

polimeri europa



ANNUAL REPORT 2010

Ordinary Shareholders'
Meeting of April 14, 2011

Mission

Polimeri Europa – a petrochemical 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 of activity

The Polimeri Europa Group¹ has plants in Italy (Brindisi, Ferrara, Gela², Mantua, Porto Marghera, Porto Torres, Priolo, Ragusa, Ravenna, Sarroch, Settimo Milanese), in Belgium (Feluy³), in France (Dunkerque), in Germany (Oberhausen), in Great Britain (Grangemouth, Hythe), in Portugal (Neiva), and in Hungary (Százhalombatta); Research Centres and Units are based in Italy (Brindisi, Ferrara, Mantua, Ravenna); and a sales network covers Italy, Belgium, the Czech Republic, Croatia, Denmark, France, Germany, Great Britain, Greece, Poland, Portugal, Russia, Slovakia, Slovenia, Romania, Spain, Sweden, Switzerland, Turkey, Hungary and Egypt.



Key: Plants and Production Sites in red – Representative Offices or Agencies in black

¹ Polimeri Europa Group is the petrochemical Group wholly owned by eni.

² Following the sale of the “Splitter” business unit on February 1, 2009, the plants at the Gela site are managed by Raffineria di Gela SpA through a subcontract.

³ With the sale of the manufacturing plant at the Feluy site, on August 4, 2010, Polimeri Europa Benelux SA became an exclusively commercial company.

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Profile of the year

Highlights

- The global economic recovery and the start of a number of management actions enabled an improvement of € 300 million in the adjusted operating income and a 46% increase in consolidated revenues for the year which amounted to € 6,141 million.
Polimeri Europa's financial year 2010 ended with a net loss of € 71 million (€ 93 million adjusted net of special items), a shareholders' equity of € 1,452 million, a net invested capital of € 1,940 million, net financial indebtedness of € 488 million and net cash flow provided by operating activities of € 25 million.
- During financial year 2010, the "Gold Project" was launched, with the aim of formalising the strategic direction of Polimeri's business and identifying actions for commercial optimisation simplifying the customer base, defining new distribution contracts, rationalising the customer portfolio and identifying geographical and product mix optimisations, with consequent positive effects also on plant efficiency.
- With effect from April 1, 2010 Polimeri Europa SpA sold to Eni Adfin SpA the "Administration" business unit made up of personnel (32 people) with the related receivables, payables and provisions for employee benefits. This transaction was part of a wider project of reorganization and centralisation of certain staff services into dedicated structures which represent areas of "excellence" with the aim of increasing levels of effectiveness and efficiency.
- With effect from August 4, 2010 Polimeri Europa Benelux SA sold to Total Petrochemical the plant, property, equipment and intangible assets of the Feluy site at a price of € 3 million. This transaction was for the purpose of rationalising the Group's manufacturing and commercial structure.
- With effect from August 13, 2010 Polimeri Europa GmbH purchased from Oxea the "LDPE/EVA Polyethylene" business unit made up of plant, property, equipment and personnel (58 people) with the related payables and provisions for employee benefits, for an amount of € 19 million. The business unit, which Polimeri Europa GmbH already managed with a subcontract, is located in the Oberhausen manufacturing facility, in Germany. This transaction was carried out, not only for the good profitability of the plant, but also to take advantage both of its good logistical position for sales of polyethylene and of the synergy with the Dunkerque plants.
- On October 28, 2010 the New future strategy of PE , which provides for a process of relaunch and sustainable growth, was presented and approved by Eni's board. In keeping with the new strategy illustrated in October, on December 20, 2010 a tactical agreement was signed, with a leading operator in the industry, for the incorporation of a Joint Venture to develop, at the Porto Torres industrial site, the "Porto Torres Green Hub" project. This project involves the manufacture of highly biodegradable products made with raw materials from renewable resources and is part of an action for the reconversion and relaunch of the Porto Torres industrial facility and of Italian chemical production.
- As determined by the Extraordinary Shareholders' Meeting of December 10, 2009, on November 15, 2010 the sole shareholder Eni SpA subscribed and paid up a share capital increase of € 313 million. The subscribed and paid-up share capital of Polimeri Europa SpA was therefore brought to the original amount of € 1,553,400,000.
- After the shutdown for planned maintenance which also involved the most important development investment in the last few years made by Polimeri Europa France at Dunkerque in polyethylene, there were some delays in starting up the plant which caused a shortage of product towards the end of the year, especially in the area of Northern Europe. The delay in starting up the plant extended into the first quarter of 2011.

Operating data, financial highlights and key market indicators



(amounts in millions of euro unless otherwise stated)	2008	2009	2010
Production (thousand tonnes) ^(a)	7.139	6.521	7.219
Net sales from operations	6.303	4.203	6.141
Operating profit/(loss) ^(b)	(868)	(659)	(87)
Adjusted operating profit/(loss) ^(c)	(427)	(419)	(119)
Net profit/(loss)	(678)	(513)	(71)
Adjusted net profit/(loss)	(369)	(341)	(93)
Capital expenditures	203	132	238
Total assets at year end	2.968	2.875	3.346
Shareholders' Equity	1.068	1.139	1.452
Net invested capital	1.832	1.716	1.940
Net financial indebtedness	764	577	488
Net cash provided by operating activities	(122)	(234)	25
Average price of Brent Dated FOB (USD/bbl)	97	62	79
Average price of Virgin Naphtha FOB Med (USD/t)	758	514	690
Average euro-US dollar exchange rate	1,471	1,393	1,330
Average three-month Euribor rate (%)	4,7	1,3	0,8
Average three-month Libor USD rate (%)	2,9	0,7	0,3
Employees at year end	6.411	6.074	5.961

(a) Excluding the cumene (233 thousand tonnes for 2008) relating to the Porto Torres works, as a consequence of the shutdown of the plant at the end of 2008.

(b) From 2009 the change in the fair value of non-hedging derivatives on commodities, including the effects of the settlement, is recognized in operating profit/(loss). For consistency, the data for financial year 2008 were reclassified for 26 million euro.

(c) Besides the effects indicated in the previous note, the adjusted operating loss was affected by the exclusion of the special item relating to the fair value of non-hedging derivatives on commodities. For consistency, the data for financial year 2008 were reclassified for 23 million euro.

Letter to Shareholders

Dear Shareholders,

In 2010, the global economic recovery began, after a period of deep crisis which had lasted for the whole of 2009. The change in **GDP**, which had become positive again in the United States of America (up 2.8%), in the Euro area (up 1.7%) and in Japan (up 4.4%), continued to show rapid growth in Asia and Latin America. At the global level, the GDP trend became positive again with an increase of 3.9%, after a drop of 2.2% recorded in 2009, thanks also to the contribution of the emerging countries which contributed for almost half of global growth.⁴

In **Italy**, GDP grew by 1.1% in 2010, 0.6 percent less than the average for the euro area. On the basis of the data available up to now, the deseasonalised index of industrial production grew by 1.1% in November compared with the previous month. The annual figure, corrected for calendar effects, grew by 4.1%. The harmonised index of consumer prices grew in December by 0.4% compared with November, while the annual figure was up 2.1%.⁵

In this context, world **chemical production** had already widely exceeded the pre-crisis levels (a 10% increase in the third quarter compared with 2007). The segments that showed greater dynamism were basic chemicals and fibres.⁶

European **chemical production**, together with US production, fell during the third quarter of the year. Significant factors were the end of restocking, the moderation of demand from customer sectors in a context of uncertainty and the high prices of intermediates, in some cases originating from their scarcity. This was a temporary pause, because the signs of a recovery, although a moderate one, were already visible in October and November. By the end of October 2010, chemical production in the first ten months had grown by 11.3% compared with the same period of 2009. The growth was seen above all in three chemical segments: Polymers (up 16.8%), Basic inorganics (up 14.3%) and Petrochemicals (up 9.5%). Other segments less influenced by the crisis, such as Consumer Chemicals and Speciality Chemicals recovered at lower rates, 7.2% and 7.8% respectively.⁷

Italian chemical production ended 2010 with a sharp increase (8%), compared with the low levels of 2009, due to dynamism in the first half of the year (associated also with stocking cycles) which offset the slowdown in the second half. However, the Italian chemical industry is still far from the pre-crisis production levels: the gap compared with 2007 was about ten percent, compared with a European average of six. Exports (up 20%), back at the levels before the depression, were an important factor in the growth of production and are expected to be significant also in 2011, when production will increase by 2.2%.⁸

The **forecasts for 2011** indicate a stabilisation of growth in industrial activity in Europe. After a strong recovery in production indices during 2010, the European chemical industry will consolidate this growth. There remains however a general situation of manufacturing over-capacity, in a context characterised by greater competition and the availability of new low-cost capacity in the Middle East. The weakening of the euro against the US dollar, moreover, will strengthen the competitive positioning of European companies in terms of export opportunities.

The forecasts for quantities sold by the Polimeri Europa Group in financial year 2011 are of a slight drop compared with 2010, with less product available for sale in basic chemicals (above all olefins and intermediates) due also to shutdowns for planned maintenance and to less availability of raw materials. In the polymers segment, on the contrary, moderate growth is expected above all for elastomers and polyethylene, while styrenes will remain substantially stable.

⁴ Source: The World Bank.

⁵ Sources: ISTAT; Oxford Economics.

⁶ Source: Federchimica.

⁷ Sources: CEFIC; Federchimica.

⁸ Source: Federchimica.

At the economic level, a further recovery in profitability is expected. The extent of this recovery and the possible achievement of the break-even point during the next two-year period depend on:

- a) the continuation of favourable market conditions;
- b) flexibility in plant use according to the market conditions;
- c) rapid implementation of new management actions deriving from the new strategic vision.

