

versalis



Annual Report 2017  
Ordinary Shareholders' Meeting of April 20, 2018

# Mission

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

# Countries in which Versalis operates

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

## Boards of Directors and of Statutory Auditors

### BOARD OF DIRECTORS<sup>(1)</sup>

#### Chairman

Roberto Casula<sup>(2)</sup>

#### Chief Executive Officer

Daniele Ferrari

#### Directors

Cristiana Argentino

Luigi Lusuriello<sup>(2)</sup>

Rosanna Fusco

### BOARD OF STATUTORY AUDITORS<sup>(1)</sup>

#### Chairman

Carlo Invernizzi

#### Statutory auditors

Patrizia Ferrari

Alberto Luigi Gusmeroli

#### Alternate statutory auditor

Giovanna Campanini

Marco Mencagli

### INDEPENDENT AUDITORS<sup>(3)</sup>

EY SpA

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

(2) Appointed by the Shareholders' Meeting of April 12, 2017

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

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# Highlights

## Safety

### Workers' safety

The Versalis Group's commitment to workers' safety has enabled a reduction in the accident frequency rate in 2017, when compared with the previous year's rate. In addition, the majority of the sites achieved the goal of one year without injuries to employees and, for the second consecutive year, there were no accidents involving contractors.

### Protocol of intent between Versalis and Sonatrach

In 2017 Versalis and SONATRACH, signed a Protocol of Intent, in order to perform feasibility studies jointly for the realization, in Algeria, of an integrated petrochemical complex. This agreement provides for the terms of a study, aimed at enhancing hydrocarbons via the production of petrochemical products with higher added value, for the development, in Algeria, of one or more world-scale petrochemical plants. This agreement represents for Versalis an opportunity to cooperate with an integrated oil company, to which it will provide its industrial experience, in managing large petrochemical plants, and its technologies, in a framework of strategically important joint projects.

### Inauguration of the new Lotte Versalis Elastomers industrial complex

On 23 November 2017, Lotte Versalis Elastomers, a joint venture between Versalis, a global leader in the field of elastomers, and Lotte Chemical, a leading petrochemical company based in South Korea, opened in Yeosu (South Korea) a new integrated industrial complex for the production of elastomers. The plants were built in record time (26 months), in accordance with the principles of sustainability through the adoption of the most advanced European technology standards, and with a nominal capacity of 200 thousand tonnes/year of elastomers (EPDM, ethylene-propylene-diene rubber; s-SBR, butadiene-styrene rubber in solution; BR, polybutadiene rubber). Production flows are intended for premium applications, mainly for tyres and other automotive components, modification of styrenic polymers and technical articles. The joint venture, founded in 2013 to respond to the growth of the elastomer market in Asia, uses the technologies, industrial skills and sales network of Versalis, as well as the integration with the site of Lotte Chemical, which provides raw materials and industrial services.

### Agreement with Bridgestone for the development of research on guayule

Versalis signed with Bridgestone Americas, a world leader in the production of tyres, a strategic partnership agreement to develop a technological platform for the commercialization of guayule, a high quality natural rubber in the agronomic sector, sustainable rubber and chemicals from renewables. The partnership combines Versalis's expertise in guayule research, in the development of process engineering and the marketing of products from renewables on a commercial scale, with Bridgestone's leadership in the guayule cultivation and production technology. The collaboration will enable the two partners to focus on the development of proprietary and highly productive guayule varieties, utilizing cutting-edge genetic technology, and will achieve the goal of providing an economically viable technology package that will be made available to potential industrial partners interested in collaborating in the project. Versalis will lead product development activities to extract value from the entire guayule rubber production process, including "non-rubber" components: the resins, for example, can be used

in various sectors, from adhesives to the protection of wood, while the bagasse has achieved promising results as a raw material for the production of industrial sugars suitable for biofuels or chemical precursors.

### **Bio-Butadiene**

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

### **Corporate restructuring**

To develop its business of oilfield chemicals, on April 3, 2017, Versalis International set up, in Ghana, the company Versalis Zeal Ltd., which deals mainly with the import, export, storage and distribution of chemicals.

In order to consolidate its presence in the Asian market, in December 2017, Versalis SpA established the company Versalis Singapore PTE LTD, in Singapore, which will deal mainly with the marketing of petrochemical products.

### **Technological innovation**

During 2017, research and technology activities contributed to the strengthening and renewal of the proprietary businesses, constantly improving processes and products. The research and development in the field of green chemistry were reinforced, with ever-growing commitment, in synergy with the existing businesses especially as regards the guayule, biobutadiene, obtained from second-generation sugars and metathesis of vegetable oils. The new pilot plant with proprietary One Step technology was launched to obtain styrene-based polymeric materials with innovative performance profiles, a new range of compound products based on ABS with high thermal resistance has been industrialized, a significant technological improvement has been implemented in the industrial production of LDPE and EVA copolymers and with original formulations based on few layer graphene (FLG), polyethyl / graphene nanocomposites were generated, with high mechanical strength and thermal and electrical conductivity. Total expenditure on research and development was €40 million. Ten patent applications were filed.

### **Production**

Production amounted to 5,818 thousand tonnes, an increase of 3% with respect to 2016, mainly due to the increased production of polyethylene, elastomers and, to a lesser extent, intermediates. The manufacturing plants that experienced the main production increases are Ragusa, for the recovery of production capacity following a disruption which occurred at the plant in 2016, Ravenna and Dunkirk (olefins), Ferrara and Mantua (styrenic polymers). However, the production of the Marghera, Mantua (derivatives) and Dunastyr plants decreased due to scheduled shutdowns during 2017.

### **Results**

The Versalis Group in 2017 closed with a net profit of €303 million (net profit of €163 million in 2016), an operating profit of €490 million (€213 million in 2016) and net financial resources of €41 million (with a net financial debt of €133 million as at December 31, 2016).

### Financial highlights

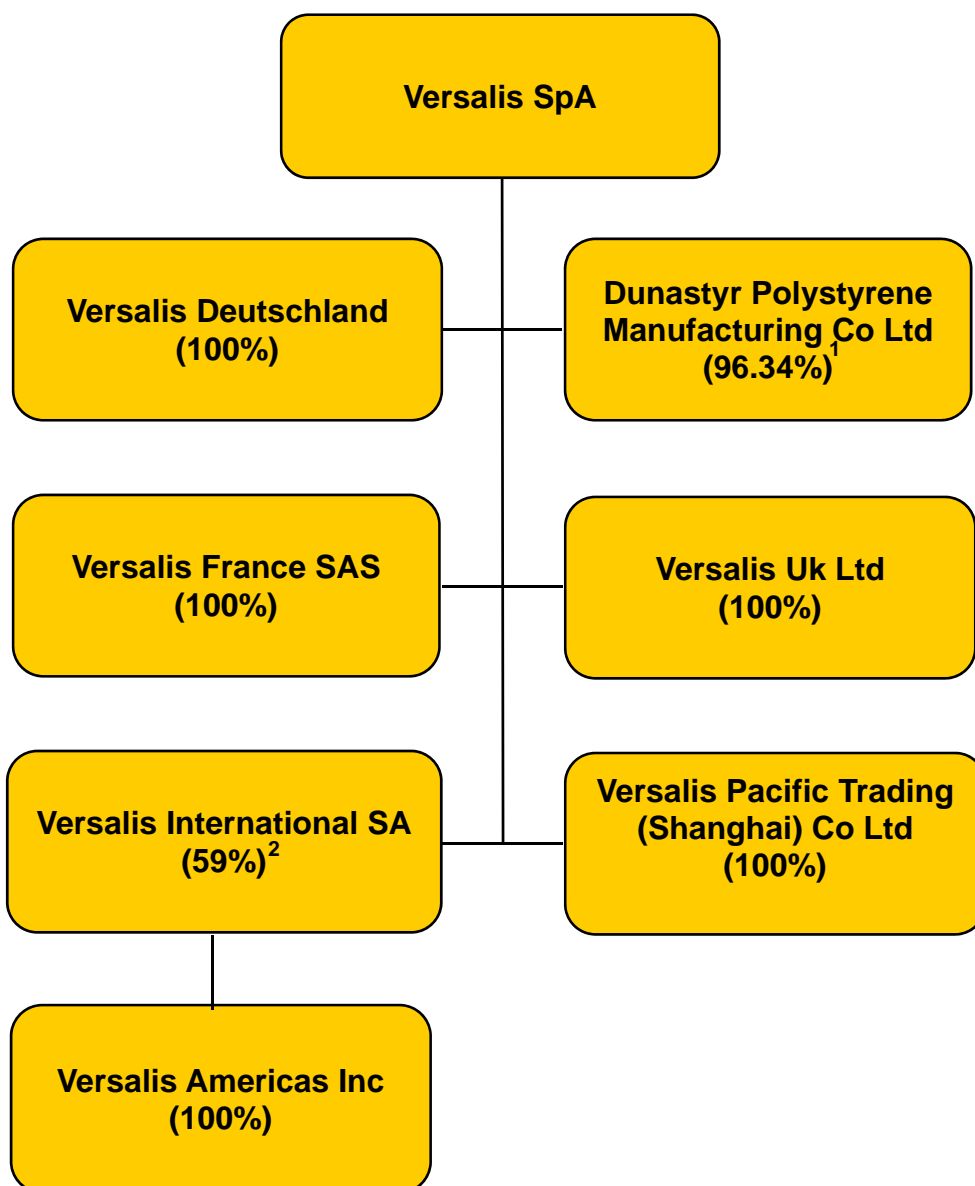
2015	amounts in millions of euros	2016	2017
4,716	Net sales from operations	4,196	4,851
(744)	Operating profit (loss)	213	490
(1,289)	Net profit (loss)	163	303
218	Net cash flow provided by operating activities	469	478
218	Capital expenditures	241	202
2,835	Total assets	2,762	3,060
272	Shareholder's equity	1,514	1,815
1,452	Net borrowings	133	(41)
1,724	Net capital employed	1,647	1,774
5.34	Leverage	0.09	(0.02)

### Key operating and sustainability data

2015		2016	2017
5,143	Employees (number)	5,085	5,114
0.28	Accident frequency rate (accidents/hours worked x 1,000,000)	0.22	0.15
2.98	Direct emission of greenhouse gases (mm tonnes CO <sub>2</sub> eq)	2.99	3.05
36	Cost of research and development (amount in millions of euros)	37	40
5,700	Production (k tonnes)	5,646	5,818
72.7	Plant utilization rate (%)	71.4	72.8
52.46	Average price of Brent Dated FOB (dollars/barrel)	43.69	54.27
433	Average price of Virgin Naphtha FOB Med (dollars/tonne)	367	467
1.11	Average EUR/USD exchange rate	1.11	1.13

## Versalis Group Structure

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



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

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



## Operating Review

The global economic growth rate recorded in 2017 shows an increase of 3.0% (2.4% in 2016), which is the highest growth rate since 2012. This indicator is a direct consequence of a more general economic growth in almost all geographical areas and in particular of the most advanced economies, which in 2017 recorded solid increases (+ 0.5% at the aggregate level compared to the previous year). The contribution of the emerging Asian economies remained robust (6.5% in 2017 compared to 6.4% in 2016), as well as the other developing countries recorded an increase in growth rates (Latin America and Africa), with the only exception being the Middle East which recorded a significant downturn, halving its figure compared to 2016.

According to data from the IMF, OECD and the national statistical institutes, the US recorded real GDP growth of + 0.7% compared to 2016 (2.2% in 2017), supported in particular by the increase in Gross Fixed Investments and the strong increase in Industrial Production (+ 1.9% in 2017 compared to the decreases recorded in 2015 and 2016, -0.7% and -1.9% year on year). The increase in interest rates and the depreciation of the dollar against the main foreign currencies has probably further supported the dynamics of these phenomena. In turn, domestic consumption registered a substantial stability.

Similarly, the Euro Area in 2017 saw its GDP grow by + 0.5% compared to 2016, reaching 2.2%, essentially in line with the global economic trend. This figure is linked to an increase in industrial production (2.3% in 2017 compared to 1.5% in 2016), despite the decrease in private consumption and fixed capital investments compared to 2016, respectively of -0.2% and -1.7% and the maintenance of interest rates at minimum levels.

European inflation rose in 2017, averaging 1.7%, a clear recovery compared to 2016 (0.3% on an average annual basis), mainly due to the monetary policy measures adopted by the ECB, the continuation of the situation of economic expansion and the price increases of energy goods occurred in particular in the second half of the year, with the increase in average prices of Brent in 2017 to \$ 54.3 per barrel (\$ 43.7 per barrel in 2016, equal to + 24.2%).

Chemical production in Europe (i.e. the sector of activity homogeneous to that in which Versalis operates) ended 2017 with a 0.5% increase, continuing to remain the "bottom bracket" for growth among the world's geographical areas. Global economic expansion and rising demand for chemicals have driven global growth of 3.7% year on year in terms of production. In particular, North America recorded a +1.0% increase whilst the other areas slightly improved the excellent growth rates of the Petrochemical Sector (around 5.4%) driven by the Far East (+ 5.5%).

The Net Trade of Europe worsened in 2016 by about 10% compared to 2016, given the greater growth in consumption compared to production in almost all products excluding Styrenics including Styrene monomer.

In this macroeconomic context, the Versalis Group reported an operating profit of €490 million in 2017 (operating profit of €213 million in 2016). The increase compared to 2016 is essentially

due to the increase in Intermediates and Elastomers margins and operating income deriving from the recognition of energy efficiency certificates (white certificates).

## Revenues and production

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

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

The **net sales** from operations of the Versalis Group for the year ended on December 31, 2017 amounted to €4,851 million compared with €4,196 in 2016 (+16%). This increase depends on the 16% increase in average unit sales prices, in particular Intermediates (+27%) and Polymers (+13%).

Sales decreased by 1.3%.

In particular, there were:

- lower sales of olefins (-7.1%), mainly spot sales to third parties of ethylene (-16%), due to the recovery in internal consumption of the Polyethylene business unit;
- lower derivatives sales (-14.1%) due to a planned multi-year plant shutdowns;
- higher sales of polymers (+ 5.8%), in particular polyethylene increased sales (+ 10.8%) on all products as well as elastomers (+ 3.9%), due to greater product availability; moreover, for elastomers there is a higher demand in the "Polymer modification" sector and a "short" of offer by the EPR competition in the EU market.

The increase in oil prices in Euro in 2017 was reflected in the prices of monomers, in particular Butadiene (+ 88.3%) and Benzene (+ 29.2%) and, in the polymer business, on elastomer prices (+ 24.1%) and styrenes (+ 14.8%), which benefit from the increase in raw materials. Prices of polyethylene fell slightly (-2.2%).

**Production** amounted to 5,818 thousand tonnes, 172 thousand tonnes more than in 2016 (+3%), due mainly to higher production of polyethylenes (+14.6%) and of elastomers by (+5.9%). Intermediates production increased instead by 1.2%.

The main production increases occurred at the following plants: Ragusa (+89,7%) as a result of the recovery of production capacity (following a malfunction in the electricity supply booth at the plant in 2016), and in the sites of Ravenna and Dunkirk (olefins), and of Ferrara and Mantua (styrenic polymers).

However, the production of Marghera (-10.8%), Mantova (derivatives -11%) and Dunastyr (-19.1%), due to scheduled shutdowns in 2017, decreased.

The nominal production capacity is in line with 2016. The average utilization rate of the plants, calculated on nominal capacity, was 72.8%, i.e. higher than the 2016 figure (71.4%).

<b>Revenues</b>				
(amount in millions of euros)	2015	2016	2017	Var. %
Intermediates	1,899	1,688	1,988	17.8
Polymers	2,690	2,380	2,730	14.7
Other income <sup>(a)</sup>	127	128	133	3.9
	<b>4,716</b>	<b>4,196</b>	<b>4,851</b>	<b>15.6</b>

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

<b>Production</b>				
(k tonnes)	2015	2016	2017	Var. %
Intermediates	3,334	3,417	3,458	1.2
Polymers	2,366	2,229	2,360	5.9
	<b>5,700</b>	<b>5,646</b>	<b>5,818</b>	<b>3.0</b>

<b>Sales</b>				
(k tonnes)	2015	2016	2017	Var. %
intermediates	1,883	1,970	1,820	(7.6)
Polymers	1,918	1,789	1,892	5.8
	<b>3,801</b>	<b>3,759</b>	<b>3,712</b>	<b>(1.3)</b>

## Business review

### Intermediates Business Unit

In 2017 **revenues** from **Intermediates** (€1,988 million) increased by €300 million compared with the previous year (+17.8%), due to the increase in the petroleum products prices which affect the average unit prices of the main products of this Business Unit.

Sales decreased (-7.6%), in particular ethylene decreased (-16%) and also derivatives (-14.1%) following the scheduled shutdown of the Mantua plant.

Average unit sales prices increased overall (+ 27.1%), in particular olefins (+ 25.8%), aromatics (benzene + 29.2%) and derivatives (+ 26.7%).

The **production** of **Intermediates** (3,458 thousand tonnes) increased by 1.2% compared to 2016: the olefins increased (+4.3%), the aromatics stable (-0.3%) and the derivatives decreased (-11.2%).

### Polymers Business Unit

In 2017, **revenues** from **Polymers** (€2,730 million) increased by €350 million compared to 2016 (+14.7%). The increase is related to both the sales volumes (+6%) and the average unit prices (+13%).

The **styrenics** business has benefited from rising commodity prices (styrene) which resulted in an increase in the average price (+14.8%), whilst there was a decrease in volumes sold (-2%).

The sales volume of **polyethylene** increased (+8.3%), whilst average prices decreased (-2.2%).

As regards the sales volumes of **elastomers**, in 2017 there was a recovery in sales of commodity tyres (BR + 15.8%), EPDM (+ 23.2%) and latex (+ 0.8%) special tyres; there was a decrease for thermoplastic rubbers (-14.5%) and SBR (-8.7%).

The decrease in sales volumes of **styrene** (-2.0%) is attributable in particular to the lower sales of styrene (-18.4%) and compact polystyrene (-1.4%) only partly offset by higher sales of ABS and SAN (+ 3.2%) and expandable polystyrene (+ 3.4%). Sales volumes of the polyethylene business increased overall (+ 10.8%), where there were higher sales of EVA (+ 17.7%), LDPE (+ 31.6%) and HDPE (+7.8%) while the volumes of LLDPE went against the trend (-0.7%).

The **Polymers** production (2,360 thousand tons in the year 2017) increased by 5.9% compared to 2016, in particular, the **polyethylene** production has increased (+ 14.6%) for more productions of LDPE (+34, 5%) EVA (+ 11.7%) and LLDPE (6.5%).

Production in the **elastomers** business increased (+ 5.9%), particularly the BR tyres (+ 12.4%) and EPDM (+ 25.1%).

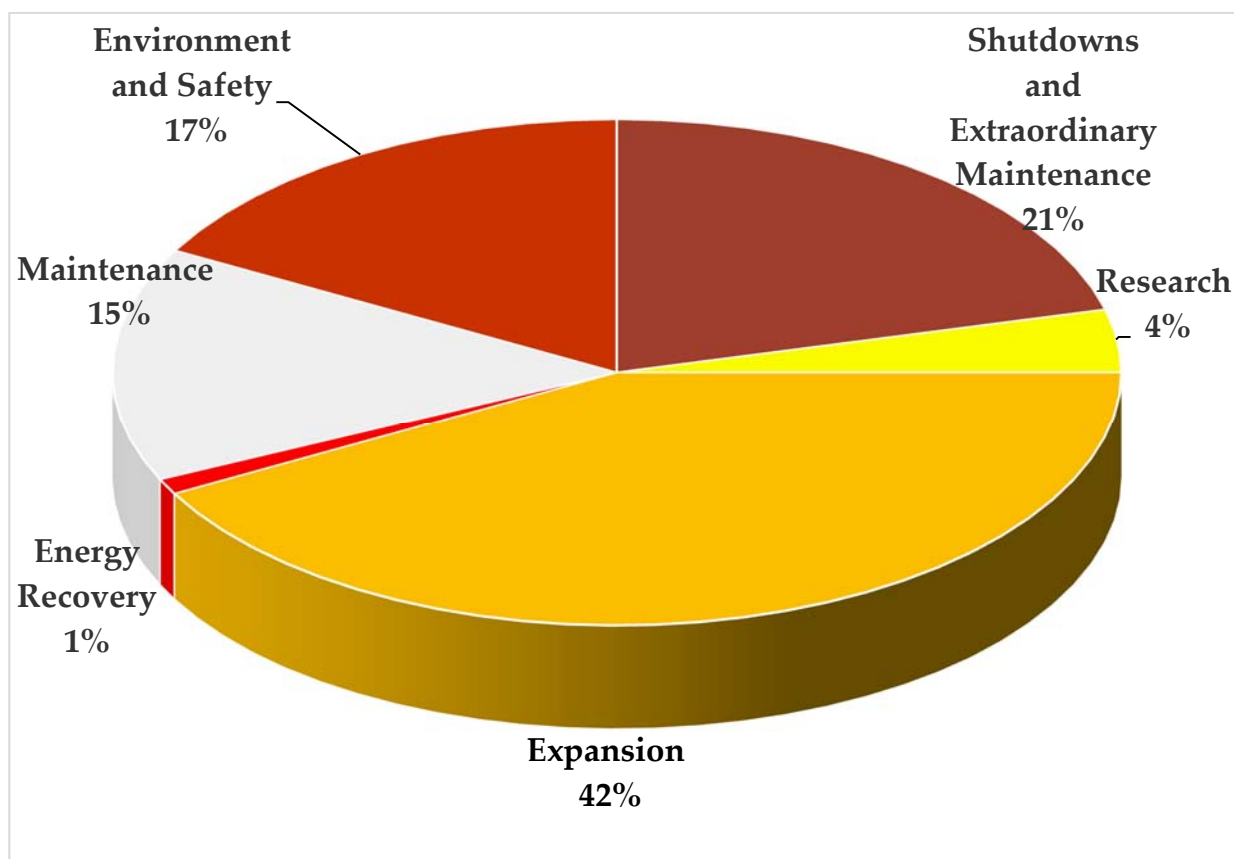
In the **Styrenics** business, higher production of expandable polystyrene (+ 6%) and ABS / SAN (+ 17.9%) was recorded, while styrene production decreased (-5.9%), due to the scheduled shutdown of one of the two plants of the Mantua plant.

## Investments

Net investment in tangible and intangible assets for the year amounted to €203 million; this is analysed by business unit in the table here below, and by type of expenditure in the following graph.

