Brindisi, Dunkirk and Porto Marghera (4 million euros);
- Digital transformation interventions of 5 million euro relating to the activities launched on the Brindisi pilot site;
- Energy recovery measures of 2 million euro;
- Research interventions of 2 million for new equipment in the research centers of Ferrara, Mantua and Ravenna.

Investment by Business Unit



FINANCIAL REVIEW OF VERSALIS GROUP

PROFIT AND LOSS ACCOUNT

2018	(amounts in millions of euros)	2019	2020	Var. ass.	Var. %
5.123	Net sales from operations	4.123	3.387	(736)	(17,9)
123	Other income and revenues	115	96	(19)	(16,5)
(5.200)	Operating expenses	(4.522)	(3.825)	697	(15,4)
(16)	Other operating (expense) income	(2)	(15)	(13)	..
(317)	Depreciation, depletion, amortization and impairments	(192)	(132)	60	(31,3)
(287)	Operating profit (loss)	(478)	(489)	(11)	2,3
7	Net financial income (expense)	7	(7)	(14)	..
(70)	Net income (expense) from investments	(51)	(74)	(23)	45,1
(350)	Profit (Loss) before income taxes	(522)	(570)	(48)	9,2
(110)	Income taxes	(12)	(18)	(6)	50,0
(31,4)	*Tax Rate (%)*	*(2,3)*	*(3,2)*	*12,5*	37,4
(460)	Net profit (loss)	(534)	(588)	(54)	10,1

Net loss

In 2020 the Versalis Group achieved a net loss of 588 million euros, with a worsening of 54 million euros compared to 2019.

The operating result registered a worsening of 11 million euros mainly due to:

- Contraction in margin for the Elastomer business due to the downcycle in the automotive sector which led to lower sales;
- The decrease in insurance compensation and lower revenues for the use of licenses compared to last year. Further notes (it also notes) that in 2019 there were sales of precious metal for catalysts and sales of Energy Efficiency Certificates.

These negative phenomena were partially absorbed by:

- Significant increase in Polyethylene business profitability due to the strong recovery of the reference spread;
- Slight improvement in the margins of the intermediate business due to the increase in the spread of cracking;
- Slight improvement in the styrenics business due to the recovery of the reference spread;
- Lower economic effect deriving from the outcome of the impairment test on fixed assets, which resulted in impairment loss of 46 million euros (write-down of 70 million of euros on production plants and recovery of 24 million euros in value of intangibles asset) against impairment loss of 103 million euros in the previous year (write-down of 98 million euros on intangible assets, write-down of 14 million euros on the rights of use of leased assets and recovery of 9 million euros in value of production plants);
- Lower depreciation of 3 million euros, due to the write-downs of the previous year.

Analysis of profit and loss account items

Net sales from operations

2018	(amounts in millions of euros)	2019	2020	Var. ass.	Var. %
1.667	Olefins	1.168	879	(289)	(24,7)
340	Aromatics	293	191	(102)	(34,8)
365	Derivatives	279	259	(20)	(7,2)
29	Oilfields chemicals	51	56	5	9,8
665	Elastomers	567	452	(115)	(20,3)
749	Styrenes	611	534	(77)	(12,7)
1.175	Polyethylene	1.022	902	(120)	(11,8)
133	Corporate and services	131	114	(17)	(13,0)
5.123		4.123	3.387	(736)	(17,8)

Net sales from operations decreased by 736 million euros mainly as a result of the decrease in the average unit sales prices of Intermediates (23.3%) and polymers (15.0%).

Other income and revenues

Other income and revenues decreased by 19 million euros compared to 2019, mainly due to lower sales of Energy Efficiency Certificates (16 million euros), lower insurance indemnities (16 million euros), lower sales of precious metal for catalysts (8 million euros) and lower revenues from the sale of licenses (4 million euros). These negative effects were partially offset by the greater recovery of costs from third parties (16 million euros) and by the incentives (grants) received to produce renewable energy.

Operating expenses

2018	(amounts in millions of euros)	2019	2020	Var. ass.	Var. %
3.467	Production costs - raw, ancillary & consumable materials and goods	2.856	2.241	(615)	(21,5)
1.261	Service costs	1.204	1.119	(85)	(7,1)
27	Operating leases and other	22	21	(1)	(4,5)
37	Net provisions for contingencies	5	6	1	20,0
49	Other expenses	52	55	3	5,8
3	Net depreciation (write-ups of value) of trade receivables and other receivables	5	4	(1)	(20,0)
356	Payroll and related costs	378	379	1	0,3
5.200		4.522	3.825	(697)	(15,4)

Operating expenses decreased by 697 million euros, equal to 15.43%, as illustrated in the previous table.

The 21.5% reduction in costs for the **purchase of raw materials, ancillary & consumables materials and goods** is mainly due to the decrease in the average unit price in euros of virgin naphtha compared to 2019, partially offset by a slight increase in quantities purchased.

Service costs decreased by 7.1% mainly due to the reduction both in prices and quantities of utilities (natural gas, electricity, steam, water and gas). These effects were only partially offset by increases in maintenance costs, ecological treatments, planning and construction management costs and logistics costs.

The decrease of €32 million in net provisions for risks and charges is mainly due to lower net provisions for risks and charges for restructuring (€14 million), the provision for environmental risks and charges (€7 million), provision for disputes and litigations (6 million) and the OIL mutual insurance fund (€2 million).

Labor costs are substantially in line with the values of previous year.

Other operating (expense) income

Other operating expenses of 15 million euros (2 million euros in 2019) relate to derivatives to hedge the price risk of virgin naphtha which, although they do not have speculative purposes, cannot be classified as "hedge" for the IFRS principles.

Depreciation, amortization and impairment

2018	(milioni di euro)	2019	2020	Var. ass.	Var. %
107	Tangible assets	73	80	7	9,6
	Depreciation of leasing right-of-use asset	7	5	(2)	(28,6)
7	Intangible assets	9	1	(8)	(88,9)
114	Depreciation	89	86	(3)	(3,4)
203	Impairment (value recovery) net	103	46	(57)	(55,3)
317		192	132	(60)	(31,3)

Depreciation decreased by 3 million euros compared to last year, mainly due to the amortization of the right-of-use of leased asset.

On the other hand, the changes in tangible and intangible depreciation offset each other, affected respectively by the write-backs and write-downs oof the assets made in 2019.

The impairment test carried out in 2020 resulted in net impairment loss for a total of 46 million euros (70 million euros of impairment loss on tangible assets and 24 million euros of write-backs on intangible assets).

The **impairment and write-backs** of tangible assets, whose net effect is impairment loss of 70 million euros, mainly refer to the following CGUs: Elastomers (impairment loss of 196 million euros), Intermediates (impairment loss of 128 million euros), Biotech (impairment loss of 3 million euros), effects partially offset by Polyethylene (reversal of 191 million euros) and Styrenics (reversal of 66 million euros).

The write-backs of intangible assets of 24 million euros refer to the CGU Polyethylene.

For further details, please refer to the note "Net write-backs (impairment) of tangible and intangible assets and rights of use leased assets" of the Notes to the consolidated financial statements.

Net financial (expenses) income

2018	(milion of euros)	2019	2020	Var. ass.	Var. %
(5)	Financial income (expenses) related to net borrowing	(6)	(9)	(3)	(50,0)
9	Financial income (expenses) from receivables and securities- operating activities	11	2	(9)	81,8
(5)	Financial income (expenses) on derivative contracts	1	(2)	(3)	..
3	Foreign exchange gains (losses)	1		(1)	100,0
(1)	Other financial income (expenses)	(3)	(1)	2	66,7
6	Capitalized financial expenses	3	3		
7		7	(7)	(14)	..

Net financial expenses of 7 million euros increased by 14 million mainly due to the reduction of the financial income related to the financial receivable from the jointly controlled company Matrìca and to the increase in financial expenses related to net borrowing and to derivative contracts.

Derivative instruments lack the formal requirements to be classified as hedging based on IFRS 9 and therefore the relative changes in fair value are recognized in the income statement.

Net income (expense) from investments

2018	(milion of euros)	2019	2020	Var. ass.	Var. %
(43)	Income (losses) from equity valuations	(33)	(49)	(16)	(48)
(27)	Other income (expense) from investments	(18)	(25)	(7)	(39)
(70)		(51)	(74)	(23)	(45)

Net expense from investments of 74 million euro mainly relate to the effects of the equity method valuation of investments in the jointly controlled company Lotte Versalis Elastomers (capital loss of 56 million euros) and in the associated company Novamont (capital gain of 6 million euros) and Finproject (capital gain of one million euros) as well as the provision made following the assumption by Versalis SpA of the commitment to meet the net financial requirement foreseen for the 2021 financial year of the jointly controlled company Matrìca (25 million euro).

Income taxes

The tax rate analysis is as follows:

2018	(milion of euros)	2019	2020	Var. ass.
	Loss before income taxes			
(378)	Italy	(428)	(598)	(170)
28	Abroad	(94)	28	122
(350)		(522)	(570)	(48)
	Income taxes			
102	Italy	20	(2)	(22)
8	Abroad	(8)	20	28
110		12	18	6
	Tax rate (%)			
(27,0)	Italy	(4,7)	0,3	(22)
28,6	Abroad	8,5	71,4	63
(31,4)		(2,3)	(3,2)	(0,9)

For further details on the main changes in the tax rate, see the paragraph "Income taxes" in the notes to the consolidated financial statements.

RECLASSIFIED BALANCE SHEET (*)

(milion of euro)	31.12.2019	31.12.2020	Var. ass.
Fixed assets			
Property, plants and equipment	831	854	23
Leasing Right of use	17	17	
Intangible assets	24	53	29
Investments	178	235	57
Receivables and securities held for operating purposes	11	6	(5)
Net payables related to capital expenditures	(32)	(74)	(42)
	1.029	1.091	62
Net working capital			
Inventories	821	669	(152)
Trade receivables	449	495	46
Trade payables	(655)	(574)	81
Tax receivables (payables) and deferred tax	66	43	(23)
Provision for contingencies	(129)	(117)	12
Other current asset (liabilities)	69	93	24
	621	609	(12)
Provision for employee benefits	(72)	(73)	(1)
NET CAPITAL EMPLOYED	1.578	1.627	49
Net Equity	507	222	(285)
Net financial debt (surplus)	1.071	1.404	333
TOTAL LIABILITIES AND SHAREHOLDERS'EQUITY	1.578	1.626	48

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

Fixed Assets

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

Property, plants and equipment, amounting to 854 million euros, increased by 23 million euros mainly due to technical investments for the year (173 million euros) partially offset by the outcome of the impairment test which resulted in a net devaluation of plant of by depreciation for the year (80 million euros).

The **right to use** leased assets, established following the application of the new accounting standard IFRS16, of 17 million euros mainly refers to the right to use land (13 million euros) and to the right to use motor vehicles (4 million euros).

Intangible assets, equal to 53 million euros, increased by 29 million euros mainly due to the impairment test of the period which resulted in a net restoration of value of the property rights relating to the contract between Union Carbide and Versalis spa (CGU Polyethylene) and to the technical investments for the year (9 million euros). These effects were partially offset by depreciation for the period (one million euros).

Investments, equal to 235 million euros, increased by 57 million euros mainly due to the acquisitions of the 40% of the shares in the company Finproject SpA (72 million euros) and due to the income from the investment in Novamont SpA (6 million euros). Such effects were offset by losses from equity accounting investment in joint ventures Lotte Versalis Elastomers Co. Ltd (56 million euros of losses and exchange losses for currencies other than the currency of account with effect on equity reserve of 5 million euros), partially absorbed by the payment for the share capital increase of the joint venture (38 million euros). For the jointly controlled company Matrìca, the payment to the future share capital increase of the company (27 million euros), was offset by the use of the related provision for future risks and charges (27 million euros); despite the fact that the shareholders' equity of the jointly controlled company Matrìca is equal to 9 million euro, the book value of the investment is completely devalued, given the company's financial plan.

Financial receivables and securities held for operating activities of 6 million euros decreased by 5 million euros for an installment repayment of the financial credit granted to the jointly controlled company Matrìca SpA. The non-current portion of this financial receivable, amounting to 39 million euros, was fully written down, while the short-term portion wasn't since the jointly controlled company Matrìca is deemed to be able to repay it thanks to the commitment undertaken by Versalis SpA to meet next year Matrìca financial needs (see section Provisions for risks and charges).

Net payables related to capital expenditures increased by 42 million euros mainly because the second part of the payment relating to the acquisition of the 40% shareholding in Finprojects SpA (52 million euros) was deferred to 2021. This effect was partially offset by the increase in receivables for insurance indemnities related to tangible assets (7 million euros) and by the decrease in payables related to capital expenditure (3 million euros).

Net working capital

The main changes in the net working capital items are commented on below.

The 152 million euro decrease in **inventories** is attributable to the reduction both in quantities in stock and in weighted average cost of inventories and it mainly concerns finished products. These amounts include net release of the obsolescence allowances on inventories for 14 million euro, for adjustment to the market value of the quantities in stock.

The 46 million euro increase in **trade receivables** is essentially due to lower receivables transferred to factoring companies and to turnover increase in the last two months of the year compared to the same period in 2019.

Trade payables decreased of 80 million euro due to the reduction of operative costs.

The decrease in **tax receivables and net tax provision** of 23 million euros is mainly due to the reduction of the net deferred tax assets, to the net decrease of 15 million euros in receivables from the holding company Eni SpA for participation in the National Tax Consolidation and to the current tax credits transferred to factoring companies. The above decreases were partially offset by the reduction in VAT payables.

The 12 million euro decrease in **provisions for risks and charges** is mainly due to the net decrease of 15 million euro in provision for disposals and restructuring and of 2 million euro of the provision for Matrìca financial support. These effects were partially offset by the increase of 5 million euro in the provision for environmental risks and charges.

The 24 million euro increase in **other current assets** is mainly due to the increase in other current receivables of 16 million euros from third parties, of 10 million euro from Eni Group companies and to the reduction of 4 million euros in other payables from third parties. These effects are partially offset by the reduction of 7 million euro in advances to suppliers.

Statement of Comprehensive Income

(amounts in million of euros)	2019	2020
PROFIT (LOSS) FOR THE PERIOD	(534)	(588)
Other items of comprehensive profit (loss)		
Valuation of defined-benefit plan for employees	(3)	(2)
Foreign currency translation differences	(1)	(6)
Amount related to equity-accounted investments		5
Tax effects related to other components of the comprehensive loss that cannot be reclassified in profit and loss account	1	1
TOTAL COMPREHENSIVE PROFIT (LOSS) FOR THE YEAR	(537)	(590)

Shareholders' equity

(amounts in million of euros)	
Shareholders equity as at December 31, 2019	507
Total comprehensive loss	(590)
Shareholder payment	300
Reserve for defined benefit plans for employees	
Exchange differences and other changes	5
Shareholders equity as at December 31, 2020	222

Shareholders' equity amounted to 222 million euros and decreased by 285 million euros compared to 2019 due to the comprehensive loss for the year, partially offset by the payment of 300 million of euros made in favor of Versalis spa by its sole shareholder to partially cover previous years' losses.

Net financial debt

(amounts in millions of euros)	31.12.2019	31.12.2020	Var. ass.
Financial debt - short term	1.028	995	(33)
Financial debt - medium long term	60	450	390
Lease liabilities	25	21	(4)
Cash and cash equivalent	(42)	(62)	(20)
Net financial debt	1.071	1.404	333
Net Equity	507	222	(285)
Leverage	2,11	6,32	4,21

The 333 million euro increase in **net financial debt** is essentially due to the net cash flow from operating activities (negative for 364 million euros), as well as cash requirements for technical (182 million euros) and financial (139 million euros) investments; effects partially offset by equity cash flow (300 million euros).The increase in long term financial debts, compared to 2019, is mainly due to the taking out of two medium-long term loans of 200 million euros each, with capital repayments terms in 2023 and 2025. For further details, see the comment on the reclassified cash flow statement.

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

	Net Profit (loss)		Shareholders' equity	
(amounts in millions of euros)	2019	2020	31.12.2019	31.12.2020
As recorded in the annual Financial Statements of Versalis SpA	(427)	(633)	767	432
Difference between the equity value of individual accounts of consolidated subsidiaries, with respect to the corresponding carrying amount in the statutory accounts of the parent company	(45)	(88)	(210)	(296)
Consolidation adjustments:				
- elimination of tax adjustments and compliance with accounting policies	(65)	144	(83)	64
- deferred taxation	6	(12)	36	24
- elimination of intercompany profits	(3)	1	(3)	(2)
As recorded in the Consolidated Financial Statements	(534)	(588)	507	222

RECLASSIFIED CASH FLOW STATEMENT (*)

In 2020, the **net cash flow from operating activities** is negative for 364 million euros. Disbursements for technical investments (182 million euros) and investments in equity investments (139 million euros), only partially offset by the change in receivables relating to investment activities (49 million) and the cash flow from financial investments (5 million euros), generated a negative free cash flow of 631 million euros, covered thanks to the financing lines guaranteed by the parent company Eni SpA and thanks to its payment of 300 million to partially cover previous years' losses.

2018	(amounts in millions of euros)	2019	2020	Var. ass.
(460)	Net profit (loss) for the period	(534)	(588)	(54)
	Adjustments to reconcile net profit (loss) to net cash provided by operating activities:			
381	- depreciation and amortization and other non monetary items	231	207	(24)
(2)	- net gains on disposal of assets			
104	- dividends, interest, taxes and other charges	13	22	9
(141)	Changes in working capital	68	(23)	(91)
(2)	Dividends received, taxes (paid) received, interest (paid) received	8	18	10
(120)	Net cash flow provided by operating activities	(214)	(364)	(150)
(150)	Investments in fixed assets	(118)	(182)	(64)
(103)	Investments and purchase of consolidated subsidiaries and businesse	(76)	(139)	(63)
4	Disposals			
4	Financial investments	9	5	(4)
14	Other cash flow related to investing activities	(15)	49	64
(351)	Free cash flow	(414)	(631)	(217)
499	Change in short-term and long-term debt	425	361	(64)
	Reimbursement of lease liabilities	(14)	(10)	4
(304)	Cash flow from capital and reserves		300	300
(156)	NET CASH FLOW FOR THE PERIOD	(3)	20	23

2018	(amounts in millions of euros)	2019	2020	Var. ass.
(351)	Free cash flow	(414)	(631)	(217)
	Exchange differences on net borrowings and other changes	(4)	3	7
	Reimbursement of lease liabilities	(14)	(10)	4
(16)	Change in financial debts and credits on company branches			
(304)	Cash flow from capital and reserves		300	300
(671)	CHANGE IN NET BORROWINGS ANTE IFRS16	(432)	(338)	94
	First application IFRS 16	(22)		22
	Reimbursement of lease liabilities	14	10	(4)
	New leasing liabilies and other variation	(1)	(5)	(4)
	Variation in lease liabilities	(9)	5	14
(671)	CHANGE IN NET BORROWINGS POST IFRS16	(441)	(333)	108

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

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

Items of the Reclassified Consolidated Balance Sheet (where not expressly indicated,the item derives directly from the consolidated financial statements (statutory format) (amounts in millions of euros)	Ref. to notes to the consolidated financial statements	31.12.2019 Partial amounts from the consolidated financial statements	31.12.2019 Amounts from the reclassified financial statements	31.12.2020 Partial amounts from the consolidated financial statements	31.12.2020 Amounts from the reclassified financial statements
Fixed assets					
Property, plant and equipment			831		854
Right of use			17		17
Intangible assets			24		53
Equity accounted investments			175		155
Other investments			3		80
Receivables & securities for operating activities, made up of:			11		6
- other non-current financial assets		11		6	
Net payables related to capital expenditures, made up of:			(32)		(74)
- payables related to capital expenditures	(see note 18)	(32)		(81)	
- receivables for insurance indemnities for tangible fixed asset				7	
Total fixed assets			1.029		1.091
Net working capital					
Inventories			821		669
Trade receivables			449		495
Trade payables			(655)		(575)
Tax receivables (payables) & provisions for tax, made up of:			65		43
- income tax payables	(see note 19)	(1)		(1)	
- other tax payables	(see note 20)	(15)		(11)	
- deferred tax liabilities	(see note 24)	(1)			
- payables for tax transparency v/s joint ventures	(see note 20)	(2)			
- payables for Group VAT	(see note 18)	(18)		(10)	
- current tax assets	(see note 5)	11		2	
- other current tax assets	(see note 6)	13		11	
- deferred tax assets	(see note 14)	47		36	
- receivables for tax consolidation		15			
- receivables for Group VAT	(see note 3)	16		16	
Provisions for risks and charges			(129)		(117)
Other current assets and liabilities, made up of:			69		93
- other receivables	(see note 3)	171		190	
- other (current) assets	(see note 6)	2		3	
- other receivables and other assets (non current)	(see note 15)	1		1	
- advances, other payables	(see note 18)	(76)		(75)	
- other (current) liabilities	(see note 20)	(10)		(7)	
- other payables and other liabilities (non current)	(see note 25)	(19)		(19)	
Total net working capital			620		608
Provisions for employee benefits			(72)		(73)
NET CAPITAL EMPLOYED			1.577		1.626
Shareholders' equity			507		222
Net borrowings					
Total debt, made up of:					
- long-term debt	(see note 21)	51		441	
- current portion of long-term debt	(see note 21)	9		9	
- short-term debt	(see note 16)	1.028		995	
Lease liabilities			25		21
- Long term lease liabilities		17		13	
- Short term lease liabilities		8		8	
Less:					
Cash and cash equivalent	(see note 1)	(42)		(62)	
Total Net ficancial debt			1.071		1.404
NET FINANCIAL DEBT AND SHAREHOLDERS' EQUITY			1.578		1.626

Reclassified Consolidated Cash Flow Statement

Items of the Reclassified Cash Flow Statement and confluence/reclassification of items in the statutory format (amounts in millions of euros)	2019		2020	
	Partial amounts from statutory	Amounts from the reclassified financial	Partial amounts from statutory	Amounts from the reclassified financial
Net Profit (Loss)		(534)		(588)
Adjustments to reconcile net profit (loss) to net cash provided by operating activities:				
Depreciation and amortization and other non-monetary items		231		207
- depreciation and amortization	89		86	
- net impairment of tangible and intangible assets	103		46	
- eliminations	1			
- impairments (write-backs) of investments	51		74	
- currency translation differences from alignment	(4)			
- economic effects on securities and financial receivables	(9)			
- valuation of equity investments valued at cost				
- net change in provision for employee benefits	0		1	
Net gains on disposal of assets				
Dividends, interest, income taxes and other charges		13		22
- dividends				
- interest income	(3)		(2)	
- interest expense	4		6	
- income taxes	12		18	
Changes in working capital		68		(23)
- inventories	(12)		150	
- trade receivables	111		(42)	
- trade payables	1		(79)	
- provisions for risks and charges	(10)		(10)	
- other assets and liabilities	(22)		(42)	
Dividends received, taxes paid, interest (paid) received during the period		8		18
- dividends received	1			
- interest received	2		1	
- interest paid	(4)		(6)	
- Income taxes received (paid) including tax credits recharged	9		23	
Net cash flow provided by operating activities		(214)		(364)
Capital expenditures		(118)		(182)
- tangible assets	(110)		(173)	
- intangible assets	(8)		(9)	
Investments and purchase of consolidated subsidiaries and businesses		(76)		(139)
- non consolidated investments				
- investments and purchase of consolidated subsidiaries and businesses	(76)		(139)	
- acquisto di quote di imprese consolidate				
Divestments and partial disposals of consolidated investments		0		0
- tangible assets				
- attività immateriali				
- imprese uscite dall'area di consolidamento e rami d'azienda				
- investments	0			
- cessione di quote di partecipazioni in imprese consolidate				
Other changes related to investment activity		(6)		54
- investimenti finanziari: titoli				
- financial investments: financial receivables	9		5	
- change in payables and receivables related to investments	(15)		49	
Free cash flow		(414)		(631)
Change in short-term and long-term debt		411		351
- proceeds from long-term finance debt	2		400	
- payments from long-term finance debt	(9)		(9)	
- payments from lease liabilities	(14)		(10)	
- change in short-term finance debt	432		(30)	
- foreign currency exchange differences	0			
- change in the consolidation of cash & cash equivalents				
Cash flow from equity capital:		0		300
- net capital contribution (repayments) by/to third parties			300	
Net cash flow for the period		(3)		20

 English translation for reference only. Should there be any inconsistency between the Italian and English versions, the Italian version shall prevail.

FINANCIAL REVIEW OF VERSALIS SPA

PROFIT AND LOSS ACCOUNT

2018	(amounts in millions of euros)	2019	2020	Var. ass.	Var. %
4.111	Net sales from operations	3.259	2.681	(578)	(17,7)
119	Other income and revenues	109	86	(23)	(21,1)
(4.251)	Operating expenses	(3.665)	(3.106)	559	15,3
(16)	Other operating (expense) income	(2)	(15)	(13)	..
(274)	Depreciation, amortization and impairment	(48)	(163)	(115)	..
(311)	Operating Profit (Loss)	(347)	(517)	(170)	(49,0)
7	Net finance income (expense)	7	(5)	(12)	..
51	Net income (expense) from investments	(67)	(113)	(46)	(68,7)
(253)	Profit (Loss) before income taxes	(407)	(635)	(228)	(56,0)
(102)	Income taxes	(20)	2	22	..
(355)	Net Profit (Loss)	(427)	(633)	(206)	(48,2)

Net Loss

The financial statements of Versalis SpA closed with a net loss for the year of 633 million euros (loss of 427 million euros in 2019), determined by the operating loss of 517 million euros, net financial loss of 5 million euros, due to net charges on equity investments of 113 million euros and income tax charges of 2 million euros.

The operating result registered a worsening of 170 million euros mainly due to:

- greater economic effects deriving from the outcome of the impairment test on fixed assets, which resulted in impairment loss of 98 million euros (write-down of 122 million euros on production plants and recovery of 24 million euros in value of intangibles asset) against net reversal of 11 million euros (reversal of 122 million euros on production plants, impairment loss of 97 million euros on intangible assets and impairment loss of 14 million euros on the rights of use of leased assets) in the previous year;
- Contraction in margin for the Elastomer business due to the downcycle in the automotive sector which led to lower sales:
- The decrease in insurance compensation and lower revenues for the use of licenses compared to last year. Further notes that in 2019 there were sales of precious metal for catalysts and sales of Energy Efficiency Certificates.
- Greater depreciation of 6 million euros, due to the write-ups of the previous year.

These negative phenomena were partially absorbed by:

- Significant increase in Polyethylene business profitability due to the strong recovery of the reference spread;
- Slight improvement in the margins of the intermediate business due to the increase in the spread of cracking;
- Slight improvement in the styrenics business due to the recovery of the reference spread.

Analysis of the profit and loss account items

The reasons for the most significant changes in the Versalis SpA income statement items, unless expressly indicated below, are commented on in the Notes to the financial statements of Versalis SpA.

Net sales from operations

2018	(amounts in millions of euros)	2019	2020	Var. ass.	Var. %
1.266	Olefins	874	679	(195)	(22,3)
340	Aromatics	293	191	(102)	(34,7)
365	Derivatives	276	259	(17)	(6,3)
24	Oilfields Chemicals	33	31	(2)	(6,1)
528	Elastomers	449	360	(89)	(19,8)
715	Styrenes	587	492	(95)	(16,2)
743	Polyethylene	618	560	(58)	(9,4)
130	Corporate and services	129	109	(20)	(15,5)
4.111		3.259	2.681	(578)	(17,7)

Net sales from operations decreased by 578 million euros mainly due to the decrease in average unit sales prices, despite an increase in volume sold.