The main **events that characterised operations** in the year were:

- launch of the “Gold Project”, with the aim of: formalising the strategic direction in Polimeri's business; identifying actions for commercial optimisation (in particular with reference to the customer/product portfolio, pricing strategy and use of the sales channels); introducing adjustments to the operating model, in order to maximise effectiveness of commercial actions on the market. On the strategic front the project defined the guidelines of the 2011-2014 plan, on the operating front it identified opportunities for commercial optimisation: simplification of the customer base, definition of new distribution contracts, rationalisation of the customer portfolio and identification of optimisations of geographical and product mix. The project achieved positive effects also on plant efficiency;
- sale to Eni Adfin SpA of the “Administration” business unit, with effect from April 1, 2010, made up of personnel (32 people) with the related receivables, payables and provisions for employees benefits. This transaction was part of a wider project of reorganization and centralisation of certain staff services into dedicated structures which represent areas of “excellence” with the aim of increasing levels of effectiveness and efficiency.
- sale by Polimeri Europa Benelux SA to Total Petrochemical, with effect from August 4, 2010, of the plant, property, equipment and intangible assets of the Feluy site, at a price of € 3 million. This transaction was for the purpose of rationalising the Group's manufacturing and commercial structure;
- acquisition by Polimeri Europa GmbH of the “LDPE/EVA Polyethylene” business unit owned by Oxea, with effect from August 13, 2010, made up of plant, property, equipment and personnel (58 people) with the related payables and provisions for employee benefits, for an amount of € 19 million. The business unit, which Polimeri Europa GmbH already managed with a subcontract, is located in the Oberhausen manufacturing facility, in Germany. This transaction was carried out, not only for the good profitability of the plant, but also to take advantage both of its good logistical position for sales of polyethylene and of the synergy with the Dunkerque plants. In the light of the positive results achieved by the business, with particular reference to the EVA copolymer, the acquisition is confirming satisfactory levels of profitability;
- presentation to the Eni Board of Directors, on October 28, 2010, of a new strategy for the future of Polimeri Europa, which provides for a process of relaunch and sustainable growth, This strategy was approved by the Eni Board;
- signing with a leading operator in the industry, in keeping with the new strategy illustrated in October, of an agreement for the establishment of a Joint Venture to develop the “Porto Torres Green Hub” project at the Porto Torres industrial facility. This agreement, which was signed by the parties on December 20, 2010, consists of the manufacture of highly biodegradable products made with raw materials from renewable resources capable of replacing traditional plastics. The so-called “Green Chemistry” is a segment with very great growth potential, due both to eco-sustainability measures adopted by Governments in various sectors and to its intrinsic features, such as more efficient waste recycling or elimination of the risk of leaks into the environment. The project is part of an action for the reconversion and relaunch of the Porto Torres industrial facility and of Italian chemical production;
- the subscription and payment by the sole shareholder Eni SpA, on November 15, 2010, of a capital increase of € 313 million, as determined by the Extraordinary Shareholders' Meeting of December 10, 2009. The subscribed and paid-up share capital of Polimeri Europa SpA was therefore brought to the original amount of € 1,553,400,000;
- the occurrence of delays in starting up the Polimeri Europa France polyethylene plant following the shutdown for planned maintenance, which was also the most important development investment in the last few years made at Dunkerque in polyethylene, caused a product shortage towards the end of the year, especially in the area of Northern Europe. The delay in starting up the plant extended into the first quarter of 2011.

The Polimeri Europa Group was also engaged in various activities to improve its effectiveness and efficiency and took part in the review process covering Eni's entire regulatory system.

With reference to **human resources**, and **commitments to sustainable development** and **technological innovation**, during the year the specialist training programme continued on the subjects of the environment, health, safety and quality. Just as much attention was paid to the workers' security and the environment, as well as to prevention activities. This was done to ensure safety in the workplace and to protect the local communities, in which Polimeri Europa operates, against industrial risks. The research and technology work contributed to the strengthening and renewal of the own businesses, carrying out constant action for the improvement of processes and products. Work also continued on enhancing the value of research by licensing technologies to third parties.

As regards the **economic and financial results**, it should be noted that the trend of the market and operating actions implemented by the management enabled an improvement of € 300 million in the adjusted operating loss and a 46% increase in consolidated revenues for the year, which amounted to € 6,141 million.

The company, however, made an adjusted net loss, net of special items (non-recurring costs and revenues) of € 93 million, compared with an adjusted net loss in 2009 of € 341 million.

The adjusted operating loss was € 119 million, compared with € 419 million in 2009. Net financial indebtedness came down to € 89 million. More details are presented in the section "Financial Review", to which you are referred.

Representing the Board of Directors

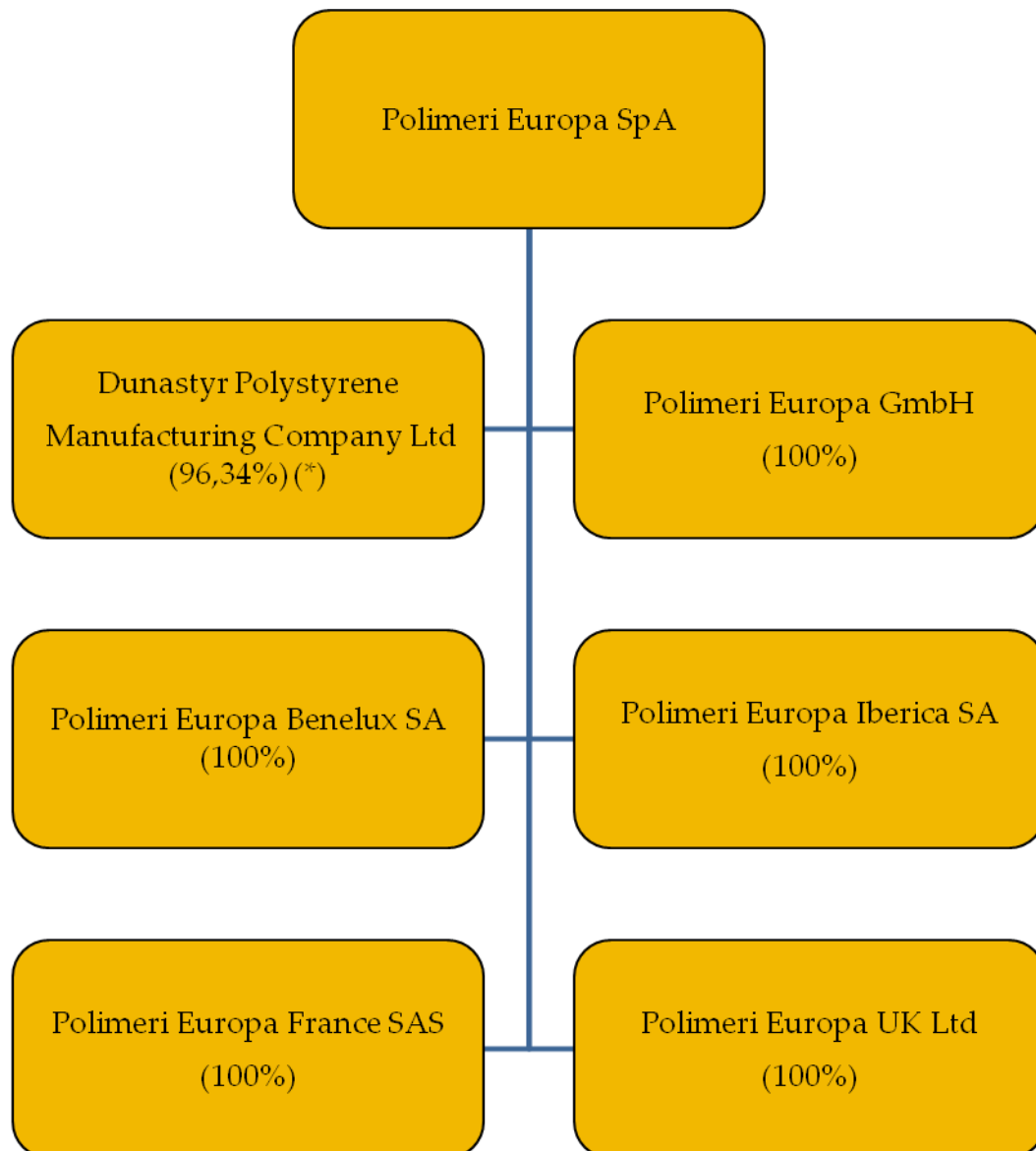
The Chairman


The Chief Executive Officer


BOARD OF DIRECTORS⁽¹⁾	BOARD OF STATUTORY AUDITORS⁽⁴⁾
Chairman	Chairman
Leonardo Maugeri ⁽²⁾	Franco Fontana
Chief Executive Officer	Statutory auditors
Daniele Ferrari ⁽³⁾	Fabrizio Gardi
Directors	Alessandro Ridolfi
Davide Calabrò	Alternate auditors
Modestino Colarusso	Marco Mencagli, Gianluca Officio
Paolo Grossi	External Auditors⁽⁵⁾
	Reconta Ernst & Young SpA
(1) Appointed by the Shareholders' Meeting of March 4, 2010 for a three-year period which expires upon approval of the financial statements for 2012 (Director Daniele Ferrari appointed by the Shareholders' Meeting of April 14, 2011)	(4) Appointed by the Shareholders' Meeting of April 15, 2010 for a three-year period which expires upon approval of the financial statements for 2012
(2) Appointed by the Board of Directors on March 4, 2010	(5) Appointed by the Shareholders' Meeting of April 15, 2010 for a nine-year period which expires upon approval of the financial statements for 2018
(3) Appointed by the Board of Directors on April 14, 2011	

Polimeri Europa Group structure

A chart of Polimeri Europa Group structure is presented below. The companies are consolidated on a line-by-line basis. The percentage indicated refers to the interest held by the controlling company.