Investments				
(amounts in millions of euros)	2015	2016	2017	Var. %
Olefins	39	67	58	(13.4)
Aromatics	18	12	17	41.7
Derivatives	2	1	6	..
Styrenes	10	8	10	25.0
Elastomers	83	68	36	(47.1)
Polyethylene	17	24	13	(45.8)
Green Chemistry		1	2	..
Industrial Services	37	53	42	(20.8)
Staff and financial expenses	8	7	9	28.6
<b>Gross Investments in property, plant and equipment</b>	<b>214</b>	<b>241</b>	<b>193</b>	<b>(19.9)</b>
Syndial Grants		(2)		..
Grants, refunds from third parties and change in advances	(3)	(1)		..
<b>Investments in property, plant and equipment</b>	<b>211</b>	<b>238</b>	<b>193</b>	<b>(18.9)</b>
<b>Investments in intangible assets</b>	<b>7</b>	<b>3</b>	<b>10</b>	<b>..</b>
<b>Total</b>	<b>218</b>	<b>241</b>	<b>203</b>	<b>(15.8)</b>

### Net investment by type



The main investments for the year were the following:

- upgrade work (€81 million) mainly related to strategic projects undertaken for the development of the Elastomers business in Ferrara (€34.3 million), for the restructuring and conversion of the Porto Marghera plant (€34.3 million) and Priolo (€9 million);
- work to ensure plant compliance with safety and environmental regulations (€33.6 million)
- scheduled maintenance on the ethylene and aromatic plants of Porto Marghera, Ferrara elastomers, intermediates and styrenes of Mantua and polyethylene of Oberhausen for a total of €32.9 million;
- minor maintenance work and improvements in the reliability of the plants at various facilities (€25.7 million);
- cyclical maintenance interventions mainly for recoil on the furnaces of the ethylene plants of Brindisi, Dunkirk and Porto Marghera and on the underground tanks of Ravenna (€7.9 million);
- work on the buildings and utility networks at the Porto Torres site in preparation for the Green Chemistry project (€4.7 million);
- Energy recovery work (€2.5 million) relating to the installation of a new column in Dunkirk (€1.6 million);
- research activities (€7.9 million), mainly for the new "one step" facility in the Mantua plant (€5.9 million).

## Financial review Versalis Group

### Profit and Loss Account

2015	(amounts in millions of euros)	2016	2017	Variance	Var. %
4,716	Net sales from operations	4,196	4,851	655	15.6
115	Other income and revenues	48	152	104	..
(4,735)	Operating expenses	(3,986)	(4,515)	(529)	13.3
(7)	Other operating (expense) income	(7)	2	9	..
(833)	Depreciation, depletion, amortization and impairments	(37)		37	(100.0)
	Losses due to eliminations/disposals	(1)		1	(100.0)
<b>(744)</b>	<b>Operating profit (loss)</b>	<b>213</b>	<b>490</b>	<b>277</b>	<b>..</b>
(16)	Net financial income (expense)	(97)	(127)	(30)	30.9
(30)	Net income (expense) from investments	(19)	(61)	(42)	..
<b>(790)</b>	<b>Profit (Loss) before income taxes</b>	<b>97</b>	<b>302</b>	<b>205</b>	<b>..</b>
(499)	Income taxes	66	1	(65)	..
..	Tax Rate (%)	(68.0)	(0.3)	(31.7)	..
<b>(1,289)</b>	<b>Net profit (loss)</b>	<b>163</b>	<b>303</b>	<b>140</b>	<b>85.9</b>

### Net Profit

In 2017, the Versalis Group recorded a **net profit** of €303 million, with an improvement of €140 million compared to 2016.

The operating results increased by €277 million, as a consequence of the increase in average unit sales prices, in particular, of the Intermedi and Polimeri businesses (as more fully described in the previous paragraph "Revenues and production") which led to an increase in revenues of €655 million as opposed to a increase in operating costs of €529 million, due mainly to the increase, compared to 2016, of the prices of oil and utilities in euro. During the year, energy efficiency bonds were also sold for € 90 million, which led, together with higher sales of licenses, to a strong increase in other revenues and income compared to the previous year. Finally, the reduction of € 37 million in amortization, depreciation and write-downs is due to the recovery in value following the impairment test on production plants (€81 million, compared with €18 million last year) offset by higher amortization and depreciation in 2017, due to the write-backs of the previous period.

## Analysis of profit and loss account items

### Net sales from operations

2015	(amounts in millions of euros)	2016	2017	Variance	Var. %
1,275	Olefins	1,087	1,308	221	20.3
327	Aromatics	290	328	38	13.1
297	Derivatives (*)	311	352	41	13.2
543	Elastomers	539	699	160	29.7
764	Styrenes (*)	647	723	76	11.7
1,383	Polyethylene	1,194	1,308	114	9.5
127	Corporate and services	128	133	5	3.9
<b>4,716</b>		<b>4,196</b>	<b>4,851</b>	<b>655</b>	<b>15.6</b>

**Net sales from operations** for the year 2017 amounted to €655 million, due to the increase in average unit sales prices for both Intermediates and Polymers, partially offset by the decline in the quantities sold of all businesses except for Polyethylene.

### Other income and revenues

**Other income and revenues** increased by €107 million compared to 2016, mainly due to the sale of Energy Efficiency Securities (€90 million) and higher revenues from the sale of licenses (€26 million). These effects are partially offset the reduction in income from contractual penalties, transactions and litigation (€6 million) and the lower recovery of costs of the Syndial guarantee fund (€4 million).

### Operating expenses

2015	(amounts in millions of euros)	2016	2017	Variance	Var. %
3,150	Production costs – raw, ancillary and consumable materials & goods	2,481	2,882	401	16.2
1,154	Service costs	1,109	1,174	65	5.9
21	Operating leases and other	22	22		
10	Net provisions for contingencies	9	24	15	..
59	Other expenses	21	72	51	..
341	Payroll and related costs	344	341	(3)	(0.9)
<b>4,735</b>		<b>3,986</b>	<b>4,515</b>	<b>529</b>	<b>13.3</b>

**Operating expenses** increased by €529 million (+13.3%), as shown in the table above.

The increase of 16.2% in the cost of raw, ancillary and consumable materials and goods and inventory changes is mainly due to the increase of the average unit price in euro of the virgin naphtha, compared to 2016, compensated by a slight decrease of the quantities purchased.

**Service costs** increased by 5.9% due to the increase in the prices of utilities (natural gas, gas, steam), due to the increase in maintenance costs (€23 million), the costs of different professional services (€17 million), construction costs (€13 million), costs for planning and works management (€11 million), logistics costs (€5 million), effects partially offset by the reduction in costs for environmentally-friendly treatment (€2 million) and costs for other services (€2 million).

The €15 million increase in **net provisions for contingencies** is mainly due to lower redundancies for the provision for environmental risks and charges.



**Other expenses** increased by €51 million, mainly due to lower utilization of charges for disputes and litigation risks (€19 million), due to the increase in impairment of trade receivables (€17 million), due to lower utilization against charges for environmental risks and charges (€6 million), for higher indirect taxes (€3 million), as well as for higher charges (€2 million).

### Other operating (expense) income

**Other operating expenses** of €2 million (€7 million in 2016) relate to derivatives hedging the price risk of virgin naphtha which, although not speculative, cannot be classified as "hedges" for IFRS standards.

### Depreciation, amortization and impairment

2015	(amounts in millions of euros)	2016	2017	Variance	Var. %
96	Tangible assets	51	75	24	47.1
5	Intangible assets	4	6	2	50.0
<b>101</b>	<b>Depreciation and amortization</b>	<b>55</b>	<b>81</b>	<b>26</b>	<b>47.3</b>
<b>732</b>	<b>Impairments (write-back)</b>	<b>(18)</b>	<b>(81)</b>	<b>(63)</b>	<b>..</b>
<b>833</b>		<b>37</b>		<b>(37)</b>	<b>(100.0)</b>

**Depreciation and amortization** increased by €26 million compared to 2016, due to the restoration of value of assets carried out in 2016.

Following the result of the impairment test carried out in 2017, there was a further write-back in the value of tangible assets of €81 million.

The **write-backs** and **impairment losses** of tangible assets, the net effect of which is €81 million, mainly refer to the following CGUs: Priolo plant (€131 million write-back), ethylene-polyethylene of Brindisi (€66 million write-back), Olefine and polyethylene of Dunkirk (€47 million write-back), Porto Marghera plant (€59 million full impairment loss), Elastomeri di Ferrara (€52 million impairment loss), Ravenna plant (€15 million impairment loss), Mantova intermediates (€10 million full impairment loss), butadiene of Brindisi (€8 million full impairment loss), Ferrara polyethylene (€8 million full impairment loss), other Porto Torres services (€7 million impairment loss) and Ragusa plant (€4 million impairment loss). For more details, see note no. 7 "Property, plant and equipment" in the consolidated financial statements notes.

### Net financial expenses

2015	(amounts in euros)	2016	2017	Variance	Var. %
(35)	Finance income (expense) related to net borrowings	(15)	(4)	11	73.3
11	Income (expense) on loans & securities related to operations	(84)	(125)	(41)	..
8	Finance Income (expense) on derivative contracts	(1)	(3)	(2)	..
(3)	Exchange differences		1	1	..
(4)	Other finance income (expense)	(3)	(3)		
7	Capitalized finance expense	6	7	1	(16.7)
<b>(16)</b>		<b>(97)</b>	<b>(127)</b>	<b>(30)</b>	<b>..</b>

**Net financial expenses** increased by €30 million, due essentially to: (i) the full write-down of the financial receivables instrumental to the operating activity towards Matrica, due to the deterioration in the prospects of the repayment capacity (more than €39 million compared to 2016); (ii) a decrease of €2 million in fair value measurement charges on non-speculative derivative contracts on exchange rate risks. These factors were partially offset by a €11 million

reduction of interest expenses related to financial debt and €1 million for positive exchange rate differences.

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

### Net income (expense) from investments

2015	(amounts in millions of euros)	2016	2017	Variance	Var. %
(30)	Share of profit (loss) of equity-method investments	(6)	(23)	(17)	..
	Other net income (expense)	(13)	(38)	(25)	..
<b>(30)</b>		<b>(19)</b>	<b>(61)</b>	<b>(42)</b>	<b>..</b>

The **net expense from investments** of €61 million concerns the provision (€38 million) made following the company's assumption of the commitment to meet the financial requirement for the year 2018 of the jointly controlled company Matrica, as well as the write-down of the investment in Matrica (€17 million) equal to the capital increases made during the year and the result deriving from the valuation using the equity method of the associate Novamont (€5 million).

### Income taxes

The tax rate analysis is as follows:

2015	(amount in millions of euros)	2016	2017	Variance
	<b>Profit before income taxes</b>			
(717)	Italy	(68)	145	213
(73)	Abroad	165	157	(8)
<b>(790)</b>		<b>97</b>	<b>302</b>	<b>205</b>
	<b>Income taxes</b>			
459	Italy	(53)	(8)	45
40	Abroad	(13)	7	20
<b>499</b>		<b>(66)</b>	<b>(1)</b>	<b>65</b>
	<b>Tax rate (%)</b>			
(64.0)	Italy	77.9	(5.5)	45
(54.8)	Abroad	(7.9)	4.5	12
<b>(63.2)</b>		<b>(68.0)</b>	<b>(0.3)</b>	<b>67.7</b>

The reduction in the tax rate is mainly due to the recovery of deferred tax assets previously written down. For a description of the principal changes in the *reported* tax rate, see the paragraph "Income Taxes" of the notes to consolidated financial statements.

## Reclassified balance sheet

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

### Reclassified balance sheet (\*)

(amounts of euros)	31.12.2016	31.12.2017	Variance
<b>Fixed assets</b>			
Property, plant and equipment	739	927	188
Intangible assets	59	70	11
Investments	186	222	36
Receivables and securities held for operating activities	126	2	(124)
Net payables related to capital expenditure	(64)	(32)	32
	<b>1,046</b>	<b>1,189</b>	<b>143</b>
<b>Net working capital</b>			
Inventories	592	719	127
Trade receivables	588	585	(3)
Trade payables	(671)	(749)	(78)
Tax receivables (payables) and provisions for deferred tax	217	179	(38)
Provisions for risks and charges	(87)	(132)	(45)
Other current assets (liabilities)	32	50	18
	<b>671</b>	<b>652</b>	<b>(19)</b>
<b>Provisions for employee benefits</b>	<b>(70)</b>	<b>(67)</b>	<b>3</b>
<b>NET CAPITAL EMPLOYED</b>	<b>1,647</b>	<b>1,774</b>	<b>127</b>
<b>Shareholders' equity</b>	<b>1,514</b>	<b>1,815</b>	<b>301</b>
<b>Net borrowings</b>	<b>133</b>	<b>(41)</b>	<b>(174)</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>1,647</b>	<b>1,774</b>	<b>127</b>

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

### Fixed Assets

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

**Property, plant and equipment** totaled €927 million, increased by €188 million, mainly due to technical investments for the year (€193 million) and the result of the impairment test that led to a write-back in value of the plants of €81 million, partially offset by depreciation for the year (€75 million).

**Equity investments**, amounting to €222 million, increased by €36 million, essentially due to the share capital subscriptions of the joint venture Lotte Versalis Elastomers Co. Ltd (€45 million), partially offset by the result deriving from the valuation using the equity of the associate Novamont (€5 million).

**Financial receivables and securities** related to operating activities of €2 million decreased by €124 million mainly due to the full write-down of the loan granted to Matrica SpA to meet the financial requirements relating to the "Polo Verde" project of Porto Torres. The devaluation takes into account the deterioration of the repayment capacity of Matrica, consistent with the risk of the project.

### Net working capital

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

The increase of €127 million in **inventories** is attributable to both an increase of stock in storage and an increase in the value of inventories, and refers to finished products for €107 million and raw materials,

consumables and supplies for €21 million. These amounts include net devaluation provisions amounting to €1 million, for the adjustment to the market value of the quantities in stock.

The € 78 million increase in **trade payables** is essentially due to deferred payments of payables due in the last days of the year.

The decrease in **tax receivables and net tax provisions** of €38 million is mainly due to: (i) the reduction of €20 million in Group VAT credits, (ii) to the net decrease of €13 million in receivables from the holding company Eni SpA for participation in the National Tax Consolidation and (iii) the reduction of € 8 million in the IRAP tax advance.

The €45 million increase in **provisions for risks and charges** is mainly due to the provision of €38 million to reflect the commitment undertaken to meet the current financial requirements of Matrìca, the net provision of €6 million to the environmental risks and charges fund and of €6 million to the divestments and restructuring fund.

These effects were partially offset by the release of €4 million euro from the **termination benefits fund**.

The increase of €18 million in **other current assets and liabilities** for the year is mainly due to the €15 million increase in receivables from Eni group companies, the €2 million increase in advances to suppliers, the increase of €2 million of receivables from third parties.

## Statement of comprehensive income

	2016	2017
(amounts in millions of euros)		
<b>PROFIT (LOSS) FOR THE PERIOD</b>	<b>163</b>	<b>303</b>
<b>Other items of comprehensive profit (loss):</b>		
Valuations of defined-benefit plans for employees	(2)	3
Foreign currency translation differences	1	(4)
Tax effect relative to the other components of the comprehensive loss that cannot be reclassified to the profit and loss account	1	(1)
<b>TOTAL COMPREHENSIVE PROFIT (LOSS) FOR THE YEAR</b>	<b>163</b>	<b>301</b>

## Shareholders' equity

(amounts in millions of euros)	
<b>Shareholders' equity as at December 31, 2016</b>	<b>1,514</b>
Total comprehensive profit for the year	<b>301</b>
<b>Shareholders' equity as at December 31, 2017</b>	<b>1,815</b>

Shareholders' equity amounted to €1,815 million and increased by €301 million compared to 2016 due to the higher overall profit for the year.

## Net financial debt and Leverage

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

(amounts in millions of euros)	31.12.2016	31.12.2017	Variance
Short-term debt	179	88	(91)
Medium/long-term debt	76	72	(4)
Cash and cash equivalents	(122)	(201)	(79)
<b>Net borrowings</b>	<b>133</b>	<b>(41)</b>	<b>(174)</b>
<b>Shareholders' equity</b>	<b>1,514</b>	<b>1,815</b>	<b>301</b>
<b>Leverage</b>	<b>0.09</b>	<b>(0.02)</b>	<b>(0.11)</b>

The reduction of € 174 million in net financial debt is essentially due to the improvement in net cash flow from operating activities, which made it possible to cover the outlays for investments and generate a positive cash flow. For further details, please refer to the comment on the reclassified cash flow statement.

Leverage, the ratio between net financial debt and shareholders' equity, was -0.02 in 2017 (0.09 in 2016.)

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

(amounts in millions of euros)	Profit (Loss) for the year		Shareholders' equity	
	2016	2017	31.12.2016	31.12.2017
<b>As recorded in annual Financial Statements of Versalis SpA</b>	<b>150</b>	<b>320</b>	<b>1,539</b>	<b>1,860</b>
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	(3)	(68)	(36)	(101)
Consolidation adjustments:				
- elimination of tax adjustments and compliance with accounting policies	(17)	47	(15)	24
- deferred taxation	33	4	26	32
<b>As recorded in Consolidated Financial Statements</b>	<b>163</b>	<b>303</b>	<b>1,514</b>	<b>1,815</b>

## Reclassified Cash Flow Statement

The Reclassified Cash Flow Statement derives from the statutory statement of cash flows. It enables investors to understand the link existing between changes in cash and cash equivalents (deriving from the statutory cash flow statement) and in net borrowings (deriving from the reclassified cash flow statement) occurring between the beginning and the end of the period. The measure enabling such a link is represented by the "free cash flow", which is the excess or deficit of cash remaining after capital expenditure requirements.

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

### Reclassified Cash Flow Statement (\*)

2015	(amounts in millions of euros)	2016	2017	Variance
<b>(1.289)</b>	<b>Net profit (loss) for the period</b>	<b>163</b>	<b>303</b>	<b>140</b>
	<i>Adjustments to reconcile net profit (loss) to net cash provided by operating activities:</i>			
861	- depreciation and amortization and other non monetary items	151	197	46
(3)	- net gains on disposal of assets			
517	- dividends, interest, taxes and other charges	(66)	(14)	52
153	Changes in working capital	259	(19)	(278)
(21)	Dividends received, taxes (paid) received, interest (paid) received	(38)	11	49
<b>218</b>	<b>Net cash flow provided by operating activities</b>	<b>469</b>	<b>478</b>	<b>9</b>
(218)	Investments in fixed assets	(241)	(202)	39
(33)	Investments and purchase of consolidated subsidiaries and busine:	(23)	(63)	(40)
1	Disposals	1		(1)
(19)	Financial investments	(9)	(9)	
(7)	Other cash flow related to investing activities	36	(31)	(67)
<b>(58)</b>	<b>Free cash flow</b>	<b>233</b>	<b>173</b>	<b>(60)</b>
(1.018)	Change in short-term and long-term debt	(260)	(95)	165
1.146	Cash flow from capital and reserves			
<b>70</b>	<b>NET CASH FLOW FOR THE PERIOD</b>	<b>(27)</b>	<b>78</b>	<b>105</b>

### Change in Net Borrowings

2015	(amounts in millions of euros)	2016	2017	Variance
<b>(58)</b>	<b>Free cash flow</b>	<b>233</b>	<b>173</b>	<b>(60)</b>
(6)	Exchange differences on net borrowings and other changes	1.086	1	(1.085)
1.146	Cash flow from capital and reserves			
<b>1.082</b>	<b>CHANGE IN NET BORROWINGS</b>	<b>1.319</b>	<b>174</b>	<b>(1.145)</b>

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

In 2017, the **net cash flow from operating activities**, a €478 million increase, was eroded mainly by outlays for capital expenditure (€202 million), for investment in equity investments (€63 million), partially offset by the change in receivables related to investing activities (€31 million). These events have generated a free cash flow of €173 million. The change in financial payables of € 95 million resulted in a positive cash flow of € 78 million, a marked improvement on 2016 (a negative cash flow of € 27 million).

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

### Reclassified Consolidated Balance Sheet

Items of the Reclassified Consolidated Balance Sheet (where not expressly indicated, the item derives directly from the consolidated financial statements (statutory format) (amounts in millions of euros)	31.12.2016		31.12.2017		
	Ref. to notes to the consolidated financial statements	Partial amounts from the consolidated financial statements	Amounts from the reclassified financial statements	Partial amounts from the consolidated financial statements	Amounts from the reclassified financial statements
<b>Fixed assets</b>					
Property, plant and equipment			739		927
Intangible assets			59		70
Equity accounted investments			183		219
Other investments			3		3
Receivables & securities for operating activities, made up of:					
- other receivables		18			
- other non-current financial assets		108		2	
Net payables related to capital expenditures, made up of:			(64)		(32)
- payables related to capital expenditures	(see note 16)	(64)		(32)	
<b>Total fixed assets</b>			<b>1,046</b>		<b>1,189</b>
<b>Net working capital</b>					
Inventories			592		719
Trade receivables			588		585
Trade payables			(671)		(749)
Tax receivables (payables) & provisions for tax, made up of:			217		179
- income tax payables	(see note 17)	(14)		(5)	
- other tax payables	(see note 18)	(10)		(14)	
- deferred tax liabilities	(see note 23)	(75)		(1)	
- payables for tax transparency v/s joint ventures	(see note 16)			(2)	
- payables for Group VAT				(2)	
- current tax assets	(see note 4)	9		3	
- other current tax assets	(see note 5)	17		8	
- deferred tax assets	(see note 12)	243		177	
- receivables for tax consolidation		29		15	
- receivables for Group VAT	(see note 2)	18			
Provisions for risks and charges			(87)		(132)
Other current assets and liabilities, made up of:			32		50
- other receivables	(see note 2)	105		126	
- other (current) assets	(see note 6)	3		4	
- other receivables and other assets (non current)	(see note 13)	1		1	
- advances, other payables	(see note 16)	(69)		(73)	
- other (current) liabilities	(see note 19)	(8)		(8)	
- other payables and other liabilities (non current)	(see note 24)				
<b>Total net working capital</b>			<b>671</b>		<b>652</b>
<b>Provisions for employee benefits</b>			<b>(70)</b>		<b>(67)</b>
<b>NET CAPITAL EMPLOYED</b>			<b>1,647</b>		<b>1,774</b>
<b>Shareholders' equity</b>			<b>1,514</b>		<b>1,815</b>
<b>Net borrowings</b>					
Total debt, made up of:					
- long-term debt	(see note 20)	71		67	
- current portion of long-term debt	(see note 20)	5		5	
- short-term debt	(see note 14)	179		88	
<b>Less: Cash and cash equivalents</b>	(see note 1)	(122)		(201)	
<b>Total net borrowings</b>			<b>133</b>		<b>(41)</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>			<b>1,647</b>		<b>1,774</b>



## Reclassified Consolidated Cash Flow Statement

Items of the Reclassified Cash Flow Statement and confluence/reclassification of items in the Consolidated Cash Flow Statement (statutory format)	2016		2017	
	Partial amounts from the consolidated financial statements	Amounts from the reclassified financial statements	Partial amounts from the consolidated financial statements	Amounts from the reclassified financial statements
(amounts in millions of euros)				
<b>Net Profit (Loss)</b>		<b>163</b>		<b>303</b>
<i>Adjustments to reconcile net profit (loss) to net cash provided by operating activities:</i>				
Depreciation and amortization and other non-monetary items		151		197
- depreciation and amortization	55		81	
- net impairment of tangible and intangible assets	(18)		(81)	
- eliminations	1			
- effect arising from the evaluation at the equity method	7		61	
- currency translation differences from alignment	(1)		2	
- economic effects on securities and financial receivables	93		133	
- valuation of equity investments valued at cost	13			
- net change in provision for employee benefits	1		1	
Net gains on disposal of assets				
Dividends, interest, income taxes and other charges		(66)		(14)
- dividends				
- interest income	(8)		(9)	
- interest expense	9		(4)	
- income taxes	(67)		(1)	
Changes in working capital		259		(19)
- inventories	75		(129)	
- trade receivables	50		(3)	
- trade payables	49		80	
- provisions for risks and charges	(32)		7	
- other assets and liabilities	117		26	
Dividends received, taxes paid, interest (paid) received during the period		(38)		11
- dividends received			1	
- interest received				
- interest paid	(16)		4	
- Income taxes received (paid) including tax credits rebated	(22)		6	
<b>Net cash flow provided by operating activities</b>		<b>469</b>		<b>478</b>
Capital expenditures		(241)		(202)
- tangible assets	(238)		(192)	
- intangible assets	(3)		(10)	
Investments and purchase of consolidated subsidiaries and businesses		(23)		(63)
- non consolidated investments	(23)		(63)	
- investments and purchase of consolidated subsidiaries and businesses				
Divestments and partial disposals of consolidated investments		1		
- tangible assets	1			
- investments				
Other changes related to investment activity		27		(40)
- financial investments: financial receivables	(9)		(9)	
- change in payables and receivables related to investments	36		(31)	
<b>Free cash flow</b>		<b>233</b>		<b>173</b>
Change in short-term and long-term debt		(260)		(95)
- proceeds from long-term finance debt				
- payments from long-term finance debt	(5)		(5)	
- change in short-term finance debt	(251)		(89)	
- foreign currency exchange differences			(1)	
- change in the consolidation of cash & cash equivalents	(4)			
Cash flow from equity capital:				
- net capital contribution (repayments) by/to third parties				
<b>Net cash flow for the period</b>		<b>(27)</b>		<b>78</b>

## Financial review – Versalis SpA

### Profit and Loss Account

2015	(amounts in millions of euros)	2016	2017	Variance	Var. %
4,003	Net sales from operations	3,455	3,850	395	11.4
119	Other income and revenues	48	151	103	..
(4,107)	Operating expenses	(3,368)	(3,657)	(289)	8.6
(7)	Other operating (expense) income	(7)	2	9	..
(665)	Depreciation, amortization and impairment	(74)	(13)	61	(82.4)
<b>(657)</b>	<b>Operating Profit (Loss)</b>	<b>54</b>	<b>333</b>	<b>279</b>	<b>..</b>
(18)	Net finance income (expense)	(97)	(125)	(28)	28.9
(97)	Net income (expense) from investments	139	101	(38)	(27.3)
<b>(772)</b>	<b>Profit (Loss) before income taxes</b>	<b>96</b>	<b>309</b>	<b>213</b>	<b>..</b>
(457)	Income taxes	54	11	(43)	(79.6)
<b>(1,229)</b>	<b>Net Profit (Loss)</b>	<b>150</b>	<b>320</b>	<b>170</b>	<b>..</b>

### Net profit

The financial statements of Versalis SpA show a net profit for the period of €320 million (€150 million in 2016), determined by the operating profit of €333 million, net finance expenses of €125 million and net investment income of €101 million and by proceeds from income taxes of €11 million.