Other income and revenues

Other income and revenues decreased by 23 million euros compared to 2019, mainly due to lower insurance indemnities (19 million euros), lower sales of Energy Efficiency Certificates (16 million euros), lower sales of precious metal for catalysts (8 million euros) and lower revenues from the sale of licenses (4 million euros). These negative effects were partially offset by the greater recovery of costs from third parties (16 million euros) and by the grants received to produce renewable energy (9 million euros).

Operating expenses

2018	(amounts in millions of euros)	2019	2020	Var. ass.	Var. %
2.741	Production costs - raw, ancillary and consumable materials and goods and inventory changes	2.223	1.739	(484)	(21,8)
1.130	Service costs	1.077	998	(79)	(7,3)
21	Operating leases and other	19	18	(1)	(5,3)
37	Net provisions for contingencies	4	9	5	125,0
41	Other expenses	52	47	(5)	(9,6)
1	Net depreciation (write-ups) of trade recivables and other receivables	(8)	(3)	5	(62,5)
280	Payroll and related costs	298	298		
4.251		3.665	3.106	(559)	(15,3)

Operating costs decreased by 559million euros, equal to 15.3%, as shown in the previous table.

The 21.8% decrease in **costs for the purchase of raw materials**, subsidiaries, consumables, goods and changes in inventories is mainly due to the reduction in the average unit price of virgin naphtha in euros compared to 2019, partially offset by a slight increase in quantities purchased.

Costs for services fell by 7.3% mainly due to the reduction both in prices and quantities of utilities (natural gas methane, electricity, steam, water and gas). These effects were only partially offset by increases in maintenance costs, ecological treatments, planning and construction management costs.

The increase of 5 million euros in **net provisions for risks and charges** is mainly due to higher net allowances for environmental risks and charges (3 million euros) and for disputes and litigation (2 million euros).

Other charges decreased of 5 million euros mainly due to lower losses on trade receivables.

The net write-ups of trade receivables decreased by 5 million of euros mainly for lower net allowances for bad debts provisions.

Payroll and related costs

Labor costs are substantially in line with the values of previous year.

Other operating (expense) income

The **other operating expenses** of 15 million euros (2 million euros in 2019) relate to derivatives to hedge the price risk of virgin naphtha which, although not having speculative purposes, cannot be classified as "hedge" for the IFRS principles.

Depreciation, amortization and impairment

2018	(amounts in millions of euros)	2019	2020	Var. ass.	Var. %
67	Tangible asset	46	62	16	34,8
	Right of use	4	2	(2)	(50,0)
5	Intangible asset	9	1	(8)	(88,9)
72	Depreciation and amortizations	59	65	6	10,2
202	Impairment (reversal)	(11)	98	109	..
274		48	163	115	..

Depreciation increased by 6 million euros compared to the previous year, mainly due to the reversals of impairment losses of assets made in 2019.

The impairment test carried out in 2020 resulted in net impairment for a total of 98 million euros (122 million euros of impairment loss on tangible assets and 24 million euros of write-backs on intangible assets).

The **impairment and reversal of tangible assets**, whose net effect is impairment loss of 122 million euros, mainly refer to the following CGUs: Elastomers (impairment loss of 159 million euros), Intermediates (impairment loss of 109 million euros) and Biotech (impairment loss of 3 million euros), effects partially offset by Polyethylene (reversal of 83 million euros) and Styrenics (reversal of 66 million euros).

The **write-backs** of intangible assets of 24 million euros refer to the CGU Polyethylene.

For further details, please refer to the note "Net impairment (reversal) of tangible and intangible assets and rights to use leased assets" of the Notes to the financial statements.

Net financial expenses

2018	(amounts in millions of euros)	2019	2020	Var. ass.	Var. %
(5)	Financial income (expense) related to net borrowings	(6)	(8)	(2)	33,33
9	Income (expense) on loans and securities related to operations	11	2	(9)	(81,82)
(5)	Income (expense) on derivative contracts	1	(1)	(2)	...
4	Exchange differences	1		(1)	...
(2)	Other financial income (expense)	(3)	(1)	2	(66,67)
6	Financial expenses capitalized	3	3		
7		7	(5)	(12)	..

Net financial expenses of 5 million euros increased by 12 million mainly due to the reduction of the financial income related to the financial receivable from the jointly controlled company Matrìca and to the increase in financial expenses related to net borrowing and to derivative contracts.

Derivative instruments lack the formal requirements to be classified as hedging based on IFRS 9 and therefore the relative changes in fair value are recognized directly in the income statement.

Net income (expense) from investments

2018	(amounts in millions of euros)	2019	2020	Var. ass.	Var. %
90	Dividends	25	6	(19)	(76,0)
(9)	(Allocations to) Utilization of provisions for impairment of investments	(74)	(121)	(47)	63,5
(30)	(Allocations to) Utilization of provisions to cover losses	(18)	2	20	..
51		(67)	(113)	(46)	68,7

Net charges from investments of 113 million euros refer to the allocation to the provision for losses on investment in the jointly controlled company Lotte Versalis Elastomers (61 million euros) and in the subsidiary Versalis UK (33 million euros) for adjustment to the value in use as well as the provision coming from Versalis SpA commitment to meet next year's net financial requirement of the jointly controlled company Matrìca (25 million euro).

These effects were partially offset by dividends received by the subsidiaries Versalis International (5 million euros) and Versalis Deutschland (one million di euro).

Income taxes

2018	(amounts in millions of euros)	2019	2020	Var. ass.
1	IRES	(18)	(3)	15
	IRAP			
1	Current taxes	(18)	(3)	15
(10)	Deferred taxes	(20)	13	33
111	Prepaid taxes	58	(12)	(70)
101	Net prepaid taxes	38	1	(37)
102		20	(2)	(22)

The reduction in income taxes of 22 million euros compared to 2019 comes from the different effects on the income statement resulting from the determination of prepaid and deferred taxes partially offset by the decrease in income for IRES national tax consolidation (current and relating to previous years).

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RECLASSIFIED BALANCE SHEET[1]

(amounts in millions od euros)	31.12.2019	31.12.2020	Var. ass.
Fixed asset			
Property, plant and equipments	702	681	(21)
Right of use	3	4	1
Intangible assets	23	52	29
Investments	581	598	17
Receivables and securities held for operating activities	11	6	(5)
Net payables related to capital expenditure	(30)	(72)	(42)
	1.290	1.269	(21)
Net working capital			
Inventories	620	522	(98)
Trade receivables	395	449	54
Trade payables	(554)	(499)	55
Tax receivables (payables) and provisions for deferred tax	20	6	(14)
Provisions for risks and charges	(114)	(102)	12
Other current assets (liabilities)	115	128	13
	482	504	22
Provisions for employee benefits	(70)	(71)	(1)
NET CAPITAL EMPLOYED	1.702	1.702	
Shareholders' equity	767	432	(335)
Net borrowings	935	1.270	335
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	1.702	1.702	

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

The reasons for the most significant changes in the items of the balance sheet of Versalis SpA unless expressly indicated below, are commented on in the Notes to the financial statements of Versalis SpA, to which reference should be made.

Fixed assets

Property, plant and equipment, amounting to 681 million euros, decreased by 21 million euros mainly due to the outcome of the impairment test which led to net devaluation of plants of 122 million euros and to the depreciation for the year (62 million euros). Those effects were partially offset by higher technical investments for the year (164 million euros).

The **right to use** leased assets of 4 million euros mainly refers to the right to use the cars granted to employees.

Intangible assets, equal to 52 million euros, increased by 29 million euros mainly due to net restoration of value of the property rights relating to the contract Union Carbide of CGU Polyethylene (24 million euros) and to technical investments for the period (7 million euros). These effects were partially offset by the depreciation for the period (one million euros).

Investments of 598 million euros increased by 17 million euros essentially due to: the acquisitions of the 40% of the shares in the company Finproject SpA (72 million euros), the capital increase of 38 million euros in the joint-venture Lotte Versalis Elastomers, the payment to the future share capital increase of the jointly controlled company Matrìca (27 million euros) and the purchase of the shares in the related company Priolo Servizi. Those effects were partially offset by the write-down (impairment) of the investment in the joint venture Lotte Versalis Elastomers (61 million euros), in the controlled subsidiary Versalis UK (33 million euros) and in the jointly controlled company Matrìca (impairment of 27 million euros).

[1] Refer to the comment on the consolidated economic and financial results for the methodological illustration of the reclassified schedules.

Financial receivables and securities held for operating activities of 6 million euros decreased by 5 million euros for an installment repayment of the financial credit granted to the jointly controlled company Matrìca SpA. The non-current portion of this financial receivable, amounting to 39 million euros, was fully written down, while the short-term portion wasn't since the jointly controlled company Matrìca is deemed to be able to repay it thanks to the commitment undertaken by Versalis SpA to meet next year Matrìca financial needs (see section Provisions for risks and charges).

Net payables related to capital expenditures increased by 42 million euros mainly because the second part of the payment relating to the acquisition of the 40% shareholding in Finprojects SpA (52 million euros) was deferred to 2021. This effect was partially offset by the increase in receivables for insurance indemnities related to tangible assets (7 million euros) and by the decrease in payables related to capital expenditure (3 million euros).

Net working capital

The 98 million euro decrease in **inventories** is attributable to the reduction both in quantities in stock and in weighted average cost of inventories and it mainly concerns finished products. These amounts include the release of the obsolescence allowances on inventories for 14 million euro, for adjustment to the market value of the quantities in stock.

The 54 million euro increase in **trade receivables** is essentially due to lower receivables transferred to factoring companies and to turnover increase in the last two months of the year compared to the same period in 2019.

Trade payables decreased by 55 million euro due to the reduction of operative costs.

The reduction in **tax receivables and net tax provision** of 14 million euros is mainly due to the net decrease of 15 million euros in receivables from the holding company Eni SpA for participation in the National Tax Consolidation, to the current tax credits (IRAP) transferred to factoring companies (8 million euros) and to the reduction of the net deferred tax assets. The above effects were partially offset by the fall of 7 million euro in Group VAT payables.

The 12 million euro decrease in **provisions for risks and charges** is mainly due to the net decrease of 15 million euro in provision for disposals and restructuring and of 2 million euro of the provision for Matrìca financial support. These effects were partially offset by the increase of 6 million euro in the provision for environmental risks and charges.

The 13 million euro increase in **other current assets** is mainly due to the increase in other current receivables of 14 million euros from third parties, of 5 million euro from Eni Group companies and to the net increase of 2 million euros in derivatives. These effects are partially offset by the reduction of 7 million euro in advances to suppliers.

Shareholders' equity

(amounts in millions of euros)	
Shareholders' equity as at December 31, 2019	767
Net loss	(633)
Shareholder payment	300
Reserves relating to employee benefits	(2)
Shareholders' equity as at December 31, 2020	432

Shareholders' equity amounted to 432 million euros and decreased by 335 million euros, mainly due to the effect of the loss for the year of 633 million euros and to the reserve effects relating to employee benefits in application of IAS 19 (2 million of Euro). These effects were partially offset by the payment of 300 million of euros made in favor of Versalis spa by its sole shareholder to partially cover previous years' losses. The net loss

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of 633 million euros, against a fully paid-up share capital of 1.365 million euros, reserves of 13 million euros and losses carried forward of 313 million euros, configures the extremes provided for by art. 2446 of the Civil Code.

Net financial debt

(amounts in millions of euros)	31.12.2019	31.12.2020	Var. ass.
Short term financial debt	867	841	(26)
Medium long term financial debt	60	441	381
Lease liabilities	11	7	(4)
Cash and cash equivalent	(3)	(19)	(16)
Net financial debt	935	1.270	335

The 335 million euro increase in **net financial debt** is essentially due to the net cash flow from operating activities (negative for 377 million euros) as well as cash requirements for technical (171 million euros) and financial (139 million euros) investments; effects partially offset by equity cash flow (300 million euros). The increase in long term financial debts, compared to 2019, is mainly due to the taking out of two medium-long term loans of 200 million euros each, with capital repayments terms in 2023 and 2025. For further details, see the comment on the reclassified cash flow statement.

RECLASSIFIED CASH FLOW STATEMENT (*)

2018	(amounts in millions of euros)	2019	2020	Var. ass.
(355)	Net profit (loss) for the period	(427)	(633)	(206)
	Adjustments to reconcile net profit (loss) to net cash provided by operating activities:			
306	- depreciation, depletion, and amortization and other non monetary ite	131	286	155
(2)	- net gains on disposal of assets			0
6	- dividends, interest, taxes and other charges	(6)	(5)	1
(105)	Changes in working capital	36	(48)	(84)
	Dividends received, taxes (paid) received, interest (paid)			0
98	received	34	23	(11)
(52)	Net cash flow provided by operating activities	(232)	(377)	(145)
(126)	Capital expenditures	(106)	(171)	(65)
(103)	Investments and purchase of consolidated subsidiaries and businesse	(79)	(139)	(60)
4	Disposals			0
4	Financial investments: financial receivables	9	5	(4)
16	Other changes related to investment activity	(15)	49	64
(257)	Free cash flow	(423)	(633)	(210)
422	Change in short-term and long-term debt	415	356	(59)
	Change in lease liabilities	(10)	(7)	3
(304)	Equity cash flow		300	300
(139)	NET CASH FLOW FOR THE PERIOD	(18)	16	34

Change in Net financial debt

2018	(amounts in millions of euros)	2019	2020	Var. ass.
(257)	Free cash flow	(423)	(633)	(210)
(1)	Exchange differences on net borrowings and other changes			0
	Change in lease liabilities	(10)	(7)	3
(16)	Change in financial			0
(304)	Equity cash flow		300	300
(578)	Change in Net financial debt ante Leasing	(433)	(340)	93
	IFRS 16 first application	(3)		3
	Change in lease liabilities	10	7	(3)
	Other changing	(1)	(2)	(1)
0	Change in lease liabilities	6	5	(1)
(578)	Change in Net financial debt post Leasing	(427)	(335)	92

* for the reconciliation to the mandatory scheme see the paragraph "Reclassification of the reclassified schedules recorded in the management report to those required".

In 2020, the net cash flow from operating activities was negative for 377 million euros. Disbursements for technical investments (171 million euros) and for equity investments (139 million euros), only partially offset by the change in receivables relating to investment activities (49 million euros) and by the cash flow from financial investments (5 million euros), generated a negative free cash flow of 633 million euros, covered thanks to the credit lines guaranteed by the parent company Eni SpA and thanks to its payment of 300 million to partially cover previous years' losses.

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

Items of the Reclassified Balance Sheet (where not expressly indicated,the item derives directly from the financial statements (statutory format) (amounts in millions of euros)	31.12.2019 Partial amounts from statutory format	31.12.2019 Amounts from the reclassified financial statements	31.12.2020 Partial amounts from statutory format	31.12.2020 Amounts from the reclassified financial statements
Fixed assets				
Property, plant and equipment		702		681
Intangible assets		23		52
Right of use		3		4
Equity accounted investments and Other investments		581		598
Receivables & securities for operating activities, made up of:		11		6
- other receivables	9		5	
- other non-current financial assets	2		1	
Net payables related to capital expenditures, made up of:		(30)		(72)
- payables related to capital expenditures	(30)		(79)	
- receivables related to asset divestments			7	
Total fixed assets		1.290		1.269
Net working capital				
Inventories		620		522
Trade receivables		395		449
Trade payables		(554)		(499)
Tax receivables (payables) & provisions for tax, made up of:		20		6
- income tax payables				
- other tax payables	(9)		(8)	
- deferred tax liabilities				
- payables for tax transparency v/s joint ventures	(2)			
- payables for Group VAT	(18)		(10)	
- current tax assets	15			
- other current tax assets	9			
- deferred tax assets	9		8	
- receivables for tax consolidation				
- receivables for Group VAT	16		16	
Provisions for risks and charges		(114)		(102)
Other current assets and liabilities, made up of:		115		128
- other receivables	173		183	
- other (current) assets	1		2	
- other receivables and other assets (non current)	1		1	
- advances, other payables	(53)		(53)	
- other (current) liabilities	(7)		(5)	
- other payables and other liabilities (non current)				
Total net working capital		482		504
Provisions for employee benefits		(70)		(71)
NET CAPITAL EMPLOYED		1.702		1.702
Shareholders' equity		767		432
Net borrowings				
Total debt, made up of:		927		1.282
- long-term debt	51		441	
- current portion of long-term debt	9		9	
- short-term debt	867		832	
Lease liabilities		11		7
- long-term lease liabilities	6		2	
- short term lease liabilities	5		5	
less:				
Cash and cash equiivalent	(3)		(19)	
Total net borrowings		935		1.270
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		1.702		1.702

Reclassified cash flow statement

Items of the Reclassified Cash Flow Statement and confluence/reclassification of items in the statutory format (amounts in millions of euros)	2019		2020	
	Partial amounts from statutory format	Amounts from the reclassified financial statements	Partial amounts from statutory format	Amounts from the reclassified financial statements
Net Profit (Loss)		(427)		(633)
Adjustments to reconcile net profit (loss) to net cash provided by operating activities:				
Depreciation and amortization and other non-monetary items		131		286
- depreciation and amortization	59		65	
- net impairment of tangible and intangible assets	(11)		98	
- impairments (write-backs) of investments	93		119	
- currency translation differences from alignment			3	
- economic effects on securities and financial receivables	(9)			
- net change in provision for employee benefits	(1)		1	
Net gains on disposal of assets				
Dividends, interest, income taxes and other charges		(6)		(5)
- dividends	(25)		(6)	
- interest income	(3)		(2)	
- interest expense	2		5	
- income taxes	20		(2)	
Changes in working capital		36		(48)
- inventories	(2)		98	
- trade receivables	76		(58)	
- trade payables	(7)		(55)	
- provisions for risks and charges	(8)		(10)	
- other assets and liabilities	(23)		(23)	
Dividends received, taxes paid, interest (paid) received during the period		34		23
- dividends received	25		5	
- interest received	3		1	
- interest paid	(2)		(8)	
- Income taxes received (paid) including tax credits recharged	8		25	
Net cash flow provided by operating activities		(232)		(377)
Capital expenditures		(106)		(171)
- tangible assets	(101)		(164)	
- intangible assets	(5)		(7)	
Investments and purchase of consolidated subsidiaries and businesses		(79)		(139)
- non consolidated investments	(79)		(139)	
- investments and purchase of consolidated subsidiaries and businesses				
Divestments and partial disposals of consolidated investments		0		0
- tangible assets			0	
- investments				
Other changes related to investment activity		(6)		54
- financial investments: financial receivables	9		5	
- change in payables and receivables related to investments	(15)		49	
Free cash flow		(423)		(633)
Change in short-term and long-term debt		405		349
- proceeds from long-term finance debt			400	
- payments from long-term finance debt	(6)		(9)	
- payments from lease liabilities	(10)		(7)	
- change in short-term finance debt	421		(35)	
Cash flow from equity capital:		0		300
- net capital contribution (repayments) by/to third parties			300	
Net cash flow for the period		(18)		16

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RISK FACTORS AND UNCERTAINTIES

The main business risks for Versalis, mitigated by management actions, can be traced back to: market risk, in particular to the recessive effects linked to the health emergency from Covid-19, country risk, operational risk and, in a longer perspective term, climate change risk. The description of the risks and the related mitigations methods are provided below. For the description of financial risks, please refer to the appropriate chapter of the notes to the consolidated financial statements.

Health emergency from Covid-19

The pandemic had a significant impact on Versalis' results due to a profound reconfiguration of demand in many of the segments to which production is aimed, with a contraction of around 20% in elastomers (automotive), in styrenes for applications in durable goods (appliances, construction and insulation), in aromatics (industrial solvents and others). On the other hand, consumption was stable for single-use plastics, mainly intended for packaging (polyethylene and styrenics) and for pharma-grade polymers. To limit the impact on results, Versalis has exploited all its plant flexibility to accommodate demand and has implemented opportunistic plant shutdowns.

In order to mitigate the risk of spreading the COVID-19 virus in the company, Versalis, in close contact with the Eni crisis unit, has identified, with a homogeneous approach in all its businesses, ways to protect the health of employees and guarantee the continuity of the activities and operations of the sites. The main measures and results concerned:

• extensive use of smart working (95% of the staff in the offices and 50% of the daily workforce in the operating sites) made possible by Versalis' continuous investment in technological infrastructures and by the experimentation of the smart working project which has already begun since 2017

- extensive use of smart working (95% of the staff in the offices and 50% of the daily workforce in the operating sites) made possible by Versalis' continuous investment in technological infrastructures and by the experimentation of the smart working project which has already begun since 2017;
- definition of unique protocols for the management of entrances in the company buildings, for carrying out work activities and for sanitizing the environments continuously, aligned with the scientific knowledge and indications of the Health Authorities;
- implementation of the defined prevention protocols and continuous monitoring of the state of implementation;
- from a health point of view, implementation of the surveillance of positive cases of employees and contractors, and of the people in quarantine;

- provision, voluntarily and free of charge, for now in the Lombardy region, of the serological test for employees.

Country risk

The country risk identifies the risk that changes in the political framework, social unrest, economic crises, internal conflicts, revolutions, protests, strikes and other forms of civil disorder can temporarily or permanently compromise Versalis' ability to operate in economic conditions in such countries. 48% of revenues are generated in Italy and 91% in Europe. Therefore, in 2020 Versalis is not exposed to significant geopolitical risks and financial instability, even the United Kingdom's exit from the European Union puts an end to a period of strong political uncertainty: the impact of Brexit on the business will be rather limited, as the free trade agreement, without quotas or customs duties, concluded on 24 December 2020 between European leaders and the British premier, avoided a potentially burdensome break from an economic point of view.

Climate change risk

Companies that operate in the chemical sector are required to assess and manage the risks associated with climate change with respect to which there is a growing sensitivity of public opinion, the financial community and governments around the world.

In December 2015, on the occasion of COP21, 125 countries around the world adopted the Paris Agreement which defines a global action plan against climate change, with the aim of maintaining the average increase in the earth's temperature at the end of the century well below 2 ° C, compared to pre-industrial levels.

In 2018, the Intergovernmental Panel on Climate Change (IPCC) indicated the maximum temperature rise of the globe within the limit of 1.5 ° C, in order to avoid irreversible consequences on ecosystems and biological diversity, requiring an acceleration over time and an expansion in the scope of the goals set by countries under the Paris Agreement.

To implement the new Green Deal approved in January 2020, the European Union has set itself the goal of presenting the new "European climate law", which aims to achieve carbon neutrality by 2050.

This measure could also involve updating the emission reduction target for 2030, bringing it from the current 40% to at least 50% -55%, compared to 1990 levels. In this regard, all relevant legislative measures regarding the emission trading scheme, renewables, energy efficiency and energy taxation will be reviewed by June 2021.

The regulatory instruments also include "carbon pricing" fiscal mechanisms, already adopted in some countries/free trade areas, considered an effective solution from an economic point of view for the purpose of containing CO2 emissions by minimizing the cost for the community.

Currently about half of Versalis' direct GHG emissions are subject to the European Emission Trading Scheme (ETS), which entails the obligation for the company to purchase emission certificates in the open market once exceeded the limit of the free allocation of shares established on a regulatory basis.

It is conceivable that compliance costs will increase significantly in the medium term. These charges could be mitigated in perspective by the benefits that Versalis expects to obtain from improving the operational efficiency of its industrial assets, in line with the emission reduction targets communicated to the market. Further benefits will derive from the progressive implementation of the initiatives included in the medium-long term plan, which aims to build a more sustainable business portfolio and reduce emissions.

Operational risks and related HS&E risks

Versalis Group activities entail, for their nature, industrial and environmental risks and are subject, in most of the countries in which the Group operates, to laws and regulations for the protection of the environment and for industrial safety. For example, in Europe the Group owns and operates industrial plants that present a high risk of accidents and for which it has adopted rules and standards of conduct that meet the criteria of the "Seveso II

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Directive" of the European Union. The broad spectrum of activities involves a wide range of operational risks such as explosions, fires, emissions of harmful gases, spills of toxic products, production of non-biodegradable waste.

These events can damage or destroy the plants, cause damage to people or to the surrounding environment. Furthermore, since industrial activities can take place in ecologically sensitive areas, each site requires a specific approach to minimize the impact on the ecosystem concerned, on biodiversity and on human health.

The environmental protection regulations impose measures that provide for the control and compliance with the emission limits of pollutants in the air, water and soil, prescribe the correct management of waste and by-products. Rules aimed at preventing the impact on biodiversity, the preservation of species, habitats and ecosystem services, call operators to increasingly rigorous and stringent obligations in terms of controls, environmental monitoring and prevention measures. The charges and costs associated with the necessary actions to be implemented to comply with the obligations under the regulations governing industrial activities constitute a significant cost item in the current and future years.

Versalis has adopted the best standards for the assessment and management of industrial and environmental risks, conforming its behavior to industry best practices. Over time, the Versalis has obtained the ISO14001 and OHSAS18001 system certifications. The business units, in the development and management of their activities, in addition to applying the laws and regulations of the countries in which they operate, assess industrial and environmental risks through specific procedures.

Any environmental emergencies are managed by the business units at the site level, with its own organization that dispose, for each possible scenario, of the response plan with the actions that must be activated to limit the damage, as well as the managers that must implement those actions.

Most of the products of Versalis are subject to the REACH regulation that governs the registration and authorization obligations of the products themselves, not only for the company, but also for its suppliers, as a necessary condition for their manufacture and placing on the market. Versalis complies with this legislation and requires the same from its suppliers already when pre-qualifying for the tenders.

The integrated approach to health, safety and environmental issues is favored by the application, at all levels of Eni's Business Units and Companies, of an HSE Management System which finds its methodological reference in the Eni HSE Management System Model. Based on an annual cycle of planning, implementation, control, review of results and definition of new objectives, it is oriented towards risk prevention, systematic monitoring and control of HSE performance, in a cycle of continuous improvement which also includes the audit of these processes by internal and external personnel.

As regards environmental risk, Versalis currently does not believe that there will be particularly significant negative effects on the financial statements in relation to compliance with environmental legislation, also taking into account the interventions already carried out, the insurance policies stipulated and the provisions for risks set aside. However, the risk that Versalis may incur additional costs or responsibilities even of significant proportions cannot be excluded with certainty because, at the current state of knowledge, it is impossible to predict the effects of future developments taking into account, among other things, the following aspects: (i) the possibility of new contaminations emerging; (ii) the results of the ongoing and to be carried out characterizations and the other possible effects deriving from the application of the Decree of the Minister of the Environment no. 152/2006; (iii) the possible effects of new laws and regulations for environmental protection; (iv) the effects of any technological innovations for environmental remediation; (v) the possibility of disputes and the difficulty of determining any consequences, also in relation to the liability of other subjects and possible compensation.