(*) The remaining shareholders are companies in the Polimeri Europa Group.

Operating Review

During the year, the signs of improvement in the short-term economic situation strengthened in the wake of the strong economic recovery at the global level. After seven consecutive quarters of falling GDP, first quarter 2010 recorded the first positive figure with growth (compared with the same quarter of the previous year) of 0.5%. The figures for the middle of the year confirmed an acceleration in growth to more than 1%, despite ongoing uncertainties reflected in the indices of business and consumer confidence. The year figure confirms growth in business activity of 1% for Italy and 2% for the whole of Europe.

The high levels of business in Asia (in China GDP growth was 10%) and in general in the emerging countries (+6.9%) drove the economies of Europe, Japan and above all the United States of America. In the United States, GDP growth during the year came out at 3%, while in Japan, after a sharp rise at the beginning of the year, growth stabilised at 2.5%. In Europe there were great contrasts: the economies linked to Germany grew rapidly (more than 3% for Germany), France (1.7%) and the United Kingdom (2%), which grew anyway above the average, while in Italy growth was only 1%, and countries such as Spain, Greece and Ireland showed levels of business stationary or even in recession, a situation due also to the deep crisis regarding sustainability of the public debt.

The high level of demand in emerging countries helped those European companies who could export to international markets. On the other hand, the domestic market was blocked by the withdrawal of government incentives for consumption of durable goods, which were introduced during 2009, and gradually reduced due to public spending issues. Despite exports, the installed manufacturing capacity remained considerably underused (industrial production indices were still lower than the highest peaks by more than 10% at the European level and approximately 18% in Italy) and the effects of the failure to rationalise in the 2008-2009 period were felt in 2010, with a very slow recovery in business and consumer confidence indices and thus of investment and spending policies. Employment continued to show signs of worsening, with companies still engaged in the process of rebalancing manufacturing capacity. The effects of the credit crunch remained, with demand for credit tending to rise, due also to the ever-growing level of prices and a still limited supply from the banking system.

After the recovery in 2009, at the beginning of the year the trend in crude oil prices saw quotations in a quite limited oscillation band between 70 and 80 dollars a barrel. From October, the continual and strong economic growth in the Asian and American area pushed prices above 80 dollars a barrel, and on average above 90 dollars a barrel in December. In 2010 the average increase in the crude oil price was 30%. The average euro/dollar exchange rate, which was lower than in 2009, ranged from 1.39 to 1.33, with the markets concerned about sustainability of the weight of public debt in a number of member countries (Portugal, Ireland, Greece and Spain). The disadvantage for European countries of the higher cost of imports of energy products was offset by the greater competitiveness of exports which, thanks to dynamic extra-European markets, enabled more efficient use of the manufacturing capacity. For Petrochemicals, the recovery of demand and the consequent scarcity of the product on the market, resulting from the manufacturing rationalisation of many operators, enabled a recovery in profitability, especially in the third quarter of the year, with profitability indices in the industry which had not been seen since 2007. The rising oil prices in the fourth quarter caused the improvement in profitability levels to come to a halt, although, at the level of demand, the global economy continues to grow.

In 2010 the Polimeri Europa Group recorded an adjusted operating loss of € 119 million (€ 419 million in 2009) and a net loss for the period of € 71 million, compared with a net loss in 2009 of € 513 million.

The improvement was due to the almost doubled contribution margin than the previous year, as a result of the gradual recovery in demand from the beginning of the year and of a particularly favourable oil industry scenario, which led to an increase both in quantities sold and in unit prices of the main businesses. The improvement was also the result of management actions, undertaken by Polimeri Europa, which contributed to an improvement in operating efficiency and to process optimisations. To this should also be added the positive change in inventory holding gain⁹ of € 105 million. Finally, special items include € 47 million of net impairment, compared with € 113 million euro in the previous year.

The prospects for 2011 remain affected by the sustainability of growth in demand in the emerging countries (especially China) and by the domestic contribution of growth in the European economy. For the European

⁹ The inventory holding gain (or inventory valuation adjustment) is given by the difference between the current cost of products sold and that resulting from application of the weighted average cost.

Petrochemical industry it remains to be seen what role will be played by imports of products from new capacities installed during the year, above all in the Middle East in the polyolefins segment. In many businesses the absolute level of prices, which in the early months of the year again increased vigorously, was already back to where it was before the crisis. From the point of view of demand the effect on total demand remains to be seen in the markets where the limitation on the expansion of lending by the banking system is still pressing.

Revenues and production

Polimeri Europa manages the production and sale of petrochemical products (basic chemicals and polymers). In basic chemicals the main aim of the business is to guarantee appropriate availability of monomers (ethylene, propylene and butadiene) to meet the requirements of the businesses downstream of the process. In particular aromatics are supplemented with the phenol and styrene businesses, maintaining the availability of benzenes needed by them, while intermediates are used for the production of resins, artificial fibres and polystyrene. Polimeri Europa is one of the leading European producers of elastomers (where it operates in almost all the main segments, in particular in the automobile industry), polystyrenes and polyethylene, mostly for use in flexible packaging.

Net sales from operations of the Polimeri Europa Group at December 31, 2010 amounted to € 6,141 million compared with € 4,203 million in the previous year, up 46.1% due both to a 10.9% increase in quantities sold and to 35.6% growth in average unit selling prices. The greatest increases were recorded in olefin product prices (on average 48%), in the wake of the increase in petroleum feedstock (Virgin Naphtha, quotation in euro, up 41% compared with 2009), of dynamic market demand and of a limited supply above all in the first half of the year. Among polymers, demand also remains high and the price trend was continually upward: styrenes +36%, polyethylene +32% and elastomers +30%.

Production amounted to 7,219 thousand tonnes, compared with 6,521 thousand tonnes in 2009 (+10.7%), with basic chemicals up 11.7% and polymers up 8.7%, boosted by the recovery in demand, which in the previous year due to market difficulties associated with the crisis in industrial consumption had led to the plants of the main Italian and foreign facilities being kept running at a minimum or temporarily shut down. Nominal manufacturing capacity fell by 1% compared with 2009 due to closure of the styrene plant at Hythe. The average plant usage rate, calculated on the nominal capacity, rose from 65.4% to 72.9%.

Revenues

(€ million)	2008	2009	2010	Change %
Basic chemicals ^(a)	3.060	1.832	2.833	54,6
Polymers ^(a)	2.961	2.184	3.126	43,1
Other revenues ^(b)	282	187	182	(2,7)
	6.303	4.203	6.141	46,1

^(a) Starting in 2009 revenues from styrene are included in basic chemicals. The period of comparison of 39 million euro for 2008 was consequently reclassified from Polymers to Basic Chemicals

^(b) Products resold through the foreign commercial companies, headquarters and services

Production

(thousand tonnes)	2008 ^(*)	2009	2010	Change %
Basic chemicals	4.877	4.350	4.859	11,7
Polymers	2.262	2.171	2.360	8,7
	7.139	6.521	7.219	10,7

^(*) Excluding the cumene from the basic chemicals (233 thousand tonnes for 2008) relating to the Porto Torres works, as a consequence of the stoppage of the plant at the end of 2008.

Business trends

Basic Chemicals

At December 31, 2010 **revenues** from basic chemicals amounted to € 2,833 million and increased by 54.6% compared with 2009 (€ 1,832 million), due both to an increase in average unit prices boosted by high prices of the main petroleum raw materials (olefins +48%, aromatics and intermediates +31% and +34% respectively), and to greater quantities sold (on average +14%). In particular olefin quantities increased by 17%, those of intermediates by 10%, while the increase in aromatics was more modest (+8%), as there was a drop in sales of xylenes (-5%).

Production of basic chemicals, of 4,859 thousand tonnes, increased by 11.7% compared with 2009 (4,350 thousand tonnes), in line with the higher sales of/need for monomers. All the main Italian and foreign facilities had an increase in their production with an average plant utilization rate of crackers at more than 75% (with Priolo and Porto Marghera at more than 80%). Production of intermediates increased in Mantua (+6.6%), with cyclohexanone quantities up more than 35.5% due to a good trend in sales. At Porto Torres production recovered (+30.4%) from the previous year when the plant had first slowed and later shut down altogether for commercial reasons. Only production in Dunkerque showed an opposite trend, declining compared with 2009 by 11.5%, due to the planned shutdown for maintenance and related investments in the polyethylene business in the last quarter of the year.

Polymers

In 2010, **revenues** from polymers amounted to € 3,126 million, an increase of 43.1% compared with 2009 (€ 2,184 million), with average unit prices rising on average by more than 30%. Quantities sold also increased, by an average 8%, due to the good trend on demand, in particular for elastomers (up 11%), styrenes (up 10%) and polyethylene (up 6%).