The operating result improved by €279 million, mainly as a consequence of the increase in average unit sales prices, in particular for the Intermediates and Polymers businesses (as fully described in the previous paragraph "Revenues and production") which led to an increase in revenues of €395 million, offset by an increase in operating costs of €289 million, due mainly to the increased prices of oil and utilities in euro when compared to 2016. During the year, energy efficiency bonds were also sold for €90 million, which led, together with higher sales of licenses, to a strong increase in other revenues and income compared to the previous year. Finally, the write-back following the impairment test on production plants led to a reduction of € 61 million in amortization and depreciation.

## Analysis of the profit and loss account items

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

### Net sales from operations

2015	(amounts in millions of euros)	2016	2017	Variance	Var. %
1,243	Olefins	925	932	7	0.8
327	Aromatics	290	328	38	13.1
297	Derivatives	311	350	39	12.5
469	Elastomers	462	477	15	3.2
696	Styrenes	595	576	(19)	(3.2)
857	Polyethylene	751	832	81	10.8
114	Corporate and services	121	355	234	..
<b>4,003</b>		<b>3,455</b>	<b>3,850</b>	<b>395</b>	<b>11.4</b>

**Net sales from operations** increased by €395 million following the increase in unit sales prices, partially offset by a slight decline in volumes sold.

### Other income and revenues

**Other income and revenues** increased by €103 million compared with 2016 due mainly to the increase in revenues deriving from the sale of Energy Efficiency Certificates (€ 90 million) and the sale of licenses (€ 26 million). These effects were partially offset by reduced income from contractual penalties, settlements and lawsuits (€6 million), lower recovery costs related to the Syndial guarantee fund (€4 million), and the decrease in insurance compensation (€2 million).

### Operating expenses

2015	(amounts in millions of euros)	2016	2017	Variance	Var. %
2,699	Production costs – raw, ancillary and consumable materials and goods and inventory changes	2,047	2,252	205	10.0
1,056	Service costs	1,007	1,059	52	5.2
16	Operating leases and other	16	16		
27	Net provisions for contingencies	20	14	(6)	(30.0)
41	Other expenses	7	47	40	..
268	Payroll and related costs	271	269	(2)	(0.7)
<b>4,107</b>		<b>3,368</b>	<b>3,657</b>	<b>289</b>	<b>8.6</b>

**Operating expenses** increased by €289 million, equal to 8.6%, as shown in the table above.

The increase of 10% in the **cost of raw, ancillary and consumable materials and goods and inventory changes** was primarily due to an increase in the average unit price in euros of virgin naphtha compared to 2016

**Service costs** increased by 5.2%, mainly due to the increase in utilities prices (methane and steam), due to the increase in the sundry professional services costs, construction costs, costs for design and works management, logistics costs, maintenance costs, as well as sales commissions. These effects were only partially offset by the reduction in ecological treatments costs and insurance costs.

The €14 million in net **provisions for contingencies** refers mainly to the following: (i) allocation of €16 million to the provision for restructuring and divestitures, (ii) the utilization of €2 million of the provision for risks and environmental liabilities. There is a reduction of €6 million compared to the previous year, where there were greater provisions for risks and charges for disputes.

**Other expenses** increased by €40 million mainly due to increased contractual penalties (€19 million, mainly versus Matrica), and reduced utilization of provisions for litigations (€19 million).

### Other operating (expense) income

**Other operating expenses** of €2 million (€7 million in 2016) are related to derivatives used to cover the virgin naphtha price risk that, although not held for speculative purposes, are not classifiable as "hedged" in accordance to the IFRS standards.

### Depreciation, amortization and impairment

2015	(amounts in millions of euros)	2016	2017	Variance	Var. %
62	Tangible assets	30	41	11	36.7
4	Intangible assets	4	5	1	25.0
<b>66</b>	<b>Depreciation and amortization</b>	<b>34</b>	<b>46</b>	<b>12</b>	<b>35.3</b>
<b>599</b>	<b>Impairments</b>	<b>40</b>	<b>(33)</b>	<b>(73)</b>	<b>(182.5)</b>
<b>665</b>		<b>74</b>	<b>13</b>	<b>(61)</b>	<b>(82.4)</b>

**Depreciation** and amortization decreased by €12 million compared with the previous year, mainly due to the effects of the write-back of assets made in 2016.

Following the outcome of the impairment test carried out in 2017, there was a write-back of tangible assets amounting to €33 million.

The write-backs and write-downs of tangible assets, the net effect of which is a revaluation of 33 million euros, refer mainly to the following CGU: Priolo plant (write-back of €131 million), Ethylene-polyethylene of Brindisi (write-back of €66 million), Porto Marghera plant (full write-down of €59 million), Elastomers of Ferrara (writedown of €52 million), Ravenna plant (writedown of €15 million), Intermediates in Mantova (full write-down of €10 million), Butadiene of Brindisi (full write-down of €8 million), Polyethylene of Ferrara (full write-down of €8 million), other Porto Torres services (full write-down of €7 million) and Ragusa plant (full write-down of €4 million).

The Versalis Group's non-financial fixed assets have been grouped into Cash Generating Units (CGUs) and the impairment loss was determined by comparing the book value of each CGU with its value in use (determined by discounting to present value the expected cash flows deriving from use of the assets over a period coinciding with the remaining average useful life of the CGU

itself). For further details, see Note 7 "Property, plant and equipment" of the Notes to the financial statements.

## Net financial expenses

2015	(amounts in millions of euros)	2016	2017	Variance	Var. %
(34)	Financial income (expense) related to net borrowings	(14)	(1)	13	(92.86)
11	Income (expense) on loans and securities related to operations	(85)	(125)	(40)	47.06
8	Income (expense) on derivative contracts	(1)	(3)	(2)	..
(6)	Exchange differences		1	1	..
(4)	Other financial income (expense)	(3)	(4)	(1)	33.33
7	Financial expenses capitalized	6	7	1	16.67
<b>(18)</b>		<b>(97)</b>	<b>(125)</b>	<b>(28)</b>	<b>28.87</b>

**Net financial expenses** increased by €28 million essentially owing to a greater write-down of financial receivables related to operations with Matrica of €39 million, partially offset by a decrease of €13 million in interest expense related to the financial debt.

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

## Net income (expense) from investments

2015	(amounts in millions of euros)	2016	2017	Variance	Var. %
11	Dividends	16	33	17	..
(108)	(Allocations to) Utilization of provisions for impairment of investmer	123	106	(17)	(13.8)
	(Allocations to) Utilization of provisions to cover losses		(38)	(38)	..
<b>(97)</b>		<b>139</b>	<b>101</b>	<b>(38)</b>	<b>(27.3)</b>

The **net income from investments** decreased by €38 million mainly due to the provision (€38 million) made following the company's commitment to meet the financial requirements envisaged for the year 2018 of the jointly controlled company Matrica, as well as for the write-down of the investment in Matrica (€17 million) equal to the capital increases carried out during the year. These effects are partially offset by the write-back of the equity investments in Versalis France (€123 million) and the dividends received (€14 million relating to Versalis Deutschland, €14 million to Versalis France, €3 million to Versalis International and €2 million in Dunastyr).

**Income taxes**

2015	(amounts in millions of euros)	2016	2017	Variance
	<b>Current taxes</b>			
(5)	IRES	(28)	(16)	12
	IRAP		9	9
<b>(5)</b>		<b>(28)</b>	<b>(7)</b>	<b>21</b>
(7)	Deferred taxes	15	15	
469	Prepaid taxes	(41)	(18)	23
<b>462</b>		<b>(26)</b>	<b>(3)</b>	<b>23</b>
<b>457</b>		<b>(54)</b>	<b>(10)</b>	<b>44</b>

The decrease in deferred tax income of €44 million, compared with 2016, was due primarily to the lower write-backs of deferred tax assets written down in previous years to 2016, the reduction in income for IRES current taxes and the increase in the IRAP tax.

**Reclassified Balance Sheet <sup>1</sup>****Reclassified Balance Sheet (\*)**

(amounts in millions of euros)	31.12.2016	31.12.2017	Variance
<b>Fixed assets</b>			
Property, plant and equipment	493	652	159
Intangible assets	57	69	12
Investments	462	630	168
Receivables and securities held for operating activities	126	1	(125)
Net payables related to capital expenditure	(55)	(29)	26
	<b>1,083</b>	<b>1,323</b>	<b>240</b>
<b>Net working capital</b>			
Inventories	453	565	112
Trade receivables	526	497	(29)
Trade payables	(566)	(664)	(98)
Tax receivables (payables) and provisions for deferred tax	187	149	(38)
Provisions for risks and charges	(76)	(114)	(38)
Other current assets (liabilities)	76	100	24
	<b>600</b>	<b>533</b>	<b>(67)</b>
<b>Provisions for employee benefits</b>	<b>(67)</b>	<b>(67)</b>	
<b>NET CAPITAL EMPLOYED</b>	<b>1,616</b>	<b>1,789</b>	<b>173</b>
<b>Shareholders' equity</b>	<b>1,539</b>	<b>1,860</b>	<b>321</b>
<b>Net borrowings</b>	<b>77</b>	<b>(71)</b>	<b>(148)</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>1,616</b>	<b>1,789</b>	<b>173</b>

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

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

<sup>1</sup> See the comments on the consolidated economic and financial results for a methodological illustration of the reclassified statements.

### Fixed assets

**Property, plant and equipment** amounted to €652 million, increased by €159 million due essentially to capital expenditures (€174 million) and write-backs (€33 million) partially offset by the depreciation for the period (€41 million).

**Intangible assets** amounted to €69 million, increased by €12 million mainly due to the investments for the year (€10 million).

**Equity investments** amounted to €630 million, representing an increase of €168 million mainly due to the effect of the write-back of equity investments value in Versalis France (€123 million), and capital subscriptions in the Lotte Versalis Elastomers Co. Ltd joint venture (€45 million).

**Financial receivables and securities held for operating activities** of €1 million are reduced by 125 million euros essentially due to the full write-down of the loan granted to Matrica SpA, to meet the financial requirements relating to the "Polo Verde" project of Porto Torres. The devaluation takes into account the deterioration of the repayment capacity of Matrica, consistent with the risk of the initiative.

### Net working capital

The increase of €112 million in **inventories** is attributable both to an increase in stocks and to an increase in the value of inventories and concerns finished products for €93 million and raw materials, supplies and consumables for €18 million. These amounts include the utilization of the provision for the impairment of investments of €1 million for the adjustment to market value of inventories in stock.

The increase of €98 million in **trade receivables** is mainly due to the deferred payments of payables due in the last days of the financial year.

The decrease in **tax assets and net provisions for taxes** of €38 million is mainly due to: (i) the reduction of €20 million in the Versalis group VAT credits; (ii) the net decrease of €13 million in receivables from the parent company Eni SpA for participation in the National Tax Consolidation and (iii) the reduction of €8 million in the IRAP advance. These effects are partially offset by an increase in net deferred tax assets of €4 million.

The increase of €38 million in **provisions for risks and charges** was due the provision of €38 million to reflect the commitment made to meet the current financial need of Matrica and the net allocation of €7 million to the provision for risks and charges for restructuring. The above are partially offset by higher net utilisations of the provision for redundancy incentives (€4 million) and the provision for environmental charges (€2 million).

The increase of €24 million in **other current net assets** is mainly due to the increase of €15 million of receivables from companies of the Eni group, an increase of €4 million in receivables from subsidiaries, an increase of €2 million in receivables from third parties and €2 million in advances to suppliers.

## Shareholders' equity

(amounts in millions of euros)

<b>Shareholders' equity as at December 31, 2016</b>	<b>1,539</b>
Net profit	320
Reserves relating to employee benefits	1
<b>Shareholders' equity as at December 31, 2017</b>	<b>1,860</b>

**Shareholders' equity** amounted to €1,860 million representing an increase of €321 million mainly due to the profit for the year of €320 million. The other changes of €1 million concern the effects on reserves related to employee benefits in application of IAS 19.

## Net borrowings

(amounts in millions of euros)

	31.12.2016	31.12.2017	Variance
Short-term debt	98	23	(75)
Medium/long-term debt	71	66	(5)
Cash and cash equivalents	(92)	(160)	(68)
<b>Net borrowings</b>	<b>77</b>	<b>(71)</b>	<b>(148)</b>
<b>Shareholders' equity</b>	<b>1,539</b>	<b>1,860</b>	<b>321</b>
<b>Leverage</b>	<b>0.05</b>	<b>(0.04)</b>	<b>(0.09)</b>

The decrease of €148 million in **net borrowings** was primarily the result of the improvement in the net cash flow from operating activities (a €429 million increase) which was used to fund the capital expenditure and to generate positive cash flow. For further information, see the comment on the Reclassified Cash Flow Statement.



## Reclassified Cash Flow Statement

### Reclassified Cash Flow Statement (\*)

2015	(amounts in millions of euros)	2016	2017	Variance
<b>(1,229)</b>	<b>Net profit (loss) for the period</b>	<b>150</b>	<b>320</b>	<b>170</b>
	<i>Adjustments to reconcile net profit (loss) to net cash provided by operating activities:</i>			
771	- depreciation, depletion, and amortization and other non monetary iterr	45	80	35
(3)	- net gains on disposal of assets			
462	- dividends, interest, taxes and other charges	(71)	(57)	14
83	Changes in working capital	217	19	(198)
	Dividends received, taxes (paid) received, interest (paid)			
(6)	received	(5)	67	72
<b>78</b>	<b>Net cash flow provided by operating activities</b>	<b>336</b>	<b>429</b>	<b>93</b>
(177)	Capital expenditures	(154)	(184)	(30)
(35)	Investments and purchase of consolidated subsidiaries and businesse	(171)	(62)	109
1	Disposals	1		(1)
(19)	Financial investments: financial receivables	(9)	(8)	1
2	Other changes related to investment activity	31	(27)	(58)
<b>(150)</b>	<b>Free cash flow</b>	<b>34</b>	<b>148</b>	<b>114</b>
(913)	Change in short-term and long-term debt	(49)	(80)	(31)
1,146	Equity cash flow			
<b>83</b>	<b>NET CASH FLOW FOR THE PERIOD</b>	<b>(15)</b>	<b>68</b>	<b>83</b>

### Change in net borrowings

2015	(amounts in millions of euros)	2016	2017	Variance
<b>(150)</b>	<b>Free cash flow</b>	<b>34</b>	<b>148</b>	<b>114</b>
(2)	Exchange differences on net borrowings and other changes	1,072		(1,072)
1,146	Equity cash flow			
<b>994</b>	<b>CHANGE IN NET BORROWINGS</b>	<b>1,106</b>	<b>148</b>	<b>(958)</b>

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

In 2017, the **net cash** provided by **operating activities** of €429 million, was reduced mainly by outlays for capital expenditures (€184 million), for equity investments (€62 million), the change related to investment activity (€27 million) and financial receivables (€8 million). This generated a positive free cash flow of €148 million, a marked improvement on 2016 (€34 million). The change in financial debt of €80 million generated a positive net cash flow of €68 million, a considerable improvement compared to 2016 (a requirement of €15 million).

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

### Reclassified Balance Sheet

Items of the Reclassified Balance Sheet (where not expressly indicated, the item derives directly from the financial statements (statutory format) (amounts in millions of euros)	31.12.2016		31.12.2017	
	Partial amounts from the statutory financial statements	Amounts from the reclassified financial statements	Partial amounts from the statutory financial statements	Amounts from the reclassified financial statements
<b>Fixed assets</b>				
Property, plant and equipment		493		652
Intangible assets		57		69
Equity accounted investments and Other investments		463		630
Receivables & securities for operating activities, made up of:		126		1
- other receivables	18			
- other non-current financial assets	108		1	
Net payables related to capital expenditures, made up of:		(56)		(29)
- payables related to capital expenditures	(56)		(29)	
<b>Total fixed assets</b>		<b>1,083</b>		<b>1,323</b>
<b>Net working capital</b>				
Inventories		453		565
Trade receivables		526		497
Trade payables		(566)		(664)
Tax receivables (payables) & provisions for tax, made up of:		187		149
- income tax payables				
- other tax payables	(8)		(8)	
- deferred tax liabilities				
- payables for tax transparency v/s joint ventures	(2)		(2)	
- payables for Group VAT			(2)	
- current tax assets	9			
- other current tax assets				
- deferred tax assets	142		146	
- receivables for tax consolidation	28		15	
- receivables for Group VAT	18			
Provisions for risks and charges		(76)		(114)
Other current assets and liabilities, made up of:		76		100
- other receivables	131		152	
- other (current) assets	2		3	
- other receivables and other assets (non current)	1		1	
- advances, other payables	(51)		(49)	
- other (current) liabilities	(7)		(7)	
- other payables and other liabilities (non current)				
<b>Total net working capital</b>		<b>600</b>		<b>533</b>
<b>Provisions for employee benefits</b>		<b>(67)</b>		<b>(67)</b>
<b>NET CAPITAL EMPLOYED</b>		<b>1,616</b>		<b>1,789</b>
<b>Shareholders' equity</b>		<b>1,539</b>		<b>1,860</b>
<b>Net borrowings</b>				
Total debt, made up of:				
- long-term debt	71		66	
- current portion of long-term debt	5		5	
- short-term debt	93		18	
<b>Less: Cash and cash equivalents</b>	(92)		(160)	
<b>Total net borrowings</b>		<b>77</b>		<b>(71)</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>1,616</b>		<b>1,789</b>

## 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)	2016		2017	
	Partial amounts from statutory format	Amounts from the reclassified financial statements	Partial amounts from the statutory financial statements	Amounts from the reclassified financial statements
<b>Net Profit (Loss)</b>		<b>150</b>		<b>320</b>
<i>Adjustments to reconcile net profit (loss) to net cash provided by operating activities:</i>				
Depreciation and amortization and other non-monetary items		45		80
- depreciation and amortization	34		46	
- net impairment of tangible and intangible assets	40		(33)	
- eliminations				
- impairments (write-backs) of investments	(122)		(68)	
- currency translation differences from alignment	(1)		2	
- economic effects on securities and financial receivables	93		133	
- valuation of equity investments valued at cost				
- net change in provision for employee benefits	1			
Net gains on disposal of assets				
Dividends, interest, income taxes and other charges		(71)		(57)
- dividends	(16)		(33)	
- interest income	(9)		(9)	
- interest expense	8		(4)	
- income taxes	(54)		(11)	
Changes in working capital		217		19
- inventories	74		(111)	
- trade receivables	37		25	
- trade payables	(2)		99	
- provisions for risks and charges	(11)			
- other assets and liabilities	119		6	
Dividends received, taxes paid, interest (paid) received during the period		(5)		67
- dividends received	16		33	
- interest received				
- interest paid	(15)		5	
- Income taxes received (paid) including tax credits rebated	(6)		29	
<b>Net cash flow provided by operating activities</b>		<b>336</b>		<b>429</b>
Capital expenditures		(154)		(184)
- tangible assets	(151)		(174)	
- intangible assets	(3)		(10)	
Investments and purchase of consolidated subsidiaries and businesses		(171)		(62)
- non consolidated investments	(171)		(62)	
- investments and purchase of consolidated subsidiaries and businesses				
Divestments and partial disposals of consolidated investments		1		
- tangible assets	1			
- investments				
Other changes related to investment activity		22		(35)
- financial investments: financial receivables	(9)		(8)	
- change in payables and receivables related to investments	31		(27)	
<b>Free cash flow</b>		<b>34</b>		<b>148</b>
Change in short-term and long-term debt		(49)		(80)
- proceeds from long-term finance debt				
- payments from long-term finance debt	(5)			
- change in short-term finance debt	(44)		(80)	
- foreign currency exchange differences				
- change in the consolidation of cash & cash equivalents				
Cash flow from equity capital:				
- net capital contribution (repayments) by/to third parties				
<b>Net cash flow for the period</b>		<b>(15)</b>		<b>68</b>

## Risk factors and uncertainties

### Introduction

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

### Operational risk

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

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

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

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

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

Most of the Versalis Group's products are subject to the REACH legislation which regulates the obligations of registration and authorization of the products themselves, not only by the company, but also by its suppliers, as a condition necessary for their manufacture and commercialisation on the market.