Involvement in legal proceedings

Versalis is a party in civil and administrative proceedings and in legal actions related to the ordinary performance of its activities. In addition to the provision for risks for disputes allocated in the financial statements, it is possible that in the future Versalis may incur other liabilities, even significant ones, in addition to the amounts already allocated in the financial statements for legal disputes due to: (i) the uncertainty on the final outcome of the ongoing proceedings, for which at the moment the loss has been assessed as unlikely; (ii) the occurrence of further developments that management may not have taken into consideration when assessing the outcome of the dispute, on the basis of which the loss allocated to the provision for risks in the most recent reporting period was estimated (i.e. the loss was considered only as possible or the amount of the obligation as unreliable); (iii) the rise of new evidence and information; and (iv) the inaccuracy of the estimates of provisions due to the complex process of their determination that involves subjective judgments by the management.

Cyber security

The cyber security risk represents the possibility that cyber-attacks compromise company information systems (management and industrial), having the main consequences of interrupting the services provided, the stealing of sensitive information of Versalis, with both economic and reputational impacts.

Versalis adopts a risk-based approach, in order to define security measures of a reactive and preventive nature aimed at increasing proactivity and corporate resilience with respect to cyber security risk.

BUSINESS OUTLOOK

The chemical sector has a cyclical trend, dependent on the performance of the global economy. Starting from the second half of 2018, the sector has experienced a negative phase of the cycle. The main analysts expect a gradual recovery starting from 2022. The decline in the past two years was due to a combination of effects:

- global oversupply, with slowing consumption in China, and the US-China trade tensions on the application of international duties
- abundant supply of cracker to ethane products (US and Middle East)
- Covid-19 pandemic, with significant impact on automotive sector and a drop in elastomers demand (down by more than 20%).

However, there are some signs of recovery for chemicals, with demand picking up in some segments:

- Polyethylene - pushed by packaging and pharmaceutical products,
- Styrenics - for single use applications,
- Elastomers - specialties intended for applications in the automotive and tire sectors,
- as well as a lower cost of utilities and raw materials.

This improving trend will accelerate with the post-pandemic recovery; the increase in demand may also lead to an improvement in margins.

Versalis long-term strategy aims to significantly the exposure of the chemical business to the cycle's and the feedstock volatility through specialization of product portfolio and the development and integration of chemical from renewable sources and from chemical/mechanical recycling.

The plan 2021-2024 targets:

- the progressive specialization of the polymer portfolio versus higher value-added products and the extension of the downstream supply chain towards "compounding" to reduce margins volatility;
- the development of renewable chemicals with new processes and products;
- the increase of circular economy, mainly mechanical and chemical recycling also in partnership with other companies;
- the progressive reduction of greenhouse gas emissions, increasing energy efficiency.

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 the transactions form part of ordinary operations and are regulated at market conditions and took place at arm's length, that is, at conditions that would have been applied by independent parties on the open market, and are carried out in the interest of the Group. Under the provisions of applicable laws, the company has adopted internal procedures to ensure transparency and the substantial and procedural correctness of the related party transactions, carried out by the company itself or by its subsidiaries.

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

Treasury shares and shares in parent company

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

Secondary offices

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

COMMITMENT TO SUSTAINABLE DEVELOPMENT

Versalis' commitment to sustainable development is characterized by a growing responsibility aimed at minimizing risks and creating opportunities throughout the whole cycle of activities through the enhancement of people, the protection of health and safety, the protection of the environment protection, initiative of circular economy, the respect for and promotion of human rights, focus on transparency and the fight against corruption. Following paragraph illustrates the main initiatives and technological innovation projects.

Personnel

Eni's business model is based on internal skills, an asset in which Versalis continues to invest to ensure alignment with business needs, in line with its long-term strategy. The expected evolution of business activities, strategic directions and the challenges posed by technological changes and the labor market in general imply an important commitment to increase the value of human capital over time.

As of December 31, 2020, permanent employees in the companies included in the Group area were 5,295.

2018	employees	2019	2020
4.295	Italy	4.360	4.304
973	Abroad	991	991
5.268		5.351	5.295

The decrease of 56 people compared to the situation at December 31, 2020 was due to the following causes:
Increasing:

- 88 people were hired, of which 30% graduated;
- 25 people were transferred from Eni Group companies;
- 10 people working for Versalis Kimya and Versalis Zeal Ltd, companies which entered the consolidation area of Versalis Group in 2020;

in reduction:

- 141 people terminated their employment for ordinary reasons (retirement, resignation and consensual termination, expiry of fixed-term contracts);
- 7 people have terminated their employment relationship with ordinary mobility procedures pursuant to law no. 223/91;
- 31 people have been transferred to Eni Group companies.

The breakdown by contractual qualification is as follows:

2018	Employees	2019	2020
119	Senior Management	117	110
3.269	Middle Management & Staff Employees	3.353	3.382
1.880	Workers	1.881	1.803
5.268		5.351	5.295

The distribution of the permanent workforce by age group is as follows:

Age group	Total	%
< 30	412	7,8
30-39	1.031	19,5
40-49	1.646	31,1
50-59	1.855	35,0
> 60	351	6,6
	5.295	100,0

At December 31, 2020, there were 5,268 employees working in the companies included in the Group area.

Employees	2019	2020
Senior Management	114	108
Middle Management & Staff Employees	3.337	3.365
Workers	1.873	1.795
	5.324	5.268

The number of employees in service is obtained by subtracting the employees posted to other companies from the permanent employees and adding those posted by other companies.

There are 71 employees in Versalis SpA and its subsidiaries seconded to other Eni Group companies, other entities, or on leave, while 44 are seconded to Versalis SpA and its subsidiaries from other Eni Group companies.

Training

The training program in Italy and in foreign affiliates has committed over 168,000 man-hours in 2020. This activity was guaranteed both with the support of Eni Corporate University SpA and with internal resources and external suppliers.

During 2020, the commitment, as teachers, of Versalis employees belonging to the "Eni faculty" went on, both in training initiatives managed by Eni Corporate University and in internal teaching activities.

Due to Covid-19 pandemic, the 2020 training had the following peculiarities:

- The whole ECU training offer was delivered in distance mode, making possible to carry-out activities in virtual classroom;
- significant increase in on-the-job activities, carried out in the operating offices, especially with personnel not involved in smart working;
- compliance with deadlines for mandatory training despite the emergency situation;
- the considerable training and information commitment on environmental, health, safety and quality issues, for a total of over 85,000 hours;
- e-learning training on compliance, particularly on Sustainability and Human Rights issues, with the aim of disseminating and implementing the knowledge of Versalis guidelines, regulations and internal procedures.

Incentive and remuneration systems

Versalis SpA, together with the merit policy linked to roles and responsibilities, has consolidated a variable incentive system for executives and middle managers linked to performance assessments through the attribution of individual objectives consistent with the general objectives of the company. In 2020, the performance assessment involved almost all managers and middle managers, identified on the basis of the assigned operational and managerial responsibilities. The incentive policy is linked to the achievement of results and the level of contribution provided. In addition, the incentive system for the sales force operating in Europe was confirmed in 2020. There is also a long-term incentive system for managers with high responsibilities and impact on results, in line with Eni Group's practice and policies.

Safety

Versalis commitment, to ensure workers' health and environmental protection, as well as safety in the workplace and safeguard of local communities against industrial risks, is also evident from the economic resources invested. The actuals 2020 are as follows:

- €208 million for charges for the period (€194 million in 2019);
- €51 million for capitalized investments (€28 million in 2019).

For all aspects of security, support activities for Italian and foreign sites continued with great commitment. The application of the "Security Pact" went on, a real contract signed between Eni's companies and third-party companies in the area, and which provides for concrete, measurable and constantly monitored improvement actions. In particular, the following results have been obtained in the accident prevention, both for personnel and contractors:

	2019	2020
Number of invalidating accidents	4	10
Frequency Index	0,26	0,64
Severity Index	0,025	0,024

Ten accidents occurred in 2021, of which five related to personnel and five to contractor personnel, linked to episodes mainly attributable to behavioral reasons. During the year, 21 out of 23 sites achieved the goal of "one year without employee accidents", including Brindisi (eleventh consecutive year) and Szàzhalombatta (tenth consecutive year).

In 2020 the activities (renewal/maintenance) connected with the certifications referring to the SA 8000, ISO 14001, OHSAS 18001/ISO 45001 and EMAS standard, were successfully performed. In detail:

- due to the Covid 19 restrictions set to face Covid-19 health emergency, audit activities were carried out mainly "on distance" through video conferences, doing inspections at workplace only when possible;
- the transition to ISO 45001 standard from OHSAS 18001 certification was successfully completed;
- the transfer of the certificates to the new SGS certifying body.

Prevention, safeguarding and health promotion measures for workers and communities residing near industrial sites are recognized as primary needs in Versalis' policies and contribute significantly to achieving high sustainability performance.
Health protection activities are organized and structured in an "integrated management system" strongly prevention-oriented, in which health checks are combined with the periodic measurement of risk factors, carried out both during environmental investigation campaigns and through biomonitoring. In particular, in the face of risks from exposure to chemical, carcinogenic and mutagenic agents, environmental measurements and exposure

determinations through personal samplers are integrated with the monitoring of specific biological exposure indicators in order to check the dose actually absorbed by the worker through all routes of exposure.
Health promotion programs also continued in 2020, such as flu vaccination and cardiovascular prevention campaigns, determination of PSA and antibodies to tetanus, awareness campaigns on smoking risk and the adoption of correct lifestyles.
Versalis' internationalization process, aimed at operating in foreign markets, has triggered new projects for the management of medical emergencies and health care, not only nationally but also internationally, developing specific health protocols that consider the "country" risk associated with travel, climate, any infectious diseases, and related vaccinations, defining specific information and training programs, and guaranteeing ordinary and emergency medical assistance, including any medical repatriation.
In the spirit of continuous improvement of management tools for the prevention and protection of health in the workplace and for the communities, the development of the integrated HSE culture continued with the implementation of training initiatives aimed at all employees who, at various titles, cover roles and responsibilities on health protection activities.
In 2020 Covid 19 pandemic impacted on the overall management of workers protection and on the implementation of procedures aimed at preventing the infection within workplace, but also at training workers on good practices to be adopted in nonworking places.
Several initiatives were carried out in Italian sites to support National Health System in screening with rapid antigenic swabs or in the project, done in Lombardy in collaboration with Eni's health department, of serologic test.
Finally, the effective collaboration of all business units made it possible to manage homogeneously in all Eni the emergency both in terms of regulations and rules of conduct.

Environmental responsibility

Continuous evolution of health regulations, both nationally and internationally, and their integration with environmental and safety issues, entail the need for continuous monitoring, active participation in trade associations and/or scientific organization as well as continuous professional updating to facilitate actions relating to adjustments.
Total HSE expenditure in 2020[2] was 258 million euros (222 million euros in 2019).
Environmental activities totaled 134 million euros (115 million euros in 2019), including soil and groundwater management activities.
Safety activities amounted to 90 million euros (78 million euros in 2019), industrial hygiene, product safety and health activities totaled 13 million euros (7 million euros in 2019) and the integrated HSE is equal to 21 million euros (22 million euros in 2019).
Regarding the control of greenhouse gas emissions, the year 2020 ended with a provisional balance of CO2 emissions, subject to Emission Trading, equal to 2.72 million tons of CO2, down by about 3.5 % compared to the final balance of 2019.
The 2020 results can be summarized as follows:

- quotas assigned 2020: 2.53 million tons of CO2;
- final emissions 2020: 2.72 million tons of CO2;
- surplus: 0.19 million tons of CO2.

Starting from 2021. ETS system enter Phase IV consisting in new processing of free allowance releases related to the data collected in 2014-2018 and the definition of new benchmark.

[2] Figure net of the activities of decomissioning, demolition and divestments, which amounted to a total of approximately € 16 million, and of fines, insurance and taxes, which amounted to approximately € 9 million

Among the events characterizing 2020, from the emission point of view, it should be noted:

- Priolo and Ragusa: general shutdown for scheduled maintenance, which lasted longer than originally planned due to Covid-19 sanitary emergency.
- Brindisi: shutdown of steam cracking plant on May.
- Crescentino: commissioning of the new production line to get the disinfectant Invix® .
- Grangemouth: shutdown of plant on April and May due to Covid-19 restrictions.

About the remediation of soils and groundwater, both the characterization activities provided for in the submitted and approved plans and the subsequent supplementary activities were completed.
At the sites of Brindisi, Ferrara, Mantua, Porto Marghera, Priolo, Ravenna, Sarroch, groundwater drainage systems are active. The layout of the milking plants, assessed at the end of 2020, allows to estimate a total quantity of water discharged equal to approximately 6.6 million cubic meters per year.
As regards the remediation, the authorization process provided for by the legislation is completed at the sites of: Brindisi, groundwater and soils, Gela, groundwater and soils, Porto Marghera, groundwater and soils, Priolo, groundwater and soils (limited to the soils of the areas south of the Vallone della Neve and the saturated soils of the D2 and D3 "internal" areas), Ferrara, groundwater and surface matrices (soils and impregnation waters), Ravenna, groundwater and soils, Sarroch, groundwater and soils, Ragusa, reclamation at excerpt ex topping area. For the Mantua site, the land reclamation projects were approved, limited to some specific areas and to the supernatant removal phase.
Authorized interventions are in progress or were completed.
Regarding Porto Torres plant, the soil and groundwater situation is monitored and managed by Eni Rewind as Versalis, on the site, operates in surface rights.
In 2020, MATTM approved a variant of the groundwater remediation project at Sarroch plant.
The following processes, instead, still need to be concluded: authorization process for the areas of Mantua and Priolo sites, a technological variant relating to soil remediation at Porto Marghera and the investigation, at local level, of the risk analyses related to Versalis area in Ragusa site.
At the end of the aforementioned investigations, the authorization framework regarding Versalis on a national scale will be complete.
Versalis entrusted Eni Rewind, the competence center for remediation activities within Eni, with remediation activities in the plant of: Brindisi, Ferrara, Mantua, Porto Marghera, Priolo, Ravenna, and Sarroch.

Circular Economy

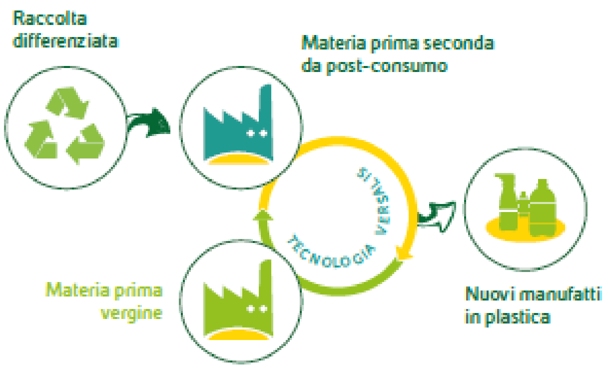
Versalis considers circularity as a strategic driver applied to processes and products throughout their life cycle. Versalis' three guidelines for the development of the circular economy are based on innovation and include:

- **eco-design** to maximize the products resource efficiency at all life cycle stages;
- **polymer recycling** through the development of innovative technologies implemented through internal research and innovation (R&I) and partnerships;
- diversification of feedstock **to find the right balance between traditional, renewable resources and secondary raw materials.**

The implementation of the Eco-design pillar results in the development of integrated solutions aimed at improving the efficiency of resources throughout the whole life cycle and it's applied in both products and processes. Versalis develops solutions aiming at maximizing efficiency, durability, reusability, and recyclability of products. The application of the eco-design principle to the plastics value chain allows us to build virtuous and circular schemes able to extend its life cycle. Moreover, in this perspective, Versalis conducts specific certified LCA studies for new initiatives or projects, which further confirm this contribution.

The secondo guideline concerns the development of mechanical, physical and chemical recycling technologies for plastics and rubbers through internal research and in partnership with associations and consortia.

Mechanical recycling is still the most common and widespread technology for recycling plastics, developed on an industrial scale and with an advantageous economic and energy impact.



Mechanical recycling is still the most common and widespread technology for which it's essential to sort the different kind of plastics in order to work them mechanical, altering their features only minimally.

This method efficiently manages pre-sorted waste streams (id es. Mono material, less contaminated waste, etc.), but at the same time has important limitations such as the deterioration of the material and the impossibility to handle (manage) complex, mixed and contaminated waste (currently incinerated and or disposed in landfill site).

In this regard, a research project was launched to develop (own or third party) technology that, starting from domestic post-consumer plastic, will get, through mechanical recycling, polymers (belonging to polyethylene and/or styrene's families) with features comparable to virgin polymers. It tries to respond to the main problems related to mechanical recycling, which prevents its use in the food contact context, i.e. purity improvement, odor elimination and improvement of mechanical characteristic.

To achieve circular economy objectives, in its research laboratories, Versalis developed Versalis Revive: a range of products with a different polymer base (styrene and polyethylene) containing post-consumer plastic.

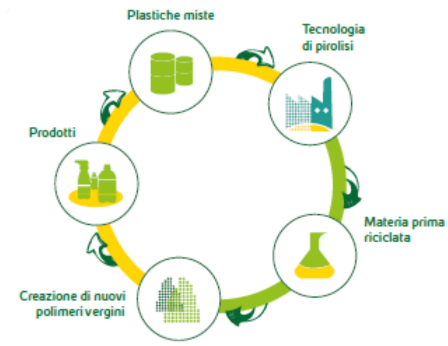
- Versalis Revive® PE includes low- and high-density polyethylene-based compound developed, in accordance with Montello SpA, from recycled post-consumer packaging, mainly used in the agriculture and in industrial packaging sector;
- Versalis Revive® EPS thanks to the collaboration with Corepla, Versalis produces expandable polystyrene (EPS) containing up to 20% recycled plastic supplied by the Italian domestic waste collection circuit. The main applications are in construction and in packaging production;
- Versalis Revive® PS: made from recycled post-consumer plastic and developed in partnership with Forever Plast, it's a compact polystyrene-based compound* containing up to 75% post-consumer polystyrene which can meet the needs of multiple applications such as thermal insulation, non-food packaging and household items.

With this project, Versalis aims to raise awareness of the possibility to get, market and use high quality products made from recycled plastic, which contribute to the sustainability of the entire supply chain, and keeping the value of the materials in circulation.
In addition, Revive® products are characterized by improved environmental performance, having a lower carbon footprint and water use than products obtained from virgin raw materials.

In 2020, to increase the range of Versalis Revive® products, Versalis and AGR, Turin company owner of a technology for devulcanization[3] of post-consumer elastomers, signed an agreement to develop technology innovations and new products and applications containing recycled rubber. The agreement aims at sharing the respective skills to develop and market a new range of elastomer-based products, made from granulated rubber from post-consumer products. These new products will meet the growing circular economy needs coming from manufacturers of tires and of other rubber products.

[3] Devulcanization: process of selective breaking of chemical bonds that allows to bring objects in solid rubber, usually granulated, into a workable and mouldable form, ready to be reused in the production of new products, such as tires or gaskets.

Parallel to advanced mechanical recycling, Versalis works on the continuous development of the various recycling technologies, considering them to be complementary: the processes, from mechanical to chemical recycling, in fact provide products of increasing quality, but with the downside of using plants and processes of increasing complexity and cost, depending on the percentage of secondary raw materials to replace non-renewable raw materials.



Chemical recycling, as example, could convert mixed plastic waste (so called plasmix) in raw material to produce new polymer. For this reason, in 2020 Versalis launched the project Hoop® through a joint agreement with the Italian engineering company "Servizi di Ricerche e Sviluppo (S.R.S.)", which owns a pyrolysis[4] technology. The project made it possible to complete pilot test and to design a first plant at the Mantua site with a capacity of 6 thousand tons per year, planned for 2023.
The third guideline for circular economy development is to identify the right mix between traditional and renewable sources and secondary raw materials, through innovative solution aiming to enhance even waste products and based on the life-cycle approach to ensure the sustainability of each choice. In addition, the development of chemical from renewable sources (bio-plastic included), promotes the use of bio raw material (such as biomass, vegetable oil, etc.) and contributes to get alternative products to the traditional ones, to increase the use of renewable resources and to reduce CO2 emissions in the sector.
For instance, in 2020 the health emergency due to Covid 19 led Versalis to offer its expertise and its plant in Crescentino, to produce a new range of disinfectants, called Invix™, using ethanol from vegetable raw materials as an active ingredient. In this perspective, the production line of Crescentino plant was converted to make it suitable to produce the disinfectant. This product is a Surgical Medical Device authorized by the Ministry of Health, developed on the formulation of the World Health Organization. The product acts as an effective disinfectant, thanks to the alcohol and hydrogen peroxide content, and as an emollient, thanks to its glycerin content. The Invix® range includes two products for hand disinfection: the gel, with cellulose-based thickener, without microplastics, and the liquid. The Invix® range will soon be expanded with a liquid specific for surfaces.
In 2020 Versalis joined Circular Plastics Alliance (CPA) to actively contribute to the ambitious European target of using 10 million tons of recycled plastic in new products by 2025. The Alliance, promoted by the European Commission, aims to encourage plastics recycling in Europe and at the same time develop the market for secondary raw materials. By joining CPA, Versalis submitted its voluntary pledges in line with its circular economy strategy, such as:
(i) to use at least half of its packaging, for transporting products on pallets and in containers, with up to 50% of recycled material; (ii) increasing the production capacity of Versalis Revive®, its new line of polyethylene and polystyrene products, containing up to 70% of mechanically recycled plastic; (iii) to boost the recovery and recycling of all types of plastics that cannot be mechanically treated.

Also in 2020, the Versalis involvement in Operation Clean Sweep (OCS) and in Alliance To End Plastic Waste (AEPW) programs continued, aimed respectively at reducing the loss of pellets in the oceans and promoting projects to achieve concrete solutions to the problem of plastic waste in the seas and oceans.

Suppliers

Versalis adopts qualification and selection criteria for suppliers to assess their capacity to meet Company standards in terms of ethical reliability, technical-operational, health, safety, environmental protection, human rights and cyber security. Versalis meets this commitment by promoting its own values with its suppliers and involving them in the risk prevention process. For this purpose, as part of the procurement process, Versalis

[4] Pyrolysis is one of the main technologies explored today in chemical recycling processes.

supported by Eni's specialist departments: (i) subjects all suppliers to qualification and due diligence processes to verify their professionalism, technical-operational skills, ethical, economic and financial reliability and to minimize the risks inherent in operating with third parties; (ii) requires all suppliers to sign the Supplier Code of Conduct with which they undertake to recognize and protect the value of people and prevent any type of discrimination (such as the protection and promotion of human rights, compliance with safe working standards, environmental protection, contrast to corruption, compliance with laws and regulations, ethical integrity and fairness in relationships, compliance with the rules antitrust and fair competition);(iii) monitors compliance with these commitments, to ensure that suppliers maintain the qualification requirements over time; (iv) if critical issues arise, requires the implementation of improvement actions or, if they do not meet the minimum standards of acceptability, limits or inhibits the invitation to tender.

TECHNOLOGICAL INNOVATION

In 2020, in continuity with previous years, research and technological innovation activities, which involved almost 400 workers, were aimed to improve the processes and products of the existing business lines. Research and development activities in the sector of chemistry from renewable sources were also consolidated. The commitment to sustainability and the circular economy was also confirmed as highly strategic element for the company.

Among the most interesting results, the following should be highlighted:

Chemistry from renewable sources

During 2020, Versalis continued its development in chemical from renewable sources. The R&D activities went on to improve the proprietary industrial technology Proesa™ of converting biomass (not in competition with the food chain) into second generation sugars from bioethanol, especially concerning the evaluation of new enzymatic cocktail and the optimization of the fermentation operating conditions.

In 2020, new specific activities were also launched related to the enhancement of lignin, coproduct of bioethanol, in various fields of applications, such as resins, paints, and composite material with thermoplastics.

Research activities also continued in the field of bioplastics from renewable sources, including through the use of second-generation sugars produced with the Proesa™ proprietary technology and the development of new processes to produce bio-lubricant bases from vegetable sources.

As part of the agreement with Bridgestone, the set-up and monitoring of the fields in Basilicata and Sicily continued to increase guayule agronomic productivity and to engineer the changes to be made to Bridgestone's pilot extraction technology at the Phoenix plant (USA).

Elastomers

In order to strengthen Versalis' competitive positioning in the market of products for the automotive industry, in 2020 particular emphasis was given to research activities aimed at consolidating the new EPDM grades with improved processability and the development of high-performance sSBR grades for the tire sector.

In particular, the industrialization activities of the BTX grades (EPDM) were carried on, leading to the homologation by important customers of 3 innovative products. In addition, plant improvement activities were started up, aimed at improving the quality of production, with the goal of achieving greater sales volumes in the most sophisticated sectors (visible profiles and semi-expanded gaskets).

Regarding products for the tire sector, a new functionalized sSBR grade for low rolling resistance tires has been developed at prototype level, which can be proposed to the market in 2021. This new technological platform could lead the way for the development of new grades for other applications: high-end winter and all-season tires and high-performance tires.

In the context of international development, the company continued to support the Lotte Versalis Elastomers Joint Venture to improve the quality of its production, in particular for the plastic material modification sector, and for customization to the needs of the local market. This has made it possible to launch new marketing actions in the Asian area, mainly aimed at the plastic materials and technical items modification sector.

From environmental sustainability and circular economy points of view, an important JDA agreement was signed with AGR. The goal is to develop and produce materials obtained from the recycling of ELTs (end-of-life tires) using devulcanization technology.

This action, together with other projects in the start-up phase, will allow in the next few years to expand the product portfolio, adding new highly sustainable families.

Polyethylene

Consolidation of medium density LDPE grades for film applications was completed; introduced on the market a few years ago, these products have shown a significant improvement in mechanical and optical properties, which are fundamental in the food and industrial packaging sector.

A high melt strength LDPE product, particularly appreciated in the agricultural film sector, was developed and tested at customers' premises and a new EVA grade with high thermal stability for film application, used in particular in the agricultural film sector, was steadied.

The formulation optimization of all hexene products for bubble film transformation, intended for food packaging, was completed, with a reduction of additives with specific migration limits.

As part of the activities related to the circular economy, co-development with Montello continued for the production of polyethylene compounds containing up to 75% of recycled raw material to be used for the production of packaging and extruded products for which sustainability is a primary value. Two product lines have been developed, marketed under the Versalis Revive® PE brand. A line of products is based on LL/LDPE and is used in formulation for the production of shrink film for mineral water and industrial packaging, film for mulching and black and white caps and for the production of various pipes and profiles. The other product line, based on HDPE, is used in formulation for the production of packaging films and for the production of bottles.

Styrenics

Research activities related to the new ONE-STEP pilot plant focused on the ABS portfolio. After reproducing the current product portfolio with the new ONE-STEP technology, research activities on the pilot plant have focused on the development of innovative ABS. A high gloss, high fluidity and medium impact product (so-called Emulsion Like) has been developed. The technological development of the product is completely in line with what was expected.

2 new grades of compact polystyrene containing up to 70% of recycled material for insulation and packaging applications have been industrialized (Versalis Revive® PS portfolio).

It continued the industrialization of the new range of products from "compound" based on ABS, with high heat resistance, for the automotive sector, with fire resistance, for electrical / electronic applications, and for the medical sector.

New grades have been developed and industrialized for the Versalis Revive® EPS product portfolio, with a higher content of recycled product for the packaging sector and of finer dimensions for the construction sector.

Basic chemistry

The position of Versalis as a top player in the competitive technological field relating to the production processes of cumene from acetone via IPA (isopropyl alcohol) was further consolidated. In detail, a study on the optimization of the IPA production section by hydrogenation of acetone was carried on, both from the point of view of raw material and energy consumption, allowing to obtain performances higher than the reference benchmarks.