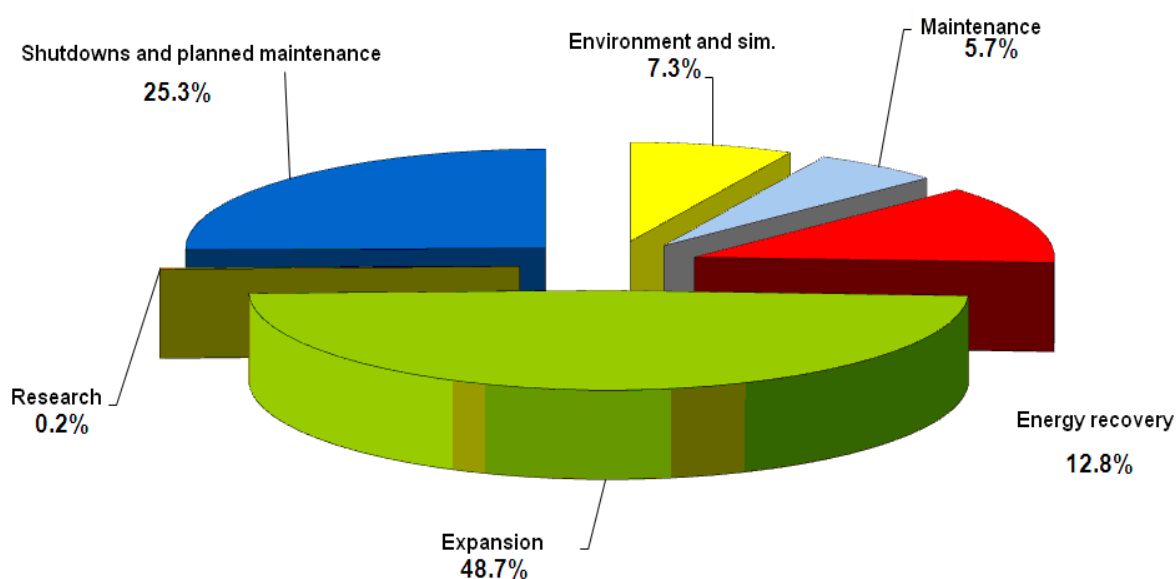
Production of polymers amounted to 2,360 thousand tonnes, compared with 2,171 thousand tonnes in 2009 (up 8.7%), as a consequence of the recovery, starting in the early months of 2010, in industrial demand in the main market segments (automotive, construction and packaging). The quantities of elastomers and styrenes produced increased by approximately 10% compared with the previous year, boosted by higher production of EPR at Ferrara, nitrilic rubbers at Porto Torres and compact polystyrene and ABS at Mantua. The increase in quantities of polyethylene produced was more limited (7.7%), as these were penalised in the last quarter by the planned shutdown of Dunkerque for maintenance.

Investments

Net investments in tangible assets (capital expenditures) and intangible assets during the year, totalling € 238 million, are analysed by business in the table below and by type in the subsequent chart.

INVESTMENTS					
	(€ million)	2008	2009	2010	Change %
Olefins		64	46	76	65,9
Aromatics		14	7	9	23,7
Intermediates		2	3	6	95,0
Styrenes		36	26	18	(31,0)
Elastomers		19	7	6	(9,2)
Polyethylene		30	28	101	260,0
Industrial Services		43	29	47	62,8
Staff and financial expenses		4	4	2	(39,9)
Syndial Grants		(13)	(10)	(13)	28,0
Grants, refunds from third parties and change in advances		4	(8)	(15)	90,6
Capital expenditures in property, plant and equipment		203	132	237	79,9
Capital investitures in intangible assets				1	n.s.

CAPITAL EXPENDITURES FINAL ALLOCATION AT 31/12/2010 BY TYPE



Capital expenditure in the year related mainly to:

- revamping of the polyethylene production line at Dunkerque for flexibility of production (€ 82.6 million);
- Long term maintenance of the ethylene, polyethylene and logistic plants at Dunkerque, the monomer styrene plant at Mantova and the polyethylene plant at Ragusa for a total of € 45.8 million;
- stay in business work for styrenes at the Mantua and Százhalombatta plants (16 million di euro);
- work on thermal recovery from off-gases produced by the elastomer plant at Ferrara (€ 14.3 million);
- recoiling of four furnaces at the Priolo ethylene plant with new technology (€ 11.3 million);
- Polimeri Europa/Ecofuel SpA inter-company project for the Extraction of Butene 1, Selective Hydrogenation of Raffinate 2 and buried tanks (€ 7.7 million);
- recoiling work on the furnaces at the Brindisi, Porto Marghera, Porto Torres and Priolo ethylene plants (€ 7.1 million);
- work on reducing the energy index at the Porto Marghera ethylene plant (€ 4 million);
- work on upgrading the BATs of the tanks at the Mantua, Porto Marghera, Porto Torres and Priolo facilities (€ 3 million);
- work on the creation of the temporary mobile LPG store on rail tankers at the Priolo site (€ 1.8 million);
- energy recovery work on the propylene compressor at the Dunkerque ethylene plant (€ 1.8 million);
- security measures at the Porto Torres pier (€ 1.5 million);
- work on making loads more flexible at the Priolo ethylene plant (€ 1.2 million);

Financial Review

Profit and Loss Account¹⁰

2008	(€ million)	2009	2010	Change amount	Change %
6.303	Net sales from operations	4.203	6.141	(1.938)	46,1
113	Other income and revenues	97	111	(14)	14,4
(6.909)	Operating expenses ^(a)	(4.770)	(6.216)	1.446	30,3
(375)	Depreciation, depletion, amortization and impairment	(189)	(123)	(66)	(34,9)
(868)	Operating profit/(loss)	(659)	(87)	(572)	(86,8)
(15)	Finance income (expense)	(40)	(4)	(36)	(90,0)
(8)	Income (expense) from investments		1	(1)	
(891)	Profit/(loss) before tax	(699)	(90)	(609)	(87,1)
213	Income tax expense	186	19	167	(89,8)
23,9	Tax Rate (%)	26,6	21,1	5,5	(20,7)
(678)	Net profit/(loss)	(513)	(71)	(442)	(86,2)
(678)	Net profit/(loss) attributable to the Group	(513)	(71)	(442)	(86,2)
170	Exclusion of inventory holding (gains) losses	120	(105)	225	(187,5)
139	Exclusion of special items:	52	83	(31)	59,6
	of which - non-recurrent expenses				
139	- other special items	52	83	(31)	59,6
(369)	Adjusted net profit/(loss) attributable to the Group ^(c)	(341)	(93)	(248)	(72,7)

^(a) From financial year 2009 the effects of non-hedging derivatives on commodities, both the realised and the valuation component, are recognised in operating loss. In the adjusted configuration of operating loss and of net loss only the realised component is maintained respectively gross and net of the related tax effect. Correspondingly the figure for 2008 was redetermined.

^(b) Starting from financial year 2010, for the purposes of better representation, inventory holding (gains) losses were excluded from the adjusted result. The data for financial year 2008 and 2009 have been reclassified respectively for 170 and 120 million euro.

^(c) For the definition and alignment of the adjusted net profit, which excludes inventory holding (gains) losses and special items, see the paragraph "NON-GAAP Measures".

In 2010, the Polimeri Europa Group achieved a **net loss** of € 71 million, an improvement of 86.2% over the net loss of € 442 million in 2009, a result of an improvement in operating performance of € 572 million (86.8%). This improvement was due to an increase in quantities sold, in relation to an expansion in demand, and to an increase in selling prices of all main petrochemical products which, although to a lesser extent than in the last quarter of 2010, managed to offset the continual increase in petroleum feedstock prices. A general reduction in overheads (with the exception of costs for ecological treatments, as described in more detail in the section "Environmental Responsibility", and for professional services in the industrial field) as a result of savings and rationalisations of the workforce also contributed to the improvement in operating performance; as did a number of management actions aimed at improving plant performance and rationalising product and customer portfolios. The lower impairment of the period (following the results of more favourable impairment tests than in the previous year, as a consequence of the improved future cash flows envisaged in the four-year plan) had a positive effect on the operating loss, with an improvement of € 66 million compared to the previous year. The improvement in the net loss was due to the positive factors described above and to lower finance expense of € 36 million, as the main consequence of the notable improvement in exchange differences from financial and commercial operations and of the reduction of net financial indebtedness, as a result of share capital increases paid up by the shareholder at the end of 2009 and 2010. Income from income tax expense fell by € 167 million mainly as a result of the decrease in income generated by participation in the Eni Domestic Fiscal Consolidation and of lower provisions for net deferred tax assets. The Group's tax rate fell from 26.6% in 2009 to 21.1% in 2010 (down 5.5 per cent) mainly as a result of the reversal of impairment of deferred tax assets related to IRAP recognised in previous years as a consequence of the IRAP subsidy known as the "Tax Wedge"; these effects were partially offset by greater provisions for tax proceedings and by the effect of taxes relating to previous years. For more details see the paragraph "Income tax expense" in the Notes to the Consolidated Financial Statements.

¹⁰ The Consob rules state that the criteria adopted when preparing reclassified statements must be indicated. This disclosure is omitted for the consolidated Profit and Loss Account as it coincides in practice with the mandatory one.

The **adjusted net loss** of € 93 million fell by € 248 million compared with 2009 (72.7%). The adjusted net loss is obtained by excluding the inventory holding gain¹¹ of € 105 million and the special items made up of net expenses of € 83 million, with a total effect of € 22 million. The **special items** refer to the results of the impairment tests on petrochemical complexes (€ 47 million before tax), expenses for retirement incentives (€ 26 million before tax) and tax effects of € 10 million on the inventory holding gain and on the special items described above.

The 2010 results of Polimeri Europa Group were achieved in a scenario characterised both by an increase in the selling prices of petrochemical products and an expansion in demand, and by a sharp increase in the prices of oil-based raw materials. In the last quarter, in particular, the increase in selling prices managed to offset to a lesser extent that of raw materials. The results of the Polimeri Europa Group were penalised by the 4.5% decline of the euro against the dollar.

Moreover the last quarter of 2010 was adversely affected by the planned shutdown of the Polimeri Europa France plant at Dunkerque which meant that less product was available especially in the Northern European area. The shutdown extended beyond the forecasted period. Restarting is planned in the first quarter 2011.

Analysis of Profit and Loss Account items

Net sales from operations

2008		(€ million)	2009	2010	Change amount	Change %
1.763	Olefins		1.059	1.705	646	61,0
679	Aromatics		486	704	218	44,9
618	Intermediates (*)		287	424	137	47,7
754	Elastomers		579	834	255	44,0
633	Styrenes (*)		465	695	230	49,5
1.574	Polyethylene		1.140	1.597	457	40,1
94	Products sold through foreign commercial companies		63	81	18	28,6
188	Headquarters and services		124	101	(23)	(18,5)
6.303			4.203	6.141	1.938	46,1

(*) Since 2009 revenues from styrene are included in intermediate business. The comparative figures for 2008 have been consequently reclassified (€ 39 million from styrenes business to intermediates).