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

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

## Capital management

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

## Fair value of financial instruments

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

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

In relation to the above, the Versalis Group's financial instruments carried at fair value at December 31, 2016 regard "level 2" derivative contracts.

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

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

## Environmental regulations

As regards environmental risk, given the steps already taken, the insurance policies signed and the provisions for risk already accrued, Versalis does not expect to incur any particularly significant negative effects on the financial statements as a result of compliance with environmental legislation. However, we cannot rule out with certainty the risk that Versalis may have to bear further costs or liabilities, even of significant proportions, as it is impossible, on the basis of current knowledge, to predict the effects of future developments, taking into account the following aspects, among others: (i) the possibility of as yet unknown contamination; (ii) the results of the ongoing surveys and the other possible effects of statements required by Decree no. 152/2006 of the Ministry of Environment; (iii) new developments in environmental regulation; (iv) the effect of possible technological changes relating to future remediation; (v) the possibility of litigation and the difficulty of determining the eventual consequences, also considering the responsibility of other parties and eventual insurance indemnity.

### **Emissions trading**

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

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

During the year, the Versalis Group purchased 443,880 EUA rights to supplement the assigned securities and cover the estimated year-end emissions. The purchased surplus (75.262 EUA, for a countervalue of €0.6 million) was capitalized among intangible assets, as required by accounting standards.

## Business outlook

The priority of the Versalis group will be the consolidation of the economic and financial results with an increase in operating profit and accumulated free cash flow of €0.37 billion over the period of the plan. These objectives will be achieved through: i) consolidation of the production footprint by increasing integration, efficiency, better use of existing assets and the construction of new plants; ii) the differentiation of the portfolio towards products with higher added value (so-called "differentiated products"), also through the development of new products from Research and Development activities and the acquisition of new technologies; iii) international development through joint venture projects, expansion of the commercial presence, presence in areas with raw materials or competitive markets; iv) development of "green" chemistry initiatives in line with the decarbonisation strategy, using natural raw materials and developing "Bio" technologies.

## Other information

### **Transactions with related parties**

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

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

### **Treasury shares and shares in parent company**

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

### **Secondary offices**

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



## Commitment to sustainable development

### Introduction

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

### Personnel

The number of employees working for the Group companies at December 31, 2017 amounted to 5,172.

2015	Employees	2016	2017
4,241	Italy	4,182	4,213
964	Abroad	949	959
<b>5,205</b>		<b>5,131</b>	<b>5,172</b>

The reduction of 41 staff compared with December 31, 2016 was determined by the following:

- increases:

- 206 persons were recruited, 25% of whom were graduates;
- 14 entries are due to activation of 1st level apprenticeship contracts;

- reductions:

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

The breakdown by category is as follows:

2015	Employees	2016	2017
112	Senior Management	110	109
3,196	Middle Management & Staff Employees	3,168	3,183
1,897	Workers	1,853	1,880
<b>5,205</b>		<b>5,131</b>	<b>5,172</b>

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

Age group	Total	%
< 30	397	7.7
30-39	1,175	22.7
40-49	1,678	32.4
50-59	1,701	32.9
> 60	221	4.3
	5,172	100.0

As at December 31, 2017 the number of employees in service in the Group companies was 5,114.

Employees	2016	2017
Senior Management	106	102
Middle Management & Staff Employees	3,138	3,156
Workers	1,841	1,856
	<b>5,085</b>	<b>5,114</b>

The number of employees in service is obtained by subtracting those employees seconded to other companies from the total number of employees on the payroll and adding those seconded from other companies.

Employees of Versalis SpA and of its subsidiaries seconded to other companies of the Eni Group, to other entities, or on leave, numbered 95, while those seconded to Versalis SpA from other companies of the Eni Group numbered 37.

## Training

The training programmes in Italy and in the foreign subsidiaries covered 166,000 man-hours in 2017. This activity was provided mostly using internal resources, but also with the support of Eni Corporate University SpA.

The financial resources used included €1.6 million of costs towards Eni Corporate University SpA. The use of funding from inter-professional funds (Fondirigenti and Fondimpresa), enables the recovery of more than 46% of this amount.

Specific examples over the year include:

- ongoing commitment to the institutional training of new recruits, carried out in-house for those just graduated from high school, and also using the services of Eni Corporate University SpA for young graduates;
- continuation in the targeted development of language skills, to support both managerial and operational resources in international professional situations;
- significant training and information efforts on environmental, health, safety and quality issues, for a total of approximately 73,000 hours, made both in the classroom and in "training on the job", with particular reference to compulsory HSE training;
- training initiatives with the objective of extending to the staff all the knowledge in the field of compliance, with the goal of making the guidelines, regulations and internal procedures known and operative, to ensure compliance with the laws in the conduct of Versalis and Eni SpA business;
- the participation in seminars of in-depth updating, at Eni Corporate University SpA or other qualified external organizations, for the development and consolidation of transversal competencies and specialized know-how of the employees working in different business areas.

- the implementation of the e-learning course, SA8000 aimed at supporting the SA8000 certification for social responsibility obtained by Versalis.

### Incentive and remuneration systems

In keeping with the merit-based policy linked to roles and responsibilities, Versalis SpA strengthened its variable performance-based incentive system for senior management and middle management, setting individual targets in line with the company's general objectives. In 2017, performance assessment involved almost all senior managers and managers, identified on the basis of their assigned operating and management responsibilities. The incentive policy is linked to the achievement of results and the level of contribution provided. Furthermore, in 2017 the incentive system was confirmed for the sales force operating within Europe. A long-term incentive system, in line with the practices and policies of the Eni Group, is in place for those executives with greater strategic responsibilities, whose actions have an impact on the results of operations.

### Environmental responsibility

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

- €182 million for expenses in the period (€172 million in 2016)
- €35 million for capitalized investments (€38 million in 2016).

Total HSE 2017 expenditure was €217 million (€210 million in 2016)

**Environmental** activities amounted to €114 million (€113 million in 2016), including soil and aquifer management activities.

**Safety** activities amounted to €75 million (€71 million in 2016), industrial hygiene, product safety and health activities amounted to €6 million (same amount in 2016) and the integrated HSE amounted to €21 million (same amount in 2016).

With regard to the control of **greenhouse gas emissions**, 2017 ended with a final balance of CO<sub>2</sub> emissions, for the company, subject to Emission Trading, of 3.05 million tonnes in 2016, substantially in line with both 2016 and 2015.

The results for 2017, therefore, can be summarized as follows:

- quotas allocated: 2.73 million tonnes of CO<sub>2</sub>;
- emissions: 3.05 million tonnes of CO<sub>2</sub>;
- deficit: 0.32 million tonnes of CO<sub>2</sub>.

With regard to the issue, free of charge, of the 2018 emissions quotas, the following is envisaged:

- Ferrara: an increase in quotas allocated, free of charge, over the period 2019-2020, against the start-up of the new GP27 plant in 2018;
- Porto Marghera: a reduction in the quotas allocated, free of charge, over the period 2019-2020, in the face of the CTE shutdown and the start-up of the two new boilers in the first quarter of 2018;
- Porto Torres: a reduction in the quota allocated free of charge, in 2020, in the face of the shutdown of the CTE and the commissioning of the new boiler in 2019.

Among the characterizing events in 2017, from the point of view of the emissions, the following should be noted:

- Mantova: scheduled maintenance shutdown of the styrene monomer production plant, ST40, about 10 days, of the ST20 plant, ethylbenzene and styrene monomer section, of about 48 days and of the phenol, PR7, and cyclohexanone plants, PR 11 , approximately 35 days and 31 days respectively;
- Ravenna: the scheduled maintenance shutdown of the butadiene plant boilers of about 30 days;
- Porto Marghera: the scheduled maintenance shutdown for the Cracking plant, CR13, and the Aromatici, CR20 plant, of about 50 days;
- Ferrara: the scheduled shutdown for maintenance of the OFF GAS plant of about 8 days.

Furthermore, the completion, in 2017, of some energy saving projects at the Priolo, Brindisi and Dunkirk sites has led to savings of 29,090 tonnes of CO2 from direct emissions.

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

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

Italian and abroad	2016	2017
No. of incapacitating accidents	3	2
Frequency rate	0.22	0.15
Severity index	0.030	0.042

During 2017, two accidents involving employees, linked to episodes mainly due to uncoordinated movements, inattention, lack of use of correct personal protection devices, failure to comply with the provisions of the risk assessment documents and authorization documents for the execution of the works. For the second consecutive year there were no injuries to the contractors.

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

In addition, the accident reporting activities continued.

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

Health protection activities are increasingly organized and structured in an "integrated management system" strongly oriented towards prevention in which the health checks are combined with the annual standard controls related to environmental survey campaigns. In particular, against exposure risks to carcinogenic and mutagenic chemical agents, environmental exposure and personal exposure assessments are integrated with the monitoring, for each employee, of specific biological indicators in order to verify the dose actually absorbed by the worker. Health promotion programs that go beyond the strictly operating activities of the company continued in 2017, such as campaigns for flu vaccination, cardiovascular prevention, awareness campaigns on smoking risk and the adoption of correct lifestyles.

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

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

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

At the Brindisi, Ferrara, Mantua, Porto Marghera, Priolo and Sarroch sites, as preventive measures, groundwater pumping systems are active. The pumping systems, evaluated at the end of 2017, pump an estimated total of 6.5 million cubic metres of water a year, in line with forecasts. The Brindisi, Ferrara, Mantua, Porto Marghera, Ravenna, and Sarroch sites are being or have been monitored for soil gas, in order to directly assess the risks associated with volatilization paths.

With regard to remediation, the authorization procedure provided for by law was completed with the approval of projects at the sites in: Gela (groundwater), Porto Marghera (groundwater and soil), Priolo (groundwater and soil in the area south of Vallone della Neve), Ferrara (confined groundwater and surface aquifer and soil), Ravenna (surface aquifer and soil), Sarroch (groundwater and soil) and Ragusa (remediation of the ex-topping area). Work has begun at all the sites involved. At the Porto Torres facility, the groundwater and soil situation is monitored and managed by Syndial, since Versalis operates under leasehold at this site.

In 2017, technical reports on specific aspects for the sites of Brindisi, Ferrara, Gela, Mantua, Porto Marghera, Priolo, Ravenna and Sarroch were developed and transmitted to the competent Authority. The following documents were also sent to the Authorities and the MATTM for approval: risk analysis of the land and MISO interventions for the Versalis site in Brindisi, additions to the project to clean up the groundwater at the Sarroch site (co-signed with Sasol).

The variant of the Sarroch site drainage project and co-certification with Sasol was approved with prescriptions. Furthermore, the risk analysis relating to the Brindisi Site land was approved with prescriptions.

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

## Technological innovation

During 2017 research and technological innovation activities were directed, in continuity with previous years, at the ongoing improvement of processes and products of the existing business lines. Moreover, research and development activities in the green chemistry sector have been strengthened, in synergy with other businesses.

In particular, the most interesting results include the following:

### Green chemistry

#### *Guayule*

Research activities continued on the development of a biorefinery, which foresees the maximum use of all the parts of the guayule plant, minimizing the portion destined for fuel.

The agronomic protocol, developed for Italy in the previous years of experimentation, was tested on a new field in Basilicata and data was obtained regarding the second year of cultivation of the two new experimental fields in Sicily.

After the extraction, by means of proprietary technology, of the rubber portion from Italian plants, the application study aimed at enhancing the resin fraction used in the protection of insects wood continued.

In addition, a proprietary technology was developed to process the remaining portion, so-called bagasse (lignocellulosic fraction), obtaining second generation sugars, successfully used in fermentations with various types of microorganisms, in particular with those specific for producing biofuels.

Finally, a co-development and industrialization agreement was finalized with Bridgestone, which has been working on this project for decades and has a 400-hectare cultivation in Arizona and a 1,000-ton/year pilot plant; the above makes Bridgestone and Versalis absolute leaders in this developing technology.

#### *Biobutadiene*

Bio-butadiene was obtained from second-generation sugars (2G) deriving from guayule bagasse, demonstrating that these sugars, if produced with a technology developed by Versalis, are suitable for use in cascade which provides, with the finest portion of these sugars, the production of bio-based chemicals (biobutadiene) and, with the remaining less valuable part, the production of biofuels. Furthermore, in collaboration with the Genomatica company, the microbial strain, (which biologically produces the intermediate that leads to the production of 1.3 bio-BDE), has been further improved, thereby simplifying such production, (which occurs via inorganic catalysis).

#### *Metathesis*

The study continued, aimed at a new technology of metathesis of vegetable oils, with ethylene instead of 1-butene, which would correspond to a spectrum of much more valuable products. Among these we note a higher percentage of the basic components, only obtainable by metathesis, of a new lubricant for wind turbines, developed by Eni, as part of a very fruitful collaboration that has already brought excellent results in terms of other innovative lubricants containing renewable raw materials. A project of derivatization of esters is under way to produce high performance polyesters.

## Elastomers

As part of international development, the most significant result of the current year, for its strategic value and the number of skills made available, involved the support to the joint venture between Versalis and Lotte Chemical, an important petrochemical company based in South Korea, to respond to the growth of the elastomer market in Asia. The industrial complex, launched by the Versalis R & D facility, which has a nominal capacity of 200 thousand tonnes per annum of elastomers (EPDM, ethylene-propylene-diene rubber, s-SBR, butadiene-styrene rubber in solution, BR, polybutadiene rubber), inaugurated at the end of November, will allow the production of various elastomeric grades for premium applications, mainly for tyres and other automotive components, modification of styrene polymers and technical articles. During the year, at the Scottish site of Grangemouth, three new sSBR grades with continuous technology were industrialized to cope with progressive requests for products with improved processability of the tyre market in Asia. At the Ravenna site, the production of a sSBR grade for silica has been consolidated, which makes it possible to be competitive in the high-end tyres sector, for which it is essential to combine both performance and energy savings. The development of all these grades will enable Versalis to significantly expand its range in line with stringent European regulations and to maintain its leading position in the tyre sector. The synthesis of Butadiene/Isoprene copolymers with a high content of cis units has been developed on a pilot scale, currently not available from other competitors, which are configured as materials suitable for tread and sidewall applications, in partial or total replacement of polybutadiene, due to an improved interaction with inorganic fillers that allows to significantly contain the hysteretic characteristics of the relative compounds.

As regards thermoplastic rubbers, a SIS grade was developed for the adhesive sector (label application), following an intense fine-tuning activity carried out jointly with an industry leader and the production of a SEBS post product was consolidated modified with maleic anhydride, through reactive extrusion, which, as a result of an improved compatibility with polar materials (metals, glass fibers and other polymers), can be used in niche sectors as a promoter of interfacial adhesion.

In collaboration with a partner, the survey on the use of elastomeric materials from the recycling of end-of-use tires (PFU) was deepened, and the innovative production technology with low energy consumption was optimized; this material is suitable, in application compounds (industrial market and tire), as a partial substitute of synthetic rubber and/or filler, to increase its sustainability without detracting from the final performances.

## Polyethylene

Industrial trials have begun, for the production of new medium-density LDPE grades for film application, at the Dunkerque high-pressure tubing plant. The products obtained show a remarkable improvement of the mechanical and optical properties, fundamental in the food and industrial packaging sector.

In addition, a significant technological improvement has been implemented in the industrial production of LDPE and EVA copolymers by introducing a new solvent that has enabled the achievement of greater production and quality stability and, therefore, greater cost-effectiveness. This technological solution has been extended to most of the Versalis plants.

For the rotomolding application sector two new grades have been developed, based on hexene as a comonomer, with high UV resistance properties, resistance to chemical agents and improved mechanical properties. The research and development of polyolefin compounds based on plant-based additives has led to the development of new grades for two important application sectors such as WPC (Wood Plastics Composite) and polyethylene films for "coated" panels.



The collaboration with the Italian Institute of Technology, has led to the production of Few Layer Graphene (FLG), in a suitable solvent mixture, to provide a paste utilized in the preparation of polyethylene matrix products. The polyethylene/graphene nanocomposites, so generated, have shown high properties in terms of mechanical strength, thermal and electrical conductivity and gas barrier effect, allowing Versalis to be competitive in the high-premium application sectors.

## **Styrenes**

The new pilot plant based on the proprietary production technology, called One Step, has been successfully launched, which produces polymeric materials based on styrene, with innovative and improving performance profiles, (currently not accessible with other existing technologies), and also with a lower cost of production. A new range of ABS has been developed at industrial level, based on an innovative formulation, with a set of mechanical properties and processability far superior to that of the best competitors.

In collaboration with the Istituto Italiano Tecnologia new styrene polymers with graphene have been developed that have allowed the preparation of products in expanded polystyrene suitable for sectors such as thermal insulation and ABS, high-tech material suitable for the helmets sector.

A new range of "compound" products based on ABS, with high thermal resistance, for the automotive sector, and fire resistance, for electrical/electronic applications, has been industrialized.

Two different types of expanded polystyrene (EPS) from a continuous mass process have been produced on a pilot scale, with improved mechanical properties, with "soft touch" characteristics and less flaking (more similar to expanded polyolefins).

## **Basic Chemistry**

The main parameters (catalyst/operating conditions/reactor) on a pilot plant involved in the production of butadiene through the dehydrogenation/isomerization of butanes/butenes were investigated and optimized.

A catalyst for the hydrogenation of phenol has been developed in the laboratory, and tested at industrial level, with yields and conversions higher than those of the reference commercial catalyst.

A transalkylation technology has been developed that enables the further improvement of the production process of cumene from IPA (isopropyl alcohol) coming from the hydrogenation of the acetone. The process as a whole (acetone recovery step via hydrogenation and IPA production via alkylation/transalkylation) competitively positions Versalis as the top player in the sector. New commercial catalysts are being developed that improve the performance of PBE1 and PBE2 catalysts for alkylation and transalkylation of cumene and ethylbenzene. A new catalyst for the dehydrogenation of ethylbenzene to styrene is also under development.

## Other compliance information

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

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

## Administrative and Accounting separation of the electricity business

As of January 1, 2014 Versalis SpA became a provider for the “sale of electric power to free market customers”. For this reason, also for 2017, Versalis SpA prepares separate annual accounts in accordance with Resolution 11/2007 of the Italian Electrical Energy & Water System Authority.

Versalis SpA also operates in the power sector, producing energy almost exclusively for internal consumption and selling modest quantities to third parties.

Versalis thermal power plants present a ratio, between the quantities of electrical energy and thermal energy that can be produced, (in a cogeneration capacity), which is less than one. Furthermore, the plants do not meet the definition set out in Resolution no. 42/02. This results in the exclusion of the three power plants from “Production of electric energy” and their classification in “Other activities”.

For the Board of Directors

The Chief Executive Officer

Daniele Ferrari

# Consolidated Financial Statements 2017

## Statement of Financial Position

(amounts in millions of euros)	Notes	31.12.2016		31.12.2017	
		Total	of which with related parties	Total	of which with related parties
<b>ASSETS</b>					
<b>Current assets</b>					
Cash and cash equivalents	(1)	122	109	201	195
Trade and other receivables	(2)	757	211	726	151
Inventories	(3)	592		719	
Current income tax assets	(4)	9		3	
Other current tax assets	(5)	17		8	
Other assets	(6)	3	2	4	3
		<b>1,500</b>		<b>1,661</b>	
<b>Non-current assets</b>					
Property, plant and equipment	(7)	739		927	
Intangible assets	(8)	59		70	
Investments valued at net equity	(9)	183		219	
Other investments	(10)	3		3	
Other financial assets	(11)	108	108	2	2
Deferred tax assets	(12)	169		177	
Other assets	(13)	1		1	
		<b>1,262</b>		<b>1,399</b>	
<b>TOTAL ASSETS</b>		<b>2,762</b>		<b>3,060</b>	
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>					
<b>Current liabilities</b>					
Short-term debt	(14)	179	166	88	70
Current portion of long-term debt	(15)	5		5	4
Trade and other payables	(16)	805	308	858	414
Income tax payables	(17)	12		5	
Other taxes payable	(18)	10		14	
Other liabilities	(19)	9	5	8	5
		<b>1,020</b>		<b>978</b>	
<b>Non-current liabilities</b>					
Long-term debt	(20)	71	70	67	66
Provisions for risks and charges	(21)	87		132	
Provisions for employee benefits	(22)	70		67	
Deferred tax liabilities	(23)			1	
		<b>228</b>		<b>267</b>	
<b>Liabilities directly associated with assets held for sale</b>					
<b>TOTAL LIABILITIES</b>		<b>1,248</b>		<b>1,245</b>	
<b>SHAREHOLDERS' EQUITY</b>	(24)				
<b>Capital and reserves attributable to minority shareholders</b>					
Share capital <sup>(a)</sup>		1,365		1,365	
Other reserves		29		24	
Profit (Loss) relating to previous years		(43)		115	
Profit for the period		163		303	
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>1,514</b>		<b>1,815</b>	
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>2,762</b>		<b>3,060</b>	

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

## Statement of Income

(amounts in millions of euros)	Notes	2016		2017	
		Total	of which with related parties	Total	of which with related parties
<b>REVENUES</b>	(26)				
Net sales from operations		4,196	165	4,851	230
Other income and revenues		48	47	152	119
<b>Total revenues</b>		<b>4,244</b>		<b>5,003</b>	
<b>OPERATING EXPENSES</b>	(27)				
Purchases, services and other costs		(3,642)	(1,581)	(4,174)	(2,043)
Payroll and related costs		(345)		(341)	
<b>OTHER OPERATING (EXPENSE) INCOME</b>	(28)	<b>(7)</b>	<b>(7)</b>	<b>2</b>	<b>2</b>
<b>DEPRECIATION, AMORTIZATION AND IMPAIRMENT</b>	(29)	<b>(37)</b>			
		<b>(4,031)</b>		<b>(4,513)</b>	
<b>OPERATING INCOME</b>		<b>213</b>		<b>490</b>	
<b>FINANCIAL INCOME (EXPENSE)</b>	(30)				
Financial income		39	13	69	9
Financial expense		(135)	(22)	(193)	(6)
Derivatives		(1)	(1)	(3)	(3)
		<b>(97)</b>		<b>(127)</b>	
<b>INCOME (EXPENSE) FROM INVESTMENTS</b>	(31)				
Share of profit (loss) of equity-accounted investments		(6)		(23)	
Other income (expense) from investments		(13)		(38)	
		<b>(19)</b>		<b>(61)</b>	
<b>INCOME BEFORE INCOME TAXES</b>		<b>97</b>		<b>302</b>	
Income taxes	(32)	66		1	
<b>INCOME FOR THE PERIOD</b>		<b>163</b>		<b>303</b>	