The development activities of proprietary heterogeneous catalysts to be applied in the hydrogenation sections of the phenol production cycle continued with the aim of obtaining an improvement in production performance in terms of both an increase in the production yield and an increase in the production cycle time.

During 2020, Versalis' commitment to the circular economy continued with important developments in the field of chemical recycling (Hoop® project). Versalis has entered into a joint development agreement with the Italian company Servizi di Ricerche e Sviluppo (SRS) for the development of an innovative pyrolysis technology to transform waste into mixed plastic (the so-called plasmix), which cannot be recycled mechanically, into raw material to produce new virgin polymers.

Specialty Oilfield Chemicals

The experimental activities carried out have made it possible to synthesize new polymers suitable for the preparation of additives for application in the Flow Assurance sector with improved performance, which will further expand and differentiate the current Versalis portfolio of Specialty Oilfield Chemicals.

p. il Consiglio di Amministrazione
l'Amministratore Delegato
Adriano Alfani

Consolidated Financial Statements
2020

CONSOLIDATED BALANCE SHEET

(€ million)	Note	December 31, 2019 Total amount	December 31, 2019 *of which with related parties*	December 31, 2020 Total amount	December 31, 2020 *of which with related parties*
Assets					
Current assets					
Cash and cash equivalents	(1)	42	*26*	62	*33*
Other current financial assets	(2)	9	*9*	4	*4*
Trade and other receivables	(3)	652	*234*	708	*236*
Inventories	(4)	821		669	
Income tax receivables	(5)	11		2	
Other current assets	(6)	15	*1*	14	*2*
		1.550		**1.459**	
Non-current assets					
Property, plant and equipment	(7)	831		854	
Right of use asset	(8)	17		17	
Intangible assets	(9)	24		53	
Equity-accounted investments	(11)	175		155	
Other investments	(12)	3		80	
Other non-current financial assets	(13)	2	*2*	2	*2*
Deferred tax assets	(14)	47		36	
Other non-current assets	(15)	1		1	
		1.100		**1.198**	
TOTAL ASSETS		**2.650**		**2.657**	
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities					
Short-term debt	(16)	1.028	*1.021*	995	*983*
Current portion of long-term debt	(17)	9	*9*	9	*9*
Short-term lease liabilities	(8)	8		8	
Trade and other payables	(18)	782	*384*	738	*358*
Income tax payables	(19)	1		1	
Other current liabilities	(20)	25	*4*	21	*1*
		1.853		**1.772**	
Non-current liabilities					
Long-term debt	(21)	51	*48*	441	*439*
Long-term lease liabilities	(8)	17		13	
Provisions for contingencies	(22)	129		117	
Provisions for employee benefits	(23)	72		73	
Deferred tax liabilities	(24)	1			
Other non-current liabilities	(25)	20		19	
		290		**663**	
TOTAL LIABILITIES		**2.143**		**2.435**	
SHAREHOLDERS' EQUITY	(26)				
Share capital		1.365		1.365	
Legal reserve		24		24	
Other reserves		(14)		(22)	
Retained earnings (losses)		(334)		(557)	
Net profit (loss)		(534)		(588)	
TOTAL SHAREHOLDERS' EQUITY		**507**		**222**	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**2.650**		**2.657**	

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

CONSOLIDATED INCOME STATEMENT

		December 31, 2019		December 31, 2020	
(€ million)	Note	Total amount	*of which with related parties*	Total amount	*of which with related parties*
REVENUES	(28)				
Net sales from operations		4.123	*332*	3.387	*256*
Other income and revenues		115	*81*	96	*69*
Total revenues		**4.238**		**3.483**	
OPERATING EXPENSES	(29)				
Purchases, services and other		(4.139)	*(2.009)*	(3.442)	*(1.443)*
Net (impairment losses) reversals of trade and other receivables		(5)		(4)	
Payroll and related costs		(378)		(379)	
OTHER OPERATING (EXPENSE) INCOME	(30)	**(2)**	*(2)*	**(15)**	*(15)*
DEPRECIATION, AMORTIZATION AND IMPAIRMENT	(31)	**(192)**		**(132)**	
DISPOSAL OF ASSETS					
OPERATING INCOME (LOSS)		**(478)**		**(489)**	
FINANCIAL INCOME (EXPENSE)	(32)				
Financial income		23	*2*	36	*2*
Financial expense		(17)	*(3)*	(41)	*(8)*
Derivatives		1	*1*	(2)	*(2)*
		7		**(7)**	
INCOME (EXPENSE) FROM INVESTMENTS	(33)				
Share of profit (loss) from equity-accounted investments		(33)		7	
Other gain (loss) from investments		(18)		(81)	
		(51)		(74)	
PROFIT (LOSS) BEFORE INCOME TAXES		**(522)**		**(570)**	
Income taxes	(34)	(12)		(18)	
NET PROFIT (LOSS) FOR THE YEAR		**(534)**		**(588)**	

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

(€ million)	2019	2020
NET PROFIT (LOSS) FOR THE YEAR	**(534)**	**(588)**
Other items of comprehensive profit (loss)		
Items that are not reclassified to profit or loss in later periods		
Remeasurements of defined benefit plans	(3)	(2)
Tax effect related to other comprehensive income not to be reclassified to profit or loss in subsequent periods	1	1
Items that may be reclassified to profit or loss in later periods		
Foreign currency translation differences	(1)	(6)
Share pertaining to equity-accounted investments		**5**
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	**(537)**	**(590)**

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(€ million)	Share capital	Legal reserve	Cumulative currency transalation difference	Reserve for coverage of losses	Reserve for employee defined-benefit plans	Reserve for business combination under common control	Retained earnings (losses)	Dividends	Profit (Loss) for the year	Total
Balances at December 31, 2018 (a)	1.365	24	(5)	32	(8)	2	94	0	(460)	1.044
Loss for the year 2019									*(534)*	(534)
Other items of comprehensive income (loss)										0
Remeasurements of defined benefit plans net of tax effect					*(2)*					(2)
Foreign currency translation differences			*(1)*							(1)
Total comprehensive loss for the year 2019 (b)			(1)		(2)				(534)	(537)
Transactions with shareholders:										
Allocation of 2018 net income				(32)			*(428)*		*460*	
Dividend distribution										
Total transactions with shareholders (c)				(32)			(428)		460	
Changes in accounting principles (IFRS 9)										
Total other changes (d)										
Balance at December 31, 2019 (e=a+b+c+d)	1.365	24	(6)		(10)	2	(334)		(534)	507
Loss for the year 2020									(588)	(588)
Other items of comprehensive profit (loss)										
Revaluation of defined-benefit plans for employees net of tax effect					(2)					(2)
Foreign currency translation differences			(6)							(6)
Share of equity-accounted investments							5			5
Tax effect							1			1
Total comprehensive loss for the year 2020 (f)			(6)		(2)		6		(588)	(590)
Transactions with shareholders:										
Loss allocation of the year 2019							(534)		534	
Reduction in shareholder's capital and loss coverage										
Payment of the sole shareholder							300			300
Total transactions with shareholders (g)							(234)		534	300
Other changes:										
Changes in the consolidation perimeter and other changes							5			5
Total other changes (h)							5			5
Balance at December 31, 2020 (i=e+f+g+h)	1.365	24	(12)		(12)	2	(557)		(588)	222

CONSOLIDATED STATEMENT OF CASH FLOWS

(€ million)	Note	2019	2020
Profit (loss) for the year		(534)	(588)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	(31)	89	86
Net Impairments (reversals) of tangible, intangible assets and right of use	(31)	103	46
Net gain on disposal of assets		1	
Share of profit (loss) of equity-method investments		51	74
Currency translation differences from alignment	(32)	(4)	
Gains/Losses on securities &Financial receivables, investment, disinvestment		(9)	
Net gains on disposal of equity investments			
Interest income	(32)	(3)	(2)
Interest expense	(32)	4	6
Current, deferred and advance income taxes for the period	(34)	12	18
Changes in working capital:			
- inventories	(4)	(12)	150
- trade receivables	(3)	112	(42)
- trade payables	(18)	1	(79)
- provisions for contingencies	(22)	(10)	(10)
- other assets and liabilities		(22)	(42)
Cash flow from changes in working capital		(221)	*(383)*
Change in the provisions for employee benefits	(23)		1
Dividends received		1	
Interest received		2	1
Interest paid		(4)	(6)
Income taxes paid, net of tax receivables received		8	23
Net cash provided by operating activities		(214)	**(364)**
of which with related parties	*(35)*	(1.558)	*(1.166)*
Investing activities:			
- tangible assets	(7) e (8)	(110)	(173)
- intangible assets	(9)	(8)	(9)
- investments	(11) e (12)	(76)	(139)
- changes in payables relating to investing activities	(18)	(15)	49
- financial receivables instrumental to the operating activity - investment		9	5
Cash flow from investing aactivities		(200)	**(267)**
Disposals:			
- non-consolidated investments			
Cash flow from disposals			
Net cash flow from investing activities		(200)	**(267)**
of which with related parties	*(35)*	(82)	(84)
Increase (decrease) in short-term debt	(16)	426	361
Repayments of lease liability		(14)	(10)
Dividends paid to shareholder			
Cash flow of equity			300
Net cash flow from financing activities		412	**651**
of which with related parties	*(35)*	434	653
Net cash flow for the year		(2)	**20**
Cash and cash equivalents - beginning of the year	(1)	44	**42**
Cash and cash equivalents - end of the year	(1)	42	**62**

NOTES ON CONSOLIDATED FINANCIAL STATEMENTS

Significant accounting policies, estimates and judgements

Basis of preparation

The Consolidated Financial Statements have been prepared on a going concern basis[1] in accordance with International Financial Reporting Standards (IFRS)[2] as issued by the International Accounting Standards Board (IASB) and adopted by the European Union (EU) pursuant to Article 6 of the EC Regulation No. 1606/2002, of the European Parliament and of the Council of July 19, 2002 and in accordance with Article 9 of Legislative Decree No. 38/2005[3].

For the parent company Versalis SpA, the net loss for the year, equal to 633 million euros, falls under the art. 2446 of the Civil Code. These financial statements have been prepared on the assumption of business continuity as Versalis SpA is a company wholly owned by Eni SpA, to which management and coordination is subject. In this regard, although the Decree 23/2020 (so-called Liquidity Decree) provided for the suspension of paragraphs 2 and 3 of art. 2446 of the Italian Civil Code, relating to the obligations to reduce the capital deriving from losses of more than one third of the share capital, in the period between 9 April and 31 December 2020, at the date of approval of these financial statements, the directors have already obtained from Eni SpA both the confirmation that it will intervene with a capital payment aimed at exiting the situation envisaged by Article 2446 of the Civil Code and the confirmation that it will ensure coverage of the net needs of Versalis and its subsidiaries to the extent that allows the regular fulfillment of its obligations. Based on existing agreements with Eni SpA, the company has also the right to access, without contractually defined credit limits, to the financial resources granted by the parent company.

The Consolidated Financial Statements have been prepared on a historical cost basis, taking into account where appropriate of any value adjustments, except for certain items that under IFRSs must be measured at fair value as described in the accounting policies that follow.

The 2020 Consolidated Financial Statements, approved by Versalis' Board of Directors on March 12, 2021, were audited by the external auditor PwC SpA. PwC SpA, as the main external auditor, is wholly in charge of the auditing activities of the Consolidated Financial Statements; when there are other external auditors, it takes the responsibility of their work.

Amounts in the financial statements and in the notes are presented in millions if euros, except where otherwise indicated.

Significant accounting estimates and judgements

The application of the internationally accepted accounting standards for the preparation of financial statements implies that the management uses accounting estimates based on complex judgements, past experience and assumptions deemed as reasonable and realistic considering the information known at the moment of the estimation. The use of accounting estimates affects the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, as well as the reported amounts of revenue and expense. Actual outcomes could differ from the estimates due to the uncertainty that characterizes assumptions and conditions upon which such estimates are based. The significant accounting estimates, which imply the use of subjective judgements, assumptions and estimates related to uncertain matters, are set out in boxed tests below and should be read in conjunction with the related accounting policy. Changes in the conditions upon which judgements, assumptions and estimates are based could significantly affect the subsequent results.

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1 With reference to the effects of the Covid-19 pandemic, please refer to what is stated in the paragraphs "Operational performance" and "Health emergency from Covid-19".

2 IFRSs include also International Accounting Standards (IAS), currently effective, as well as the interpretations developed by the IFRS Interpretations Committee, previously named International Financial Reporting Interpretations Committee (IFRIC) and initially Standing Interpretations Committee (SIC).

3 The Consolidated Financial Statements are compliant with IFRSs as issued by the IASB and effective for the year 2020.

Principles of consolidation

Subsidiaries

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

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

Subsidiaries are consolidated, on the basis of consistent accounting policies, from the date on which control is obtained until the date that that control ceases.

Assets, liabilities, income and expenses of consolidated subsidiaries are fully recognized with those of the parent in the Consolidated Financial Statements; the parent's investment in each subsidiary is eliminated against the corresponding parent's portion of equity of each subsidiary. Equity and net profit attributable to non-controlling interests are presented separately within equity and profit and loss account. Non-significant subsidiaries, either individually or as a whole, and companies whose consolidation does not produce significant effects are excluded from the consolidation area. The exclusion from consolidation of some subsidiaries has not produced significant[4] effects on the Consolidated Financial Statements[5].

The purchase of additional equity instruments of subsidiaries from non-controlling interests is recognized in the Group shareholders' equity and represents any excess of the amount paid over the carrying value of the non-controlling interests acquired; similarly, the effects of the sale of non-controlling interests in subsidiaries without loss of control are recognized in equity. Conversely, the sale of equity interests with loss of control determines the recognition in the profit and loss account of: (i) any gain/loss calculated as the difference between the consideration received and the corresponding transferred net assets; (ii) any gain or loss recognized as a result of the remeasurement of any investment retained in the former subsidiary to its fair value; and (iii) any amount related to the former subsidiary previously recognized in other comprehensive income which can be reclassified subsequently to profit and loss account[6]. Any investment retained in the former subsidiary is recognized at its fair value at the date when control is lost and shall be accounted for in accordance with the applicable measurement criteria.

Interests in joint arrangements

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

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

Interests in associates

An associate is an entity over which the company has significant influence that is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies.

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4 According to the requirements of the Conceptual Framework for Financial Reporting, "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial reports [...] make on the basis of those reports, which provide financial information about a specific reporting entity".

5 Equity investments in subsidiaries not consolidated using the line-by-line method are valued according to the criteria indicated in the section "Equity method"; for more information, please refer to the attachment "List of Investments" of Versalis SpA at December 31, 2020.

6 Conversely, any amount related to the former subsidiary previously recognized in other comprehensive income, which cannot be reclassified subsequently to the profit and loss account, are reclassified in another item of equity.

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

Consolidated companies, non-consolidated subsidiaries, joint ventures and associated companies of Versalis as at December 31, 2020, are included in the paragraph "List of investments", which is part of the notes. The same paragraph also reports the change in the consolidation area that occurred during the year.

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

The equity method of accounting

Investments in joint ventures, associates and not significant unconsolidated subsidiaries are accounted for using the equity method[7].

Under the equity method, investments are initially recognized at cost, allocating, similarly to business combinations procedures, the purchase price of the investment to the investee's identifiable assets/liabilities; any non-allocable surplus represents goodwill, not subject to separate recognition but included in the book value of the investment. If this allocation is provisionally recognized at initial recognition, it can be retrospectively adjusted within one year from the date of initial acquisition, to reflect new information obtained about facts and circumstances that existed at the date of initial acquisition. Subsequently, the carrying amount is adjusted to reflect: (i) the investor's share of the profit or loss of the investee after the date of acquisition; and (ii) the investor's share of the investee's other comprehensive income. Distributions received from an equity-accounted investee reduce the carrying amount of the investment.

In applying the equity method, consolidation adjustments are considered (see also the accounting policy for "Subsidiaries"). Losses arising from the application of the equity method in excess of the carrying amount of the investment, recognized in the profit and loss account within "Income (Expense) from investments", reduce the carrying amount, net of the related expected credit losses (see below), of any financing receivables towards the investee for which settlement is neither planned nor likely to occur in the foreseeable future (the so-called long-term interests), which are, in substance, an extension of the investment in the investee. The investor's share of any losses of an equity-accounted investee that exceeds the carrying amount of the investment and any long-term interests (the so-called net investment), is recognized in a specific provision only to the extent that the investor has incurred legal or constructive obligations or made payments on behalf of the investee.

As a general rule, distributions received from equity investments accounted for with the equity method are recognized by the participating company as a reduction of the book value of the equity investment. An investee could distribute a dividend higher than the book value of the investment in the financial statements of the participating company. In such circumstances, the participating company:

- resets, within the limits of capacity, the book value of the investment;
- verifies the existence of legal or implicit obligations to return the dividend received or to make payments on behalf of the investee. In such circumstances, the excess distribution is recognized as a liability in the balance sheet;
- in the absence of legal or implicit obligations, it recognizes the difference with respect to the book value of the investment as a profit in the income statement under the item "Other income (charges) on equity investments";

In applying the equity method, consolidation adjustments are considered (see also the accounting policy for "Subsidiaries"). Losses arising from the application of the equity method in excess of the carrying amount of the investment, recognized in the profit and loss account within "Income (Expense) from investments", reduce the

[7] Joint ventures, associates and not significant unconsolidated subsidiaries are accounted for at cost less any accumulated impairment losses, if this does not result in a misrepresentation of the Company's financial position and performance.

carrying amount, net of the related expected credit losses (see below), of any financing receivables towards the investee for which settlement is neither planned nor likely to occur in the foreseeable future (the so-called long-term interests), which are, in substance, an extension of the investment in the investee. The investor's share of any losses of an equity-accounted investee that exceeds the carrying amount of the investment and any long-term interests (the so-called net investment), is recognized in a specific provision only to the extent that the investor has incurred legal or constructive obligations or made payments on behalf of the investee.

Whenever there is objective evidence of impairment (e.g. relevant breaches of contracts, significant financial difficulty, probable default of the counterparty, etc.), the net investment is tested for impairment by comparing its carrying amount with the related recoverable amount, determined by adopting the criteria indicated in the accounting policy for "Tangible assets". When an impairment loss no longer exists or has decreased, any reversal of the impairment loss is recognized in the profit and loss account within "Income (Expense) from investments".

The sale of equity interests with loss of joint control or significant influence over the investee determines the recognition in the profit and loss account of: (i) any gain or loss calculated as the difference between the consideration received and the corresponding transferred share; (ii) any gain or loss recognized as a result of the remeasurement of any investment retained in the former joint venture/associate to its fair value[8]; and (iii) any amount related to the former joint venture/associate previously recognized in other comprehensive income which may be reclassified subsequently to profit and loss account[9]. Any investment retained in the former joint venture/associate is recognized at its fair value at the date when joint control or significant influence is lost and shall be accounted for in accordance with the applicable measurement criteria.

Business combination

Business combinations are accounted by applying the acquisition method. The consideration transferred in a business combination is the sum of the acquisition-date fair value of the assets transferred, the liabilities incurred and the equity interests issued by the acquirer. The consideration transferred also includes the fair value of any assets or liabilities for potential payments contractually envisaged and subordinated to the occurrence of future events. Acquisition-related costs are recognized in profit and loss account when incurred.

The acquirer shall measure the identifiable assets acquired and liabilities assumed at their acquisition-date fair values[10], unless another measurement basis is required by IFRSs. The excess of the consideration transferred over the Group's share of the acquisition-date fair values of the identifiable assets acquired and liabilities assumed is recognized, on the balance sheet, as goodwill; conversely, a gain on a bargain purchase is recognized in the profit and loss account.

Any non-controlling interests is measured as the proportionate share in the recognized amounts of the acquiree's identifiable net assets at the acquisition date excluding, hence, the portion of goodwill attributable to them (partial goodwill method[11]).

In a business combination achieved in stages, the purchase price is determined by summing the acquisition-date fair value of previously held equity interest in the acquiree and the consideration transferred for obtaining control; any resulting gain or loss arising from such remeasurement is recognized in profit and loss account. Furthermore, on obtaining control, any amount recognized in other comprehensive income related to the previously held equity interest is reclassified to profit and loss account, or in another item of equity when such amount cannot be reclassified to profit and loss account.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, the provisional amounts recognized at the acquisition date shall be retrospectively

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8 If the retained investment continues to be accounted for using the equity method, no remeasurement to fair value is recognised in the profit and loss account.

9 Conversely, any amount related to the former joint venture/associate previously recognized in other comprehensive income, which cannot be reclassified subsequently to profit and loss account, are reclassified within another item of equity.

10 Fair value measurement principles are described in the accounting policy for "Fair value measurements".

11 The provisions of the international accounting standards allow, alternatively, the adoption of the so-called full goodwill method which also involves the detection of the share of goodwill (badwill) attributable to third party interests; the choice of the methods for determining the goodwill/badwill (partial vs full goodwill method) is made selectively for each business combination.

adjusted within one year from the acquisition date, to reflect new information obtained about facts and circumstances that existed as of the acquisition date.

Intragroup transactions

Profits arising from transactions between consolidated companies, and not yet realized with third parties, as well as receivables, payables, income, expenses, guarantees, commitments and risks arising from such transactions have been eliminated. Unrealized profits on transactions with companies accounted for using the equity method are eliminated to the extent of the Group's interest in the equity-accounted entity. In both cases, losses arising from such transactions are not eliminated as evidence of an impairment of the asset transferred.

Foreign currency translation

Financial statements of foreign operations having a functional currency other than the euro, that represents the parent's functional currency, are translated into euro using the closing rate at the date of the balance sheet for assets and liabilities, the historical exchange rates for equity and the average rates for the profit and loss account and statement of cash flows (source: Reuters - WMR).

Exchange differences from the translation of the subsidiaries financial statements denominated in foreign currency, deriving from the application of different exchange rates for assets and liabilities, for net equity and the income statement, are recorded in equity under "Reserve for exchange differences" for the portion attributable to the Group[12].

Cumulative amount of the exchange differences relating to a foreign operation are reclassified to the profit and loss account when the entity disposes the entire interest in that foreign operation or when the partial disposal involves the loss of control/joint control/significant influence over the foreign operation. On the partial disposal that does not involve loss of control of a subsidiary that includes a foreign operation, the proportionate share of the cumulative foreign exchange rate differences is reattributed to the non-controlling interests in that foreign operation. On a partial disposal that does not involve loss of joint control or significant influence, the proportionate share of the cumulative amount of the foreign exchange differences is reclassified to the profit and loss account. The repayment of share capital made by a subsidiary having a functional currency other than the euro, without a change in the ownership interest, implies that the proportionate share of the cumulative amount of exchange differences relating to the subsidiary is reclassified to the profit and loss account.

Financial statements of foreign operations which are translated into euro are denominated in the functional currencies of the countries where the entities operate. The US dollar is the prevalent functional currency for the entities that do not use the euro.

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

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

(currency amount for 1 euro)	Annual average exchange rate 2019	Exchage rate at December, 31 2019	Annual average exchange rate 2020	Exchage rate at December, 31 2020
US Dollar	1,12	1,12	1,14	1,23
Pound Sterling	0,88	0,85	0,89	0,90
Hungarian Forint	325,29	330,6	351,25	364,13
Chinese Renmimbi	7,73	7,82	7,87	8,02
Korean Republic Won	1.305,23	1.298,75	1.345,70	1.332,84

Accounting policies

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

Tangible assets

Tangible assets are recognized using the cost model and stated at their purchase price or construction cost, including any costs directly attributable to bringing the asset capable of operating.

In the case of a present obligation for the dismantling and removal of assets and restoration of sites, the initial carrying amount includes the estimated (discounted) costs to be incurred when the removal event occurs; a corresponding amount is recognized as part of a specific provision. Changes resulting from revisions to the timing or the amount of the original estimate of the provision are accounted for as described in the accounting policy for "Provisions, contingent liabilities and contingent assets"[13].

Tangible assets are not revalued for financial reporting purposes.

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

The depreciation of a tangible asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Tangible assets are depreciated on a systematic basis over their useful life. When a tangible asset comprises more than one significant part with different useful lives, each part is depreciated separately.

The depreciable amount is the asset's carrying amount less its residual value at the end of the useful life, if significant and reliably determinable. Land is not depreciated, even when acquired together with a building. Tangible assets held for sale are not depreciated (see the accounting policy for "Asset held for sale and discontinued operations" below). Changes arising from the review of useful life, residual value or in the pattern in which the asset's future economic benefits are expected to be consumed are accounted for prospectively.

Assets to be handed over for no consideration are depreciated over the shorter term between the duration of the concession and the asset's useful life.

Replacement costs of identifiable parts in complex assets are capitalized and depreciated over their useful life; the residual carrying amount of the part that has been substituted is charged to the profit and loss account. Non-removable leasehold improvements are depreciated over the earlier of the useful life of the improvements and the lease term. Expenditures for ordinary maintenance and repairs are recognized as an expense as incurred.

The carrying amount of tangible assets is reviewed for impairment whenever there is any indication that the carrying amounts of those assets may not be recoverable. The recoverability of an asset is assessed by comparing

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

its carrying amount with the recoverable amount, which is the higher of the asset's fair value less costs of disposal and its value in use. Value in use is the present value of the future cash flows expected to be derived from continuing use of the asset and, if significant and reliably measurable, the cash flows expected to be obtained from its disposal at the end of its useful life, after deducting the costs of disposal. Expected cash flows are determined on the basis of reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset, giving greater weight to external evidence.

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

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

The carrying amount of tangible assets is derecognized on disposal or when no future economic benefits are expected from its use or disposal; the arising gain or loss is recognized in the profit and loss account.

Leases[14]

On the inception date of a contract the company checks whether it contains or represents a lease, that is, whether it confers the right to control the use of an identified asset for a set period of time in exchange for a fee. The right of use exists if the right to obtain substantially all the economic benefits deriving from the use of the asset, as well as the right to direct its use, is held during the period of use.

At the commencement date (i.e. the date on which an underlying asset is available for use), a lessee recognizes on the balance sheet an asset representing its right to use an underlying leased asset (hereinafter also referred as right-of-use asset) and a liability representing its obligation to make lease payments during the lease term (hereinafter also referred as "lease liability").

The lease liability is initially recognized at the present value of the following lease payments that are not paid at the commencement date: (i) fixed payments (including in-substance fixed payments), less any lease incentives receivable; (ii) variable lease payments that depend on an index or a rate ; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease. The lease payments are discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the lessee's incremental borrowing rate. The latter is determined considering the term of the lease, the frequency and currency of the contractual lease payments, as

[14] The criteria indicated in the following paragraph are not applied to leases involving intangible assets.

well as the features of the lessee's economic environment (reflected in the country risk premium assigned to each country where Versalis operates).

After the initial recognition, the lease liability is measured at an amortized cost basis and is remeasured, normally, as an adjustment to the carrying amount of the related right-of-use asset, to reflect changes to the lease payments due, essentially, to: (i) modifications in the lease contract not accounted as a separate lease; (ii) changes in indexes or rates (used to determine the variable lease payments); or (iii) changes in the assessment of contractual options (e.g. options to purchase the underlying asset, extension or termination options).

The right-of-use asset is initially measured at cost, which comprises: (i) the amount of the initial measurement of the lease liability; (ii) any initial direct costs incurred by the lessee ; (iii) any lease payments made at or before the commencement date, less any lease incentives received; and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease. After the initial recognition, the right-of-use asset is adjusted for any accumulated depreciation, any accumulated impairment losses (see the accounting policy for "Impairment of non-financial assets") and any remeasurement of the lease liability.