Net sales from operations, of € 6,141 million, increased by 46.1% compared with 2009 (€ 4,203 million), with an increase in quantities sold of 11% and of average unit selling prices of 36%, as a result of the sharply-rising oil price scenario (crude oil up more than 28% compared with 2009) and of the gradual recovery in demand for polymers, with a continually rising price trend.

An analysis by business is provided below:

Olefins

Revenues from olefins increased by 61% compared with the year 2009, due mainly to the increase in average unit selling prices (48%), boosted by the high prices of the main petroleum feedstocks, and to a lesser extent to an increase in quantities sold (16.8%). The greater availability of butadiene enabled a sharp increase in sales of this product (66.4%).

Aromatics

Net sales of aromatics fell by 44.9%. Average unit prices increased by 31%, with the price of benzene approximately 46% higher than in 2009, and total quantities sold up 8%. There was an increase in the quantity of benzene (24%) offset by a reduction in quantities of isomers sold (5.3% compared with the previous year), due mainly to a drop in sales of metaxylene, because of lower consumption caused by the crisis in demand and failure to integrate production downstream.

¹¹ The inventory holding gain (or inventory valuation adjustment) is given by the difference between the current cost of products sold and that resulting from application of the weighted average cost.

Intermediates

Net sales of intermediates increased by 47.7%, thanks to an increase both in unit prices (34%) and in quantities sold (10%). During the past year the production of phenol was mainly destined for the hydrogenates business, which, with average unit prices 30% higher and quantities sold up 24% as a result of the favourable scenario, ensured higher unit margins compared with that of phenol. Sales of acetone increased by 22.4%.

Elastomers

Net sales of elastomers increased by 44%, due to an increase in the average selling price of approximately 30%, to which must be added an increase in quantities sold of 11%, with high performance in EPR rubbers and nitrilic rubbers, which had been most affected by the crisis in 2009. In 2010 there was a strong recovery in elastomer consumption in Europe and in the markets of industrialised countries, and in particular those of emerging countries, boosted by the recovery of the automobile industry.

Styrenes

The 49.5% increase in net sales of styrenes was determined by higher average unit selling prices (36%) and higher quantities sold (10%), in particular sales increased in the ABS/San (32%) and compact polystyrene (8%) businesses, which had been most penalised by the market crisis of the previous year. The recovery in sales was particularly strong in Western Europe (a market up 6.6% compared with 2009), while the market in Eastern Europe continued to grow at a rate of 10%. Sales of expandable polystyrene increased less (5%), as a result of weak demand in the construction industry.

Polyethylene

The increase in net sales of polyethylene was 40.1%, mainly as a result of the increase in average unit prices (32%), with the main spreads on raw materials very wide (in particular LDPE). Quantities sold increased by 6%, mainly LDPE and LLDPE, because of the annual growth in demand in Europe of around 2%. Quantities of EVA sold were sharply up (16%), reaching a record level and representing a sector of great interest for the Group.

Other income and revenues

Other income and revenues consist mainly of: the recovery of environmental costs in virtue of the agreements with Syndial SpA of € 42 million (for more details see the paragraph "Grants" in the "Summary of significant accounting policies" section of the Notes to the Consolidated Financial Statements); insurance payouts of € 20 million to cover accidental shutdowns of the cracking plant at the Brindisi site, which occurred in 2009-2010, and the fire and flood which occurred in 2009 at the Porto Marghera site; the sale of carbon dioxide emission rights of € 19 million; re-charging of sundry costs and expenses to other companies working at the production sites of € 16 million; leases of companies and other rentals of € 7 million; licences and royalties of € 4 million; compensation for damages and contractual penalties of € 2 million; sundry income of the remaining amount.

The increase of € 14 million compared with 2009 was due to higher insurance payouts of € 19 million, higher recovery of environmental costs in virtue of the agreements with Syndial SpA of € 11 million and higher income from the sale of carbon dioxide emission rights of € 4 million, offset by lower income from licences and royalties of € 17 million and lower sundry charges of € 3 million.

Operating expenses

Purchases, services and other operating expenses

2008	(€ million)	2009	2010	Change amount	Change %
4.861	goods	3.076	4.364	1.288	41,9
1.536	Production costs - services	1.279	1.426	147	11,5
35	Operating leases and other	33	28	(5)	(15,2)
(2)	Net provisions for contingencies	(4)	(4)		
87	Other expenses	45	33	(12)	(26,7)
6.517		4.429	5.847	1.418	32,0

Purchases, services and other operating expenses increased by 32% as illustrated in the table above.

The 41.9% rise in raw, auxiliary and consumable materials and goods and inventory changes was due to the greater quantities purchased, following the expansion in demand for products in the chemical sector, and to the 41% increase in the average unit price in euro of Virgin Naphtha.

The 11.5% increase in costs for services was essentially attributable to greater purchases of utilities (electricity, air and steam) following the increase in production and in unit prices; and to the increase in transport and logistical costs deriving from the higher quantities sold and purchased. These effects were offset by lower costs for maintenance and repair of plants due to optimisations and saving measures, following a project for operating excellence, and to less non-capitalised shutdowns compared with the previous year.

Other expenses dropped by 26.7% as a consequence of the lower contractual penalties paid (€ 6 million) and the lower net provisions for impairment of trade receivables (€ 4 million).

Payroll and related costs

2008 (*)	(€ million)	2009	2010	Change amount	Change %
271	Wages and Salaries	258	261	3	1,2
75	Social security contributions	72	76	4	5,6
22	Provision for to defined benefit and defined contribution plans	20	19	(1)	(5,0)
8	Redundancy incentives	10	21	11	110,0
3	Other costs	2	1	(1)	(50,0)
379		362	378	16	4,4
(2)	Net revenue for seconded personnel	(1)	1	2	(200,0)
(11)	Capitalized direct costs associated with self-constructed assets	(7)	(8)	(1)	14,3
366		354	371	17	4,8

(*) the amount of the item "Net revenue for seconded personnel" (€ 2 million) was reclassified from "Other costs" for consistency presentation.

Payroll and related costs increased by € 17 million, or 4.8%, mainly as a result of higher costs for redundancy schemes. The increase in wages, salaries and social security contributions derives from normal salary trends, only partially offset by the reduction by 127 the number of employees. This drop was a result of ordinary reasons and of extraordinary operations and reorganizations, which are fully described in the paragraph "People" of the section "Commitment to sustainable development".

Wages and Salaries include the cost for the year related to stock option plans of € 1 million.

The average number of the consolidated companies' current employees classified for category, is as follows:

	2009	2010
Senior managers	104	104
Managers and Employees	3.420	3.368
Workers	2.621	2.546
	6.145	6.018

The average number of employees is calculated as half of the total of the number of employees at the beginning and at the end of the period. The average number of senior managers includes managers employed and operating in foreign countries whose position is said to be at the grade of executive.

Other operating income (expense)

2008	(€ million)	2009	2010	Change amount	Change %
9	Gain on commodity derivatives	10	2	(8)	(80,0)
	Income from valuation of fair value of commodity derivatives	3		(3)	(100,0)
(32)	Loss on commodity derivatives				n.s.
(3)	Loss from valuation of fair value of commodity derivatives				n.s.
(26)		13	2	(11)	(84,6)

Since 2009, commodity derivatives fair value and settlement effect (lacking the formal requisites to be accounted for with hedging accounting method), are recognised under "Other operating income (expense)". For consistency, 2008 figures were reclassified.

Depreciation, depletion, amortization and impairments

2008	(€ million)	2009	2010	Change amount	Change %
	Depreciation, depletion and amortization:				
105	- tangible assets	71	71		
5	- intangible assets	5	5		
265	Net impairment losses	113	47	(66)	(58,4)
375		189	123	(66)	(34,9)

The amount of **depreciation, depletion and amortization** for the year was in line with that of the previous year. The effects of depreciation, depletion and amortization on newly-commissioned investments and of the change in the useful life of plants at the Dunkerque and Ferrara sites substantially offset each other. **Impairments** in 2010 (€ 47 million) relates to the outcome of tests to value the petrochemical plants of the Sicilian hub, Porto Marghera and Porto Torres, which were most affected by the deterioration of the price/margin scenario due to falling demand and to the increase in competitive pressure. For further details see Note 7 "Property, plant and equipment" in the Notes to the Consolidated Financial Statements.

Net finance expenses

2008	(€ million)	2009	2010	Change amount	Change %
(37)	Finance income (expenses) related to net financial indebtedness	(24)	(23)	1	(4,2)
(1)	Income (expenses) on derivative contracts		(9)	(9)	n.s.
18	Exchange differences	(18)	26	44	(244,4)
2	Other finance income (expenses)	(1)		1	(100,0)
3	Capitalized finance expenses	3	2	(1)	(33,3)
(15)		(40)	(4)	36	(90,0)

Net finance expenses fell by € 36 million as a result mainly of improvement in net exchange differences on commercial and financial transactions, an effect only partially offset by higher expenses from measurement at fair value on non-speculative derivative contracts on foreign exchange risks. Other smaller changes

substantially offset each other.

Net Income (Expense) from investments

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

2008	(€ million)	2009	2010	Change amount	Change %
(8)	Share of profit (loss) of equity-accounted investments		1	1	n.s.
(8)			1	1	n.s.

The change of € 1 million on net income (expense) from investments is a result of € 3 million income from equity-accounted investments together with the € 2 million accruals to provisions for losses in non-consolidated subsidiaries and associates.