## Statement of Comprehensive Income

(amounts in millions of euros)	2016	2017
<b>INCOME FOR THE YEAR</b>	<b>163</b>	<b>303</b>
<b>Other items of comprehensive profit (loss):</b>		
Valuations of defined-benefit plans for employees	(2)	3
Foreign currency translation differences	1	(4)
Tax effect relative to the other components of the comprehensive income that cannot be reclassified to the profit and loss account	1	(1)
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>163</b>	<b>301</b>

## Statement of Changes in Equity

(amounts in millions of euros)	Share capital	Exchange differences reserve	Reserve for coverage of losses	Reserve for employee defined-benefit plans	Reserve for business combination under common control	Retained earnings /(losses) brought forward	Profit (Loss) for the period	Total	
<b>Balances at December 31, 2015 (a)</b>	1,553	2		(7)	2	11	(1,289)	272	
<i>Profit for the year 2016</i>							163	163	
<i>Other items of comprehensive loss:</i>									
Revaluation of defined-benefit plans for employees net of tax effect				(1)				(1)	
Foreign currency translation differences		1						1	
<b>Total comprehensive profit for the year 2016 (b)</b>		1		(1)			163	163	
<i>Transactions with shareholders:</i>									
Loss allocation for the year 2015						(1,289)	1,289		
Reduction of share capital and loss coverage	(188)		32			1,229		1,073	
<b>Total transactions with shareholders (c)</b>	(188)		32			(60)	1,289	1,073	
<i>Other changes:</i>									
<b>Total other changes (d)</b>						6		6	
<b>Balances at December 31, 2016 (e=a+b+c+d)</b>	1,365	3	32	(8)	2	(43)	163	1,514	
<i>Profit for the year 2017</i>							303	303	
<i>Other items of comprehensive profit (loss):</i>									
Revaluation of defined-benefit plans for employees net of tax effect				2				2	
Foreign currency translation differences		(7)				3		(4)	
<b>Total comprehensive profit for the year 2017 (f)</b>		(7)		2		3	303	301	
<i>Transactions with shareholders:</i>									
Profit allocation for the year 2016		8				155	(163)		
<b>Total transactions with shareholders (g)</b>		8				155	(163)		
<i>Other changes:</i>									
<b>Total other changes (h)</b>									
<b>Balances at December 31, 2017(i=e+f+g+h)</b>	1,365	8	(4)	32	(6)	2	115	303	1,815

## Statement of Cash Flows

(amounts in millions of euros)	Notes	2016	2017
Profit (Loss) for the period		163	303
<i>Adjustments to reconcile net profit (loss) to net cash provided by operating activities:</i>			
Depreciation and amortization	(30)	55	81
Net impairments (value reinstatements) on plant, property, equipment and intangible assets	(30)	(19)	(81)
Share of profit (loss) of equity-method investments		7	61
Currency translation differences from alignment	(31)	(1)	2
Gains/Losses on securities & Financial receivables, investment, disinvestment		94	133
Equity investments valued at cost		13	
Net gains on disposal of equity investments			
Interest income	(30)	(8)	(9)
Interest expense	(31)	9	(4)
Current, deferred and advance income taxes for the period	(33)	(67)	(1)
Changes in working capital:			
- inventories	(3)	75	(129)
- trade receivables	(2)	51	(3)
- operational plug	(16)	49	80
- trade payables	(21)	(32)	7
- provisions for risks and charges		117	26
- other assets and liabilities			
<i>Cash flow provided by changes in working capital</i>		506	467
Net changes in provisions for employee benefits	(22)	1	1
Dividends received		1	1
Interest received			
Interest paid		(17)	4
Income taxes received (paid) including tax credits rebated		(22)	6
<b>Net cash flow provided by operating activities</b>		<b>469</b>	<b>478</b>
<i>of which with related parties</i>	(34)	(1,382)	(1,518)
Investments:			
- tangible assets	(7)	(238)	(192)
- intangible assets	(8)	(3)	(10)
- investments	(9) e (10)	(23)	(63)
- changes in payables relating to investment activities	(16)	36	(31)
- financial receivables instrumental to the operating activity – investment		(9)	(9)
<i>Cash flow from investments</i>		(237)	(304)
Disposals:			
- tangible assets	(7)	1	
- sale of business units			
<i>Cash flow from disposals</i>		1	
<b>Net cash flow from investment activities</b>		<b>(236)</b>	<b>(304)</b>
<i>of which with related parties</i>	(34)		(98)
Long-term debt obtained			
Increase (decrease) in short-term debt	(14)	(256)	(95)
Cash flow from share capital	(25)		
Other changes		(4)	
<b>Net cash flow from financing activities</b>		<b>(260)</b>	<b>(95)</b>
<i>of which with related parties</i>	(34)	(277)	(100)
<b>Net cash flow for the period</b>		<b>(27)</b>	<b>79</b>
<b>Cash and cash equivalents - beginning of the year</b>	(1)	<b>149</b>	<b>122</b>
<b>Cash and cash equivalents - end of the year</b>	(1)	<b>122</b>	<b>201</b>

# Notes to the Consolidated Financial Statements

## Basis of presentation

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS" or "International Accounting Standards")<sup>2</sup> issued by the International Accounting Standards Board (IASB) and adopted by the European Commission pursuant to Article 6 of EC Regulation No. 1606/2002 of the European Parliament and Council of July 19, 2002, and in accordance with Art. 9 of the Italian Legislative Decree 38/05.<sup>3</sup>

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

The financial statements at December 31, 2017, approved by the Board of Directors of Versalis SpA at its meeting on the March 6, 2018, are audited by EY SpA (also Ernst & Young SpA). The EY network, being the main independent auditor, is responsible for auditing the Group's consolidated financial statements.

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

## Consolidation principles

### Consolidated subsidiaries

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

The control of an investee exists when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To have power over an investee, the investor must have existing rights that give it the current ability to direct the relevant activities of the investee, i.e. the activities that significantly affect the investee's returns.

The subsidiary's amounts are included in the Consolidated Financial Statements from the acquisition date until the date when the parent company ceases to control the subsidiary. All the assets, liabilities, income and expenses of consolidated subsidiaries are consolidated on a line-by-line basis in the Consolidated Financial Statements; the book value of these subsidiaries is offset against the corresponding share of the shareholders' equity. Equity and net profit attributable to noncontrolling interests are included in specific line items of equity and the profit and loss account.

When shareholdings are acquired after control was obtained (acquisition of minority interests), any difference between the purchase cost and the proportionate share of shareholders' equity is stated in the Group's equity; in the same way, effects deriving from disposals of equity interests that do not result in a loss of control are recorded in equity. Conversely, the sale of equity interests with loss of control determines the recognition in the profit and loss account of: (i) any gain/loss calculated as the difference between the consideration received and the corresponding transferred portion of equity; (ii) any gain or loss recognized as a result of the re-measurement 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 the profit and loss account.<sup>4</sup> 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.

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

<sup>2</sup> The international accounting standards used for the preparation of the consolidated financial statements are substantially the same as those issued by the IASB in force for the year 2017, as the current differences between the IFRS approved by the European Commission and those issued by the IASB concern cases not present in the Group reality.

<sup>4</sup> Conversely, any amount related to the former subsidiary previously recognized in other comprehensive income, which subsequently cannot be reclassified to the profit and loss account, are reclassified in another item of equity.



### Interests in joint arrangements

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

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

A joint operation is a joint arrangement whereby the parties have enforceable rights to the assets, and enforceable obligations for the liabilities, relating to the arrangement; the verification of the existence of enforceable rights and obligations requires the exercise of a complex judgment by the Company Management and is performed considering the characteristics of the corporate structure, the agreements between the parties, as well as any other fact and circumstance that is relevant for the purposes of the verification. The consolidated financial statements include the portion attributable to Versalis of the assets / liabilities and revenues/costs of the joint operations on the basis of the actual rights and obligations deriving from the contractual agreements. After the initial recording, the assets/liabilities and revenues/expenses of the joint operations are measured in accordance with the measurement criteria applicable to each case. Immaterial joint operations are accounted for using the equity method or, if this does not result in a misrepresentation of the Company's financial position, at cost net of impairment losses.

### Interests in associated companies

An associated company is an entity over which Versalis has significant influence, that is the power to participate in the financial and operating policy decisions of the investee, but does not control nor joint control those policies.

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

Consolidated companies, non-consolidated subsidiaries, joint ventures, equity investments in joint operations, and associated companies, are included in the paragraph "Companies and equity investments of Versalis SpA as at 31st December 2017", which is part of the previous note. The change in the scope of the consolidation, that took place during the year, is shown in the following paragraph.

### The equity method of accounting

Investments in unconsolidated subsidiaries, joint ventures and associated companies are accounted for using the equity method<sup>5</sup>.

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 assets/liabilities; if this allocation is provisionally recognized at initial recognition, it can be retrospectively adjusted within one year from the date of initial recognition, to reflect new information obtained about facts and circumstances that existed at the date of initial recognition. Subsequently, the carrying amount is adjusted to reflect: (i) the investor's share of the post-acquisition profit or loss of the investee; and (ii) the investor's share of the investee's other comprehensive income. Changes in the net assets of an equity-accounted investee, not arising from the investee's profit or loss or other comprehensive income, are recorded in the investor's profit and loss account, when they represent a gain or loss from a disposal of an interest in the investee's equity. Dividends received from an investee are recorded as a reduction of the carrying amount of the equity

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<sup>5</sup> In the case of the assumption of a link (joint control) at a later period, the investment is recorded for the amount equivalent to that resulting from the application of the equity method, as if the same had been applied from the outset; the effect of the book value "revaluation" of the interests held prior to the assumption of the link (joint control) are recorded in equity.

investment. In applying the equity method, any consolidation adjustments are taken into consideration (see also the paragraph "Subsidiaries"). When there is objective evidence of impairment (see also the accounting policy for "Current financial assets"), the recoverability is tested by comparing the carrying amount and the related recoverable amount determined by adopting the criteria indicated in the accounting policy for "Property, plant and equipment". Immaterial subsidiaries, joint ventures and associates are accounted for at cost, net of any impairment losses, if this does not result in a misrepresentation of the Group financial position and performance. When an impairment loss no longer exists, a value reinstatement is recorded, (without exceeding the previously recorded impairment losses), in the profit and loss account in the item "Other income (expense) from investments".

The sale of equity interests, with the resulting loss of either the joint control or of the significant influence over the investee, determines the recording in the profit and loss account of: (i) any gain/loss calculated as the difference between the amount received and the corresponding book value portion sold; (ii) the changes due to the alignment to the relative fair value of the residual interest revaluation maintained<sup>6</sup>; and (iii) any amounts related to the former subsidiary previously recorded in other comprehensive income which can be transferred to the profit and loss account<sup>7</sup>. Any investment retained in the former joint venture/associated company is recorded at its fair value at the date when joint control or significant influence is lost and shall be accounted for in accordance with the applicable evaluation criteria.

The parent company's share of any of the subsidiary's losses, exceeding the value of the investment, is recorded in a specific reserve only to the extent that the company is required to fulfill legal or implied obligations of the subsidiary, or in any case, to cover its losses.

### **Intragroup transactions**

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

### **Translation of financial statements in currencies other than the Euro**

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

Exchange differences from the translation of the subsidiaries financial statements denominated in foreign currency, deriving from the application of different exchange rates for assets and liabilities, for net equity and the income statement, are recorded in equity under "Reserve for exchange differences" for the portion attributable to the Group<sup>8</sup>. The reserve for exchange rate translation differences is recorded in the the income statement upon full divestment, (i.e. the date of the loss of control or loss of joint control or loss of significant influence over the subsidiary). At the time of the the partial sale, without loss of control, the share of foreign exchange differences relating to the percentage of the investment sold is posted to the equity of minority interests. In the event of a partial sale, with no loss of joint control or significant influence, the share of foreign exchange differences, relating to the percentage of divested participation, is recorded in the income statement. The repayment of share capital made by a subsidiary having a functional currency other than the euro, without a change in the ownership interest, implies that the proportionate share of the cumulative amount of exchange differences relating to the subsidiary is reclassified to the profit and loss account.

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

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

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

<sup>8</sup> The share attributable to minority interests of the exchange differences from the translation of financial statements of subsidiaries operating in foreign currency is accounted for in the equity item "Minority interests".

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

(amounts of currency for 1 euro)	Annual average exchange rate 2016	Exchange rate at Dec. 31, 2016	Annual average exchange rate 2017	Exchange rate at Dec. 31, 2017
US Dollar	1.11	1.05	1.13	1.20
Pound Sterling	0.82	0.86	0.88	0.89
Hungarian Forint	311.44	309.93	309.22	310.25
Chinese Renminbi	7.35	7.32	7.63	7.81
Korean Republic Won	1,283.75	1,272.72	1,276.43	1,284.12

## Accounting policies

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

### Property, plant and equipment

Property, plant and equipment, including investment properties, are recorded according to the cost method, and stated at purchase price or production cost, inclusive of directly attributable costs required to make the assets ready for use. When a substantial period of time is required to make the asset ready for use, the purchase price (or the production cost) includes the financial expenses incurred which, theoretically would have been avoided, during the period necessary to make the asset ready for use, if such expenditure had not been made.

In the case of a present obligation for dismantling and removal of assets and restoration of sites, the initial carrying amount of an item of property, plant and equipment includes the estimated (discounted) costs to be incurred when the removal event occurs (a corresponding amount is recognized as part of a specific provision).

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

Assets acquired under financial leasing or concerning arrangements that do not take the legal form of a finance lease but substantially transfer the risks and rewards of ownership, are recorded at fair value, net of the lessor, or if lower, the present value of the minimum lease payments, under tangible assets against a financial payable to the lessor, and depreciated according to the criteria described below. When there is no reasonable certainty of exercising the right of redemption, the asset is depreciated over the period of either the lease term or the useful life of the asset, whichever is the briefest.

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

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

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

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

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

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

With reference to commodity prices, management assumes the price scenario adopted for economic and financial projections and for whole life appraisal for capital expenditures. In particular, for the cash flows associated to oil, natural gas and petroleum products prices (and prices derived from them), the price scenario is approved by the Board of Directors and is based on management's long-term planning assumptions and, if there is a sufficient liquidity and reliability level, on the forward prices prevailing in the marketplace. When commodity prices fluctuate quite considerably, management considers the most updated variables available.

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

### **Intangible assets**

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

assets. An entity controls an intangible asset if it has the power to obtain the future economic benefits flowing from the underlying asset and to restrict the access of others to those benefits.

Intangible assets are initially recognized at cost as determined by the criteria used for tangible assets and they are not revalued for financial reporting purposes, even in application of specific laws.

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

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

The carrying amount of intangible assets is 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.

### Capital Grants

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

### Inventories

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

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

### Financial instruments

#### Current Financial assets

Cash and cash equivalents include cash on hand, demand deposits, as well as financial assets originally due within 90 days, readily convertible to known amount of cash and subject to an insignificant risk of changes in value.

Available-for-sale financial assets include financial assets other than derivative financial instruments, loans and receivables, held for trading financial assets and held-to-maturity financial assets. Held-for-trading financial assets and available-for-sale financial assets are measured at fair value with gains or losses recognized in the line item of the profit and loss account "Finance income (expense)" and in the equity reserve<sup>8</sup> related to other comprehensive income, respectively. Changes in fair value of available-for-sale financial assets recognized in equity are charged to the profit and loss account when the assets are derecognized or impaired. The objective evidence that an impairment loss has occurred is verified considering, inter alia, significant breaches of contracts, serious financial difficulties or the risk of bankruptcy and other financial reorganization of the counterparty; impairment losses of available-for-sale financial assets are included in the carrying amount.

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<sup>8</sup> 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".

Interests and dividends on financial assets measured at fair value are accounted for on an accrual basis in "Financial income (expenses)"<sup>9</sup> and "Other gain (loss) from investments", respectively. 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.

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

## **Non-current financial assets**

### **Investments**

Investments in equity instruments<sup>10</sup> are measured at fair values, with gains or losses recorded in the equity reserve related to "Other comprehensive income"; changes in the fair value recorded in equity are charged to the profit and loss account when the investment is impaired or realized. When investments are not traded in a public market and their fair value cannot be reasonably determined, they are accounted for at cost, net of impairment losses; impairment losses cannot be reversed<sup>11</sup>.

### **Receivables and held-to-maturity financial assets**

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

If there is objective evidence that an impairment loss has been incurred (see also the accounting policy for "Current financial assets"), the impairment loss is calculated as the difference between the book value and the present value of the expected cash flows discounted at the effective interest rate computed at the initial recording, or at the moment of its updating to reflect contractually established re-pricings. Receivables and held-to-maturity financial assets are presented net of the allowance for impairment losses; when the impairment loss is definite, the allowance for impairment losses is reversed to either cover expenses or excess. The economic effects of the valuation at amortized cost are accounted for as "Financial income (expense)".

### **Financial liabilities**

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

### **Derivative financial instruments**

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

Derivatives are designated as hedging instruments when the relationship between the derivative and the hedged item is formally documented and the effectiveness of the hedge, which is checked regularly, is

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<sup>9</sup> Accrued interest income on financial assets held for trading contribute to the overall assessment of the instrument's fair value and are recorded in "Other income (expenses)", in the item "Net income from financial assets held for trading." However, accrued interest income on financial assets available for sale are accounted for as "Income (expenses)", in the item "Financial income".

<sup>10</sup> For investments in joint ventures and associated companies see above "Equity method".

<sup>11</sup> The write-down recorded in an interim period cannot be reversed even if, on the basis of conditions in a subsequent interim period, the write-down would have been lower or not detected.



demonstrated to be high. When derivatives hedge the risk of fluctuations in the fair value of the hedged instruments (fair value hedges, e.g. hedging against changes in the fair value of fixed-rate assets/liabilities), the derivatives are stated at fair value with changes taken to the income statement. Hedged items are adjusted to reflect, in the income statement, the changes in fair value attributable to the hedged risk, regardless of the forecast of a different valuation criteria generally applicable to this type of instrument.

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

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

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

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

### **Offsetting of financial assets and liabilities**

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

### **Derecognition of financial assets and liabilities**

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

### **Provisions for risks and charges**

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

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

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

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

Provisions are periodically updated to reflect the variations in cost estimates, realization times and discount rates; the changes in estimates are accounted for in the same income statement item used to accrue the provision, or when the liability regards property, plant and equipment (e.g. dismantling and site remediation), through an entry corresponding to the relevant assets, to the extent of the assets' book value; any excess amount is accounted for in the profit and loss account.

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

### **Employee benefits**

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

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

The liability relating to defined-benefit plans, net of any plan assets, is determined on the basis of actuarial assumptions and provided for on an accrual basis, i.e. in line with the employment period required to obtain the benefits.

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

For defined-benefit plans, the changes in the value of the net liability (so-called revaluations) from actuarial earnings (losses), resulting from changes in actuarial assumptions used or adjustments based on past experience, and from return on plan assets different from the item included in net interest, are stated in the statement of comprehensive income. The revaluations of the net liability for defined benefits accounted for in the statement of comprehensive income, are not subsequently reclassified in the income statement.

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

### **Revenues and costs**

Revenues from sales of products and services are accounted for when significant risks and rewards of ownership pass to the customer or when the transaction can be considered settled. In the case of sales of goods more relevant to Versalis, revenues are generally accounted for upon shipment.

Revenues are recognized upon shipment when, at that date, significant risks are transferred to the buyer..

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



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

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

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

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

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

The costs for the acquisition of new knowledge or 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. Operating grants are disclosed in the income statement on an accruals basis, in line with the related costs incurred.

### **Exchange rate differences**

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

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

### **Dividends**

Dividends are accounted for as at the date the relative resolution was approved at the Shareholders' Meeting, except when the sale of shares before the ex-dividend date is certain.

### **Income taxes**

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

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

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

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

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

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

### Valuation at fair value

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

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

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

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

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

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

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

### Financial Statements

Balance sheet assets and liabilities are classified as current and non-current. Income statement items are presented by nature<sup>9</sup>.

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

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

The Statement of Changes in Shareholders' Equity includes the comprehensive income (expense) for the year, transactions with shareholders and other changes in shareholders' equity.

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<sup>9</sup> Further information on financial instruments as classified in accordance with IFRS is provided in note 25 – "Guarantees, commitments and risks - Other information about financial instruments".

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

### **Changes to accounting criteria**

The adoption of the amended IFRSs effective from January 1, 2017, did not have a significant impact on the consolidated financial statements.

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

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

### **Impairment and value write-backs of assets**

Impairment losses are accounted for if events or changes in circumstances indicate that their book value amount is no longer recoverable. The value of the assets are subsequently written-back if the conditions that determined them cease to exist; the value write-back cannot exceed the original cost after deduction of the amortization that would have taken place in the absence of devaluations.

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

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

### **Dismantling and remediation of production sites**

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

### **Environmental liabilities**

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

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

### **Employee benefits**

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

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

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

### **Other Provisions**

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

These provisions are estimated on the basis of managerial judgements related to the amounts to recognize and the timing of future cash outflows. After the initial recognition, provisions are periodically reviewed and adjusted to reflect the current best estimate.

### **Revenues and receivables**

The recoverability of the book value of the receivables and the need to recognize any write-down of the same are the result of a process that involves complex and/or subjective judgments by Management. The factors considered in the context of these judgments concern, inter alia, the creditworthiness of the counterparty where available, the amount and timing of expected future payments, any credit risk mitigation instruments (e.g. collateral) put in place as well as any actions taken or planned for debt recovery.

## Recent accounting standards

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

Regulations No. 2016/1905 and 2017/1987 issued by the European Commission on September 22, 2016 and October 31, 2017 approved IFRS 15 "Revenue from contracts with customers" (hereinafter "IFRS 15") and the document "Clarifications of IFRS 15 Revenues from contracts with customers", which define the criteria for recognizing and evaluating revenues deriving from contracts with customers (including contracts relating to contract work), which defines the recording and measurement criteria of revenue arising from customer contracts (including contracts related to contract work).

In particular, the IFRS 15 requires that the recording of revenue be based on the following 5 steps: (i) identification of the contract with the customer; (ii) identification of the performance obligation (ie the contractual pledge to transfer goods and/or services to a customer); (iii) determination of the price of the transaction; (iv) allocation of the transaction price to the performance obligation identified on the basis of the standalone selling price of each good or service; and (v) recording of the revenue when the relative performance obligation is satisfied. In addition, the IFRS 15 integrates the financial statement disclosures to provide reference to the nature, amount, timing and uncertainty of revenues and related cash flows. The IFRS 15 provisions are effective for the accounting periods beginning on, or after, January 1, 2018.

During 2017, analysis activities were completed to identify the areas affected by the new provisions and to determine the related impacts.