Intangible assets

Intangible assets are identifiable assets without physical substance, controlled by the Company and able to produce future economic benefits, and goodwill.

Intangible assets are initially recognized at cost as determined by the criteria used for tangible assets and they are not revalued for financial reporting purposes. Intangible assets with a finite useful life are amortized on a systematic basis over their useful life; the amounts to be amortized are determined in accordance with the criteria described in the accounting policy for "Tangible assets".

Goodwill and intangible assets with indefinite useful lives are not amortized; the recoverability of their book value is checked at least annually and, in any case, when events occur that suggest a reduction in value.

Goodwill is tested for impairment at the lowest level within the entity at which it is monitored for internal management purposes. When the carrying amount of the cash-generating unit, including goodwill allocated thereto, calculated considering any impairment loss of the non-current assets belonging to the cash-generating unit, exceeds its recoverable amount[15], the excess is recognized as an impairment loss. The impairment loss is allocated primarily to the carrying amount of goodwill; any remaining excess is allocated to the other assets of the cash generating unit pro-rata on the basis of the carrying amount of each asset in the unit, up to the recoverable amount of assets with finite useful lives. An impairment loss recognized for goodwill cannot be reversed in a subsequent period[16].

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

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

The carrying amount of intangible assets is derecognized on disposal or when no future economic benefits are expected from its use or disposal; any arising gain or loss is recognized in the profit and loss account.

Grants related to assets

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15 For the definition of recoverable amount, see the paragraph "Tangible assets".

16 The write-down recorded in an interim period is not subject to reversal even if, based on the conditions existing in a subsequent interim period, the write-down would have been less, or not recognized at all.

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

Inventories

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

The cost for chemical inventories is determined by applying the weighted-average cost on an annual basis.

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

The recoverability of non-financial assets is assessed whenever events or changes in circumstances indicate that carrying amounts of the assets are not recoverable. Such impairment indicators include changes in the Group's business plans, changes in commodity prices leading to unprofitable performance, a reduced capacity utilization of plants and, for oil and gas properties, significant downward revisions of estimated proved reserve quantities or significant increase of the estimated development and production costs. Determination as to whether and how much an asset is impaired involves management estimates on highly uncertain and complex matters such as future commodity prices, future discount rates, future development expenditure and production costs, the effects of inflation and technology improvements on operating expenses, production profiles and the outlook for global or regional market supply-and-demand conditions.

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

The expected future cash flows used for impairment analyses are based on judgmental assessments of future production volumes, prices and costs, considering available information at the date of review and are discounted by using a rate which considers the risks specific to the asset.

Financial Instruments

Financial assets

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

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

After initial recognition, financial assets whose contractual terms give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding are measured at amortised cost if they are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows (the so called hold to collect business model). For financial assets measured at amortised cost, interest income determined using the effective interest rate, foreign exchange differences and any impairment losses[17] are recognised in the profit and loss account (see the accounting policy for "Impairment of financial assets").

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

A financial asset represented by a debt instrument that is neither measured at amortized cost nor at FVTOCI, is measured at fair value through profit or loss (hereinafter FVTPL); financial assets held for trading fall into this category. Interest income on assets held for trading contribute to the fair value measurement of the instrument and are recognized in "Finance income (expense)", within "Net finance income (expense) from financial assets held for trading".

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

Cash and cash equivalents

Cash and cash equivalents include both cash and demand deposits.

Impairment of financial assets

The expected credit loss model is adopted for the impairment of financial assets that are debt instruments but are not measured at fair value through profit or loss[18].

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

With reference to trade and other receivables, Probabilities of Default of counterparties are determined by adopting the internal credit ratings already used for credit worthiness and are periodically reviewed using, inter alia, back-testing analyses. For customers without internal credit ratings, the expected credit losses are measured by using a provision matrix, defined by grouping, where appropriate, receivables into adequate clusters to which apply expected loss rates defined on the basis of its historical credit loss experiences, adjusted, where appropriate, to take into account forward-looking information on credit risk of the counterparty or clusters of counterparties[19].

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

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17 Receivables and other financial assets measured at amortized cost are presented in the balance sheet net of their loss allowance.

18 The expected credit loss model also applies to financial guarantee contracts issued not valued at the FVTPL.

19 For credit exposures arising from intragroup transactions, the recovery rate is normally assumed equal to 100% taking into account, inter alia, the Group central treasury function which supports both financial and capital needs of subsidiaries.

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

Significant accounting estimates and judgements: impairment of financial assets

Measuring impairment losses of financial assets requires management evaluation of complex and highly uncertain elements such as, for example, probabilities of default of counterparties, the existence of any collaterals or other credit enhancements, as well as the expected exposure that will not be recovered in case of default (so-called Loss Given Default or LGD). Further details on the main assumptions relating to the impairment of financial assets are shown in note 3 - "Trade receivables and other receivables".

Financial liabilities

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

Derivative financial instruments and hedge accounting

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

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

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

When derivatives hedge the exposure to variability in cash flows of the hedged item (cash flow hedge, e.g. hedging the variability in the cash flows of assets/liabilities as a result of the fluctuations of exchange rate), the changes in the fair value of the derivatives, that are designated as effective hedging instruments, are initially recognized in the equity reserve related to other comprehensive income and then reclassified to the profit and loss account in the same period during which the hedged transaction affects the profit and loss account.. If a hedged forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, the accumulated changes in fair value of hedge derivatives, recognized in equity, are included directly in the carrying amount of the hedged non-financial asset/liability (commonly referred to as a "basis adjustment").

The changes in fair value of derivatives, that are not designated as effective hedging instruments, including any ineffective components of hedge derivative financial instruments, are recognized in the profit and loss account. In particular, the changes in the fair value of non-hedging derivatives on interest rates and exchange rates are recognized in the profit and loss account line item "Finance income (expense)", conversely, the changes in the fair value of non-hedging derivatives on commodities are recognized in the profit and loss account line item "Other operating (expense) income".

Contracts to buy or sell commodities entered into and continue to be held for the purpose of their receipt or delivery in accordance with the Group's expected purchase, sale or usage requirements are recognized on an accrual basis (the so-called normal sale and normal purchase exemption or own use exemption).

Offsetting of financial assets and liabilities

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

Derecognition of financial assets and liabilities

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

Provisions, contingent liabilities and contingent assets

A provision is a liability of uncertain timing or amount at the balance sheet date. Provisions are recognized when: (i) there is a present obligation, legal or constructive, as a result of a past event; (ii) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and (iii) the amount of the obligation can be reliably estimated.

The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation or to transfer it to third parties at the balance sheet date. The amount recognized for onerous contracts is the lower of the cost necessary to fulfill the obligations, net of expected economic benefits deriving from the contracts, and any compensation or penalties arising from failure to fulfill these obligations. Where the effect of the time value is material, and the payment date of the obligations can be reasonably estimated, provisions to be accrued are the present value of the expenditures expected to be required to settle the obligation at a discount rate that reflects the Company's average borrowing rate taking into account the risks associated with the obligation. The increase in the provision due to the passage of time is recognized as "Finance income (expense)".

When the liability regards property, plant and equipment (e.g. dismantling and site restoration), the provision is recorded with a corresponding counter-entry, that is the asset to which it refers; the effects of the provision on the income statement are accounted for through the amortization process. A provision for restructuring costs is recognized only when the Company has a detailed formal plan for the restructuring and has raised a valid expectation in the affected parties that it will carry out the restructuring.

Provisions are periodically reviewed and adjusted to reflect changes in the estimates of costs, timing and discount rates. Changes in provisions are recognized in the same profit and loss account line item where the original provision was charged or, when the liability relates to tangible assets (i.e. dismantling and restoration of sites), the changes in the estimate of the provision are recognized as a counter-entry to the assets to which they refer within the limits of the relative book values; any excess is recognized in the income statement.

The following contingent liabilities are described in the notes to the Consolidated Financial Statements: (i) possible obligations arising from past events, whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company; or (ii) present obligations arising from past events, whose amount cannot be reliably measured or whose settlement will probably not result in an outflow of resources embodying economic benefits. Contingent assets, i.e. possible assets that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity, are not recognized unless the inflow of the related economic benefits is virtually certain. If an inflow of economic benefits is probable, contingent assets are disclosed in the notes. Contingent assets are assessed continually to evaluate the probability of obtaining economic benefits.

Employee benefits

Employee benefits are considerations given by the Group in exchange for service rendered by employees or for the termination of employment.

Post-employment benefit plans, including informal arrangements, 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. Under defined contribution plans, the Company's obligation, which consists in making payments to the State or to a trust or a fund, is determined on the basis of contributions due.

The liabilities related to defined benefit plans, net of any plan assets, are determined on the basis of actuarial assumptions and charged on accrual basis during the employment period required to obtain the benefits. Net interest includes the return on plan assets and the interests cost to be recognized in the profit and loss account. Net interest is measured by applying to the liability, net of any plan assets, the discount rate used to calculate the present value of the liability; net interest of defined benefit plans is recognized in "Financial income (expense)".

Remeasurements of the net defined benefit liability, comprising actuarial gains and losses, resulting from changes in the actuarial assumptions used or from changes arising from experience adjustments, and the return on plan assets excluding amounts included in net interest, are recognized within statement of comprehensive income. Remeasurements of net defined benefit liability, recognized in the equity reserve related to other comprehensive income, are not reclassified subsequently to the profit and loss account. Obligations for long-term benefits are determined by adopting actuarial assumptions. The effects of remeasurements are taken to profit and loss account in their entirety.

Revenue from contracts with customers

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

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

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

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

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

Costs

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

Costs associated with emission quotas, incurred to meet the compliance requirements (e.g. Emission Trading Scheme) and determined on the basis of the market prices, are recognized in relation to the amounts of the carbon dioxide emissions that exceed free allowances. Costs related to the purchase of the emission rights that exceed the amount necessary to meet regulatory obligations are recognized as intangible assets. Revenue related to emission quotas is recognized when they are sold. Monetary receivables granted to replace the free award emission rights are recognized as a contra to the line item "Other income and revenues".

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

Exchange differences

Revenue and costs associated with transactions in foreign currencies are translated into the functional currency by applying the exchange rate at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the spot exchange rate on the balance sheet date and any resulting exchange differences are included in the profit and loss account, within "Finance income (expense)" or, if designated as hedging instruments for the foreign currency risk, in the same line item in which the economic effects of the hedged item are recognized. Non-monetary assets and liabilities denominated in foreign currencies, measured at cost, are not retranslated subsequent to initial recognition. Non-monetary items measured at fair value, recoverable amount or net realizable value, are retranslated using the exchange rate at the date when the value is determined.

Dividends

Dividends payable to the shareholders are recognised as changes in equity at the date on which they are approved by the shareholders' meeting.

Income taxes

Current income taxes are determined on the basis of estimated taxable income; the estimated liability is posted in the item "Current income tax payables". Current income tax assets and liabilities are measured at the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are recognized for temporary differences arising between the carrying amounts of the assets and liabilities and their tax bases, based on tax rates and tax laws that are expected to apply in the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. Deferred tax assets are recognized when their recoverability is considered probable, i.e. when it is probable that sufficient taxable profit will be available in the same year as the reversal of the deductible temporary difference. Similarly, deferred tax assets for the carry-forward of unused tax credits and unused tax losses are recognized to the extent that their recoverability is probable. The carrying amount of the deferred tax assets is reviewed, at least, on an annual basis.

Relating to the taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint arrangements, the related deferred tax liabilities are not recognized if the investor is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

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

For Versalis SpA, as part of the Eni Group's National IRES Tax Consolidation, it is applicable the remuneration mechanism for IRES tax losses, based on which, after having possibly offset its taxable amount, the company transfers previous tax losses to the parent company Eni SpA to offset positive taxable income of other companies participating in the National Tax Consolidation. The parent company Eni SpA, once the consolidation of the IRES tax positions of the companies participating in the National Tax Consolidation has been completed, financially recognizes the benefit deriving from the tax losses, transferred by Versalis SpA, which were actually used.

It should also be noted that, due to the provisions of the so-called Covid-19 decrees, of which the last is the decree no. 7/2021, the assessment documents relating to income taxes, VAT and IRAP for the year 2015, whose forfeiture is set at 31 December 2020, can be notified between 1 March 2021 and February 28, 2022.

Fair value measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants (not in a forced liquidation or a distress sale) at the measurement date (exit price). Fair value measurement is based on the market conditions existing at the measurement date and on the assumptions of market participants (market-based measurement). A fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market to which the entity has access, independently from the entity's intention to sell the asset or transfer the liability to be measured.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. Highest and best use is determined from the perspective of market participants, even if the entity intends a different use; an entity's current use of a non-financial asset is presumed to be its highest and best use, unless market or other factors suggest that a different use by market participants would maximize the value of the asset.

The fair value of a liability, both financial and non-financial, or of the Company's own equity instrument, in the absence of a quoted price, is measured from the perspective of a market participant that holds the identical item as an asset at the measurement date.

The fair value of financial instruments takes into account the counterparty's credit risk for a financial asset (Credit Valuation Adjustment, CVA) and the entity's own credit risk for a financial liability (Debit Valuation Adjustment, DVA).

In the absence of available market quotation, fair value is measured by using valuation techniques, that are appropriate in the circumstances, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

Significant accounting estimates and judgements: fair value

Fair value measurement, although based on the best available information and on the use of appropriate valuation techniques, is inherently uncertain and requires the use of professional judgment and could result in expected values other than the actual ones.

Financial Statements

Assets and liabilities of the balance sheet are classified as current and non-current. Items of the profit and loss account are presented by nature. Assets and liabilities are classified as current when: (i) they are expected to be realized/settled in the entity's normal operating cycle or within twelve months after the balance sheet date; (ii) they are cash or cash equivalents unless they are restricted from being exchanged or used to settle a liability for at least twelve months after the balance sheet date; or (iii) they are held primarily for the purpose of trading. Derivative instruments held for trading are classified as current, apart from their maturity date. Non-hedging derivative instruments, which are entered into to manage risk exposures but do not satisfy the formal requirements to be considered as hedging, and hedging derivative instruments are classified as current when they are expected to be realized/settled within twelve months after the balance sheet date; on the contrary, they are classified as non-current.

The statement of comprehensive income (loss) shows net profit integrated with incomes and expenses that are not recognized directly in the profit and loss account according to IFRSs.

The statement of changes in shareholders' equity includes the total comprehensive income (loss) for the year, transactions with shareholders and other changes in shareholders' equity.

The statement of cash flows is presented using the indirect method, whereby net profit is adjusted for the effects of transactions of non-cash transactions[20].

Changes in accounting policies

The amendments to the international accounting standards that came into effect on January 1, 2020 did not produce significant effects. In this regard, it should be noted that Versalis did not make use of the temporary exemptions from the application of the provisions on lease modification, provided for by the amendments to IFRS 16 "Concessions on fees connected to Covid-19", in effect for the year 2020, with reference to the price concessions obtained as a lessee, as a result of Covid-19.

IFRSs not yet effective

IFRSs issued by the IASB and adopted by the EU

With Regulation no. 2021/25 issued by the European Commission on January 13, 2021, the amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 "Reform of the benchmarks for determining the interest rates - phase 2" (hereinafter the amendments) were adopted; they are aimed at introducing practical expedients and temporary exemptions from the application of certain IFRS provisions in the presence of financial instruments measured at amortized cost and/or hedging relationships subject to modification following the reform of the benchmark interest rates. The amendments are effective starting from financial years starting on, or after, January 1, 2021.

[20] In the statement of cash flows, the tax cash outflow, practicably identifiable, arising from a disposal is presented separately within the net cash used in investing activities.

IFRSs issued by the IASB and not yet adopted by the EU

On May 18, 2017, the IASB issued IFRS 17 "Insurance Contracts" (hereinafter IFRS 17), which sets out the accounting for the insurance contracts issued and the reinsurance contracts held. On June 25, 2020, the IASB issued the "Amendments to IFRS 17" and the amendments to IFRS 4 "Extension of temporary exemption from applying IFRS 9", relating to insurance activities, providing, among other things, the two-year deferral of the entry into effect of IFRS 17. Therefore, the provisions of IFRS 17, which exceed those currently envisaged by IFRS 4 "Insurance contracts", are effective starting from financial years starting on, or after, January 1, 2023.

On January 23, 2020, the IASB issued the amendments to IAS 1 "Presentation of Financial Statements: Classification of Liabilities as Current or Non-current" (hereinafter the amendments), aimed at providing clarifications regarding the classification of liabilities as current or non-current which, due to the deferral defined with the amendments made on July 15, 2020 ("Classification of Liabilities as Current or Non-current – Deferral of Effective Date") will come into effect on, or after, January 1, 2023.

On May 14, 2020, the IASB issued:

- the amendments to IAS 37 "Onerous Contracts - Cost of Fulfilling a Contract" (hereinafter the amendments), aimed at providing clarifications on how to determine the cost of a contract. The amendments are effective starting from financial years starting on or after January 1, 2022;
- the amendments to IAS 16 "Property, Plant and Equipment: Proceeds before Intended Use" (hereinafter the amendments), aimed at defining that the revenues from the sale of goods produced by an asset before it is ready for its intended use are charged to the income statement together with the related production costs. The amendments are effective starting from financial years starting on, or after, January 1, 2022;
- the amendments to IFRS 3 "Reference to the Conceptual Framework" (hereinafter the amendments), aimed at: (i) completing the update of the references to the Conceptual Framework for Financial Reporting present in the accounting standard; (ii) providing clarifications regarding the prerequisites for the recognition, at the acquisition date, of funds, contingent liabilities and tax liabilities (so-called levy) assumed as part of a business combination transaction; (iii) making it clear that potential assets cannot be recognized as part of a business combination. The amendments are effective starting from financial years starting on, or after, January 1, 2022;
- the document "Annual Improvements to IFRS Standards 2018-2020 Cycle", containing amendments, essentially of a technical and editorial nature, of the international accounting standards. The amendments to the accounting standards are effective starting from financial years starting on, or after, January 1, 2022.

On February 12, 2021, the IASB issued:

- the amendments to IAS 1 and to IFRS Practice Statement 2 "Disclosure of Accounting Policies" (hereinafter the amendments), aimed at providing clarification in identifying the relevant accounting policies to be described in the financial statements. The amendments are effective starting from financial years starting on, or after, January 1, 2023;
- the amendments to IAS 8 "Definition of Accounting Estimates" (hereinafter the amendments) which introduce the definition of accounting estimates, essentially in order to facilitate the distinction between changes in accounting estimates and changes in accounting principles. The amendments are effective starting from financial years starting on, or after, January 1, 2023.

Current assets

1. Cash and cash equivalents

Cash and cash equivalents amount to €62 million (€42 million as at December 31, 2019) and are mainly deposited in non-interest-bearing current accounts (c/o Eni Group financial companies).

2. Other current financial assets

Other current financial assets of €4 million refer to the short-term portion of financial credit granted to the joint venture Matrìca SpA.

3. Trade and other receivables

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

(€ million)	December 31, 2019	December 31, 2020
Trade receivables	449	495
Other receivables	203	213
	652	**708**

Generally, trade receivables don't bear any interest and provide payment terms within 150 days.

As at December 31, 2020, Versalis factored trade receivables without recourse for €124 million (€132 million as at December 31, 2019).

The company distinguishes credit exposures deriving from trade relationships and other relationships, according to a specific risk assessment of the counterparty. In particular, the probability of default is assessed on the basis of a defined internal rating, which considers the following: (i) specialist analysis of balance sheet, of current and prospective financial situation of clients; (ii) previous trade and administrative relationships (regularity of payments, presence of elements that mitigate the risk, etc.); (iii) any further qualitative information collected by the sales functions of each business unit and by specialized info-providers; (iv) any specific contractual clauses for credit protection; (v) performance of the reference sector; (vi) country risk that considers the probability of occurrence of events related to the debtor's operating context, over a medium-term time period, which may compromise the ability to fulfill the obligation towards Versalis.
The internal ratings and the corresponding probability of default are updated through back-testing analysis and risk assessments of the current and forward-looking portfolio. If the rating of a counterparty cannot be defined, the expected loss is determined, for homogeneous clusters, on the basis of a generic model that summarizes in a single parameter (the so-called expected loss ratio) the probability of default and of the recovery capacity (loss given default).

The following table shows the information about the gross exposure to credit risk and the allowance for doubtful accounts, for which an analytical assessment and/or an assessment based on the generic model has been carried out, elaborated on the basis of internal ratings:

(€ million)	Performing loans	Non-performing	Totale
Business customers	442	183	625
Other counterparties	18		18
Gross amount as at December 31, 2020	**460**	**183**	**643**
Allowance for doubtful accounts	4	144	148
Net amount as at December 31, 2019	**457**	**39**	**495**

Trade and other receivables are stated net of the allowance for doubtful accounts of € 148 million (€ 150 million as at December 31, 2019). Receivables from other counterparties refer to trade and other receivables from Eni Group companies. Changes in the allowance for doubtful accounts occurred in 2020 are disclosed as follows:

(€ million)	Trade and other receivables
Carrying amount at December 31, 2018 (ex IAS 39)	**158**
- additions	5
- deductions	(13)
Carrying amount at December 31, 2019	**150**

(€ million)	Trade and other receivables
Carrying amount at December 31, 2019	**150**
- additions	5
- deductions	(7)
Carrying amount at December 31, 2020	**148**

See paragraph "Credit risk" for further details on company's exposure to contingent losses deriving from counterparties' failure to fulfill their obligations.
Deductions of the allowance for doubtful accounts on trade receivables for the current year refer to credit losses.

Other receivables are disclosed as follows:

(€ million)	December 31, 2019	December 31, 2020
Receivables due from Eni Group companies	123	138
Receivables due from parent company	36	20
Receivables due from joint ventures	5	6
Receivables due from associated companies	6	5
Advances for services and guarantee deposits	12	5
Receivables due from incentives to production of renewable energy		4
Receivables due from personnel	2	2
Receivables for licences	1	1
Other receivables	18	32
	203	**213**

Receivables due from Eni Group companies mainly relate to Eni Rewind SpA for environmental remediation activities (€ 126 million) and to Eni Insurance (€ 7 million) and Eni Trading and Shipping SpA (€ 1 million). Receivables due form the parent company Eni SpA mainly relate to receivables from participation to group VAT regime (€ 16 million). Receivables due from joint ventures mainly relate to Lotte Versalis Elastomers for the sale of licences (€ 3 million) and to Matrica for interests on financial receivables (€ 3 million).

Fair value assessment of trade and other receivables has no material impact, given their short-term nature (i.e. the time between their occurrence and the due date).

Receivables due from related parties are disclosed in Note 35.

4. Inventories

Inventories are detailed in the table below:

(€ million)	December 31, 2019				December 31, 2020			
	Oil derivatives	Chemicals	Other	Total	Oil derivatives	Chemicals	Other	Total
Raw and auxiliary materials and consumables	44	132	71	247	20	119	77	216
Work in progress and semi-finished products	1	7		8	1	5		6
Finished products and goods	28	538		566	16	428	3	447
	73	677	71	821	37	552	80	669

Changes in inventories and in allowances on inventories are disclosed as follows:

(€ million)	Opening balance	Changes over the period	Additions	Deductions	Currency translation differences	Transactions on campoany branches	Ending balance
December 31, 2019							
Gross inventories	851	32			1		884
Allowance on inventories	(44)		(22)	4	(1)		(63)
Net inventories	807	32	(22)	4			821
December 31, 2020							
Gross inventories	884	(162)			(4)		718
Allowance on inventories	(63)		(9)	23			(49)
Net inventories	821	(162)	(9)	23	(4)		669

There is no collateral on inventories. Additions to the allowance on inventories mainly relate to adjustments made on the book values of finished products, to align them to the expected sale price at the end of the period.

5. Current income tax assets

Current income tax assets of € 2 million (€ 11 million as at December 31, 2019) mainly relate to receivables due from tax authorities. Further details about income taxes are provided in note 34.

6. Other assets

Other assets are disclosed as follows:

(€ million)	December 31, 2019	December 31, 2020
Other current tax assets	13	11
Fair value of non-hedging derivatives	1	1
Other assets	1	2
	15	14

Other assets of € 14 million (€ 15 million as at December 31, 2019) mainly include VAT receivables (€ 8 million), prepaid expenses and fair value of derivative financial instruments (€ 1 million, not classified as "hedging", but without speculative purposes), whose book values were determined by the parent company Eni SpA. These instruments, albeit not classifiable as speculative, don't meet the criteria established by IAS/IFRS principles in order to be considered as "hedging derivatives".

The nominal values of derivative contracts do not represent the amounts exchanged between the parties and therefore do not constitute a measure of the credit risk exposure for the company which is limited to the negative market value (fair value) of the contracts at the end of the year, reduced due to the effects of any general netting agreements.

Non-current assets

7. Property, plant and equipment

Property, plant and equipment are detailed as follows:

(€ million)	Opening net balance	Investments	Depreciation & amortization	Write-downs and reversal of impairment losses	Disposals	Currency translation differences	Other changes	Ending net balance	Ending gross balance	Provision for impairment of assets
December 31, 2019										
Land	21			32				**53**	112	**60**
Buildings	33		(5)				2	**30**	352	**322**
Plant and machinery	489	51	(67)	(149)	(1)	2	(31)	**294**	5.342	**5.049**
Industrial and commercial equipment	2	1	(1)				1	**3**	114	**110**
Other assets	8							**8**	43	**35**
Assets under construction and advances	244	58		126		1	15	**444**	552	**108**
	797	**110**	**(73)**	**9**	**(1)**	**3**	**(13)**	**832**	**6.515**	**5.684**
December 31, 2020										
Land	53			(3)		(1)		**49**	112	63
Buildings	30	1	(3)	2		(2)	6	**34**	359	325
Plant and machinery	294	83	(76)	(17)		(5)	290	**569**	5.782	5.213
Industrial and commercial equipment	3		(1)				2	**4**	116	112
Other assets	8						3	**11**	43	32
Assets under construction and advances	444	89		(52)			(294)	**187**	280	93
	832	**173**	**(80)**	**(70)**		**(8)**	**7**	**854**	**6.692**	**5.838**

Investments of €173 million (€110 million as at December 31, 2019) are disclosed in the Management Report section of financial statements.

Financial expenses capitalized in the year of €3 million (same amount as at December 31, 2019) were determined by applying an interest rate of 2,20% (2,81% as at December 31, 2019). Increase on internal work capitalized in the period of €8 million (€9 million as at December 31, 2019) refers to services provided by internal staff.

Assets under construction and advances mainly relate to: adaptation of the plants of Brindisi and Porto Marghera in order to comply with safety and environmental regulations, improvements of reliability of the plants of Priolo, Mantova, Brindisi and Porto Marghera, enhancements to projects related to the business units "intermediates" in Priolo and "styrenics" in Mantova, interventions aimed at reorganizing the utility-management systems in Porto Torres.

The main amortization rates adopted on annual basis, unchanged compared to the previous year, are within the following ranges:

(annual %)	2019	2020
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

There are neither mortgages, nor special rights on property, plant and equipment.

Reductions in property, plant and equipment of €9 million (€10 million as at December 31, 2019) refer to net government grants and reimbursement from third parties. Government grants are received upon certain constraints on assets they relate to. The above-mentioned constraints mainly consist of the obligation not to divert those assets from their original use for at least five years as of entry into operation. Not complying with these constraints may result in the withdrawal of the grant, to return plus interest.