Income tax expense

2008	(€ million)	2009	2010	Change amount
(891)	Profit/(loss) before income taxes	(699)	(90)	609
(850)	Italy	(643)	(132)	511
(41)	Outside Italy	(56)	41	97
(213)	Income tax expense	(186)	(19)	167
(209)	Italy	(174)	(31)	143
(4)	Outside Italy	(12)	12	24
23,9	Tax rate (%)	26,6	21,1	(5,5)
24,6	Italy	27,1	23,5	(3,6)
9,8	Outside Italy	21,4	29,3	7,8

Income tax expense benefit (€ 19 million) was down by € 167 million, as a result of the sharp fall in the loss before income taxes. Since 2008, Polimeri Europa SpA has been included in the Domestic Fiscal Consolidation of Eni SpA; this enables the parent company, Eni SpA, to benefit from the tax savings deriving from the use of the tax losses of Polimeri Europa SpA in determining its tax burden, passing on this benefit, according to the agreements among the parties, to Polimeri Europa SpA. Deferred tax assets were recognized when their realisation was considered probable also taking into account the participation of Polimeri Europa SpA in the Domestic Fiscal Consolidation of Eni SpA.

The Group's tax rate fell by 5.5 per cent mainly as a result of the reversal of impairment of prepaid IRAP taxes, recognised in previous years, and as a result of the IRAP subsidy known as the "Tax Wedge". These effects were partially offset by greater provisions for tax proceedings and by the effect of taxes relating to previous years. Other smaller changes offset each other. For more details see the paragraph "Income tax expense" in the Notes to the Consolidated Financial Statements.

The adjusted tax rate, given by the ratio between taxes and the profit/loss before income taxes net of the inventory holding gain/loss and of special items, was 23.8% (25.7% in 2009).

Non-GAAP Measures

Reconciliation of reported operating profit and reported net profit to results on an adjusted basis

Polimeri Europa SpA's Management evaluates business performance on the basis of adjusted operating profit and adjusted net profit, which are obtained by excluding special items and the inventory holding gain/loss. The tax effect of the items excluded from the adjusted net profit is determined on the basis of the specific nature of each excluded income item, with the exception of finance charges and income to which the Italian statutory tax rate of 27.5% is conventionally applied. Adjusted operating profit and adjusted net profit are not envisaged by the IFRS. Management includes them in order to facilitate a comparison of base business performance across periods and allow financial analysts to evaluate the Company's business

performance on the basis of their forecasting models. The management uses the Group's adjusted net profit when calculating the Group's return on average capital employed (the Group's ROACE).

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

The **inventory holding gain/loss** is the difference between the current cost of products sold and that resulting from application of the weighted average cost envisaged in the IFRS. **Special items** include certain significant income or charges relating to either: (i) non-recurring events or transactions, or events or transactions that do not occur frequently in the ordinary course of business; or (ii) events or transactions which are not considered to be representative of the ordinary course of business, as in the case of restructuring and environmental expenses, as well as charges/income related to the evaluation of, or disposal of, assets even though they occurred in past periods or are likely to occur in future ones.

In application of Consob Resolution No. 15519 of July 27, 2006, income items deriving from non-recurring events or transactions are highlighted, when they are significant, separately in the management's comments and in the financial disclosure. The valuation component of derivative instruments on commodities which lack the formal requisites to be classified as hedging is also classified among special items.

2008	(€ million)	2009	2010
(868)	Operating profit/(loss)	(659)	(87)
170	Exclusion of inventory holding (gains) losses	120	(105)
	Exclusion of special items - of which:		
	oneri (proventi) non ricorrenti		
271	Other special items	120	73
271	Special items of operating profit/(loss)	120	73
(427)	Adjusted operating profit/(loss)	(419)	(119)
(15)	Finance income (expense) (*)	(40)	(4)
(8)	Income (expense) from investments (*)		1
81	Income tax expense (*)	118	29
(18,0)	Tax rate (%)	(25,7)	(23,8)
(369)	Adjusted net profit/(loss)	(341)	(93)

(*) Amounts exclude the special items

Details of special items:

2008	(€ million)	2009	2010
271	Other special items	120	73
265	- impairment	113	47
	- oneri per altri accantonamenti a fondi rischi futuri		
8	- provision for redundancy incentives	10	21
	- costs for services recharged by Eni Group companies for redundancy incentives		5
	- expenses for Antitrust fines	1	
(5)	- gains on disposal of assets	(1)	
3	- re-measurement gains/losses on commodity derivatives	(3)	
	- effetto <i>curtailment</i> del TFR		
271	Special items of operating profit/(loss)	120	73
	Oneri (proventi) finanziari		
	Oneri (proventi) su partecipazioni		
	di cui:		
	- ...		
(132)	Income taxes	(68)	10
	of which:		
(79)	- taxes on special items of operating profit/(loss)	(31)	(22)
(53)	- taxes on exclusion of inventory holding loss	(37)	32
139	Total special items of net profit/(loss)	52	83

Reclassified Summarized Group Balance Sheet

The reclassified summarized balance sheet aggregates the asset and liability amounts from the mandatory

statement in the annual report according to the criterion of function to the management of the company, considered divided conventionally into the three fundamental functions: investment, operations, financing. The management believes that the format proposed provides investors with useful information because it is possible to identify the sources of financial resources (own and third-party assets) and the uses they are put to in invested and working capital. The reclassified summarized balance sheet is used by the management to calculate the main financial indices of return on average capital employed (ROACE) and solidity/balance of the financial structure (leverage).

Reclassified Summarized Group Balance Sheet (*)

	(€ million)	31.12.2009	31.12.2010	Change amount
Fixed assets				
Tangible assets		816	952	136
Intangible assets		73	69	(4)
Investments		28	33	5
Net payables related to capital expenditures		(17)	(53)	(36)
		900	1.001	101
Net working capital				
Inventories		821	1.000	179
Trade receivables		787	954	167
Trade payables		(801)	(952)	(151)
Tax payables and provision for net deferred tax liabilities		171	46	(125)
Provisions for contingencies		(100)	(85)	15
Other current and non-current assets and liabilities		6	41	35
		884	1.004	120
Provisions for employee post-retirement benefits		(68)	(65)	3
NET INVESTED CAPITAL		1.716	1.940	224
Shareholders' equity		1.139	1.452	313
Net financial indebtedness		577	488	(89)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		1.716	1.940	224

* For alignment with the mandatory format see the paragraph "Reconciliation of Reclassified Summarized Group Balance Sheet and Statement of Directors' Report on Operations with the mandatory statements".

On December 31, 2010 the net invested capital amounted to € 1,940 million, an increase of € 224 million compared with December 31, 2009 as a result of: (i) the increase in invested capital of € 101 million following investments during the year, only partially offset by depreciation, depletion and amortization booked and by an increase in payables for investing activities, (ii) the increase of € 120 million of net working capital, as illustrated below, and (iii) the drop of € 3 million in provisions for employee benefits.

The ratio between Net financial indebtedness and shareholders' equity (leverage) improved sharply, going down from 0.51 in 2009 to 0.34 in 2010, as a result both of the reduction of Net financial indebtedness and of the share capital increase paid by the parent company Eni SpA.

Fixed assets

Property, plant and equipment, of € 952 million, increased by € 136 million due essentially to new capital expenditures of € 237 million and to the acquisition of the "LDPE/EVA Polyethylene" business unit (€ 20 million) by Polimeri Europa GmbH, less depreciation, depletion and amortization of € 71 million, impairment of € 47 million and disposals of € 3 million, related to the sale of the plants of Polimeri Europa Benelux SA's Feluy site to Total Petrochemical.

Intangible assets, of € 69 million, dropped by € 4 million due to depreciation, depletion and amortization in the period (€ 5 million) which was partially offset by investments in the year (€ 1 million).

Investments, of € 33 million, increased by € 5 million as a result of the payment by Polimeri Europa France of the deposit of € 3 million for the purchase of the investment in the Exeltium SAS consortium¹² and to measurement at equity of investments in controlled but not consolidated companies (€ 2 million). During the year a payment of € 26 million was made to Polimeri Europa Elastomères France SA in liquidation and at the same time the amount of € 26 million was reclassified from provisions for losses on investments.

¹² The shareholders of this consortium are large French energy consumers whose aim is to ensure supplies to members of the consortium at competitive prices in the long term.

The increase of € 36 million in **net payables related to capital expenditures** was caused by greater investments made during the year, in particular in the last quarter. The monetary effect did not occur by the end of the year as a result of the normal contractually envisaged payment extensions.

Net working capital

The increase of € 179 million in **inventories** was attributable to high quantities in stock (mainly of intermediate products) and to the general increase in unit prices of stocks, for a total effect of € 171 million, and following the reversal of impairment losses booked in previous periods for adjustments to market value of € 9 million.

The increase of € 167 million in **trade receivables** derived from increases in both quantity sold and unit prices in the last three months of the year, compared with the same period of the previous year. The average annual DSO (Daily Sales Outstanding) index improved, going from 58.3 in 2009 to 54.2 in 2010. During the year Polimeri Europa SpA sold, to a leading factoring company, receivables for a nominal value of € 42 million. The transaction, which took place in December 2010, is a monthly revolving type.

The increase of € 151 million in **trade payables** was due essentially to increases in quantities acquired and of purchase prices of petroleum feedstock (Virgin Naphtha) in the last few months of the year compared with the same period of 2009.

The change in **tax payables and provision for net deferred tax liabilities** of € 125 million was essentially due to the decrease in current tax assets after receiving the balance of the previous year and the advances of the period consequent to participation in the Domestic Fiscal Consolidation of the Eni Group, only partially offset by provisions of net tax credit in the year.

The decrease of € 15 million in **provisions for contingencies** was substantially due to the decline of € 24 million in provisions for losses on investments of Polimeri Europa Elastomères France SA in liquidation (decrease of € 26 million following the recapitalisation and increase of € 2 million due to provisions set aside in the period), to the decrease of € 2 million in provisions for other contingencies and to the decrease of € 2 million in provisions for other liabilities; these changes were partially offset by the increase of € 10 million in provisions for redundancy incentives, to the increase of € 2 million in provisions for environmental expenses, to the increase of € 1 million in provisions for green certificate expenses and of € 1 million in provisions for OIL insurance cover.