On the initial application of the new provisions, Versalis intends to take advantage of the possibility of recognizing the effect of retroactive restatement of the values in shareholders' equity at January 1, 2018, having regard to the circumstances existing at that date, without restating the values of the comparative reporting periods. In particular, on the basis of the information available, considering the circumstances indicated above, the adoption of IFRS 15 will not have significant effects on the initial balance of the net assets/conventional endowment fund of the business line at 1 January 2018. In terms of representation, the application of IFRS 15 also involves limited reclassification of revenues to other items of the income statement without impact on operating income, net result and equity.

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

The accounting areas subject to impact of the new standard mainly concern : (i)

the adoption of the expected credit loss model for impairment of financial assets, which involves the recognition of the expected loss on financial assets, taking into account a forward-looking approach based on the probability of default of the counterparty and the loss given default; and (ii) for minority shareholdings, the alignment of the related fair value, when the cost is not an appropriate estimate of the fair value.

In particular, in 2017, the Group completed the activities aimed to define and implement the expected credit loss model for the impairment of financial assets, which essentially requires:

(i) the adoption of internal credit rating, already used for credit worthiness, to determine probability of default of counterparties; for government entities the probability of default, represented essentially by probability of a delayed payment, is determined by using, as input data, the country risk premium adopted to determine WACC for impairment of non-financial assets;

(ii) the identification of the exposure to be considered, having regard to any credit enhancements (e.g. collaterals, guarantees, insurance contracts, countervailable payables, etc.);

(iii) for retail customers, not characterized by internal credit rating, the implementation of a simplified approach based on a provision matrix aimed to categorize customers by homogeneous risk characteristics;

(iv) the estimate of loss given default, considering the previous experiences and the range of recovery tools that can be activated (e.g. extrajudicial and/or legal proceedings, etc.).

With regard to the valuation of minority holdings, the IFRS 9 provisions allow the valuation to be maintained at cost only in those cases in which such valuation is considered to be an adequate estimate of fair value, (for example in the case the cost represents the best estimate of the fair value within a wide range of possible fair value measurements). In relation to this, the minority shareholdings will be designated as assets to be measured at fair value with effects on equity (among other components of comprehensive income) and with the recording in the income statement of any dividends distributed; changes in the market value recorded among the other components of comprehensive income are not subsequently charged to the income statement.<sup>10</sup>

In the first application, in consideration of the complexity of recalculating the values at the beginning of the first year, presented without the use of elements known thereafter, the effects of the adoption of the new accounting principle on classification and valuation, including the impairment of financial assets, will be stated in equity as of January 1, 2018; as regards hedge accounting, the adoption of the new provisions does not produce significant effects.

In particular, based on the information available, considering the cases indicated above, the adoption of IFRS 9 implies, net of the related tax effect, a decrease in shareholders' equity of € 6 million attributable to the net assets of the Versalis business at January 1, 2018, essentially due to the recalculation of the provision for doubtful accounts.

With the regulation n. 2017/1986 issued by the European Commission on October 31, 2017 the IFRS 16 "Leases" was approved, which replaces IAS 17 and the related interpretations. In particular, IFRS 16 defines leasing as a contract that gives the customer (lessee) the right to use an asset for a certain period of time in exchange for a consideration. The new accounting standard eliminates the classification of leases as operating or financial for the purpose of preparing the financial statements of companies operating as lessee; for all leasing contracts with a duration of more than 12 months, an activity is identified representative of the right of use, and of a liability, representative of the obligation to make payments under the contract. However, for the purposes of preparing the lessor financial statements, the distinction between operating and financial leases is maintained. IFRS 16 strengthens the financial reporting for both the lessee that the lessor. The IFRS 16 provisions are effective starting from the financial years beginning on, or after, January 1, 2019. At present, the analysis activities of the new provisions are underway, also for determining the related effects.

With the regulation n. 2018/182 issued by the European Commission on February 7, 2018 the document "Annual cycle of improvements to IFRS 2014-2016" was approved, containing modifications, mainly of a technical and editorial nature, of the international accounting standards. The amendments to the accounting standards are effective starting from the financial years beginning on, or after, January 1, 2018.<sup>11</sup>

On January 29, 2016, the IASB issued the amendments to IAS 7 "Disclosure Initiative", which reinforces disclosure obligations in the presence of changes, whether monetary or otherwise, of financial liabilities. The IAS 7 amendments are effective starting from the financial years beginning on, or after, January 1, 2017.

<sup>10</sup> Alternatively, IFRS 9 permits to present in profit and loss account the changes in fair value of investments in equity instruments; the choice of the presentation method for of these fair value changes is made on an instrument-by-instrument basis.

<sup>11</sup> The clarification of the scope of the IFRS 12 "Disclosure of Interests in Other Entities" has been applied from January 1, 2017.



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

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

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

On January 19, 2016, IASB issued amendments to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses", which clarify the recognition of deferred tax assets. The amendments to IAS 12 are effective for the accounting periods beginning on, or after January 1, 2017.

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

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

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

On May 18, 2017, the IASB issued IFRS 17 "Insurance Contracts" (hereafter IFRS 17), which defines the accounting of insurance contracts issued and of reinsurance contracts held. The provisions of IFRS 17, which exceed those currently provided for by IFRS 4 "Insurance contracts", are effective for accounting periods beginning on, or after January 1, 2021.

On June 7, 2017, the IASB issued IFRIC 23 "Uncertainty over Income Tax Treatments" (hereinafter IFRIC 23), containing indications regarding the accounting of tax assets and liabilities (current and/or deferred), relating to income taxes in the presence of uncertainties in the application of tax legislation. The provisions of IFRIC 23 are effective starting from the financial years beginning on, or after, January 1, 2019.

On October 12, 2017, the IASB issued the amendments to IFRS 9 "Prepayment Features with Negative Compensation" (hereafter amendments to IFRS 9), aimed at enabling the amortized cost or at fair value with gains reported in the equity reserve related to other comprehensive income also for debt instruments, whose contractual clauses provide for the possibility of early termination of the contract, at a variable amount that could be lower than the unpaid amount of the contractual cash flows, exclusively representing capital and interest. For the purposes of valuation at amortized cost or at fair value with recognition of the effects to the equity reserve relating to the other components of the overall profit, the negative difference between the

amount paid for the early termination of the contract and the unpaid amount of principal and interest must represent a reasonable compensation. The amendments to IFRS 9 are effective starting from the financial years beginning on, or after, January 1, 2019.

On October 12, 2017, the IASB issued the amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures" (hereafter amendments to IAS 28), to clarify that the provisions of IFRS 9, including those relating to impairment, also apply to long-term financial receivables from an associate company or a joint venture, whose repayment is not planned or is not likely in the foreseeable future and that, in substance, they form part of the net investment in the associate company or joint venture. The amendments to IAS 28 are effective starting from the financial years beginning on, or after, January 1, 2019.

On February 7, 2018, the IASB issued the amendments to IAS 19 "Plan Amendment, Curtailment or Settlement" (hereafter amendments to IAS 19), aimed essentially at requiring the use of updated actuarial assumptions, in determining the cost related to the current service and net interest income, for the period following a modification, reduction or termination of an existing defined benefit plan. The amendments to IAS 19 are effective starting from the financial years beginning on, or after, January 1, 2019.

On December 12, 2017, the IASB issued the document "Annual Improvements to IFRS Standards 2015-2017 Cycle", containing amendments, mainly technical and editorial, of international accounting standards. The amendments to the accounting standards are effective starting from the financial years beginning on or after January 1, 2019.

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



## Current assets

### 1. Cash and cash equivalents

Cash and cash equivalents amounted to €201 million (€122 million as at December 31, 2016) and are mainly deposited in non-interest bearing current accounts (c/o Eni Group financial companies).

### 2. Trade and other receivables

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

(amounts in millions of euros)	31.12.2016	31.12.2017
Trade receivables	588	584
Financial receivables:		
instrumental to operating activities	18	
Other receivables	151	141
	<b>757</b>	<b>726</b>

Receivables are shown net of provisions for impairment of €171 million:

(amounts in millions of euros)	Amount at 31.12.2016	Additions	Deductions	Amount at 31.12.2017
Provisions for impairment of trade receivables	149	25	(3)	171
	<b>149</b>	<b>25</b>	<b>(3)</b>	<b>171</b>

Provisions for impairment regard overdue trade receivables of doubtful collectability; for more details on the company's exposure to contingent losses deriving from counterparties' failure to fulfil their obligations see the paragraph "Credit Risk" of Note No. 25.

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

Trade receivables and other overdue receivables are detailed as follows:

Receivables more than 12 months past due and not written down refer mainly to transactions with Eni Group companies.

(amounts in millions of euros)	31.12.2016			31.12.2017		
	Trade receivables	Other receivables	Total	Trade receivables	Other receivables	Total
Receivables neither overdue nor written off	529	86	615	532	77	609
Receivables written down (net of write down)	3		3	18	3	20
Net receivables overdue nor written down:						
- up to 90 days overdue	18	4	22	19	4	23
- between 3 to 6 months overdue	5	6	11	3	2	5
- between 6 to 12 months overdue	10	4	14	3	10	13
- over 12 months overdue	23	51	74	10	45	55
	<b>56</b>	<b>65</b>	<b>121</b>	<b>35</b>	<b>61</b>	<b>97</b>
	<b>588</b>	<b>151</b>	<b>739</b>	<b>585</b>	<b>141</b>	<b>726</b>

The other receivables are comprised of the following:

(amounts in millions of euros)	31.12.2016	31.12.2017
Receivables from Eni Group companies	79	93
Receivables from parent company	51	18
Advances for services and guarantee deposits	12	13
Receivables relating to personnel	5	5
Receivables for licences	4	4
Other receivables		8
	<b>151</b>	<b>141</b>

Receivables from Eni Group companies mainly relate to Syndial SpA (€87 million) and Eni Trading & Shipping SpA (€3 million)

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

Receivables from related parties are disclosed in Note 33.

### 3. Inventories

Inventories include the following:

(amounts in millions of euros)	31.12.2016				31.12.2017			
	Petroleum products	Chemical products	Other	Total	Petroleum products	Chemical products	Other	Total
Raw materials and consumables	31	100	55	186	45	107	57	209
Work in progress and semi-finished products		9		9	1	7		8
Finished products and goods	20	377		397	27	475		502
	<b>51</b>	<b>486</b>	<b>55</b>	<b>592</b>	<b>73</b>	<b>589</b>	<b>57</b>	<b>719</b>

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

(amounts in millions of euros)	Value at the beginning of the year	Variation during the year	Additions	Utilizations	Foreign currency translation differences	Other movements	Value at the end of the year
<b>31.12.2016</b>							
Gross value	724	(96)			(4)	(5)	619
Provisions for impairments	(54)		(2)	23	1	5	(27)
<b>Net inventories</b>	<b>670</b>	<b>(96)</b>	<b>(2)</b>	<b>23</b>	<b>(3)</b>		<b>592</b>
<b>31.12.2017</b>							
Gross value	619	129			(2)		747
Provisions for impairments	(27)		(4)	3			(28)
<b>Net inventories</b>	<b>592</b>	<b>129</b>	<b>(4)</b>	<b>3</b>	<b>(2)</b>		<b>719</b>

There are no secured guarantees on inventories.

#### 4. Current income tax assets

Current income tax assets amounted to €3 million (€9 million as at December 31, 2016) and referred to IRAP advances paid in previous years. Further details are provided in Note 32.

#### 5. Other current tax assets

Other current tax assets include the following:

(amounts in millions of euros)	31.12.2016	31.12.2017
VAT receivables	15	7
Other receivables	2	1
	<b>17</b>	<b>8</b>

#### 6. Other Assets

Other assets include the following:

(amounts in millions of euros)	31.12.2016	31.12.2017
Fair value on non-hedging derivatives	2	2
Other assets	1	2
	<b>3</b>	<b>4</b>

Other assets amount to €4 million (€5 million as at December 31, 2016) and mainly include the prepaid expenses and the fair value of derivatives contracts (not classifiable as "hedging" but without speculative purposes), recorded in the financial statements based on values calculated and reported by the parent company Eni SpA. These are derivatives that, whilst not for trading purposes or speculative, do not meet all the requirements under IAS/IFRS to be considered hedges.

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

## Non-current assets

### 7. Property, plant and equipment

Property, plant and equipment are detailed as follows:

(amounts in millions of euros)	Net value at the beginning of the year	Investments	Depreciation and amortization	Impairment losses & value reinstatements	Currency translation differences	Other variations	Net value at the end of the year	Gross value at the end of the year	Provisions for depreciation and impairments
<b>31.12.2016</b>									
Land	103			(64)		1	40	112	72
Buildings	47		(3)	1	(1)	(8)	36	330	294
Plant and machinery	202	88	(47)	(60)	(13)	246	416	4,913	4,497
Industrial and commercial equipment			(1)			1		108	108
Other assets	3	2	(1)			1	5	50	45
Assets under construction and advances	194	148		137	(2)	(235)	242	592	350
	<b>549</b>	<b>238</b>	<b>(52)</b>	<b>14</b>	<b>(16)</b>	<b>6</b>	<b>739</b>	<b>6,106</b>	<b>5,367</b>
<b>31.12.2017</b>									
Land	40			(10)		1	31	113	81
Buildings	36		(5)			4	35	346	311
Plant and machinery	416	48	(69)	199	(1)	74	667	5,198	4,531
Industrial and commercial equipment			(1)			2	2	110	108
Other assets	5		(1)			(2)	2	36	34
Assets under construction and advances	242	144		(110)	(1)	(86)	189	464	275
	<b>739</b>	<b>192</b>	<b>(75)</b>	<b>80</b>	<b>(2)</b>	<b>(7)</b>	<b>927</b>	<b>6,267</b>	<b>5,340</b>

The investments of €192 million (€238 million in 2016) are described in the relevant section of the Directors' report.

Financial expenses capitalized during the year, determined by using a 2.66% interest rate (2.77% in 2016), amounted to €7 million (€6 million in 2016). The amount of the increase on internal work incurred and capitalized during the year amounted to €12 million (€9 million in 2016) and consisted of work carried out by internal personnel.

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

(Annual %)	2016	2017
Buildings	4 - 16	4 - 16
Plant and machinery	4 - 25	4 - 25
Industrial and commercial equipment	10 - 30	10 - 30
Other assets	12 - 20	12 - 20

The net value write-backs of €81 million stem from the results of impairment tests, carried out based on the 2018 - 2021 plan, and refer to the following Cash Generating Units (CGU):

- Priolo plant (value write-back of €131 million);
- Ethylene and Polythene in Brindisi (value write-back of €66 million);
- Olefins and Polyethylene in Dunkirk (value write-back of €47 million);
- Porto Marghera plant (impairment loss of €59 million);
- Elastomers in Ferrara (impairment loss of €52 million);
- Ravenna plant (impairment loss of €15 million);
- Intermediates in Mantua (impairment loss of €10 million);
- Butadiene in Brindisi (impairment loss of €8 million);
- Polyethylene in Ferrara (impairment loss of €8 million);
- Elastomers + Services in Porto Torres (impairment loss of €7 million);
- Ragusa plant (impairment loss of €4 million).

The amortization and impairment provision of €5,340 million includes writedowns of €2,037 million.

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

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

The total value write-back was calculated by comparing the carrying amount of each CGU with its value in use determined by discounting to present the expected cash flows deriving from use of the assets in a time period coinciding with the average remaining useful life of the CGU.

The cash flows were calculated based on the operating results forecast in the 2018-2021 Strategic Plan, approved by the Board of Directors; cash flows for the subsequent years were determined taking as a reference an average operating profit calculated taking into account the forecast results included in the Plan, in order to represent in an adequate manner the marked cyclical effects that characterize the petrochemical industry.

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

In discounting the cash flows determined with the above methods and according to the above criteria, management adopted the discount rate of 8.3% for the CGU in Italy and 9.1% in France (9.0% as at December 31, 2016);

In view of the volatile trading environment, management has tested the reasonableness of its assumptions and the impairment test result through different sensitivity analyzes, in particular on the WACC and the forecast cash flows. In consideration of the writedowns made in previous years and the positive scenario used for the purposes of impairment, a change in the expected cash flows of 5% or 1% of the WACC would result in higher or lower write-backs.

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

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

The net amount of government grants and refunds from third parties, which lead to a reduction in the value of property, plant and equipment, amounted to €20 million (€21 million as at December 31, 2016). The award of public grants entails a number of constraints on the assets in relation to which they were awarded. These constraints consist essentially of the obligation not to remove the subsidized assets from the use envisaged for at least five years from the date of their commissioning. Non-compliance with this obligation entitles the granting body to seek repayment of the grant, plus interest.

## 8. Intangible assets

Intangible assets are comprised of the following:

(amounts in millions of euros)	Net value at the beginning of the year	Additions	Depreciation and amortization	Impairment losses & value reinstatements	Other changes	Net value at the end of the year	Gross value at the end of the year	Accumulated amortization and impairment
<b>31.12.2016</b>								
<b>Intangible assets with finite useful lives</b>								
- Research and development costs				6		6	22	16
- Industrial patents and intellectual property rights							54	54
- Concessions, licenses, trademarks and similar items	3		(1)	6		8	93	85
- Fixed assets in progress and advances	7	3		(5)		5	9	4
- Other intangible assets	46		(3)	(3)		40	136	96
	<b>56</b>	<b>3</b>	<b>(4)</b>	<b>4</b>		<b>59</b>	<b>314</b>	<b>255</b>
<b>31.12.2017</b>								
<b>Intangible assets with finite useful lives</b>								
- Research and development costs	6		(1)			5	22	17
- Industrial patents and intellectual property rights							53	53
- Concessions, licenses, trademarks and similar items	8		(1)		7	14	100	86
- Fixed assets in progress and advances	5	10		(1)		14	19	5
- Other intangible assets	40		(3)		1	37	136	99
	<b>59</b>	<b>10</b>	<b>(5)</b>		<b>7</b>	<b>70</b>	<b>330</b>	<b>260</b>

Concessions, licenses and trademarks relate essentially to industrial licenses.

Other intangible assets (€37 million) relate mainly to intellectual property rights for the license contract with Union Carbide. It should be noted that this license contract was subject to an impairment test as it is included within the scope of the Brindisi production plant Cash Generating Unit (for further details on the criteria for identifying cash generating units see Note 7). The remaining amortization period for the Union Carbide royalties is 10 years.

The amortization and impairment provision of €260 million includes write-downs of €20 million.

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

(annual %)	2016	2017
<b>Intangible assets with finite useful lives</b>		
- Research & Development costs	4 - 20	4 - 20
- Concessions, licenses, trademarks and similar items	4 - 33	4 - 33
- Other intangible assets	4 - 15	4 - 15

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

## 9. Equity-accounted investments

Equity-accounted investments include the following:

(amounts in millions of euros)	Net value at the beginning of the year	Acquisitions and subscriptions	Share of profit (loss) on equity-accounted investments	Other changes	Net value at the end of the year
<b>31.12.2016</b>					
<b>Investments in:</b>					
- subsidiaries	4	8	1	(7)	6
- associated companies	100	0	0	0	100
- joint ventures	67	17	(7)	0	77
	<b>171</b>	<b>25</b>	<b>(6)</b>	<b>(7)</b>	<b>183</b>
<b>31.12.2017</b>					
<b>Investments in:</b>					
- subsidiaries	6	1		1	8
- associated companies	100		(4)	1	97
- joint ventures	77	62	(20)	(5)	114
	<b>183</b>	<b>63</b>	<b>(24)</b>	<b>(3)</b>	<b>219</b>

Acquisitions and subscriptions relate to the share capital increase for Lotte Versalis Elastomers Co. Ltd (€45 million) and Matrica (€17 million).

The results of the equity investments, accounted for using the equity method, negative for €24 million, concern Matrica (€17 million), Novamont (€5 million), Lotte Versalis Elastomers (€4 million) and Newco Tech (€1 million), partially offset by a gain (€1 million) for Priolo Servizi Industriali.

Other changes (€3 million) refer mainly to the currency translation reserve regarding Lotte Versalis Elastomers, for the end of the period exchange rate adjustment.

The equity-accounted investments relate to the following companies:

(amounts in millions of euros)	31.12.2016	31.12.2017
Lotte Versalis Elastomers Co Ltd	74	113
Novamont SpA	77	72
Priolo Servizi Industriali Scarl	16	18
Versalis Kimya Ticaret Ltd.	4	4
Eni Chemicals Trading (Shanghai) Co. Ltd.	3	4
Servizi Porto Marghera Scarl	3	3
Ravenna Servizi Industriali ScpA	2	2
IFM Ferrara Scarl	1	1
Versalis Zeal Ltd.		1
Brindisi Servizi Generali Scarl	1	1
Newco Tech SpA	1	
Other	1	
	<b>183</b>	<b>219</b>



The ownership percentages are shown in Note 38.

### Other information on investments

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

	31.12.2016			31.12.2017		
	Subsidiaries	Joint ventures	Associated companies	Subsidiaries	Joint ventures	Associated companies
(amounts in millions of euros)						
Current assets	5	7	25	6	48	28
Non-current assets		208	91	3	398	89
<b>Total assets</b>	<b>5</b>	<b>215</b>	<b>116</b>	<b>9</b>	<b>446</b>	<b>116</b>
Current liabilities	(1)	(18)	(32)	(1)	(173)	(44)
Non-current liabilities		(122)	(21)		(155)	(18)
<b>Total liabilities</b>	<b>(1)</b>	<b>(140)</b>	<b>(53)</b>	<b>(1)</b>	<b>(327)</b>	<b>(62)</b>
<b>Revenue</b>			<b>86</b>	<b>2</b>	<b>9</b>	<b>88</b>
<b>Costs</b>		<b>(4)</b>	<b>(74)</b>	<b>1</b>	<b>23</b>	<b>91</b>
<b>Operating profit (loss)</b>		<b>(4)</b>	<b>8</b>	<b>1</b>	<b>(14)</b>	<b>(2)</b>
<b>Profit (Loss) for the period</b>		<b>(4)</b>	<b>6</b>		<b>(18)</b>	<b>(4)</b>

## 10. Other investments

Other investments include the following:

(amounts in millions of euros)	Net value at the beginning of the year	Other changes	Net value at the end of the year
<b>31.12.2016</b>			
<b>Investments in:</b>			
- other companies	16	(13)	3
	<b>16</b>	<b>(13)</b>	<b>3</b>
<b>31.12.2017</b>			
<b>Investments in:</b>			
- other companies	3		3
	<b>3</b>		<b>3</b>

Other investments relate to the following company:

(amounts in millions of euros)	31.12.2016	31.12.2017
Consorzio Exeltium SAS	3	3
	<b>3</b>	<b>3</b>

The ownership percentages are shown in Note 38.

## 11. Other financial assets

Other financial assets of €2 million (€108 million as at December 31, 2016) essentially refer to the financing with Serfactoring \*Eni Group.

The reduction of €106 million compared to the previous year is essentially due to the full write-down of the loan granted to Matrica SpA, a joint venture with Novamont SpA, in order to meet the financial needs of the Porto Torres "Polo Verde" project.

## 12. Deferred tax assets

Deferred tax assets amounted to €177 million (€169 million as at December 31, 2016) net of deferred tax liabilities of €89 million (€128 million as at December 31, 2016) and are stated net of impairment losses of €519 million (of which €398 million related to tax losses).