Further details on the criteria used to determine impairment loss and write-backs are disclosed in Note 10.

8. Leasing transactions as a lessee

Right of use and Lease liability are disclosed as follows:

(€ million)

	Right of use			
	Land and buildings	Plants and machinery	Other assets	Total
Opening balance as at January 1, 2020	13		4	17
Increase	2		2	4
Amortisation	(2)		(2)	(4)
Write-downs				
Other changes				
Ending balance as at December 31, 2020	**13**		**4**	**17**

(€ million)

	Lease liabilities		
	Short-term	Long-term	Total
Opening balance as at January 1, 2020	8	17	25
Increase		5	5
Decrease	(10)		(10)
Other changes	10	(9)	1
Ending balance as at December 31, 2020	**8**	**13**	**21**

The right of use of land and buildings mainly refers to land on which some industrial sites of the group are located. Other lease assets consist of the vehicle fleet conceded to employees.

The total amount of cash flow from lease liabilities of €10 million mainly refers to repayment of principal (€9 million); related interest expenses amount to about €1 million in 2020.

Lease items recorded in the consolidated income statement are disclosed as follows:

(€ million)

	2019	2020
Purchases, services and other costs:		
- leases of modest value	(1)	(1)
Depreciation		
- depreciation of right of use assets	(7)	5
Write-downs of right of use of assets	(14)	
Financial income (expense)		
- interest expense on lease liabilities	(2)	(1)

9. Intangible assets

Intangible assets are detailed as follows:

(€ million)	Net opening balance	Investments	Acquisition of business branch	Amortization	Write-downs and write-backs	Other changes	Net ending balance	Gross ending balance	Allowance for impairment
December 31, 2019									
Intangible assets with defined useful life									
- R&D costs								22	22
- Industrial patents and intellectual property rights								53	53
- Grants, licences, trademarks and similar rights	64			(5)	(43)		16	151	135
- Assets under construction and advances		5					5	21	16
- Other intangible assets	34	3		(4)	(29)	(1)	3	139	136
Intangible assets with undefined useful life									
- Goodwill	26				(26)				
	124	8		(9)	(98)	(1)	24	386	362
December 31, 2020									
Intangible assets with defined useful life									
- R&D costs								30	30
- Industrial patents and intellectual property rights								53	53
- Grants, licences, trademarks and similar rights	16				(3)		13	151	138
- Assets under construction and advances	5	7			3	(2)	13	18	5
- Other intangible assets	3	2			24	(2)	27	138	111
Intangible assets with undefined useful life									
- Goodwill									
	24	9			24	(4)	53	390	337

Grants, licenses and trademarks mainly relate to industrial licenses. The decrease is due to the write-down of €3 million as a result of the impairment.
Other intangible assets mainly relate to property rights arising from the Union Carbide Contract, on which a write-back of €24 mln was made.
Other changes mainly concern reclassifications from assets under construction to completed assets.
Further information on the criteria used to determine net write-backs (impairment losses) and the related analysis are disclosed in note 10.

The main amortization rates adopted on annual basis, unchanged compared to the previous year, are within the following ranges:

(annual %)	2019	2020
- R&D costs	4 - 20	4 - 20
- Industrial patents and intellectual property rights	2 - 5	2 - 5
- Grants, licences, trademarks and similar rights	4 - 33	4 - 33
- Other intangible assets	4 - 15	4 - 15

There are no contributions that decrease the book value of intangible assets.

10. Net write-backs (impairment loss) of tangible and intangible assets and right of use assets

The impairment loss recorded in the financial statements are determined by comparing the book value of the assets with the related recoverable amount, represented by the greater between the fair value, net of disposal costs, and the value in use. Write-backs are carried out within the limits of the value they would have had if the impairment loss recognized in previous reporting periods had not been recognized.

Given the nature of Versalis Group core activities, information on the fair value of the assets is difficult to establish, except for the case a trading activity is in progress with a potential buyer. Therefore, management is in charge of estimating the value in use.

In accordance with the previous year, the management identifies as *Cash Generating Units* (CGUs) the following business units: Intermediates, Polyethylene, Styrene, Elastomers and Biotech.

Net impairment loss of €46 million on tangible, intangible and right of use assets are the result of the impairment test and mostly refer to the following *Cash Generating Units* (CGUs):

- CGU Polyethylene: write-back of €215 million;
- CGU Elastomers: write-down of €196 million;
- CGU Intermediates: write-down of €128 million;
- CGU Styrene: write-back of €66 million;
- CGU Biotech: write-down of €3 million.

The write-backs of Polyethylene and Styrene CGUs are due to an improvement in the economic scenario, especially in the packaging sector. On the contrary, the write-down of the Elastomers CGU is due to the negative economic outlook in the automotive sector, while the write-down of the Intermediates CGU is caused by the foreseen deterioration of the margin of cracking.

The write-downs (write-backs), as determined above, have been then proportionally allocated to single assets (tangible and intangible assets) of the respective CGU, on the basis of the provisions of IAS 36.

The impairment loss (write-back) was calculated by comparing the book value of each CGU with its value in use, which was determined with the DCF model. The time horizon is 20 years (adapted to the useful life of the plants, which in any case is more than 20 years, as stated by independent appraisals).

With reference to the Eni 2021-2024 and long-term scenario, the decline for chemical commodities in the four-year period slightly recovered, compared to the previous plan. The impact of the Covid-19 pandemic has overshadowed the pre-existent issues of the sector, such as the downcycle due to the progressive development of new ethane cracking plants, the global slowdown in in automotive demand, the pressure on single use plastics and the uncertainty caused by the tensions between USA and China resulting in higher trade duties.

The value in use of the CGUs is estimated by discounting the expected cash flows of the four-year Plan, excluding the flows of research investments and development/enhancement ones. For the years following the Plan horizon, the normalized material balance is valued; fixed costs are subject to an increase rate equal to scenario inflation; up to the end of the economic-technical life, the stay in business investments are constant (*real term*) and equal to the average of the investments envisaged in the Plan.

For the purposes of discounting the flows determined in the manner and according to the aforementioned criteria, the management has adopted a discount rate of 6.2%.

In consideration of the volatility of the scenario, management has tested the reasonableness of its assumptions and the outcome of the impairment test through sensitivity analysis, in particular on the WACC and on the expected cash flows. Taking into account the significant impairment loss made in previous years and the sensitivity of the main assumptions related to issues of an uncertain nature, used for the purposes of the impairment test, a positive or negative change of 5% in the reference spread of the cracker margin would have a positive or negative economic impact of €90 million respectively; while a 20% positive or negative change in the WACC would have a negative or positive economic impact of €68 million respectively.

11. Equity-accounted investments

Equity-accounted investments are disclosed as follows:

(€ million)	Net opening balance	Acquisitions and subscriptions	Share of profit (loss) on equity-accounted investments	Other changes	Net ending balance
December 31, 2019					
Investments in:					
- subsidiaries	4		1		5
- associated companies	93		4		97
- joint ventures	75	76	(76)	(2)	73
	172	76	(71)	(2)	175
December 31, 2020					
Investments in:					
- subsidiaries	5			(4)	1
- associated companies	97	73	7	(72)	105
- joint ventures	73	65	(56)	(33)	49
	175	138	(49)	(109)	155

Acquisitions and subscriptions of €138 million relate to the acquisition of the 40%-share of Finproject SpA (€72 million), to the capital increase of Lotte Versalis Elastomers (€38 million) and to the payments for future capital increases in Matrìca (€27 million).

Value adjustments of €49 million mainly refer to the assessment of equity-accounted investments at equity method, which resulted in the capital loss of €56 million for Lotte Versalis Elastomers, partially compensated by the capital gains of €6 million for Novamont and of €1 million for Finproject.

Other changes in subsidiaries of €4 million arise from the change in the valuation method, from equity method to full consolidation method, of Versalis Kimya (€3 million) and Versalis Zeal (€1 million). In fact, in 2020 both companies exceeded the relevant parameters for consolidation.

Other changes in associated companies of €72 million refer to the switch of classification of Novamont (€77 million) from "associated company" to "other investment", partially compensated by the increase of Ravenna Servizi Industriali (€5 million). The change of classification of Novamont SpA is due to the loss of significant influence over the associate, after the termination of the shareholders' agreement.

Other change in joint ventures of €33 million refer to the use of the financial support provision for Matrica (€27 million) and to the currency translation differences with effect on equity reserves of Lotte Versalis Elastomers (€5 million).

Equity-accounted investments are held in the following companies:

(€ million)	December 31, 2019	December 31, 2020
Finproject SpA		72
Lotte Versalis Elastomers Co Ltd	74	52
Priolo Servizi Industriali Scarl	18	19
Ravenna Servizi Industriali ScpA	2	7
Servizi Porto Marghera Scarl	3	3
IFM Ferrara Scarl	1	1
Brindisi Servizi Generali Scarl	1	1
Novamont SpA	71	
Versalis Kymia	4	
Versalis Zeal Ltd	1	
	175	155

Ownership percentages are shown in note 41.

12. Other investments

Other investments are held in the following companies:

(€ million)	December 31, 2019	December 31, 2020
Novamont SpA		77
Consorzio Exeltium SAS	2	3
BKV Beteiligungs-und Kunststoffverw. mbH	...	...
Genomatica Inc	...	...
IAS Industria Acqua Siracusana	...	...
Consorzio Crea Assemini	...	...
Sociedad Española de Materiales Plasticos SA	...	...
	3	80

... Amounts less than €0.5 million

Ownership percentages are shown in note 41.

13. Other non-current financial assets

Other financial assets of €2 million (unchanged compared to the previous year) essentially refer to the financing with Serfactoring (Eni Group).

14. Deferred tax assets

Deferred tax assets of €36 million (€47 million as at December 31, 2019) are net of countervailable deferred tax liabilities of €72 million (€58 million as at December 31, 2019) and of impairment losses of €1.009 million (of which, €672 million related to tax losses).

(€ million)	December 31, 2019	December 31, 2020
Deferred tax assets	105	108
Countervailable deferred tax liabilities	(58)	(72)
	47	**36**

Income taxes are disclosed in note 34.

The nature of temporary tax differences that gave rise to deferred tax assets is disclosed in the following table:

(€ million)	Amount as at Decemeber 31, 2019	Increase	Deductions	Other changes	Amount as at Decemeber 31, 2020
Prepaid taxes:					
- non-deductible write-downs	231	19	(18)	5	237
- tax losses	554	120	(1)	(1)	672
- provisions for risk and charges	24		(3)		21
- other	67	106	(114)	20	79
	876	**245**	**(136)**	**24**	**1.009**
(Write-down)/write-backs on deferred tax assets	(771)	(117)	3	(16)	(901)
	105	**128**	**(133)**	**8**	**108**
Deferred taxes:					
- excess amortisation/depreciation	39	20	(6)		53
- other	19	2	(2)		19
	58	**22**	**(8)**		**72**
Net deferred tax assets	**47**	**106**	**(125)**	**8**	**36**

Impairment losses of €117 million mainly refer to the results of the test for recoverability of the prepaid taxes of Versalis SpA (impairment loss of €106), of Versalis UK Ltd (impairment loss of €11 million) and to the reversals of prepaid taxes of Versalis France Sas (€3 million).

15. Other non-current assets

Other assets of € 1 million (unchanged from the previous period) mostly relate to receivables due from personnel.

Current liabilities

16. Short-term debt

Short-term debt of €995 million (€1.028 million as at December 31, 2019) mainly refer to financing granted by the parent company Eni SpA and by other subsidiaries of Eni Group; even if formally short-term, these loans are renewed at maturity for amounts that take into account the expected financial needs.

The average annual interest rate was 2.2% (2.81% as at December 31, 2019).

17. Current portion of long-term debt

For details on the current portion of long-term debt of €9 million (unchanged from the previous period), refer to note 21 - "Long-term lease liabilities and current portion of long-term debt".

18. Trade and other payables

Trade and other payables are disclosed in the following table:

(€ million)	December 31, 2019	December 31, 2020
Trade payables	655	575
Other payables		
- related to investment activities	32	81
- other	95	82
	782	738

Trade payables of €575 million refer to payables due to third-party suppliers (€260 million), payables due to associated companies, joint ventures and other Eni Group subsidiaries (€192 million) and payables to the parent company Eni SpA (€123 million).

Payables from investment activities amount to €81 million and refer to the second instalment of the payment for the acquisition of the 40%-share of Finproject SpA (€52 million), paid in January 2021, and to payables to suppliers for investment activities (€29 million).

Other payables of €82 million are mainly due to personnel (€45 million), to the parent company Eni SpA for participation to Group VAT regime (€10 million), to social security institutions (€15 million), to factors (€7 million) and to consultants and professionals (€1 million).

Fair value measurement of trade and other payables does not have a significant impact, given the short period of time between the occurrence of the debt and its maturity.

Payables to related parties are disclosed in note 35.

19. Income tax payables

Income tax payables of €1 million (unchanged from the previous period) relate to the income taxes of foreign consolidated companies.

20. Other current liabilities

Other current liabilities are disclosed as follows:

(€ million)	December 31, 2019	December 31, 2020
Other current tax liabilities	15	11
Deferrals on advanced income	8	6
Advances and prepayments	1	3
Fair value of non-hedging derivatives	1	1
	25	21

Fair value of derivatives (not classifiable as "hedging", but devoid of speculative purposes) is recorded on the basis of amounts that are determined and communicated by the parent company Eni SpA. Versalis holds derivative instruments that, despite not having speculative purposes, do not meet all the requirements of the IAS/IFRS principles to be considered as hedging derivatives.

The nominal values of derivatives don't depict the amounts actually exchanged between parties and therefore they don't represent a measure of the credit risk exposure of the company, which is limited to the negative market value (fair value) of the contracts at the year end, less the effects of any general offset arrangement.

Non-current liabilities

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

Long-term debt, comprehensive of current portion of long-term debt, of €450 million (€60 million as at December 31, 2019) are detailed as follows:

	December 31, 2019			December 31, 2020		
(€ million)	Long-term portion	Short-term portion	Total	Long-term portion	Short-term portion	Total
Due to shareholders for financing	48	9	57	439	9	448
Due to other lenders	3		3	2		2
	51	9	60	441	9	450

The average effective interest rate for the year was 1.30% (1.84% in 2019). For further details, refer to paragraph "Net financial debt and Leverage" of the Management Report.

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

(€ million)	Values as at December 31		Long-term maturity						
	2019	2020	2021	2022	2023	2024	2025	Beyond	Total
Due to shareholders for financing	57	448	9	9	209	9	209	3	448
Due to other lenders	3	2			1	1			2
	60	450	9	9	210	10	209	3	450

Financial liabilities are neither guaranteed by mortgages, nor privileges on tangible assets.

The breakdown of net borrowings displayed in the "Comments on the economic and financial results" in the "Management Report" is disclosed in the following table:

	December 31, 2019			December 31, 2020		
(€ million)	Current	Non-current	Total	Current	Non-current	Total
A. Cash and cash equivalents	42		42	62		62
B. Available-for-sale financial assets						
C. Liquidity (A+B)	**42**		**42**	**62**		**62**
D. Financial receivables						
E. Short-term debt towards banks						
F. Long-term debt towards banks						
G. Bonds						
H. Short-term debt towards related parties	1021		1021	983		983
I. Passività finanziarie a lungo termine verso entità correlate	9	48	57	9	439	448
L. Other short-term liabilities	7		7	12		12
M. Other long-term liabilities		3	3		2	2
N. Total gross borrowings (E+F+G+H+I+L+M)	**1037**	**51**	**1088**	**1.004**	**441**	**1.445**
O. Net financial debt less lease liabilities (N-C-D)	**995**	**51**	**1046**	**942**	**441**	**1.383**
P. Short-term lease liabilities	8		8	8		8
Q. Long-term lease liabilities		17	17		13	13
R. Lease liabilities (P+Q)	**8**	**17**	**25**	**8**	**13**	**21**
S. Gross financial debt plus lease liabilities (N+R)	**1045**	**68**	**1113**	**1.012**	**454**	**1.466**
T. Net financial debt plus lease liabilities (S-C-D)	**1003**	**68**	**1071**	**950**	**454**	**1.404**

22. Provisions for risks and charges

(€ million)	December 31, 2019	December 31, 2020
Provision for environmental risks	43	48
Provision for associated companies risks	27	25
Provision for disposal and restructuring	35	20
Provision for redundancy incentives	7	6
Provision for litigations	4	5
Provision for OIL insurance cover	3	3
Other provisions	10	10
	129	117

Provisions for risks and charges are detailed as follows:

(€ million)	Opening balance	Increase	Utilization for charges	Surplus utilization	Currency translation differences and other changes	Ending balance
December 31, 2019						
Provision for environmental risks	41	5	(2)	(1)		43
Provision for disposal and restructuring	43	2	(10)			35
Provision for associated companies risks	37	18	(37)		9	27
Provision for redundancy incentives	9	2	(2)	(2)		7
Provision for legal and other proceedings	5	2		(3)		4
Provision for OIL insurance cover	3					3
Provision for green certificates	1			(1)		
Other provisions	10	1	(1)			10
	149	12	(52)	(7)	27	129
December 31, 2020						
Provision for environmental risks	43	14	(2)	(7)		48
Provision for associated companies risks	27				(2)	25
Provision for disposal and restructuring	35	2	(11)	(4)	(1)	21
Provision for redundancy incentives	7	1	(1)	(1)		6
Provision for legal and other proceedings	4	3		(2)		5
Provision for OIL insurance cover	3		(1)			2
Other provisions	10	2	(1)		(1)	10
	129	22	(16)	(14)	(4)	117

Provisions for environmental risks of €48 million relate to environmental charges on various company sites for the portion which is not under the guarantee issued by Eni Rewind SpA, upon the transfer of the "Strategic Chemical Activity" business.

Provisions for associated companies risks refer to the commitment to meet future financial needs of the joint venture Matrìca for the year 2021.

Provisions for disposal and restructuring of €21 million mainly refer to the disposal of the Sarroch site following the sale of the "Aromatici" business branch in 2014 (€11 million), to the restructuring of the Porto Marghera site (€7 million) and of the Porto Torres site (€2 million).

Provisions for redundancy incentives of €6 million refer to expenses for ordinary mobility of personnel.

Provisions for legal proceedings of €5 million concerns disputes for revocatory actions.

Provisions for OIL insurance cover of €2 million relate to 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.

Other provisions of €10 million mainly include mobility grants of €5 million, social security contributions and severance indemnities related to the deferred monetary incentives for managers of €3 million.

23. Provisions for employee benefits

Provisions for employee benefits of €73 million are detailed as follows:

(€ million)	December 31, 2019	December 31, 2020
Severance indemnity	44	44
Supplementary healthcare provision for Eni managers and other foreign medical plans	13	14
Foreign retirement plans	1	
Other employee benefit plans	14	15
	72	73

Employee severance indemnities ("TFR") are regulated by Art. 2120 of the Italian Civil Code and represent the obligation, calculated on the basis of actuarial techniques, due to employees of Italian companies at the moment of termination of their employment. The indemnity, to be paid in capital lump sum, is calculated on the basis of the salary paid and revalued annually up until termination of employment. Following the legislative changes introduced with effect from January 1, 2007, the amount of severance indemnity accruing after that date is placed into pension funds, or into the treasury fund held by the Italian Pension Agency (INPS) or, in the case of companies with fewer than 50 employees, it can be placed with the employer. This means that a significant portion of this accruing amount will be classified as a defined contribution plan, because the entity's obligation corresponds exclusively to the payment of contributions to pension fund or to the INPS. The liability for termination indemnities set aside prior to January 1, 2007 continues to be a defined-benefit plan and must be assessed based on actuarial assumptions.

The liabilities related to the supplementary healthcare fund for Eni Group managers ("FISDE") and other foreign healthcare plans are determined on the basis of the contribution paid by the company for retired managers.

Other provisions for long-term employees benefit plans mainly relate to deferred monetary incentives, LTI plan and seniority rewards. Deferred monetary incentive plans are based on the estimate of variable remuneration, related to business performances, to be corresponded to managers who meet predetermined individual targets. Long-term incentive plan (LTI) provides, after three years from the assignment, a variable monetary benefit linked to a performance indicator compared to a benchmark group of oil companies. Seniority rewards are paid upon reaching a minimum period of work in the company and, in Italy, they're paid in kind.

Provisions for employee benefits, measured with actuarial methods, are detailed as follows:

	December 31, 2019				
(€ million)	TFR	Foreign defined benefit plans	FISDE and foreign healthcare plans	Other provisions for long-term employee benefits	Total
Present value of obligations at the beginning of the year	**44**	**35**	**10**	**15**	**104**
Current cost		1		3	4
Interest expense	1				1
Costs for past services			1		1
Remeasurements:	1	3			6
- actuarial gains and losses from changes in demographic assumptions					
- actuarial gains and losses from changes in financial assumptions	1	3			4
- from past experience			2		2
Benefits paid	(2)	(2)		(4)	(8)
Currency exchange differences and other changes		2			2
Present value of obligations at the end of the year (a)	**44**	**39**	**11**	**14**	**110**
Plan assets at the beginning of the year		35	(1)		34
Interest income		1			1
Return on plan assets		3			3
Benefits paid		(2)			(2)
Currency exchange differences and other changes		2			2
Plan assets at the beginning of the end of the year (b)		**39**	**(1)**		**38**
Redemption rights at the beginning of the year					
Redemption rights at the end of the year (c)		**39**	**(1)**		**38**
Assets/liabilities ceiling incurred at the end of the year (d)					
Net liability recognized in the financial statements (a-b±d)	**44**		**14**	**14**	**72**

	December 31, 2020				
(€ million)	TFR	Foreign defined benefit plans	FISDE and foreign healthcare plans	Other provisions for long-term employee benefits	Total
Present value of obligations at the beginning of the year	**44**	**39**	**13**	**14**	**110**
Current cost				3	3
Interest expense		1			1
Costs for past services					
Remeasurements:	2		1	2	5
- actuarial gains and losses from changes in demographic assumptions		(1)			(1)
- actuarial gains and losses from changes in financial assumptions	2	2	1	1	6
- from past experience		(1)		1	
Benefits paid	(2)	(3)		(2)	(7)
Currency exchange differences and other changes		(2)			(2)
Present value of obligations at the end of the year (a)	**44**	**35**	**14**	**17**	**110**
Plan assets at the beginning of the year		**39**			**39**
Interest income		(1)			(1)
Return on plan assets		2			2
Benefits paid		(3)			(3)
Currency exchange differences and other changes		(2)		2	
Plan assets at the beginning of the end of the year (b)		**35**		**2**	**37**
Redemption rights at the beginning of the year					
Redemption rights at the end of the year (c)		**35**		**2**	**37**
Assets/liabilities ceiling incurred at the end of the year (d)					
Net liability recognized in the financial statements (a-b±d)	**44**		**14**	**15**	**73**

Other provisions for long-term employee benefits of €15 million (€14 million as at December 31, 2019) primarily concern deferred monetary incentives for €9 million (same amount as at December 31, 2019) and seniority rewards for €5 million (€4 million as at December 31, 2019).

Costs related to liabilities for employee benefits, determined using actuarial assumptions and recorded in the income statement are detailed as follows:

(€ million)	TFR	Foreign defined benefit plans	FISDE and foreign healthcare plans	Other provisions for long-term employee benefits	Total
December 31, 2019					
Current cost				3	3
Costs for past services and gains/losses for extinction					
Net interest expense (income):					
- Interest expense on the obligation	*1*				*1*
- Interest income on plan assets					
Total net interest expense (income)	1				1
Remeasurement of long-term plans					
Total	**1**			**3**	**4**
- of which included in payroll costs				*3*	*3*
- of which included in financial gains (losses)	*1*				*1*
December 31, 2020					
Current cost				*3*	*3*
Costs for past services and gains/losses for extinction					
Net interest expense (income):					
- Interest expense on the obligation	*1*				*1*
- Interest income on plan assets					
Total net interest expense (income)	1				1
Remeasurement of long-term plans					
Total	**1**			**3**	**4**
- of which included in payroll costs				*3*	*3*
- of which included in financial gains (losses)	*1*				*1*

Costs of defined-benefit plans included in the other comprehensive income/loss section are detailed as follows:

	December 31, 2019					December 31, 2020				
(€ million)	TFR	Foreign defined benefit plans	FISDE and foreign healthcare plans	Other provisions for long-term employee benefits	Total	TFR	Foreign defined benefit plans	FISDE and foreign healthcare plans	Other provisions for long-term employee benefits	Total
Remeasurements:										
- actuarial gains and losses from changes in demographic assumptions							1			1
- actuarial gains and losses from changes in financial assumptions	(1)	3	(2)			(1)	(2)	(1)	(1)	**(5)**
- from past experience							1		(1)	
- return on plan assets		(3)			(3)		2			2
	(1)		(2)		(3)	(1)	2	(1)	(2)	(2)

The main actuarial assumptions used to assess the liability at the end of the year and to determine the cost for the following period are disclosed as follows:

(%)	TFR	Foreign defined benefit plans	FISDE and foreign healthcare plans	Other provisions for long-term employee benefits
2019				
Discount rate	1.5	1.5-2.70	1.5	0.0-1.5
Salary growth-trend rate	2.5	1.5-3.25		
Inflation rate	1.5	1.5-3.75	1.5	0.0-1.5
2020				
Discount rate	0.3	0.3-1.4	0.3	0.0
Salary growth-trend rate	1.8	1.8		
Inflation rate	0.8	0.8-3.1	0.8	0.8

The discount rate was determined on the basis of AA-rated corporate bond yields, for countries where the corresponding market is significant enough, otherwise on the basis of government bonds. Reference demographic charts are the ones used in each country to determine benefits for employees according to IAS 19. Inflation rate was determined on the basis of long-term forecasts issued by national and international financial institutions.

The effects deriving from a reasonably possible modification of the main actuarial assumptions at the end of the year are shown below:

(€ million)

	Discount rate		Inflation rate	Cost of living trend
	Increase of 0,5%	Decrease of 0,5%	Increase of 0,5%	Increase of 0,5%
TFR	(1)	1	1	
Foreign defined benefit plans				
FISDE and other healthcare plans	(1)			1
Other provisions			1	

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

24. Deferred tax liabilities

Deferred tax liabilities are disclosed as follows:

(€ million)	Balance as at December 31, 2019	Provisions	Utilizations	Other changes	Balance as at December 31, 2020
Other deferred taxes	1		(2)	1	

25. Other non-current liabilities

Other non-current liabilities of €19 million refer to deferred income on multi-annual revenues.

26. Shareholders' equity

Shareholders' equity of €222 million (€507 million as at December 31, 2019) is disclosed as follows:

(€ million)	December 31, 2019	December 31, 2020
Share capital	1.365	1.365
Legal reserves	24	24
Other reserves	(14)	(22)
Gains (losses) from previous years	(334)	(557)
Gains (losses) of the year	(534)	(588)
	507	**222**

Net equity amounts to €222 million and decreases by €285 million compared to previous year. The variation was due to the following factors:

- loss of the year of €588 million
- capital injection of €300 million to partially cover previous losses
- change in defined-benefit plans for employees, net of fiscal effect, of €2 million
- change in the reserve for foreign currency translation of €5 million

For further information on capital management, see the paragraph "Financial Risk Management - Capital Management".