The increase of € 35 million in **other net operating assets** was essentially due to: (i) the increase in receivables from Syndial SpA of € 22 million in connection with the recharges of the expenses in virtue of the warranties issued at the moment of transfer of assets in 2002 of the "Strategic Chemical Activities" business unit; (ii) the increase in other receivables of € 16 million for higher income from insurance payouts; (iii) the increase in advances paid to suppliers of € 4 million; these changes were partially offset by the decrease of € 5 million in current assets for measurement at fair value of derivatives lacking the formal requisites to be classified as for hedging. Other smaller changes substantially offset each other.

Return On Average Capital Employed (ROACE)

The Return On Average Capital Employed index is calculated as the ratio between net profit, adjusted for net finance expenses related to Net financial indebtedness less the relevant tax effect, and average net invested capital. The tax effect related to finance expenses is determined on the basis of the tax rate of 27.5% provided for by the Italian tax legislation. The final invested capital used to calculate the average net invested capital is adjusted for the inventory holding loss recognised in the period, net of the associated tax effect. As a result of the negative net income recorded in the year, the ROACE on adjusted data is not significant, as in previous years.

Net financial indebtedness and Leverage

The leverage measures the degree of company indebtedness and is calculated as the ratio between the net financial indebtedness and shareholders' equity. Polimeri Europa's management uses the leverage ratio 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, and to carry out benchmark analysis with the industry standards.

	(€ million)	31.12.2009	31.12.2010	Change amount
Short-term debt		286	125	(161)
Medium/long-term debt		309	399	90
Cash and cash equivalents		(18)	(36)	(18)
Net financial indebtedness		577	488	(89)
Shareholders' equity		1.139	1.452	313
Leverage		0,51	0,34	(0,17)

Short-term debt declined by € 161 million as a result of the abovementioned share capital increase while long-term debt increased by € 90 million. Both mainly involve loans granted by Eni SpA and Eni Coordination Center SA (Eni's Group finance company). Assumptions of medium/long-term debt mainly concern the needs for the Polimeri Europa France SAS and Polimeri Europa GmbH investment plans. Cash and cash equivalents increased by € 18 million for reasons of ordinary management (due substantially to collections of receivables).

Statement of Comprehensive Loss

	(€ million)	2009	2010
Net loss		(513)	(71)
Other items of comprehensive loss:			
Foreign currency translation differences		1	
Total comprehensive loss		(512)	(71)

Statement of Main Changes in Shareholders' Equity

	(€ million)	
Shareholders' equity at Dec 31, 2009		1.139
Total comprehensive loss for the period	(71)	
Payment by the shareholder	313	
Advance consideration, Porto Torres contribution	70	
Accrued cost of stock options assigned	1	
Shareholders' equity at Dec 31, 2010		1.452

Shareholders' equity amounted to € 1,452 million, an increase of € 313 million. The change was due to: (i) the loss of € 71 million during the year; (ii) the reinstatement of the share capital of € 313 million through payment by the sole shareholder (Eni SpA); (iii) the € 70 million increase in other reserves which related to the advance received from Syndial, in relation to the agreements for contribution of the Porto Torres business unit with effect from January 1, 2007 (€ 70 million net of the tax effect of € 32 million; during the year Syndial SpA paid a supplement of € 104 million to the original payment, with an effect on the reserve of € 83 million before tax; for more details see the paragraph "Advances against services received from Syndial" in the section "Other information"); (iv) the cost accruing to the year for stock options assigned of € 1 million.

Reconciliation of net profit and shareholders' equity of Polimeri Europa SpA to consolidated net profit and shareholders' equity

(€ million)	Profit/(loss) for the period		Shareholders' equity	
	2009	2010	31.12.2009	31.12.2010
As recorded in annual Financial Statements of Polimeri Europa SpA	(493)	(104)	1.108	1.388
Excess of net equity in individual accounts of consolidated subsidiaries over their corresponding carrying amounts in the statutory accounts of the parent company	(35)	32	(21)	4
Consolidation adjustments:				
- elimination of tax adjustments and compliance with accounting policies	(10)	1	61	72
- deferred tax assets and liabilities	25		(9)	(12)
As recorded in Consolidated Financial Statements	(513)	(71)	1.139	1.452

Reclassified Summarized Cash Flow Statement

The Reclassified Cash Flow Statement is a summary of the mandatory statement, in order to enable a link between the Cash Flow Statement which expresses the change in cash and cash equivalents between the beginning and the end of the period of the mandatory statement and the change in Net financial indebtedness between the beginning and the end of the period of the reclassified statement. The measure which enables this link is the "free cash flow", that is the cash surplus or deficit that remains after financing of the investments. The free cash flow, which is a non-GAAP performance measure, ends alternatively: (i) on the change in cash of the period, after adding/subtracting the cash flows relating to financial payables/receivables (openings/repayments of finance debt/receivables), to own capital (payment of dividends/net purchase of treasury shares/grants of capital), and the effects on cash and cash equivalents of changes in the scope of consolidation and of foreign currency translation differences; (ii) on the change in Net financial indebtedness in the period, after adding/subtracting the cash flows relating to own capital, and the effects on net financial indebtedness of changes in the scope of consolidation and of currency translation differences.

Reclassified Summarized Cash Flow Statement (*)

2008	(€ million)	2009	2010	Change amount
(678)	Net loss	(513)	(71)	442
<i>Adjustments to reconcile net profit to net cash provided by operating activities:</i>				
379	- amortization,depletion and depreciation and other non monetary items	186	118	(68)
(5)	- net gains on disposal of assets			
(184)	- dividends, interest and taxes	(164)	1	165
415	Change in working capital	18	(100)	(118)
(49)	Dividends received, taxes (paid) received, interest (paid) received	239	77	(162)
(122)	Net cash provided by operating activities	(234)	25	259
(203)	Capital expenditures	(132)	(238)	(106)
(40)	Investments and purchase of consolidated subsidiaries and businesses		(49)	(49)
19	Disposals and partial sales of consolidated equity investments	21	3	(18)
	Other changes relating to investing activities	(14)	35	49
(346)	Free cash Flow	(359)	(224)	135
326	Change in short- and long-term finance debt	(209)	(71)	138
	Dividends paid and changes in non-controlling interest and reserves	550	313	(237)
(2)	Effect of changes in consolidation area and exchange differences			
(22)	NET CASH FLOW OF PERIOD	(18)	18	36

Change in net financial indebtedness

2008	(€ million)	2009	2010	Change amount
(346)	Free cash flow	(359)	(224)	135
14	Exchange differences on financial payables and receivables and other changes	(4)		4
	Dividends paid and changes in non-controlling interest and reserves	550	313	(237)
(332)	CHANGE IN NET FINANCIAL INDEBTEDNESS	187	89	(98)

* For alignment with the mandatory format see the paragraph "Realignment of the reclassified financial statements used in the Directors' Report on Operations with the mandatory statements".

The financial deficit relating to capital expenditures (€ 238 million) and to investments was covered by the capital grant of the parent company, Eni SpA, of € 313 million, which also enabled Net financial indebtedness to be reduced to € 89 million. Information on investments made in the year is given in the paragraph "Investments". The dividends paid and changes in non-controlling interest and reserves regards payment by the sole shareholder Eni SpA, as already illustrated in the above paragraphs.

The figures and items of the reclassified balance sheet and cash flow statement are reconciled to those of the mandatory statements below.

Reconciliation of Reclassified Summarized Group Balance Sheet and Statement of Directors' Report on Operations with the mandatory statements

Reclassified Summarized Group Balance Sheet

Items of the Summarized Group Balance Sheet (where not expressly indicated, the item derives directly from the statutory scheme) (€ million)	31.12.2009		31.12.2010		
	reference to notes to the consolidated statements	Partial amounts from compulsory format	Amounts from reclassified format	Partial amounts from compulsory format	Amounts from reclassified format
Fixed assets					
Tangible assets			816		952
Intangible assets			73		69
Investments accounted for using the equity method and					
Other investments			28		33
Net payables related to capital expenditures, made up of:			(17)		(53)
- payables related to capital expenditures	(see Note 15)	(17)		(53)	
Total fixed assets			900		1.001
Net working capital					
Inventories			821		1.000
Trade receivables			787		954
Trade payables			(801)		(952)
Tax payables and net provisions for net deferred tax liabilities made up of:			171		46
- income tax payables	(see Note 16)	(2)		(6)	
- other tax payables	(see Note 17)	(9)		(8)	
- deferred tax liabilities	(see Note 22)	(13)		(12)	
- payables for tax consolidation and VAT	(see Note 15)			(56)	
- current tax assets	(see Note 4)	15		5	
- other current tax assets	(see Note 5)	10	18		
- deferred tax assets	(see Note 11)	106		105	
- receivables for tax consolidation and VAT	(see Note 2)	64			
Provisions for contingencies			(100)		(85)
Other current assets and liabilities made up of:			6		41
- other receivables	(see Note 2)	130		170	
- other (current) assets	(see Note 6)	6		1	
- other receivables and other assets	(see Note 12)	1		1	
- advances, other payables	(see Note 15)	(117)		(117)	
- other (current) liabilities	(see Note 18)	(4)		(5)	
- other payables and other liabilities	(see Note 23)	(10)		(9)	
Total net working capital			884		1.004
Provisions for employee post-retirement benefits			(68)		(65)
NET INVESTED CAPITAL			1.716		1.940
Shareholders' equity			1.139		1.452
Net financial indebtedness					
Total debt, made up of:					
- long-term debt	(see Note 19)	309		399	
- current maturities of long-term debt	(see Note 19)	4		4	
- short-term debt	(see Note 13)	282		121	
less:					
Cash and cash equivalents	(see Note 1)	(18)		(36)	
Total net financial indebtedness			577		488
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY			1.716		1.940