(amounts in millions of euros)	31.12.2016	31.12.2017
Pre-paid tax assets	297	266
Deferred tax liabilities available for offset	(128)	(89)
<b>Net deferred tax assets</b>	<b>169</b>	<b>177</b>

Income taxes are discussed in Note 32.

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

(amounts in millions of euros)	Amount at 31.12.2016	Additions	Deductions	(Write-downs)/Write-backs	Other changes	Amount at 31.12.2017
<b>Deferred tax assets:</b>						
- non-deductible impairment losses	101	81	(63)			119
- tax losses	66		(65)	115		116
- expenses with deferred deductibility	(2)		(1)			(3)
- provisions for risks and charges	6	5	(5)			6
- other	126	3	(102)		1	28
	<b>297</b>	<b>89</b>	<b>(236)</b>	<b>115</b>	<b>1</b>	<b>266</b>
<b>Deferred tax liabilities:</b>						
- excess amortization/depreciation	74		(3)		(2)	69
- other	54	21	(57)		2	20
	<b>128</b>	<b>21</b>	<b>(60)</b>			<b>89</b>
<b>Net deferred tax assets</b>	<b>169</b>	<b>68</b>	<b>(176)</b>	<b>115</b>	<b>1</b>	<b>177</b>

The €115 million write-back refers to the outcome of the recoverability of receivables evaluations for deferred taxes of Versalis SpA (€75 million), Versalis France (€36 million) and Versalis International (€4 million),

### 13. Other Assets

Other assets of €1 million (€1 million as at December 31, 2016) relate essentially to personnel receivables.

## Current liabilities

### 14. Short-term debt

Short-term debt amounting to €88 million (€179 million as at December 31, 2016) relates mainly to loans granted by Eni SpA and by the finance companies of the Eni Group.

(amounts in millions of euros)	31.12.2016	31.12.2017
Payables to parent companies for loans	166	88
Other financial institutions	13	
	<b>179</b>	<b>88</b>

The reduction is attributable mainly to the positive cash flow.

The average annual interest rate for the year was 0.9% (0.9% as at December 31, 2016).

### 15. Current portion of long-term debt

The current portion of long-term debt amounted to €5 million (€5 million as at December 31, 2016) as illustrated in Note 20 "Long-term debt and current portion of long-term debt", to which reference is made.

### 16. Trade and other payables

Trade and other payables include the following:

(amounts in millions of euros)	31.12.2016	31.12.2017
Trade payables	671	749
Advances	2	2
Other payables:		
- relating to capital expenditures	64	33
- other	68	74
	<b>805</b>	<b>858</b>

Trade payables of €749 million relate to payables to third party suppliers (€347 million), payables to associated companies, joint ventures and other Eni Group companies (€234 million) and payables to the parent company Eni SpA (€168 million).

Payables related to capital expenditures amounted to €33 million.

Other payables that amounted to €74 million refer mainly to the payables to personnel (€51 million) and payables to the social security authorities (€13 million) and other debts (€10 million).

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

Payables to related parties are described in Note 33.

## 17. Current income tax payable

Income taxes payable of €5 million (€12 million as at December 31, 2016) relate to the income tax of foreign consolidated companies.

## 18. Other current taxes payable

Other taxes payable of €14 million (€10 million as at December 31, 2016) relate mainly to withholding tax due.

## 19. Other liabilities

Other liabilities are detailed as follows:

(amounts in millions of euros)	31.12.2016	31.12.2017
Deferred Income	9	7
Fair value on non-hedging derivatives	0	1
	<b>9</b>	<b>8</b>

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

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

## Non-current liabilities

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

Long-term debt and current portion thereof amounts to €71 million (€76 million as at December 31, 2016), are detailed in the table below:

(amounts in millions of euros)	31.12.2016			31.12.2017		
	Long-term portion	Short-term portion	Total	Long-term portion	Short-term portion	Total
Shareholders for loans	70		70	66	4	70
Other financial institutions	1	5	6	1		1
	<b>71</b>	<b>5</b>	<b>76</b>	<b>67</b>	<b>4</b>	<b>71</b>

The average effective interest rate for the year was 0.5% (1.3% in 2016). For more information see the “Leverage and net borrowings” section in the Directors’ Report.

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

(amounts in millions of euros)	Value at December 31		Long-term maturity						
	2016	2017	2018	2019	2020	2021	2022	Beyond	Total
<b>Shareholder loans</b>	70	70	4	9	9	9	9	30	70
<b>Other financial institutions</b>	6	1						1	1
	<b>76</b>	<b>71</b>	<b>4</b>	<b>9</b>	<b>9</b>	<b>9</b>	<b>9</b>	<b>31</b>	<b>71</b>

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

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

(amounts in millions of euros)	31.12.2016			31.12.2017		
	Current	Non-current	Total	Current	Non-current	Total
A. Cash and cash equivalents	122		122	201		201
B. Available-for-sale securities						
<b>C. Liquidity (A+B)</b>	<b>122</b>		<b>122</b>	<b>201</b>		<b>201</b>
<b>D. Financial receivables</b>						
E. Short-term debt towards banks						
F. Long-term debt towards banks						
G. Bonds						
H. Short-term debt towards related entities	179		179	70		70
I. Long-term debt towards related entities	5	71	76	5	67	72
L. Other short-term debt				18		18
M. Other long-term debt						
<b>N. Total borrowings (E+F+G+H+I+L+M)</b>	<b>184</b>	<b>71</b>	<b>255</b>	<b>93</b>	<b>67</b>	<b>160</b>
<b>O. Net borrowings (N-C-D)</b>	<b>62</b>	<b>71</b>	<b>133</b>	<b>(108)</b>	<b>67</b>	<b>(41)</b>

## 21. Provisions for risks and charges

(amounts in millions of euros)	31.12.2016	31.12.2017
Provision for disposal and restructuring	32	38
Provision for associated companies risks		38
Provision for environmental risks	21	28
Provision for redundancy incentives	14	10
Provision for legal and other proceedings	6	5
Provision for tax litigation risks	2	1
Provision for OIL insurance	1	1
Provision for green certificates		1
Other provisions	11	10
	<b>87</b>	<b>132</b>

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

(amounts in millions of euros)	Value at the beginning of the year	Additions	Utilization of provisions	Reversal of unutilized provisions	Other changes & foreign currency translation differences	Value at the end of the year
<b>31.12.2016</b>						
Provision for disposal and restructuring	50	7	(12)	(11)	(2)	<b>32</b>
Provision for environmental risks	35		(7)	(7)		<b>21</b>
Provision for redundancy incentives	15		(1)			<b>14</b>
Provision for associated companies	11	1	(1)			<b>11</b>
Provision for legal and other proceedings	6	20	(20)			<b>6</b>
Provision for tax litigation	2					<b>2</b>
Provision for OIL insurance	2		(1)			<b>1</b>
Other provisions	8				(8)	
	<b>128</b>	<b>28</b>	<b>(41)</b>	<b>(18)</b>	<b>(10)</b>	<b>87</b>
<b>31.12.2017</b>						
Provision for disposal and restructuring	32	16	(10)			<b>38</b>
Provision for environmental risks		38				<b>38</b>
Provision for redundancy incentives	21	10	(1)	(2)		<b>28</b>
Provision for associated companies	14		(1)	(4)	1	<b>10</b>
Provision for legal and other proceedings	6			(1)		<b>5</b>
Provision for tax litigation	2		(1)			<b>1</b>
Provision for OIL insurance	1					<b>1</b>
Provision for green certificates					1	<b>1</b>
Other provisions	11				(1)	<b>10</b>
	<b>87</b>	<b>64</b>	<b>(13)</b>	<b>(7)</b>	<b>1</b>	<b>132</b>

Provisions for disposal and restructuring of €38 million are related to the Hythe (UK) site and divestment of the Sarroch Aromatics business.

The provisions for environmental risks of €28 million include environmental charges related to various corporate sites for the part not covered by the guarantee issued by Syndial SpA, upon the transfer of the "Strategic Chemical Activity" business (see "Accounting policies - Grants").

Provisions for redundancy incentives of €10 million relate to expenses for ordinary redundancy procedures.

The provision for risks and charges for litigation of €5 million relates mainly to litigation from revocatory actions, more extensively covered in the section "Litigation".

Provisions for tax litigation of €1 million are commented on in the section "Litigation".

Provisions for OIL insurance of €1 million include the expenses related to the surcharge on insurance premiums to be paid in the next five financial years to Mutua Assicurazione Oil Insurance Ltd in which the Eni Group, along with other oil companies, has an interest.

The other provisions of €10 million consist mainly of the provision for mobility grants of €5 million, the social security contributions and the severance indemnities relating to the deferred monetary incentives for managers of €2 million.

## 22. Provisions for employee benefits

Provisions for employee benefits amounted to €67 million as detailed in the table below:

(amounts in millions of euros)	31.12.2016	31.12.2017
Employee termination indemnities (TFR)	47	45
Supplementary medical reserve for Eni managers (FISDE) and other foreign medical plans	9	9
Foreign pension plans	2	(1)
Other benefits	12	14
	<b>70</b>	<b>67</b>

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

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

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

The other provisions for long-term employee benefits mainly regard the deferred cash incentive plans, the long-term incentive plan and the seniority bonuses. The figures for deferred cash incentive plans include the estimated amount of variable remuneration linked to business performance, which will be paid to senior managers who have achieved the individual targets set. The long-term incentive plan (ILT) provides for

payment, after three years of assignment, of a variable monetary benefit linked to the trend in a performance parameter compared to a benchmark group of international oil companies. The seniority awards are benefits distributed upon the achievement of a minimum period of service with the company and, with regard to Italy, are paid in kind.

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

31.12.2016

(amounts in millions of euros)	TFR	Foreign defined-benefit schemes	FISDE and foreign medical plans	Other provisions for long-term employee benefits	Total
<b>Present value of obligations at the beginning of the year</b>	45	38	10	11	104
Current cost		1		3	4
Interest costs	1	1			2
Remeasurements:	3	7	(1)		9
- Actuarial gains and losses from changes in demographic assumptions				(1)	(1)
- From financial assumptions	2	8			10
- From past experience	1		(1)		
Benefits paid	(2)			(2)	(4)
Currency exchange differences and other changes		(5)			(5)
<b>Present value of obligations at the end of the period (a)</b>	47	42	9	12	110
<b>Plan assets at the beginning of the year</b>		37			37
Interest income		1			1
Return on plan assets		7			7
Currency exchange differences and other changes		(5)			(5)
<b>Plan assets at the end of the year (b)</b>		40			40
<b>Redemption rights at the end of the year (c)</b>					
<b>Assets/liabilities ceiling incurred at the end of the year (d)</b>					
<b>Net liabilities recognized in the financial statements (a-b±d)</b>	47	2	9	12	70



	31.12.2017				
	TFR	Foreign defined-benefit schemes	FISDE and foreign medical plans	Other provisions for long-term employee benefits	Total
(amounts in millions of euros)					
<b>Present value of obligations at the beginning of the year</b>	<b>47</b>	<b>42</b>	<b>9</b>	<b>12</b>	<b>110</b>
Current cost		1		4	5
Interest costs	1	1			2
Revaluations:	(1)	(1)			(2)
- Actuarial gains (losses from changes in demographic assumptions)		(2)			(2)
- Actuarial gains and losses from financial assumptions	(1)	1			
- Influenced by past experience					
Benefits paid	(1)	(1)		(2)	(4)
Currency exchange differences and other changes		(4)			(4)
<b>Present value of obligations at the end of the period (a)</b>	<b>45</b>	<b>38</b>	<b>9</b>	<b>14</b>	<b>106</b>
<b>Plan assets at the beginning of the year</b>		<b>40</b>			<b>40</b>
Interest income		1			1
Return on plan assets		1			1
Currency exchange differences and other changes		(3)			(3)
<b>Plan assets at the end of the year (b)</b>		<b>39</b>			<b>39</b>
<b>Redemption rights at the end of the year (c)</b>					
<b>Ceiling of assets/liabilities incurred at the end of the year (d)</b>					
<b>Net liabilities recognized in the financial statements (a-b±d)</b>	<b>45</b>	<b>(1)</b>	<b>9</b>	<b>14</b>	<b>67</b>

Other provisions for long-term employee benefits of €14 million (€12 million as at December 31, 2016) primarily concern deferred monetary incentives for €8 million (€7 million as at December 31, 2016) and seniority bonuses for €4 million (€4 million as at December 31, 2016).

The costs relating to liabilities for employee benefits, assessed utilizing actuarial assumptions, recorded in the income statement are analysed as follows:

(amounts in millions of euros)	TFR	Foreign defined-benefit schemes	FISDE and other foreign medical plans	Other provisions for long-term employee benefits	Total
<b>2016</b>					
Current cost		1		4	5
Cost for past services and gains/loss by extinction					
- Interest expense on the obligation	1	1			2
- Interest income on the plan assets		(1)			(1)
Total net interest expense (income)	1				1
- of which recorded in payroll and related costs	1				1
Revaluations of long-term plans	1				1
<b>Total</b>	<b>1</b>	<b>1</b>		<b>4</b>	<b>6</b>
- of which recorded in the cost of labour		1		4	5
- of which recorded in financial income (expense)	1				1
<b>2017</b>					
Current cost		1		4	5
Cost for past services and gains/loss by extinction					
Net interest expense (income):					
- Interest expense on the obligation	1	1			2
- Interest income on the plan assets		(1)			(1)
Total net interest expense (income)					
- of which recorded in payroll and related costs					
- of which recorded in financial income (expense)					
Revaluations of long-term plans					
<b>Total</b>		<b>1</b>		<b>4</b>	<b>5</b>
- of which recorded in the cost of labour		1		4	4

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

(amounts in millions of euros)	31.12.2016				31.12.2017			
	TFR	Foreign defined-benefit schemes	FISDE and foreign medical plans	Total	TFR	Foreign defined-benefit schemes	FISDE and foreign medical plans	Total
<b>Remeasurements:</b>								
- Actuarial gains and losses from changes in demographic assumptions		(1)		(1)		(2)		(2)
- Actuarial gains and losses from changes in financial assumptions	2	8		10	(1)	1		
- Effect of past experience	1		(1)					
- Return on plan assets		(7)		(7)		(1)		(1)
	<b>3</b>		<b>(1)</b>	<b>2</b>	<b>(1)</b>	<b>(2)</b>		<b>(3)</b>

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

(%)	TFR	Foreign defined-benefit schemes	FISDE and other foreign medical plans	Other provisions for long-term employee benefits
<b>2016</b>				
Discount rate	1.0	1.0-2.60	1.0	0.0-1.0
Salary growth trend rate	2.0	1.0-3.75		
Inflation rate	1.0	2.0-3.25	1.0	1.0

(%)				
<b>2017</b>				
Discount rate	1.5	1.5-2.40	1.5	0.0-1.5
Salary growth trend rate	2.5	1.5-3.20		
Inflation rate	1.5	1.5-3.70	1.5	1.5

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

	Discount Rate		Inflation Rate	Cost of Living Trend
	0.5% increase	Riduzione di 0.5%	0.5% increase	0.5% increase
TFR	(2.0)	3.0	2.0	
FISDE and foreign medical plans	(1.0)	1.0		1.0

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

## 23. Deferred tax liabilities

The deferred tax liabilities balance is analysed as follows:

(amounts in millions of euros)	Amount at 31.12.2016	Provisions	Utilizations	Impairment/ (Value reinstatements)	Other changes	Amount at 31.12.2017
Deferred tax liabilities:						
- other		1				1
		1				1

## 24. Shareholders' equity

The shareholders' equity amounts to €1,815 million (€1,514 million as at December 31, 2016) as detailed below:

(amounts in millions of euros)	31.12.2016	31.12.2017
Share capital	1,365	1,365
Legal reserve		8
Other reserves	29	24
Retained earnings/(losses) brought forward	(43)	115
Profit (Loss) for the period	163	303
	<b>1,514</b>	<b>1,815</b>

### Share capital

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

The change is mainly due to the net income of €303 million.

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

### Legal reserve

The legal reserve, amounting to approximately €8 million, was set up by Versalis SpA following the resolution of the shareholders' meeting held on 12 April 2017, which envisaged allocating 1/20th of the profit for 2016 to the same.

### Other Reserves

The other reserves amount to a total of €24 million (€29 million at December 31, 2016).

The amount is mainly due to provisions for covering losses, equal to €32 million, (the same amount as of December 31, 2016), and to the negative reserve for benefit plans defined for employees, net of the tax effect, equal to €6 million, (€8 million at 31 December 2016).

(amounts in millions of euros)

	Amount	Possibility of utilization	Available Share
<b>1. Share capital</b>	<b>1,365</b>		
<b>2. Capital reserve</b>			
Profit & other reserves	32		
Legal reserve	8	B	8
Loss coverage reserve	32	B	32
Business combination under common control reserve	2		
Employee benefit plans reserve	(6)		
Exchange rates variation reserve	(4)		
Retained earnings	115	A.B.C	115
Profit for the period	303	A.B.C	303
<b>Total</b>	<b>1,815</b>		
<b>Non distributable amount</b>	<b>1,397</b>		
<b>Residual distributable amount</b>	<b>418</b>		

Legend:

A: available for capital increase

B: available for loss coverage

C: available for distribution to shareholders

## 25. Guarantees, commitments and risks

### Guarantees

Guarantees are detailed as follows:

(amounts in millions of euros)	31.12.2016			31.12.2017		
	Fidejussions	Other guarantees	Total	Fidejussions	Other guarantees	Total
Consolidated subsidiaries		103	103		122	122
Other	1		1	1		1
	<b>1</b>	<b>103</b>	<b>104</b>	<b>1</b>	<b>122</b>	<b>123</b>

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

Other guarantees of €122 million provided on behalf of consolidated companies relate to indemnities granted to Eni SpA and Syndial SpA, which in turn granted guarantees in favour of third parties on behalf of the Versalis Group companies.

The effective commitment as at December 31, 2017 amounted to €123 million.

## Commitments and risks

Commitments and risks are detailed as follows:

(amounts in millions of euros)	31.12.2016	31.12.2017
<b>Commitments</b>		
Operating leases	2	2
	<b>2</b>	<b>2</b>
<b>Risks</b>		
Third party assets & other risks	39	40
	<b>39</b>	<b>40</b>
	<b>41</b>	<b>42</b>

Third-party assets held by the Group relate mainly to virgin naphtha stored at various Versalis Group sites. Other risks concern costs related to the divestment of the Sarroch Aromatics business.

## Financial risk management

### Introduction

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

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

The paragraphs below provide a description of the main financial risks, the methods adopted for the management thereof, as well as details of the exposure to market risks (the indication of the exposure to market risks is based on a sensitivity analysis<sup>12</sup> or through an indication of the Value at Risk results).

### Market risk

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

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

The Versalis Group uses derivative financial instruments and derivatives on commodities in order to minimize exposure to market risks related to changes in exchange rates and interest rates and to manage exposure to

<sup>12</sup> Sensitivity analysis is applied to financial instruments at floating interest rate, to instruments carried at fair value (non-hedging derivatives, cash flow hedging derivative, financial assets available for sale); and to financial instruments exposed to exchange rate risk.

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

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

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

### **Exchange rate risk**

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

### **Commodity risk**

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

For example, it can be estimated that an increase of US \$10 per tonne of petroleum feedstock would lead to a reduction in the annual operating profit of around €30 million.

### **Credit risk**

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

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

As regards the financial counterparty risk deriving from the use of cash, positions in derivative contracts and transactions with an underlying physical basis with financial counterparties, the above-mentioned "Guidelines" identify the objective of risk management as the optimization of the risk profile in pursuance of the operating targets. The maximum risk limits are expressed in terms of the maximum credit granted by classes of counterparties, defined at the Board of Directors level and based on ratings provided by the leading Agencies. The risk is managed by Eni's Operational Finance Units, by Eni Trading & Shipping and Eni SpA for trading in commodity derivatives, and by the companies and Divisions only for transactions with an underlying physical basis with financial counterparties, in keeping with the centralized finance model. As regards the ceilings defined for rating classes, for each operating structure the lists of names of authorized counterparties are identified, assigning to each a maximum credit limit, which is monitored and checked daily. The critical situation that occurred on the markets starting from financial year 2008 led to the adoption of stricter rules, namely risk

diversification and rotation of financial counterparties, and of selectivity for transactions in derivatives with duration of more than three months.

During the course of 2017 the trade receivables trend, regarding both third parties and intercompany, revealed a substantial uniformity with the previous year, with a limited exposure in the accounts, evident in correspondence to the quarterly closures, thanks to a level of sales to factoring companies which was more significant than that allowed for in 2016.

The level of disposals to Factors (123 million euros) was substantially in line with that of 2016 and allowed significant containment of the accounting exposure at the end of the quarterly closing.

The average exposure with the other companies belonging to the Eni Group showed values in accordance with those of the previous year.

The macroeconomic environment and market conditions, of the majority of customer segments, showed some signs of improvement thanks to constant monitoring and awareness of the client companies, the average amount of past due loans remained at non-relevant levels with respect to the total exposure.

The number and amount of litigations were drastically reduced compared to 2016 and there were no cases of note.

### Liquidity risk

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

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

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

### Future payments against debt

(amounts in millions of euros)	Year of maturity						Total
	2018	2019	2020	2021	2022	Beyond	
Short-term debt	88						88
Long-term debt including current portion	5	9	9	9	9	30	71

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

(amounts in millions of euros)	Year of maturity						Total
	2018	2019	2020	2021	2022	Beyond	
Trade payables	749						749
Advances from customers, other payables	109						109
	858						858



## Future payments against contractual obligations

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

(amounts in millions of euros)	2018	2019	2020	2021	2022	Beyond	Total
Costs (charges) relating to environmental provisions	4	6	8	6		4	28
Other commitments	296	180	86	74	4	8	648
	<b>300</b>	<b>186</b>	<b>94</b>	<b>80</b>	<b>4</b>	<b>12</b>	<b>676</b>

The Other Commitments of €648 million include essentially an undertaking to purchase supplies of petrochemical products.

## Investment commitments

Over the next few years, the Versalis Group plans to carry through a programme of capital expenditure of €116 million. The table below shows the time schedule for the investments relating to the more significant committed projects. A project is considered to be *committed* when it has obtained the necessary approval from Management and when the relative purchase contracts have been awarded or are being finalized.

(amounts in millions of euros)	Year of maturity						Total
	2018	2019	2020	2021	2022	Beyond	
Other commitments	64	3					67
	<b>64</b>	<b>3</b>					<b>67</b>

## Capital management

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

## Fair value of financial instruments

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

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

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

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

Other non-current financial assets and liabilities: other non-current financial assets and liabilities refer to receivables from the Matrica joint venture and were evaluated taking into account the repayment capacity in line with the risk involved; the other non-current financial liabilities are of an immaterial amount.