Share capital

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

Legal reserve

Legal reserve of €24 million is the same as at December 31, 2019.

Other reserves

Other reserves, negative for €22 million, mainly refer to the part of provisions for employee benefits suspended at equity and to the reserves for foreign currency translation. For further details, see the disclosure note on provisions for employee benefits.

27. Guarantees, commitments and risks

Guarantees

Guarantees are detailed as follows:

	December 31, 2019			December 31, 2020		
(€ million)	Sureties	Other personal guarantees	Total	Sureties	Other personal guarantees	Total
Guarantees	1	151	**152**	...	145	**145**

... Amounts less than €0.5 million

Other personal guarantees of € 145 million are primarily related to indemnities granted to Eni SpA and Eni Rewind SpA, which in turn granted guarantees in favour of third parties on behalf of the Versalis Group companies and to parent company guarantees granted by Versalis SpA in favour of third-party suppliers, on behalf of Versalis International (€ 20 million).

Sureties provided on behalf of others relate to guarantees of less than € 1 million issued in favour of Serfactoring SpA, on behalf of Versalis employees that received financing by Serfactoring SpA.

Effective commitment as at December 31, 2020, amounts to € 121 million.

Commitments and risks

Commitments and risks are detailed as follows:

(€ million)	December 31, 2019	December 31, 2020
Commitments		
Purchase commitments		150
Risks		
Other risks	39	39
	39	189

Purchase commitments for € 150 million reflect the fair value attributed to the remaining 60% shares of Finproject Group. This commitment is linked to a call option held by Versalis and to a put option issued by Versalis in favour of the other shareholder of Finproject, that were contractually defined in a symmetrical manner by the parties and that, pursuant to IFRS 9, configure the case of a synthetic forward, to be measured at fair value through profit and loss. At the balance sheet date, however, not all the suspensive clauses are fulfilled and their occurrence is beyond the control of the parties, therefore the fair value of the derivative instrument is not represented nor in the Income Statement, nor in the Balance Sheet, as its exercise is to considered only potential.

Other risks mainly refer to costs related to the divestment of the Aromatici business of Sarroch in 2014.

Financial risk management

Introduction

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

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

The paragraphs below provide a description of the main financial risks, the methods adopted for the management thereof, as well as details of the exposure to market risks (the indication of the exposure to market risks is based on a sensitivity analysis[21] or through an indication of the Value at Risk results).

[21] The sensitivity analysis is applied to financial instruments with variable interest rates, to instruments measured at fair value (non-hedging derivatives, cash flow edge derivatives, financial assets available for sale) and to financial instruments exposed to exchange rate risk.

Market risk

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

In particular, Eni SpA manages all the Versalis Group's transactions in foreign currency and in derivatives, together with the trading of emission certificates.

In 2020, the Board of Directors of the parent company Eni SpA approved the classification of Versalis' commodity risk as a strategical risk, therefore the company interrupted all derivative contracts on commodities at their natural expiration date. The Company has defined the guidelines on financial activities that require the quantification of the maximum thresholds of exchange rate and interest rate that can be assumed and the definition of the features of the subjects eligible to become a counterparty of Versalis.

Exchange rate risk

Exchange rate risk derives from operations in foreign currencies (in particular, in US dollars) and has impact: on operating results, due to the different materiality of costs and revenues in foreign currencies at the moment when price conditions are determined (economic risk) and to translation of trade receivables/payables denominated in foreign currencies (transaction risk); on consolidated financial statements (net result and net equity), as a result of the translation into euros of assets and liabilities of companies whose financial statements are presented in foreign functional currency. In general, a US dollar gaining strength against the euro has a positive effect on the operating profit of Versalis Group and vice versa. The objective of Versalis management is to minimize the risk of exchange rate risk and to optimize the economic risk related to commodity prices; the risk that a significant part of revenues is in a foreign currency or the risk deriving from currency translation of assets and liabilities of Group companies whose financial statements are presented in a foreign functional currency are usually not covered. Exchange-rate derivatives are measured at fair value on the systematic basis of market prices provided by leading info-providers.

The value at risk technique (VaR) deriving from exchange rate risk positions is calculated daily, by the centralized Eni Finance structure, using the parametric approach (variance/covariance), adopting a 99% confidence level and a 20-day holding period.

Commodity risk

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

For example, it can be estimated that an increase of US $10 per ton of petroleum feedstock would lead to a reduction in the annual operating profit of around €35-40 million.

The change in the Margin, with the same change in brent price, is due to the performance in the sectors in which Versalis operates. The weakening of the automotive sector, which began in 2017, is still ongoing. This is linked to the weakening of elastomeric polymers and partly of styrenes. Despite the drop in sales due to the global pandemic of Covid-19, together with the European directive on the reduction of single use plastics (SUP), unexpected reactions have been observed in sectors such as packaging where demand and prices have been sustained, even for a decrease in imports, while a severe recession has affected other sectors.

Credit risk

Credit risk is the potential exposure of the Group to losses in the event that counterparties fail to fulfil their obligations. Versalis approaches the risks relating to counterparties for commercial transactions with different policies, with respect to those relating to counterparties for financial transactions, in accordance, as far as the latter are concerned, with the centralized finance model adopted.

With regard to the financial counterparty risk in commercial contracts, credit management is entrusted to the responsibility of the business units and dedicated corporate specialist functions, on the basis of formalized evaluation and assignment procedures of the commercial partners, including debt collection and possible litigation management. At Corporate level, the guidelines and methods for the quantification and control of customer risk are defined.

In 2020, the dynamics of trade receivables from third parties showed a downward trend compared to the previous year, with a substantially stable exposure during the course of the year. The average exposure in 2020 is lower than in 2019, just as the average turnover in 2020 is lower than in the previous year.

The amount of sales to factors was lower than in the previous year, but still allowed the reduction of the accounting exposure in correspondence with the quarterly closings.

Litigations have significantly decreased compared to 2019. The average intra-group exposure showed moderately lower values, compared to a slight decrease in the average turnover compared to the previous year.

Liquidity risk

Liquidity risk represents the risk that, due to the inability to find new funds (funding liquidity risk) or to liquidate assets on the market (asset liquidity risk), the company is unable to meet its payment commitments, determining an impact on the economic result in the event that the company is forced to bear additional costs to meet its commitments or, as an extreme consequence, an insolvency situation that puts going concern at risk.

The risk management objective of Versalis SpA is to set up, within the "Financial Plan", a financial structure which, consistent with the business objectives and with the limits defined by the Board of Directors (in terms of maximum percentage level of leverage and minimum percentage levels of the ratio between medium/long-term debt on total debt and that between fixed rate debt on total medium/long-term debt), guarantees an adequate level of liquidity for the whole Group, minimizing the relative opportunity cost and maintaining a balance in terms of duration and composition of the debt.

Versalis SpA is wholly owned by Eni SpA, to whose management and coordination it is subject and has the right to access, without contractually defined credit limits, to the financial resources granted by Eni SpA, based on existing agreements with the latter. Eni SpA therefore grants its financial support by renewing the credit lines periodically, without applying covenants or penalties, depending on the cash needs of Versalis SpA.

The following tables show the amounts of payments contractually due relating to financial debts, including interest payments as well as the time horizon of disbursements for commercial and other debts.

Future payments against debt

	Year of maturity						
(€ million)	2021	2022	2023	2024	2025	Beyond	Total
Short-term debt	995						995
Long-term debt including current portion	9	9	210	10	209	3	450
Interest expense on financial debt							

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

Future payments against trade and other payables

	Year of maturity						
(€ million)	2021	2022	2023	2024	2025	Beyond	Total
Commercial debt	575						575
Advances and other payables	163						163
	738						738

Future payments against contractual obligations

In addition to financial and trade payables shown in the Balance Sheet, 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 Versalis Group in future years against the main existing contractual obligations.

	Year of maturity						
(€ million)	2021	2022	2023	2024	2025	Beyond	Total
Costs (charges) relating to environmental provisions	14	6	6	6	6	10	48
Other commitments	425	264	46	14	4	5	758
	439	270	52	20	10	15	806

Other commitments of €758 million essentially include undertakings to purchase supplies of petrochemical products to be utilized in the production process.

Investment commitments

Over the next few years, Versalis Group plans to carry through a program of capital expenditure of €45 million. The table below shows the time schedule for the investments relating to the most significant committed projects. A project is committed when it has obtained the necessary approval from management and when the related purchase contracts have been awarded or are being finalized.

	Year of maturity						
(€ million)	2021	2022	2023	2024	2025	Beyond	Total
Other commitments	43	2					45

Capital management

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

Fair value of financial instruments

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

- Receivables included in current assets: the market value of trade, financial and other receivables falling due within one year are estimated to be practically equivalent to the respective carrying amount because of the short interval between the origin of the receivable and its due date.
- Financial payables included in non-current liabilities: the market value of financial payables falling due after one year, including the short-term portion, is estimated to be substantially equal to the book value, because they were entered into at fixed market rates.
- Trade, financial and other payables included in current liabilities: the market value of trade, financial and other payables falling due within one year is estimated to be practically equivalent to the book value because of the short interval between the origin of the payable and its due date.
- Other non-current financial assets and liabilities: other non-current financial assets and liabilities are of 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, Versalis Group's financial instruments carried at fair value as at December 31, 2020 regard "level 2" derivative contracts. During the year, there were no transfers between the different fair value hierarchy levels.

Environmental regulations

Environmental, health and safety risks related to Versalis operating activities are disclosed in the paragraph "Risk and uncertainty factors - operating and associated risks in terms of HS&E" in the Management Report. With regard to environmental risks, at present Versalis currently does not foresee any particularly significant negative effects on the financial statements arising from compliance with environmental legislation, taking into account the steps already taken, the insurance policies signed and the provisions for risks set aside. However, we cannot exclude the risk that Versalis may incur further costs or liabilities in the future, as it is currently impossible to foresee the effects of future developments considering the following: (i) the possibility of as yet unknown contamination; (ii) the results of the ongoing surveys and the other possible effects of statements required by Italian Decree No. 152/2006; (iii) new developments in environmental regulation; (iv) the effect of possible technological changes relating to future remediation; and (v) the possibility of litigation and the difficulty of determining the eventual consequences, also considering the responsibility of other parties and eventual insurance indemnity. As explained in greater detail in the section "Accounting policies - grants", the environmental costs of actions to be taken at the manufacturing facilities acquired by Versalis Group through the business conferral by Eni Rewind SpA are covered by a specific warranty issued by the latter.

Emission trading

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

The European Emission Trading Scheme (ETS) has been operational since 1 January 2005, in relation to which on November 27, 2008 Resolution 20/2008 was issued by the National Committee for the Management and Implementation of Directive 2003/87 / EC on the assignment to existing plants of emission permits for the five-year period 2008-2012. Note the changes made by the National Committee for the Management and Implementation of Directive 2003/87 / EC, at the request of the European Commission, which have expanded the scope of the Directive with respect to what is in force for the period 2005-2007, extending it to some types of combustion plants including those present in steam cracking plants (see also the paragraph "Commitment to sustainable development" of the Management Report).

Versalis Group, as at 31 December 2020, based on the estimates of the emissions made and the purchases for the year, has an overall position of excess emission rights (the so-called "long position"); management, therefore, in compliance with the accounting criteria adopted, will proceed to the recognition of the related income at the time of the subsequent realization of the excess rights through their sale.

Litigations

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

Porto Torres dock. In 2012, the Court of Sassari, at the request of the Prosecutor, ordered the conduct of an evidentiary accident relating to the operation of the hydraulic barrier of the Porto Torres site (managed by Eni Rewind SpA) and its ability to prevent the dispersion of contamination, present within the site, in the stretch of sea in front of the plant. The managing directors of Eni Rewind SpA and Versalis SpA were investigated, as well as some other managers of the two companies, for whom the Prosecutor had requested the indictment. The Court authorized the summons of the civil responsible Eni Rewind SpA and Versalis SpA. The civil parties have requested the settlement of the environmental damage: the Ministry and the Sardinia Region for over € 1.5 billion, while the other civil parties have recovered to the judge's equitable assessment. In July 2016, the Court acquitted the suspects Eni Rewind SpA and Versalis SpA for the crime of environmental disaster and disfigurement of natural beauty (Gulf of Asinara), sentencing 3 Eni Rewind SpA executives to one year and a suspended sentence for the crime of environmental disaster limited to the period August 2010/January 2011. The defense has appealed. The appeal proceeding is ongoing.

Preventive seizure at the Priolo Gargallo plant. In February 2019 the Court of Syracuse, at the request of the Public Prosecutor, in the context of an investigation concerning the offenses involving the hazardous throw of things and environmental pollution, by the former plant manager, of Versalis pursuant to Legislative Decree 231/01 and the other industries of the Industrial Pole, relating to the emissions produced by the industrial complex of Priolo Gargallo, ordered the preventive seizure, allowing the faculty of use of the Versalis plants which, on the basis of the technical findings formulated by the appointed Technical Consultants by the Prosecutor's Office, have conveyed and diffused emission points that do not comply with the Best Available Techniques (BAT). The provision in question contains some passages relating to the relationship between the BAT and the Integrated Environmental Authorizations (AIA) issued which, according to the technical assessments of the public prosecutor's consultants, would not be legitimate as they are inconsistent with regulatory requirements. Versalis SpA has already been carrying out the plant improvements requested by the Public Prosecutor and his consultants for a few years and for this reason the measure in question was challenged before the Court of Review which on March 26, 2019 ordered the release from seizure of the plants with the cancellation of the decree. In March 2021, a notice of conclusion of the preliminary investigations was served by the Syracuse Public Prosecutor's Office which, as regards Versalis and the former plant manager, confirms the hypothesis of offense previously formulated.

Environmental crime investigation (Mantua Site). The Mantua Public Prosecutor's Office is proceeding against Eni Group companies for environmental crimes related to the SIN of Mantua; The Prosecutor notified in August and in September 2020 the conclusion of the preliminary investigations relating to criminal proceedings 778/18 RGNR, in which other criminal proceedings were brought together, including case 956/18 RGNR and criminal case 780 / 18 RGNR. The Public Prosecutor's Office assumes, depending on some specific areas of the SIN, the crimes of unauthorized waste management, environmental damage/pollution, failure to communicate environmental contamination to Bodies and failure to reclaim. Versalis, Eni Rewind and Edison are under investigation pursuant to Legislative Decree 231/01. Three executives of Versalis are also under investigation. The defensive activity continues in favor of Eni companies and their employees. Defensive briefs describing the overall environmental interventions carried out by Eni companies and their correct operations were filed, we are awaiting developments.

The Province of Mantua has identified Edison as the subject wholly or largely responsible for the contamination of the site, with the consequent burden of intervening for the remediation. This assessment led to a large and complex administrative dispute before the Brescia Regional Administrative Court, which ended in first instance with sentence no. 802/2018, which rejected all the appeals filed by Edison against the ordinances of the Province.

Against the appeal proposed by Edison, the Council of State ruled on April 1, 2020 with sentence no. 2195/2020. The second degree administrative judge rejected the appeal, establishing in particular that: i) the rules on environmental protection also apply to distant past contaminations and - as a result of this application - the obligation to carry out the remediation must be placed on burden of the subject who in the past caused such contamination; ii) the provisions of the contract for the sale of the business unit or those of the settlement agreement (of 2003) are not relevant as they do not have an extinguishing effect (on the transferring subject, even after the sale, remain the obligations that arose before the transfer); iii) as regards to environmental matters, the subject identified as responsible for the pollution remains obliged to carry out the remediation, even if, after the episodes of contamination, it has transferred the company branch to third parties (the transfer of responsibility occurs only in the case of universal succession, for example in the case of incorporation); iv) the transaction between Edison and the Ministry of the Environment concerns only the environmental damage caused to the Sisma canal and not to the entire industrial site or to other bodies of water other than the canal.

Following the sentence of the Council of State, challenged by Edison in the Supreme Court and by revocation, Eni Group companies involved in the litigation have decided to lodge an application with the Ministry of the Environment for the transfer to Edison of all the Decrees and proceedings initiated for the areas affected by the provincial investigations.

In June 2020, the Ministry of the Environment ordered Edison's takeover as the subject responsible for carrying out the remediation work in area R1, R2 and B+I. In particular, the Ministry: i) by ordering Edison's takeover, gives a precise timeline for the start of the remediation works as already planned, without allowing any change; ii) establishes that Edison's takeover determines the loss of Eni's obligation to keep the sureties open; iii) underlines that the 2003 transaction (the Enimont transaction) has no relevance and is not enforceable against the Public Administration.

For the "L" area, owned by Versalis, the Ministry acknowledged that Edison's takeover was not possible, as the works have already been completed, but acknowledged the reimbursement of the related costs. These takeover measures, together with the judgments obtained at the administrative stage, represent an essential turning point within the approach taken by Eni with respect to roles and responsibilities on the environmental liabilities of the Montedison derivation sites through the Enimont operation.

Edison filed an appeal against the aforementioned measures of the Ministry of the Environment, without suspension, but with a request for referral to the Constitutional Court and the EU Court of Justice. The hearing has not yet been set.

The company formally sent Edison the technical documentation necessary for the takeover which, following the extension granted to Edison by the Ministry of the Environment, was scheduled for December 31, 2020.

The transfer of contracts, of authorizations, of the availability of the areas (on loan) and of the instrumental goods for remediation activities, as well as the contractual instruments to operate in the areas owned by Eni Rewind, was carried out following the outcomes of various conversations and meetings with Edison. Thus, on November 2, 2020 the company delivered the R2, R1 Cratere and former Sala Celle areas to Edison. An "O&M" contract was also signed for the continuation of activities by Eni Rewind in the Collina area on behalf of Edison.

Lastly, with sentence no. 2138/2021, published on March 12, 2021, the Council of State declared inadmissible the appeal lodged by Edison for the Revocation of the sentence of the Council of State no. 2195/2020, also ordering the applicant to pay the costs of the litigation.

<u>Investigation into environmental crime (Brindisi Site).</u> On May 18, 2018, the manager of the Versalis plant in Brindisi and two other employees were summoned by the carabinieri of the Noe in order to provide brief testimonial information regarding two upsets which occurred in April 2018 and which led to the activation of the factory torch system. The company has collaborated with the judicial authorities to provide useful information to exclude that such events may have had a negative and significant impact on air quality. Moreover, the company is continuing with the analysis on the available data, as well as carrying out some important projects for the minimization of any detrimental effect, even if only visual, of the flaring phenomenon with the construction of a new torch plant on the ground. At the end of May 2020, in conjunction with a scheduled shutdown of the Versalis plant, anomalous

concentrations of benzene and toluene were found, underlying an order by which the mayor of Brindisi ordered the shutdown of the cracking plant. The order was issued without any technical checks on the real correlation between the peaks detected and the activities in progress at the plant. After a close discussion with the competent authorities, the order was revoked. However, the Public Prosecutor's Office acquired information and documents, also produced by the company, on the subject underlying the aforementioned trade union order in order to verify, also from a criminal law point of view, any links and responsibilities. The company is providing all the competent local authorities, including the Public Prosecutor's Office, with all the information and data useful for the correct reconstruction of the facts.

Bay of Augusta. With the 2005 Service Conferences, the Ministry of the Environment prescribed that companies belonging to the petrochemical complex of Priolo, including Eni Rewind SpA, Polimeri Europa SpA (now Versalis SpA) and Eni (R&M), to carry out safety measures emergency with removal of the sediments of the Augusta harbor against the pollution found there, in particular due to the high concentration of mercury, generally attributed to the industrial activities carried out in the petrochemical area. The aforementioned companies challenged the Ministry's documents for various reasons, objecting in particular to the methods by which the rehabilitation interventions were designed, and the characteristics of the Bay acquired. This resulted in various administrative proceedings brought together at the TAR which, in October 2012, accepted the appeals lodged by the companies present on the site, in relation to the removal of sediment from the Bay and the realization of the physical barrier. In September 2017, the Ministry notified all co-settled companies of a formal notice and formal notice to start the Bay environmental remediation and restoration within 90 days. The deed, which the co-settled companies challenged in December 2017, constitutes a formal notice for the purpose of environmental damage. The Administrative Justice Council (GIC) for the Sicilian Region has ruled on the appeals pending against several sentences of the TAR and in essence confirmed the cancellation of all the administrative provisions subject to the dispute. The prescriptive framework for companies therefore becomes clear and definitive with this ruling. The cancellation of the provisions has, inter alia, retroactive effect at the time of their adoption and therefore allows to exclude the risk of contesting any breaches. In June 2019, a permanent technical table was set up at the Ministry of the Environment for the reclamation of the Augusta roadstead after which the related report was made public. The report refers to the warning of 2017, confirms the thesis of the Bodies on the liability of the companies settled for the contamination of the Bay and states a failure to comply with the same warning by the companies that would also have been communicated to the Public Prosecutor for the consequent actions. In agreement with all the business lines concerned and in coordination with the other companies present, an appeal is underway for this report and further parallel internal technical insights for defensive purposes will be executed. Also following the outcome of a meeting with the Minister at the site, Eni Rewind made itself available, with the Ministry of the Environment, to start a discussion table with the involvement of all the interested parties and aimed at identifying any appropriate measures on the new environmental data acquired by CNR/ISPRA during 2019.

Municipality of Melilli. In May 2014, Eni Rewind SpA and Versalis were served with a writ of summons by the Municipality of Melilli for alleged environmental damage related, according to it, to the management and illegal disposal of waste and illegal landfill. In particular, the act frames the responsibility of Eni Rewind SpA and Versalis SpA in their role as waste producer and client as, in the context of the criminal proceedings that arose in the years 2001/2003 around the so-called "Red Sea" case, the origin of hazardous waste (in particular waste with high concentrations of mercury and abandoned railway sleepers) would have been ascertained from the industrial sites of Priolo and Gela. This waste would have been illegally disposed of at an unauthorized landfill owned by a third party (about 2 km from the town of Melilli). The claim amounts to €500 million, jointly and severally requested by the two Group companies and the landfill operator. With a sentence published in June 2017, the Judge accepted all the defensive claims of Eni Rewind SpA and Versalis SpA considering the requests of the Municipality inadmissible due to a lack of active legitimation and in any case unfounded or unproven. In April 2018 the appeal proposed by the Municipality was rejected. An appeal is pending before the Court of Cassation for revocation.

Following the outcome of the referral trial, issued after the one in the Supreme Court, regarding court fees, in November 2019 the Court of Appeal of Catania jointly ordered Eni Rewind and Versalis to reimburse the liquidated court fees in favor of the Municipality of Melilli. In January 2020, the Company made the payment. Following the chamber hearing in July 2020, the Court of Cassation, with an order of October 2020, declared inadmissible the counterclaims presented by Eni Rewind and Versalis (presented following notification of the main appeal by Messrs. Spataro and Serra, the latter appeal also declared inadmissible as well as belated) with the consequent condemnation for the Eni companies to pay the costs of litigation, to date, fully liquidated.

Tax litigations

Registration tax

On February 17, 2011 the Siracusa Tax Office served a demand for payment of registry tax of €731 thousand relating to the sale of shares in the consortium Priolo Servizi; together with other companies in the consortium, the company appealed to the Tax Commission and has not set accrued any provisions, having reasonable confidence in a positive outcome for the dispute. The CTUs appointed by the judge deposited their report; the Provincial Tax Commission of Syracuse with sentence no. 1302/2018 ordered the acceptance of appeals and the annulment of the contested deeds; the National Tax Authority (Agenzia delle Entrate) has filed an appeal and the company has filed the counterclaims. In 2019, the tax paid pending judgment was reimbursed.

The Milan Tax Office served a demand for payment of higher registry, mortgage and cadastral tax of approximately €1 million relating to the sale of the TAF business unit in Brindisi to Eni Rewind SpA. The company, in conjunction with the jointly responsible Eni Rewind, having failed to settle the dispute using the proposed tax settlement procedure, intends to appeal; the estimated cost is approximately €537 thousand. The Milan Provincial Tax Commission with ruling no. 2530/8/16 filed on 16/03/2016 dismissed the application of the company, who promptly filed an appeal and request for suspension of enforceability of the judgment. The Regional Tax Commission of Milan, by order, n. 1677/2016 dated 14/12/2016, has granted the suspension of the payment of taxes on a provisional basis (equal to two-thirds of the ascertained sums) behind issuance of a specific guaranty. The hearing was held on 25 October 2017. With sentence n. 4806/2018 filed on 08/11/2018 the Lombardy CTR rejected the appeal confirming the first instance sentence.

Following the notification of a settlement notice for the collection of taxes, penalties and interest, and considering the willingness of the companies to avail themselves of the definition of pending tax disputes with the payment of the only taxes due without penalties and interest provided for by art. 6 of Decree 119/2018, in agreement with the National Tax Authority (Agenzia delle Entrate), the residual taxes due for €337 thousand were paid and a request for suspension of the payment of penalties and interest was submitted pending the publication of the implementing decrees provided for in the aforementioned Decree 119/2018. A telematic request was submitted for settling the dispute and the National Tax Authority did not notify any refusal measure within the terms of law, therefore the dispute is settled.

Transfer prices for intragroup transactions

On June 5, 2020 the Company was notified of Questionnaire no. Q00178 / 2020 of 05.03.2020, issued by the National Tax Authority - Regional Directorate of Lombardy - Large Taxpayers Office, pursuant to Articles 32 of the Presidential Decree n. 600/73, for the purpose of controlling transfer prices for intragroup transactions that took place in the year ended December 31, 2015.

The first cross-examination with the Regional Directorate of Lombardy took place on December 12, 2020, regarding the results of the control carried out on the documentation produced on July 9, 2020.

During the cross-examination, the Directorate communicated that, from the examination of the overall documentation produced, critical issues emerged in relation to some intragroup transactions, in particular, as reported in the attached Examination Report, the critical issues concern the following transactions:

- Sale of raw materials to Dunastyr: the Office agrees with the Party's choice to use as a basis in the calculation of the price formula for the sale of raw materials the evidence of the price lists for the European market, published by independent operators such as ICIS (Independent Commodity Information Service) but does not agree with the choice of using a multiplier lower than one (0.885), which actually results in a discount on the list price applied by the independent operator, as no supporting documentation or motivation is capable of justifying this reduction. The Office therefore considered it correct to bring the multiplier used by the Company back to at least one, thereby neutralizing the discount applied.

- Sale of finished products to Versalis International: the Office agrees with the Party in the use of the Transactional Net Margin Method "TNMM", in the choice of the tested foreign party (VI) as a functionally less complex subject and in the adoption as a profit level ROS (Return of Sales) indicator. Since the Company has not provided a benchmark to demonstrate compliance with the free competition value of the transaction in question, the Office used the results of its own analysis conducted for the chemical sector in the wholesale branch with the 2013-2015 observation period. As a result of this analysis, it was found that the VI ROS of 6.35% for the 2015 tax period was higher than the third quartile of the identified range (2.72%). The Office therefore reduced the profitability to the median value (2.06%).

During the meeting, the Officials anticipated that the higher taxable amount deriving from the aforementioned criticalities amounts to 14.5 million euros for Dunastyr and 2.7 million euros for Versalis International, therefore, against positive components declared in 437 million euro, the higher taxable amount ascertained is less than 10% of the same and the relief will not have repercussions in the criminal law field.

Considering the current legislation, the Office will issue the Notice of assessment for IRES purposes by the end of the year, while the subsequent notification will take place, barring any further extensions, by December 31, 2022.