The classification of financial assets and liabilities is indicated below; these are measured at fair value in the Balance Sheet according to the fair value hierarchy defined on the basis of the significance of the inputs used

in the measurement process. In particular, on the basis of the features of the inputs used in making the measurements, the fair value hierarchy has the following levels:

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

In relation to the above, the Versalis Group's financial instruments carried at fair value at December 31, 2016 regard "level 2" derivative contracts. During the year, there were no transfers between the different fair value hierarchy levels.

### **Environmental regulations**

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

### **Emission trading**

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

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

On the basis of the estimates of the emissions made, at December 31, 2017, the Versalis Group presented an overall emission rights surplus (a so-called "long position")<sup>13</sup>; Management, therefore, in accordance with the accounting criteria adopted, will record the related income once these surplus rights are sold.

### **Litigation**

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

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<sup>13</sup> Provisional data: the definitive data will be available only after the final results have been certified by the Accredited Auditor. This will, however, not affect the company's position, which will certainly remain long.

## Tax litigation

On February 17, 2011 the Siracusa tax Office served a demand for payment of registry tax of €731 thousand relating to the sale of shares in the consortium Priolo Servizi; together with the other companies in the consortium, the company appealed to the Tax Commission and has not set accrued any provisions, having reasonable confidence in a positive outcome for the dispute. The CTUs appointed by the judge deposited their report; the Provincial Tax Commission of Syracuse with sentence no. 1302/2018 ordered the acceptance of appeals and the annulment of the contested deeds.

The Milan Tax Office served a demand for payment of higher registry, mortgage and cadastral tax of approximately €1 million relating to the sale of the TAF business unit in Brindisi to Syndial SpA. The company, in conjunction with the jointly responsible Syndial, having failed to settle the dispute using the proposed tax settlement procedure, intends to appeal; the estimated cost is approximately €537 thousand. The Milan Provincial Tax Commission with ruling no. 2530/8/16 filed on 16/03/2016 dismissed the application of the company, who promptly filed an appeal and request for suspension of enforceability of the judgment. The 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 and is awaiting sentencing.

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

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

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

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

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

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

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

The Revenue Agency of the Lombardy Regional Tax Office for Large Taxpayers audits for the years 2013 and 2014 are still underway.

## 26. Revenue

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

### Net sales from operations

Net sales from operations are detailed in the table below:

(amounts in millions of euros)	2016	2017
Sales of petrochemical products	4,067	4,712
Sales of other products	1	2
Other services	128	137
	<b>4,196</b>	<b>4,851</b>

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

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

(amounts in millions of euros)	2016	2017
Italy	1,930	2,201
Rest of Europe	2,107	2,145
Asia	99	352
America	53	93
Africa	7	57
Other areas		3
	<b>4,196</b>	<b>4,851</b>

### Other income and revenues

Other income and revenues are comprised of the following:

(amounts in millions of euros)	2016	2017
Income from sale of Energy Efficiency Certificates		90
Recovery of other costs and expenses	35	31
License rights and royalties		18
Insurance payouts	9	5
Income from investment properties		3
Income for emission rights	2	
Other	2	5
	<b>48</b>	<b>152</b>

The recovery of other costs and expenses refer to the re-charging of operating expenses to Syndial SpA in virtue of the guarantees issued at the time of conferral in 2002 of the "Strategic Chemical Activities" business unit (€14 million, for further details see the paragraph "Accounting policies - Grants") and to the recharging of sundry costs and expenses to other companies working at the Group's production sites (€17 million).

## 27. Operating expenses

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

(amounts in millions of euros)	2016	2017
Production costs - raw, ancillary and consumable materials and goods	2,404	3,012
Service costs	1,108	1,174
Other expenses	21	50
Net provisions for risks and charges	9	24
Leasing and rental charges	22	22
Change in inventories	78	(129)
Impairment of receivables	3	22
Decrease of capitalized internal work costs	(3)	(1)
	<b>3,642</b>	<b>4,174</b>

### Purchases, services and other costs

Purchases, services and other costs include the following:

The service costs of €1,174 million refer mainly to costs for utilities (€495million), logistics and transport (€247 million), maintenance (€205 million) and industrial services (€35 million).

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

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

Leasing and rental charges of €22 million refer mainly to rentals for €8 million, concessions and licenses for €7 million, leases of land and buildings for €5 million and capitalization for €3 million.

The Other Expenses of €49 million include mainly indirect taxes and duties.

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

Non-capitalisable research and development costs amounted to €36 million (€32 million in 2016).

### Payroll and related costs

Payroll and related costs are detailed as follows:

(amounts in millions of euros)	2016	2017
Wages and salaries	257	258
Social security contributions	75	75
Costs related to defined benefit plans and defined contribution plans	4	5
Other costs	18	14
	<b>354</b>	<b>352</b>
Less:		
Capitalized direct cost associated with self-constructed assets	(9)	(11)
	<b>345</b>	<b>341</b>

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

The remuneration for persons responsible for the planning, direction and control functions of the company, including executive and non-executive directors, managers and senior managers with strategic responsibilities (so-called key management personnel) in office at December 31, 2017 amounted to €4 million as follows:

(amounts in millions of euros)	2016	2017
Wages and salaries	4	3
Costs related to defined benefit plans and defined contribution plans	1	1
	<b>5</b>	<b>4</b>

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

	2016	2017
Senior Management	107	105
Middle Management and Staff	3,137	3,137
Workers	1,851	1,836
	<b>5,095</b>	<b>5,078</b>

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

## 28. Other operating income (expenses)

The other operating expenses include the following:

(amounts in millions of euros)	2016	2017
Income from commodity derivatives	1	2
Expenses from commodity derivatives	(8)	
	<b>(7)</b>	<b>2</b>

Other operating expenses of €2 million (€7 million in 2016) relate to the recording in the income statement of net expenses incurred on commodity derivatives that do not fulfil the formal requisites necessary to be classified as "hedges" in accordance with IAS 39.

## 29. Depreciation, amortization and impairment

Depreciation, amortization and impairment include the following:

(amounts in millions of euros)	2016	2017
<b>Depreciation and amortization:</b>		
- Property, plant and equipment	51	75
- Intangible assets	4	5
	<b>55</b>	<b>80</b>
<b>Impairment losses/(value reinstatements):</b>		
- Property, plant and equipment	(14)	(80)
- Intangible assets	<b>(4)</b>	
	<b>(18)</b>	<b>(80)</b>
	<b>37</b>	<b>0</b>

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

### 30. Financial income (expenses)

Financial income (expenses) includes the following:

(amounts in millions of euros)	2016	2017
Financial income	39	69
Financial expenses	(135)	(193)
Derivatives	(1)	(3)
	<b>(97)</b>	<b>(127)</b>

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

(amounts in millions of euros)	2016	2017
<b>Financial income (expenses) related to net borrowings</b>		
- Interest and other expenses to banks and other financial institutions	(14)	(5)
<b>Positive (negative) exchange differences</b>		
- Positive exchange differences	29	60
- Negative exchange differences	(29)	(59)
<b>Derivatives</b>	(1)	(3)
<b>Other financial income and expenses</b>		
- Capitalized financial expenses	6	7
- Interest and other income on financing receivables and securities related to operations	(85)	(125)
- Other financial income (expenses)	(3)	(2)
	<b>(97)</b>	<b>(127)</b>

Net income (expenses) on derivatives regard derivative contracts that do not meet the formal conditions to be classified as “hedges” as specified by IAS 39 and, therefore, the related fair value changes are stated in the income statement. Net income on derivative instruments of €3 million regards contracts on currencies.

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

Interest and other charges on financial receivables and securities instrumental to operating activities of €125 million relate to the write-down of the financial receivable granted to Matrìca and the related interest. The write-down takes into account the repayment capacity of Matrìca consistent with the risk of the operation.

### 31. Income (expenses) from investments

(amounts in millions of euros)	2016	2017
Gains from valuations using the equity method	1	2
Losses from valuations using the equity method	(7)	(25)
Other net income (expenses)	(13)	(38)
	<b>(19)</b>	<b>(61)</b>

### 32. Income taxes

The income tax details are as follows:

(amounts in millions of euros)	2016	2017
Current tax assets:		
- Italian companies	(27)	(16)
- foreign companies	21	21
	<b>(6)</b>	<b>4</b>
Net deferred (prepaid) taxes:		
- Italian companies	(26)	(2)
- foreign companies	(34)	(3)
	<b>(60)</b>	<b>(5)</b>
<b>Total Income Taxes</b>	<b>(66)</b>	<b>(1)</b>

The current taxes for the year relating to the Italian companies regard the income for the recording of the fiscal benefit deriving from participation in the eni national tax consolidation (for more details on the benefits deriving from participation in the national tax consolidation see the section "Income taxes" of the Directors' Report). Net deferred tax assets are described in Notes 12 and 23.

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

(%)	2016	2017
<b>Theoretical tax rate</b>	<b>30.1</b>	<b>24.0</b>
Items increasing (decreasing) compared to theoretical tax rate:		
- (impairments) reversal of deferred taxes	(97.9)	(35.2)
- permanent differences	(4.1)	(9.3)
- prior year taxes	(17.5)	(5.3)
- different tax burden on foreign companies	16.5	23.3
- expenses and income from investments	2	2.0
- changes in tax rates	5.2	
- other changes	(2.2)	0.3
	<b>(98.1)</b>	<b>(24.3)</b>
	<b>(68.0)</b>	<b>(0.3)</b>

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



### 33. Related party transactions

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

The main transactions carried out were with the following companies:

- a) Eni SpA: purchase of petroleum feedstock and virgin naphtha for the cracker plants; purchase of natural gas; sale of basic chemicals and transactions of an administrative and financial nature, procurement and information technology services, legal services, research services and services for personnel, treasury services and administrative activities;
- b) Ecofuel SpA (controlled by Eni SpA): sale of olefin cycle products, transactions deriving from rental of the "MTBE/ETB and BTH" business unit at Ravenna;
- c) Eni Finance International SA (controlled by Eni International Holding BV): financial transactions;
- d) Eni Insurance Limited (controlled by Eni SpA) insurance cover for risks;
- e) EniPower SpA (controlled by Eni SpA), EniPower Mantova SpA and Società EniPower Ferrara Srl (controlled by EniPower SpA): purchase of electricity and steam; provision of auxiliary and general services;
- f) EniServizi SpA (controlled by Eni SpA): receiving general services;
- g) Eni Trading & Shipping SpA (controlled by Eni SpA): transport by sea, purchase and sale of raw materials of basic chemical products, and derivative contracts on commodities;
- h) Matrica SpA: financing of assets instrumental to operating activities, industrial services;
- i) Raffineria di Gela SpA (controlled by Eni SpA): transactions deriving from rental of the "Polyethylene" business unit at Gela;
- j) Saipem SpA: receiving goods and services related to the construction and upgrading of plants;
- k) Syndial SpA (controlled by Eni SpA): product marketing, purchase and sale of products and exchange of services and utilities;
- l) Priolo Servizi Scarl (associate of Versalis SpA): supply of general and auxiliary services at sites where Versalis SpA is also present;
- m) Ravenna Servizi Industriali SCpA (associate of Versalis SpA): supply of general and auxiliary services at sites where Versalis SpA is also present;
- n) Servizi Porto Marghera Scarl (associate of Versalis SpA): supply of general and auxiliary services at sites where Versalis SpA is also present;
- o) Gruppo Ferrovie dello Stato: rail transport.

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

Name	31.12.2017				2017						
	Trade and other receivables	Trade and other payables	Positive derivatives	Negative derivatives	Costs			Revenue			
					Goods	Services	Other operating expenses	Goods	Services	Other	Other operating income
<b>Associated Companies</b>											
Brindisi Servizi Generali Scarl		1					5				
Priolo Servizi Scarl		1					18				
Ravenna Servizi Industriali ScpA	(1)	2		4			9	1		1	
Servizi Porto Marghera Scarl	1	1					22	8			
		<b>5</b>		<b>4</b>			<b>54</b>	<b>9</b>		<b>1</b>	
<b>Joint ventures</b>											
Matrica SpA		2							5	1	
Lotte Versalis Elastomers Co Ltd											2
		<b>2</b>							<b>5</b>	<b>3</b>	
<b>Parent company</b>											
Eni SpA	28	170	3		292	413	(1)	3	69	93	1
	<b>28</b>	<b>170</b>	<b>3</b>		<b>292</b>	<b>413</b>	<b>(1)</b>	<b>3</b>	<b>69</b>	<b>93</b>	<b>1</b>
<b>Eni Group companies</b>											
Ecofuel SpA	23	7			31			93	9		
Eni Corporate University SpA		1				2					
Eni Insurance Ltd		1				8				4	
EniPower SpA	2			1					7	1	
EniPower Mantova SpA	1								4		
EniServizi SpA		2			2	5					
Eni Trading and Shipping SpA	3	157			1,070	104	4	24		2	
Ing. Luigi Conti Vecchi SpA	1	3			10				1		
Raffineria di Gela SpA		11				4					
Serfactoring SpA		2									
Società EniPower Ferrara Srl		1				4					
Syndial SpA	93	49			2	33			4	15	
	<b>123</b>	<b>234</b>		<b>1</b>	<b>1,115</b>	<b>160</b>	<b>4</b>	<b>117</b>	<b>25</b>	<b>22</b>	
<b>Entities owned or controlled by the State</b>											
Gruppo Ferrovie dello Stato		2				6					
Gruppo Terna	0	0	0	0					2		
		<b>2</b>				<b>6</b>			<b>2</b>		
	<b>151</b>	<b>414</b>	<b>3</b>	<b>5</b>	<b>1,407</b>	<b>633</b>	<b>3</b>	<b>129</b>	<b>101</b>	<b>119</b>	<b>1</b>

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

(amounts in millions of euros)	31.12.2017		2017		
	Receivables	Payables	Charges	Gains	Derivatives
<b>Parent company</b>					
Eni SpA		70	6	1	(3)
<b>Eni Group companies</b>					
Serfactoring SpA	2				
Eni Finance International SA (ex ECC)		70			
<b>Joint ventures</b>					
Matrica SpA			133	9	
	<b>2</b>	<b>140</b>	<b>139</b>	<b>10</b>	<b>(3)</b>

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

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

(amounts in millions of euros)	31.12.2016			31.12.2016		
	Total	Related parties	Proportion %	Total	Related parties	Proportion %
Cash and cash equivalents	122	109	100	201	195	97
Trade and other receivables	757	211	24	726	151	21
Other current assets	3	2	67	4	3	77
Other financial assets	108	108	100	2	2	100
Other non-current assets	1			1		
Short-term debt	179	166	45	88	70	80
Trade and other payables	805	308	33	858	414	48
Other current liabilities	9	5	63	8	5	63
Long-term debt (including short-term portions)	71	70	99	67	66	98

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

(amounts in millions of euros)	2016			2017		
	Total	Related parties	Proportion %	Total	Related parties	Proportion %
Net sales from operations	4,196	165	4	4,851	230	5
Other income and revenues	48	47	98	153	119	78
Purchases, services and other costs	(3,642)	(1,581)	43	(4,174)	(2,040)	49
Payroll and related costs	(345)			(341)		
Other operating income and expenses	(7)	(7)	100	2	(2)	(100)
Financial income	39	13	33	69	9	13
Financial expenses	(135)	(22)	16	(194)	(6)	3
Derivatives	(1)	(1)	100	(3)	(3)	104
Charges on investments	(19)	(19)	100	(61)	(61)	100

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

(amounts in millions of euros)	2016	2017
Revenues and other income	213	349
Costs and expenses	(2)	(2)
Net change in trade and other receivables, and other assets	90	59
Net change in trade and other liabilities, and other liabilities	(58)	106
Dividends, interest and taxes	(38)	11
<b>Net cash flow provided by operating activities</b>	<b>(1,382)</b>	<b>(1,518)</b>
- investments and securities	(23)	(63)
- financial receivables	(8)	(13)
- change in payables and receivables relating to investments	31	(22)
<i>Cash flow from investments</i>		(98)
<b>Net cash flow from investment activities</b>	<b>0</b>	<b>(98)</b>
- Change in financial liabilities	(277)	(100)
<b>Net cash flow from financing activities</b>	<b>(277)</b>	<b>(100)</b>
<b>Total financial flows to related parties</b>	<b>(1,659)</b>	<b>(1,716)</b>

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

(amounts in millions of euros)	2016			2017		
	Total	Related parties	Proportion %	Total	Related parties	Proportion %
Cash provided by operating activities	468	(1,382)	n.s.	478	(1,518)	n.s.
Cash provided by investment activities	(236)			(309)	(98)	3
Cash provided by financing activities	(260)	(277)	107	(95)	(100)	106

### 34. Significant non-recurring events and operations

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

### 35. Positions or transactions deriving from atypical and/or unusual operations

During the year, there were no positions or transactions deriving from atypical and/or unusual operations.

### 36. Assets held for sale and in disposal groups

At December 31, 2017 there were no assets held for sale and in disposal groups.

### 37. Main events subsequent to December 31, 2017

There were no main events subsequent to December 31, 2017.

### 38. List of investments

#### Versalis SpA Group companies and equity investments as at December 31, 2017

In accordance with the provisions of Arts 38 and 39 of Italian Legislative Decree No. 127/1991, Art 126 of Consob Resolution No. 11971 dated May 14, 1999 and subsequent amendments and Consob Communication No. DEM/6064293 of July 28, 2006, the lists of the subsidiary and associated companies of Versalis SpA at 31<sup>st</sup> December 2017, and of other significant equity investments are provided below.

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

#### Subsidiary and associated companies of Versalis SpA as at 31<sup>st</sup> December 2017

##### CONSOLIDATING COMPANY

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

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

**SUBSIDIARY****In Italy**

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

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

**SUBSIDIARIES****Outside Italy**

Name	Registered office	Currency	Share Capital	Shareholders	Ownership	% Consolidated pertaining to the Group	Method of consolidation or criterion of measurement (*)
Dunastyr Polystyrene Zrt	Budapest (Hungary)	HUF	8,092,160,000	Versalis SpA Versalis International Versalis Deutschland GmbH	96,34 1.83 1.83	100.00	L.b.L.
Eni Chemicals Trading (Shanghai) Co Ltd (in liquidation)	Shanghai	USD	5,000,000	Versalis SpA	100.00	100.00	N.E.
Versalis Americas Inc.	Dover, Delaware (USA)	USD	100,000	Versalis International SA	100.00	100.00	L.b.L.
Versalis Congo Sarlu	Tchitembo Pointe-Noire (Congo)	CDF	1,000,000	Versalis International SA	100.00	100.00	N.E.
Versalis Deutschland GmbH	Eschborn (Germany)	EUR	100,000	Versalis SpA	100.00	100.00	L.b.L.
Versalis France SAS	Mardyck (France)	EUR	126,115,583	Versalis SpA	100.00	100.00	L.b.L.
Versalis International SA	Brussels (Belgium)	EUR	15,449,174	Versalis SpA Dunastyr Zrt Versalis Deutschland GmbH Dunastyr Polystyrene Ltd 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	N.E.
Versalis Pacific (India) Private Limited	Mumbai (India)	INR	238,700	Versalis Pacific Trading Third parties	99.99 0.01	99.99	N.E.
Versalis Pacific Trading (Shanghai) Co Ltd	Shanghai	CNY	1,000,000	Versalis SpA	100.00	100.00	L.b.L.
Versalis UK Ltd	Lyndhurst (Great Britain)	GBP	4,004,042	Versalis SpA	100.00	100.00	L.b.L.

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

## ASSOCIATED COMPANIES

### In Italy

Name	Registered office	Currency	Share Capital	Shareholders	% Ownership	% Consolidated pertaining to the Group	Method of consolidation or criterion of measurement (*)
Brindisi Servizi Generali Scarl	Brindisi (BR)	EUR	1,549,060	Versalis SpA Syndial SpA EniPower SpA Third parties	49.00 20.20 8.90 21.90	49.00	N.E.
Novamont SpA	Novara (NO)	EUR	13,333,500	Versalis SpA Third parties	25.00 75.00	25.00	N.E.
Priolo Servizi Scpa	Melilli (SR)	EUR	28.100.000	Versalis SpA Syndial SpA Third parties	33.16 4.38 62.46	33.16	N.E.
Ravenna Servizi Industriali ScpA	Ravenna (RA)	EUR	5,597,400	Versalis SpA EniPower SpA Ecofuel SpA Third parties	42.13 30.37 1.85 25.65	42.13	N.E.
Servizi Porto Marghera Scarl	Venice, Porto Marghera (VE)	EUR	8.695.718	Versalis SpA Syndial SpA	48.44 38.39	48.44	N.E.

Third parties 13.17

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

**JOINT VENTURES****In Italy**

Name	Registered office	Currency	Share Capital	Shareholders	% Ownership	% Consolidated pertaining to the Group	Method of consolidation or criterion of measurement (*)
Matrica SpA	Porto Torres (SS)	EUR	37,500,000	Versalis SpA Third parties	50.00 50.00	50.00	N.E.
Newco Tech SpA	Novara (NO)	EUR	179,000	Versalis SpA Genomatica Inc	80.00 20.00	80.00	N.E.

**Outside Italy**

Name	Registered office	Currency	Share Capital	Shareholders	% Ownership	% Consolidated pertaining to the Group	Method of consolidation or criterion of measurement (*)
Lotte Versalis Elastomers Co Ltd	Yeosu (Jeollanam) (South Korea)	KRW	301,800,000,000	Versalis SpA Third parties	49.99 50.01	49.99	N.E.
Versalis Zeal Ltd	Takoradi	GHS	5,650,000	Versalis International SA Third parties	80.00 20.00	80.00	N.E.

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



**OTHER COMPANIES****In Italy**

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

**Outside Italy**

Name	Registered office	Currency	Share Capital	Shareholders	% Ownership	% Consolidated pertaining to the Group	Method of consolidation or criterion of measurement (*)
Genomatica Inc	San Diego (USA)	USD	130,707,445	Versalis SpA	0.04	0.04	Co
				Third parties	99.96		
BKV Beteiligungs-und Kunststoffverwertungsgesellschaft mbH	Frankfurt (Germany)	EUR	14,147,400	Versalis GmbH	1.19	1.19	Co
EXELTIUM 2 SAS	Paris (France)	EUR	9,473	Versalis France SAS	1.88	1.88	Co
				Third parties	98.12		
EXELTIUM SAS	Paris (France)	EUR	174,420,200	Versalis France SAS	1.66	1.66	Co
				Third parties	98.34		

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

### **Changes in the consolidation area**

*There were no variations in the consolidation area when compared to the previous year.*



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

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

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

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

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



## Report on compliance with other legal and regulatory requirements

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

The Directors of Versalis S.p.A. are responsible for the preparation of the Report on Operations of the Group as of December 31, 2017 including its consistency with the related consolidated financial statements and its compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations, with the consolidated financial statements of the Group as of December 31, 2017 and on its compliance with the applicable laws and regulations, and in order to assess whether it contains material misstatements.

In our opinion, the Report on Operations is consistent with the consolidated financial statements of the Group as of December 31, 2017, and comply with the applicable laws and regulations.

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

Milan, April 5, 2018

EY S.p.A.

Signed by: Emilio Patruno - Partner

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