In the meantime, it will be possible to analyze the findings and continue the cross-examination with the Office to reach, if possible, a review of the assessment at the time of accession. In any case, the higher ascertained income would be covered by the Company's tax losses transferred to the Group Consolidated Tax regime.

Income statement

28. Revenues

The main items that compose the income statement are detailed below. The most significant changes in revenues are disclosed in the "Comments on financial results" of the Management Report.

Net sales from operations

Net sales from operations are detailed in the table below:

(€ million)	December 31, 2019	December 31, 2020
Sales of petrochemical products	3.985	3.259
Other services	136	124
Sales of other products	2	4
	4.123	**3.387**

The breakdown of net sales among business lines is shown in the section "Comments to financial results" of the Management Report.
The geographical breakdown of net sales from operations is the following:

(€ million)	December 31, 2019	December 31, 2020
Italy	1.985	1.588
Rest of Europe	1.758	1.433
Asia	226	232
Americas	94	89
Africa	52	44
Other areas	8	1
	4.123	**3.387**

Other income and revenues

Other income and revenues are detailed as follows:

(€ million)	December 31, 2019	December 31, 2020
Recovery of other costs and expenses	36	52
Income from emission rights	11	13
Income from sale of Energy Efficiency Certificates	16	9
Insurance compensations	23	7
Income from investment properties	3	3
Licence rights and royalties	7	2
Sale of precious metal	8	1
Contractual penalties	3	1
Other	8	8
	115	**96**

The recovery of other costs and expenses refers to the chargeback of operating expenses to Eni Rewind SpA in virtue of the guarantees issued at the time of conferral in 2002 of the "Strategic Chemical Activities" business unit (€26 million, for further details see the paragraph "Accounting policies - Grants") and to the chargeback of sundry costs and expenses to other companies working at the Group's production sites (€21 million).

29. Operating expenses

The most significant items that compose operating expenses are detailed as follows:

Purchases, services and other costs

Purchases, services and other costs are disclosed in the table below:

(€ million)	December 31, 2019	December 31, 2020
Production costs - raw, ancillary and consumable materials and goods	2.878	2.390
Service costs	1.214	1.129
Other expenses	55	56
Leasing and rental charges	22	21
Increase (decrease) in fixed assets for internal works	3	4
Net provisions for risks and charges	(8)	(8)
Changes in inventories	(25)	(150)
	4.139	**3.442**

Costs for raw materials, ancillary materials, consumables and goods amounting to €2.390 million mainly refer to the purchase of Virgin Nafta and other raw materials used in the production cycle.

Service costs of €1.129 million mainly refer to costs for utilities (€418 million), logistics and transport (€219 million), maintenance (€214 million), ICT, supplying and administrative centralized services (€70 million) and industrial services (€18 million).

Other expenses of €56 million mainly include indirect taxes.

Information on provisions for risks and charges is provided in Note 22.

Leasing and rental charges of €21 million mainly include expenses for concessions and licenses (€13 million), leases of land and buildings (€9 million), net of capitalizations (€6 million), and rentals (€2 million).

Information on changes in inventories is provided in Note 4.

Non-capitalisable research and development costs amount to €42 million (unchanged from previous year).

Payroll and related costs

Payroll and related costs are detailed as follows:

(€ million)	December 31, 2019	December 31, 2020
Payroll	283	283
Social security contributions	81	80
Provisions for severance pay (TFR)	15	15
Costs related to defined benefit plans and defined contribution plans	5	5
Other costs	3	4
	387	**387**
Less:		
Increase in fixed assets for internal work	(9)	(8)
	378	**379**

Expenses for defined-contribution and defined-benefit plans are analyzed in Note 23.

Compensations 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 as at December 31, 2020 amount to €5 million and are disclosed as follows:

(€ million)	December 31, 2019	December 31, 2020
Payroll	4	4
Costs related to employees benefits	2	1
	6	5

The average number of employees, splitted up by category, is the following:

	December 31, 2019	December 31, 2020
Senior management	114	111
Middle management and staff	3.289	3.351
Workers	1.872	1.834
	5.274	5.296

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

30. Other operating income (expenses)

Other operating income (expenses) are detailed as follows:

(€ million)	December 31, 2019	December 31, 2020
Income from commodity derivatives	2	1
Expenses from commodity derivatives	(4)	(16)
	(2)	(15)

Other operating expenses of € 15 million (€ 2 million in 2019) relate to the recording in the income statement of net expenses incurred on commodity derivatives that do not fulfil the formal requisites necessary to be classified as "hedges" in accordance with IFRS 9.

31. Depreciation, amortization and impairment

Depreciation, amortization and impairment include the following:

(€ million)	December 31, 2019	December 31, 2020
Depreciation and amortization:		
- Property, plant and equipment	73	80
- Intangible assets	9	1
- Lease assets	7	5
	89	**86**
Impairment losses (restatements):		
- Property, plant and equipment	(9)	70
- Intangible assets	98	(24)
- Lease assets	14	
	103	**46**
	192	**132**

Information on restatements of tangible, intangible and right of use assets is disclosed in Note 8.
Depreciation ratios of tangible assets are shown in Note 7, while ratios of intangible assets are shown in Note 9.

32. Financial income (expenses)

Financial income (expenses) is detailed as follows:

(€ million)	December 31, 2019	December 31, 2020
Financial income	23	36
Financial expenses	(17)	(41)
Derivatives	1	(2)
	7	**(7)**

The net amount of financial income (expenses) is analyzed below:

(€ million)	December 31, 2019	December 31, 2020
Financial income (expenses) on net financial debt		
- Interest and other expenses towards banks and other lenders	(6)	(9)
Positive (negative) exchange rate differences		
- Positive exchange rate differences	21	34
- Negative exchange rate differences	(20)	(34)
Derivatives	1	(2)
Other financial income and expenses		
- Capitalized financial expenses	3	3
- Interest and other income on financial receivables and securities related to operations	11	2
- Other financial income (expenses)	(3)	(1)
	7	**(7)**

Net income (expenses) on derivatives relate to derivative contracts that do not meet the formal conditions to be classified as "hedges" as specified by IFRS 9 and, therefore, the related fair value changes are stated in the income statement. Net income on derivative instruments of €1 million refers to contracts on currencies.

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

Interest and other charges on financial receivables and securities used in operating activities of €2 million consist of interests on the financial credit granted to Matrìca.

33. Income (expenses) from investments

Income (expenses) from investments are detailed as follows:

(€ million)	December 31, 2019	December 31, 2020
Effects from measurement at equity method	(33)	(49)
Other net income (expenses)	(18)	(25)
	(51)	**(74)**

Effects from measurement at equity method are analyzed in Note 11.

Other net expenses of €25 million relate to the commitment to meet financial needs of the Joint Venture Matrìca SpA.

34. Income taxes

Income taxes are detailed as follows:

(€ million)	December 31, 2019	December 31, 2020
Current taxes:		
- italian companies	(18)	(3)
- foreign companies	2	2
	(16)	**(1)**
Net deferred (prepaid) taxes:		
- italian companies	38	1
- foreign companies	(10)	18
	28	**19**
Total income taxes	**12**	**18**

Net deferred tax assets are disclosed in Notes 14 and 24.

The difference between the theoretical tax rate and the effective rate for the last two periods is detailed as follows:

(%)	2019	2020
Theoretical tax rate	**27,0**	**25,9**
Items increasing (decreasing) compared to theoretical tax rate:		
- (impairments) restatements of prepaid taxes	(18,2)	(20,2)
- income (expenses) from investments	(5,9)	(2,5)
- permanent tax differences	(2,8)	(3,4)
- different tax burden on foreign companies	(2,6)	(0,7)
- benefits from the application of tax relief rules	0,4	0,6
- previous years taxes	0,6	0,6
- other changes	(0,9)	(3,5)
Total changes	**(29,4)**	**(29,1)**
Effective tax rate	**(2,4)**	**(3,2)**

An analysis of the temporary differences between statutory and fiscal values is provided in Note 14.

35. Related party transactions

Transactions with related parties carried out by Versalis SpA mainly regard the trading of goods, the provision 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, as well as with its own non-consolidated subsidiaries and associated companies, and with other companies owned or controlled by the Italian State. All of the transactions are part of core operations and take place at arm's length, that is, at conditions that would have been applied by independent parties on the open market, and are carried out in the best interest of the Versalis Group.

The main transactions were carried out with the following companies:

a) Eni SpA: purchase of petroleum feedstock and virgin naphtha for crackers plants; purchase of natural gas; sale of basic chemicals and transactions of an administrative and financial nature, procurement and information technology services, legal services, research services and services for personnel, treasury services and administrative activities;
b) Ecofuel SpA (controlled by Eni SpA): sale of olefin cycle products, transactions deriving from rental of the "MTBE/ETB and BTH" business unit in Ravenna;
c) Eni Finance International SA (controlled by Eni International Holding BV): financial transactions;
d) Eni Insurance DAC (controlled by Eni SpA): insurance cover for risk;
e) EniPower SpA (controlled by Eni SpA), EniPower Mantova SpA and Società EniPower Ferrara Srl (both controlled by EniPower SpA): purchase of electricity and steam; provision of auxiliary and general services;
f) EniServizi SpA (controlled by Eni SpA): provision of general services;
g) Eni Rewind SpA (controlled by Eni SpA): marketing of products, purchase and sale of products and exchange of services and utilities;
h) Eni Petroleum Co Inc (controlled by Eni SpA): marketing of products;
i) Eni Trading & Shipping SpA (controlled by Eni SpA): transport by sea, purchase and sale of raw materials of basic chemical products, as well as derivative contracts on commodities
j) Matrìca SpA (joint venture): financing of assets held for operating activities, industrial services;
k) Raffineria di Gela SpA (controlled by Eni SpA): transactions deriving from rental of the "Polyethylene" business unit in Gela;
l) Saipem SpA: provision of goods and services related to the construction and refurbishment of plants;
m) Priolo Servizi Scarl (associated company of Versalis SpA): supply of general and auxiliary services at sites where Versalis SpA is also present;
n) Ravenna Servizi Industriali ScpA (associated company of Versalis SpA): supply of general and auxiliary services at sites where Versalis SpA is also present;
o) Servizi Porto Marghera Scarl (associated company of Versalis SpA): supply of general and auxiliary services at sites where Versalis SpA is also present;
p) Gruppo Ferrovie dello Stato: rail transport;
q) GSE - Gestore dei Servizi Energetici: incentives relating to the production of electricity from renewable sources.

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

(€ million)

	December 31, 2020				2020					
					Expenses			Revenues		
Company name	Trade receivables and other assets	Trade payables and other liabilities	Derivatives recorded among assets	Derivatives recorded among liabilities	Goods	Services	Other operating expenses	Goods	Services	Other
Associated companies										
Brindisi Servizi Generali Scarl	1					7				
IFM Ferrara ScpA		1				4				
Priolo Servizi Scarl		1				18				
Ravenna Servizi Industriali ScpA	4	3				10		1		1
Servizi Porto Marghera Scarl	1	2				22		1	2	1
Subtotal	**6**	**7**				**61**		**2**	**2**	**2**
Joint ventures										
Matrìca SpA	14								5	
LOTTE Versalis Elastomers Co Ltd	3	1			4					2
Subtotal	**17**	**1**			**4**				**5**	**2**
Parent company										
Eni SpA	62	136	1		160	362	(15)	10	67	7
Subtotal	**62**	**136**	**1**		**160**	**362**	**(15)**	**10**	**67**	**7**
Eni Group companies										
CE P.I.M. SpA						1				
Banque Eni SA	2									
Ecofuel SpA	8	3			18			49	8	1
Eni Congo SA	4							7	2	
Eni Corporate University SpA						1				
Eni finance international SA	3									
Eni Gas e Luce SpA										1
Eni gas & power France SA		1				1				
Eni Insurance DAC	10	3				11				6
Eni Ghana Exploration & Production Ltd	1							4		
Eni Mediterranea Idrocarburi SpA	1							1	1	
Eni Mexico S. de RL de CV	1							5	2	
Eni Petroleum Co Inc	7	1				1		16		
EniPower SpA	2					1			7	1
Societa' EniPower Ferrara Srl						1				
EniPower Mantova SpA	1								4	
EniProgetti SpA		1				2				
EniServizi SpA		1			1	6				
Eni Trading and Shipping SpA	10	83			635	104		58		13
Ing. Luigi Conti Vecchi SpA	1	1			9				1	
Raffineria di Gela SpA		1								
Serfactoring SpA	1	10								
Eni Rewind SpA	133	89			2	50			3	27
Subtotal	**185**	**194**			**665**	**179**		**140**	**28**	**49**
State-owned or State-controlled companies										
Gruppo Ferrovie dello Stato		3				4				
Gruppo Terna	1								1	
GSE - Gestore Servizi Energetici	4									9
Saipem SpA		17			1	5				
Subtotal	**5**	**20**			**1**	**9**			**1**	**9**
Total	**275**	**358**	**1**		**830**	**611**	**(15)**	**152**	**103**	**69**

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

(€ million)	December 31, 2020		2020		
Company name	**Receivables**	**Payables**	**Expenses**	**Revenues**	**Derivatives**
Parent company					
Eni SpA	29	1.268	(8)		(2)
Eni Group companies					
Banque Eni SA	2				
Serfactoring SpA	1				
Eni finance international SA	3	159			
Eni Finance USA Inc		4			
Joint ventures					
Matrica SpA	4			2	
Total	**39**	**1.431**	**(8)**	**2**	**(2)**

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

(€ million)	December 31, 2019			December 31, 2020		
	Total	Related parties	%	Total	Related parties	%
Cash and cash equivalents	42	26	61	62	33	53
Trade and other receivables	652	234	36	708	236	33
Other current assets	2	1	63	3	2	67
Other financial assets	11	11	99	6	6	100
Other non-current assets	1			1		
Short-term financial liabilities	1.028	1.021	99	995	983	99
Trade and other payables	782	384	49	738	358	49
Other current liabilities	10	4	35	10	1	10
Long-term financial liabilities (including short-term portion)	60	57	95	450	448	100

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

(€ million)	December 31, 2019			December 31, 2020		
	Total	Related parties	%	Total	Related parties	%
Revenues from operating activities	4.123	332	8	3.387	256	8
Other income	115	81	70	96	69	72
Purchases, services and other costs	4.140	(2.009)	49	(3.442)	(1.443)	42
Payroll and related costs	378	0		(379)		
Other operating income and expenses	(2)	(2)	100	(15)	(15)	100
Financial income	23	2	11	36	2	6
Financial expenses	17	(3)	17	(41)	(8)	20
Gains/losses on derivatives	1	1	100	(2)	(2)	100
Expenses from investments	(51)	(51)	100	(74)		

The main cash flows with related parties are disclosed in the following table:

(€ million)	2019	2020
Revenues and other income	412	325
Expenses and other costs	(2.010)	(1.457)
Changes in trade and other receivables and in other assets	34	3
Changes in trade and other payables and in other liabilities	7	(29)
Dividends, interest and taxes	(1)	(8)
Net cash flow from operating activities	**(1.558)**	**(1.166)**
- investments and securities	(76)	(139)
- financial receivables	9	5
- changes in payables and receivables related to investment activities	(15)	50
Cash flow from investments	(82)	(84)
Net cash flow from investment activities	**(82)**	**(84)**
- Changes in financial debt	434	353
- Capital injection		300
Net cash flow from financing activities	**434**	**653**
Total cash flow to related parties	**(1.206)**	**(597)**

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

(€ million)	2019			2020		
	Total	Related parties	%	Total	Related parties	%
Net cash flow from operating activities	(214)	(1.558)	727	(364)	(1.166)	320
Net cash flow from investment activities	(200)	(82)	41	(267)	(84)	31
Net cash flow from financing activities	412	434	105	651	653	100

36. Public funds - Statement ex art. 1, paragraphs 125-129, Law no. 124/2017

The information on the disbursements received from Italian public bodies and entities are indicated below. The company has not granted disbursements to companies, individuals and public and private entities, falling within the scope of application of law No. 124/2017.

In particular, the following do not fall within the scope of the aforementioned legislation: (i) the forms of incentives/subsidies received in application of a general aid scheme for all those entitled; (ii) fees relating to works/services, including sponsorships; (iii) reimbursements and allowances paid to subjects engaged in training and orientation internships; (iv) contributions received for continuing education from inter-professional funds set up in the legal form of association; (v) membership fees for joining category and regional associations as well as in favor of foundations, or equivalent organizations, functional to the activities connected with the core business; (vi) (where applicable to the company) the costs incurred for social projects connected with the investment activities carried out. Disbursements are identified on a cash basis. The information presented below includes disbursements of an amount greater than € 10 thousand made by the same provider in 2020, also through a plurality of deeds. Pursuant to the provisions of art. 3-quater of Legislative Decree 135/2018, converted with amendments by Law 11 February 2019, n. 12, for the disbursements received, please refer to the indications contained in the National State Aid Register pursuant to article 52 of the Law of 24 December 2012, no. 234.

For disbursements received, in addition to what is indicated in the National State Aid Register referred to in Article 52 of the Law of 24 December 2012, no. 234, there are no further cases.

37. Significant non-recurring events and operations

In 2020 there were no significant non-recurring events and operations.

38. 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.

39. Assets held for sale and disposals

As at December 31, 2020, there were no assets held for sale and disposals.

40. Main events subsequent to December 31, 2020

There were no events that could have significant effects on the company's financial statements subsequent to December 31, 2020.

41. List of investments

Versalis SpA investments as at December 31, 2020

In accordance with articles 38 and 39 of Legislative Decree 127/1991, by art. 126 of Consob resolution no. 11971 of 14 May 1999 and subsequent amendments and by Consob communication no. DEM / 6064293 of July 28, 2006, the lists of controlled and associated companies of Versalis SpA as of December 31, 2020, as well as the significant investments, are disclosed below.

The companies are divided between residents in Italy and abroad, and in alphabetical order. For each company the following details are disclosed: name, registered office, share capital or the consortium fund, shareholders and the respective percentages of ownership; for consolidated companies, the consolidated percentage pertaining to Versalis SpA is indicated; for non-consolidated companies in which consolidated companies own stakes, the valuation criterion is shown (equity or cost).

CONSOLIDATING COMPANY

Name	Registered office	Currency	Share capital	Shareholders	% of ownership	% of conoslidated shares pertaining to Versalis Group	Consolidation method or measurement criterion (*)
Versalis SpA	San Donato Milanese (MI)	EUR	1.364.790.000	Eni SpA	100,00	100,00	L.b.L.

(*) L.b.L. = line by line consolidation, N.E. = net equity method, Co. = measurement at cost, F.V. = measurement at fair value

CHANGES IN THE CONSOLIDATION AREA

During the year, Versalis Zeal Ltd, Versalis Kimya Ticaret Limited Sirketi and Versalis Mexico S. de R.L. de CV. Entered the consolidation area, after overcoming the parameters of relevance.

SUBSIDIARIES

Abroad

Name	Registered office	Currency	Share capital	Shareholders	% of ownership	% of conoslidated shares pertaining to Versalis Group	Consolidation method or measurement criterion (*)
Dunastyr Polystyrene Zrt	Budapest (Hungary)	HUF	8.092.160.000	Versalis SpA Versalis International Versalis Deutschland GmbH	96,34 1,83 1,83	100,00	L.b.L.
Versalis Americas Inc	Dover, Delaware (USA)	USD	100.000	Versalis International SA	100,00	100,00	L.b.L.
Versalis Congo Sarlu	Pointe-Noire (Congo)	XAF	1.000.000	Versalis International SA	100,00	100,00	L.b.L.
Versalis Deutschland GmbH	Eschborn (Germany)	EUR	100.000	Versalis SpA	100,00	100,00	L.b.L.
Versalis France SAS	Mardyck (France)	EUR	126.115.583	Versalis SpA	100,00	100,00	L.b.L.
Versalis International SA	Bruxelles (Belgium)	EUR	15.449.174	Versalis SpA Versalis Deutschland GmbH Dunastyr Polystyrene Zrt Versalis France SAS	59,00 23,71 14,43 2,86	100,00	L.b.L.
Versalis Kimya Ticaret Limited Sirketi	Istanbul (Turkey)	TRY	20.000	Versalis International SA	100,00	100,00	L.b.L.
Versalis México S. de R.L. de CV.	Mexico City (Mexico)	MXN	1.000	Versalis International SA Versalis SpA	99,00 01,00	99,00	L.b.L.
Versalis Pacific (India) Private Limited	Mumbai (India)	INR	238.700	Versalis Singapore PTE. LTD. Third parties	99,99 0,01	99,99	N.E.
Versalis Pacific Trading (Shanghai) Co Ltd	Shanghai (China)	CNY	1.000.000	Versalis SpA	100,00	100,00	L.b.L.
Versalis Singapore Pte. Ltd.	Singapore (Singapore)	SGD	80.000	Versalis SpA	100,00	100,00	L.b.L.
Versalis UK Ltd	Lyndhurst (United Kingdom)	GBP	4.004.042	Versalis SpA	100,00	100,00	L.b.L.
Versalis Zeal Ltd	Takoradi (Ghana)	GHS	5.650.000	Versalis International SA Third parties	80,00 20,00	80,00	L.b.L.

(*) L.b.L. = line by line consolidation, N.E. = net equity method, Co. = measurement at cost, F.V. = measurement at fair value

ASSOCIATES

In Italy

Name	Registered office	Currency	Share capital	Shareholders	% of ownership	% of consolidated shares pertaining to Versalis Group	Consolidation method or measurement criterion (*)
Brindisi Servizi Generali Scarl	Brindisi (BR)	EUR	1.549.060	Versalis SpA	49,00	49,00	N.E.
				Eni Rewind SpA	20,20		
				EniPower SpA	8,90		
				Third parties	21,90		
Finproject SpA	Morrovalle (MC)	EUR	18.500.000	Versalis SpA	40,00	40,00	N.E.
				Third parties	60,00		
Priolo Servizi ScpA	Melilli (SR)	EUR	28.100.000	Versalis SpA	35,15	35,15	N.E.
				Eni Rewind SpA	5,04		
				Third parties	59,81		
Ravenna Servizi Industriali ScpA	Ravenna (RA)	EUR	5.597.400	Versalis SpA	42,13	42,13	N.E.
				EniPower SpA	30,37		
				Ecofuel SpA	1,85		
				Third parties	25,65		
Servizi Porto Marghera Scarl	P.to Marghera (VE)	EUR	8.695.718	Versalis SpA	48,44	48,44	N.E.
				Eni Rewind SpA	38,39		
				Third parties	13,17		

Abroad

Name	Registered office	Currency	Share capital	Shareholders	% of ownership	% of consolidated shares pertaining to Versalis Group	Consolidation method or measurement criterion (*)
LVE China Co. Ltd.	Shangai (China)	USD	250.000	Lotte Versalis Elastomers Co.Ltd	100,00	100,00	N.E.

(*) L.b.L. = line by line consolidation, N.E. = net equity method, Co. = measurement at cost, F.V. = measurement at fair value

JOINT VENTURES

In Italy

Name	Registered office	Currency	Share capital	Shareholders	% of ownership	% of consolidated shares pertaining to Versalis Group	Consolidation method or measurement criterion (*)
Matrìca SpA	Porto Torres (SS)	EUR	37.500.000	Versalis SpA	50,00	50,00	N.E.
				Third parties	50,00		

Abroad

Name	Registered office	Currency	Share capital	Shareholders	% of ownership	% of consolidated shares pertaining to Versalis Group	Consolidation method or measurement criterion (*)
Lotte Versalis Elastomers Co Ltd	Yeosu (Jeollanam)	KRW	501.800.000.00	Versalis SpA	50,00	50,00	N.E.
	(South Korea)			Third parties	50,00		
VPM Oilfield Specialty Chemicals LLC	Abu Dhabi (United Arab Emirates)	AED	1.000.000	Versalis SpA	49,00	49,00	N.E.
				Third parties	51,00		

(*) L.b.L. = line by line consolidation, N.E. = net equity method, Co. = measurement at cost, F.V. = measurement at fair value

OTHER COMPANIES

In Italy

Name	Registered office	Currency	Share capital	Shareholders	% of ownership	% of consolidated shares pertaining to Versalis Group	Consolidation method or measurement criterion (*)
IFM Ferrara ScpA	Ferrara (FE)	EUR	5.270.466	Versalis SpA	19,74	19,74	Co.
				Eni Rewind SpA	11,58		
				S.E.F. Srl	10,70		
				Third parties	57,98		
Consorzio Crea Assemini	Cagliari (CA)	EUR	70.000	Versalis SpA	7,14	7,14	Co.
				Third parties	92,86		
IAS Industria Acqua Siracusana SpA	Siracusa (SR)	EUR	102.000	Versalis SpA	1,00	1,00	Co.
				Third parties	99,00		
Novamont SpA	Novara (NO)	EUR	13.333.500	Versalis SpA	25,00	25,00	F.V.
				Third parties	75,00		

Abroad

Name	Registered office	Currency	Share capital	Shareholders	% of ownership	% of consolidated shares pertaining to Versalis Group	Consolidation method or measurement criterion (*)
Sociedad Espanola de Materiales Plasticos SA	Madrid (Spain)	EUR	61.002	Versalis International SA	7,88	7,88	Co.
				Third parties	92,12		
BKV Beteiligungs-und Kunststoffverwert-ungsgesellschaft mbH	Frankfurt am Main (Germany)	EUR	14.147.400	Versalis Deutschland GmbH	1,19	1,19	Co.
				Third parties	98,81		
EXELTIUM SAS	Paris (France)	EUR	174.420.200	Versalis France SAS	1,66	1,66	Co.
				Third parties	98,34		
Genomatica Inc	San Diego (USA)	USD	31.308.448	Versalis SpA	0,04	0,04	F.V.
				Third parties	99,96		

(*) L.b.L. = line by line consolidation, N.E. = net equity method, Co. = measurement at cost, F.V. = measurement at fair value

Report of Independent Auditors

Independent auditor's report

in accordance with article 14 of Legislative Decree No.39 of 27 January 2010

To the sole shareholder of Versalis SpA

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of the Versalis Group (the Group), which comprise the balance sheet as of 31 December 2020, the income statement, statement of comprehensive income (loss), statement of changes in shareholders' equity, statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2020, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

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

Responsibilities of the Directors and the Board of Statutory Auditors for the Consolidated Financial Statements

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

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The directors are responsible for assessing the Group's ability to continue as a going concern and, in preparing the consolidated financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the consolidated financial statements, the directors use the going concern basis of accounting unless they either intend to liquidate Versalis SpA or to cease operations, or have no realistic alternative but to do so.

The board of statutory auditors is responsible for overseeing, in the terms prescribed by law, the Group's financial reporting process.

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

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

As part of our audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised professional judgement and maintained professional scepticism throughout the audit. Furthermore:

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

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the Group audit. We remain solely responsible for our audit opinion on the consolidated financial statements.

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

Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No.39/10

The directors of Versalis SpA are responsible for preparing a report on operations of the Versalis Group as of 31 December 2020, including its consistency with the relevant consolidated financial statements and its compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations with the consolidated financial statements of the Versalis Group as of 31 December 2020 and on its compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations is consistent with the consolidated financial statements of the Versalis Group as of 31 December 2020 and is prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/10, issued on the basis of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

Milan, 29 March 2021

PricewaterhouseCoopers SpA

Signed by

Andrea Crespi
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers. We have not examined the translation of the financial statements referred to in this report.