Items of the Summarized Cash Flow Statement and confluence/reclassification of items in the statutory scheme	2009		2010	
	Partial amounts from compulsory format	Amounts from reclassified format	Partial amounts from compulsory format	Amounts from reclassified format
(€ million)				
Net loss		(513)		(71)
<i>Adjustments to reconcile net profit to net cash provided by operating activities:</i>				
Depreciation, depletion and amortization and other non-monetary items		186		118
- depreciation, depletion and amortization	76		76	
- net impairment of tangible assets and intangible assets	113		47	
- share of profit (loss) of equity-accounted investments			(1)	
- alignment exchange differences			(1)	
- net changes in provisions for employee benefits	(3)		(3)	
Net gains on disposals of assets				
Dividends, interest and income taxes		(164)		1
- dividend income	(2)			
- interest income	(1)			
- interest expense	25		20	
- income taxes	(186)		(19)	
Changes in working capital related to operations		18		(100)
- inventories	73		(178)	
- trade receivables	(83)		(168)	
- trade payables	88		153	
- provisions for contingencies	(3)		4	
- other assets and liabilities	(57)		89	
Dividend received, taxes paid, interest (paid) received during the period		239		77
- dividend received	2		1	
- interest paid	(24)		(22)	
- income taxes collected including rebated tax credits	261		98	
Net cash provided by operating activities		(234)		25
Capital expenditures		(132)		(238)
- tangible assets	(132)		(237)	
- intangible assets			(1)	
Investments and purchase of consolidated subsidiaries and businesses				(49)
- investments			(29)	
- companies entering consolidation scope and and business units			(20)	
Disposals and partial sales of consolidated equity investments		21		3
- tangible assets	1		3	
- investments	20			
Other changes relating to investing activities		(14)		35
- change in account payable in relation to investments	(14)		35	
Free cash flow		(359)		(224)
Change in short- and long-term finance debt		(209)		(71)
- assumptions of long-term finance debt			93	
- repayments of long-term finance debt	(2)		(3)	
- change in short-term finance debt	(207)		(161)	
Dividends paid and changes in non-controlling interest and reserves:		550		313
- net contributions (refunds) of own capital	550		313	
Effect of changes in consolidation area and exchange differences				
Net cash flow for the period		(18)		18

Other information

Transactions with related parties

The transactions carried out by Polimeri Europa SpA and by the companies included in the scope of consolidation with related parties involve, essentially, the trading of goods, the performance of services, funding and the use of financial resources with the parent company Eni SpA, with companies directly or indirectly controlled by the latter, and with its own subsidiaries and associates excluded from the consolidation area, and with other companies owned or controlled by the State. All transactions form part of the ordinary business and are made at arm's length, that is, at conditions that would have been applied between two independent parties, and were carried out in the interests of the Group companies. Under the provisions of applicable laws, the company has adopted internal procedures to ensure transparency and the substantial and procedural correctness of transactions with related parties, carried out by the company itself or by its subsidiaries. Every six months, the directors and key management personnel declare any transactions carried out with the company or with its associated companies even through third parties or entities related to them.

The amounts of trade, financial and other transactions carried out with related parties and a description of the type of major transactions as well as the effect of these relations and transactions on the equity, economic result of operations and cash flows are indicated in the notes to the financial statements.

Treasury and parent company's shares

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

Advances against services received from Syndial

As regards the transfer of the "Production plants, services and utilities of the Porto Torres works" business unit, with effect from January 1, 2007, according to the agreements signed by the parties, the transferor Syndial SpA paid the receiver Polimeri Europa SpA the sum of € 96 million as an advance against the obligation assumed by Polimeri Europa SpA to keep the plants received with contribution of the above business unit operating for at least five years (that is, until December 31, 2011). During this five-year period Polimeri Europa SpA must, at the end of each year, formally advise Syndial SpA that the plants are in operation and that, therefore, the annual portion of the advance payment can be considered effectively earned and due. The agreements also envisage that if the above plants are definitively shut down, Polimeri Europa SpA shall promptly notify Syndial SpA and shall return the portion not earned and relating to the period running from the definitive shut-down to December 31, 2011 (equal to € 1.6 million per full month or fraction of a month of more than 15 days).

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

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

Polimeri Europa SpA initially entered in the accounts the advance payment of € 96 million and the supplement of € 104 million received from Syndial SpA under "other payables for advances received" bearing in mind that, being a company subject to the direction and coordination of Eni SpA, any decision about the early closure of the site is not exclusively the responsibility of the company's directors. At the end of every year, once the annual portion can be considered as being definitively earned, it is charged to the specific available shareholders' equity reserve.

Subsequent events

On February 7, 2011 the Board of Directors resolved to appoint the new Chief Executive Officer by co-option, following the resignation of the previous one. On the same date, the general organization of the Company was reformulated as follows. The following units report to the Chairman: Strategies and Development Department; New Initiative Development; Administration. The following units report to the Chief Executive Officer: Human Resources Department; Research, Process Technology and Engineering Department; Planning and Control Department; Polymers Sales Department; Industrial Department; Quality, Health, Safety and the Environment Department; Supply; Monomers, Aromatics and Intermediates Sales.

On January 1, 2011 the following Management System Guidelines¹³ came into force: "Regulatory System", "Composition of Oversight Committees and performance of their duties, in support of the Eni SpA subsidiaries", "Transactions with interests of directors and statutory auditors and transactions with related parties", "Procurement", "Human Resources", "Sales Process", "Administration and Financial Statements". The following Policies also came into force:¹⁴ "Our People", "Our Partners in the Value Chain", "Global Compliance", "Corporate Governance", "Operating Excellence", "Information Management" and "Our Institutional Partners". This regulatory system is a fundamental component of the corporate governance system, the organisational framework and the internal auditing system.

On January 26 Polimeri Europa gave a mandate to Eni to activate, with the Ministry of the Environment, the procedure to sign a global environmental settlement provided for in Art. 2 of Law Decree 208 of 2008 for sites of national interest (Priolo, Brindisi, Mantua, Porto Torres and Gela), in which the company has begun, in its capacity as scrupulous owner, actions for environmental remediation and repair. The proposal aims to facilitate environmental actions and closure of the proceeding currently pending on the subject of remediation and environmental damage. In virtue of the agreements with Syndial following the grants received (more information in the paragraph "Summary of significant accounting policies – Grants" of the Notes to the Consolidated Financial Statements) Polimeri Europa SpA will not have to pay any expenses, following these settlements, as these will be charged to Syndial.

On January 21, 2011 the interests of shareholders in the consortium fund of the Natural Gas Industrial Consortium were redefined. Polimeri Europa's interest was thus reduced from 66.52% to 57.43% to the benefit of other consortium members (Syndial SpA, Eni SpA, Raffineria di Gela SpA and Raffineria di Milazzo ScpA) following the sale of a number of shares at face value to reflect the exact annual natural gas consumption.

To celebrate the achievements of Chemistry and its crucial role in daily life, the UN proclaimed 2011 "International Year of Chemistry". UNESCO, the United Nations Educational, Scientific and Cultural Organization, together with IUPAC, the International Union of Pure and Applied Chemistry, have worldwide responsibility for the event. Federchimica, of which Polimeri Europa SpA is a member, is promoting the initiative, representing the Italian chemical industry.

Management outlook

In 2011 the growth of industrial activity in Europe is expected to level off, after the good results achieved during 2010, in the wake of a strong rebound following the fall in business levels in 2009. The forecasts of the leading economic and financial institutions, for the year in progress, are for the global economy to grow at a rate of more than 3%, but still less than that recorded in 2010 (3.8%). The slowdown is due to lower growth rates of the Asian economies (*in primis* China) with more restrictive monetary policies and rising interest rates, to control a growing domestic inflation rate boosted also by continual rapid growth in the prices of raw materials, both oil and non-oil. The economies of the developed countries of the United States and Japan are also expected to slow down slightly, after a strong rebound in 2010, while Europe as a whole

¹³ The Management System Guidelines (MSGs) are Eni SpA tools for the guidance, coordination and control of its units and of the companies it controls; the MSGs apply to Eni SpA and to the companies it controls, after a discussion and a resolution to approve them by the Board of Directors of each subsidiary.

¹⁴ The Policies define the mandatory principles and general rules of conduct which must inspire all business carried out by Eni SpA in order to ensure achievement of the corporate aims, taking into account the risks and opportunities. They apply to Eni SpA and to the companies it controls after a discussion and a resolution to approve them by the Board of Directors of each subsidiary.

seems stable with more moderate growth than in the other areas. Sharp differences remain in the Eurozone, with Germany, despite consolidation of growth, showing much higher than average rates of expansion. The economies of Spain, Greece and Ireland continue to be in difficulty with growth rates close to zero, or even negative, while in Italy a slow recovery continues (1.3% growth compared with 1% in 2010) with the economy held back by the inert domestic political and institutional world.

Consolidation of the recovery in Europe and dynamic growth in the emerging countries, after breathing life back into European companies thanks to exports, should also stimulate domestic growth which during 2010 was affected by the “exit strategy” policies introduced by the various national governments to put an end to the exceptional measures to stimulate the economy in the period of crisis and by the weakness of the employment market. Evident signs of recovery can be seen in the business demands for credit from the banking system with a significant acceleration in the second half of 2010 which was uniform across sizes and geographical areas. There was a partial improvement also in the terms applied to businesses by the banking industry, with the supply of credit growing for the first time in the last half of 2010. After the strong recovery in manufacturing indices during 2010 (a 10% rise), the European chemical industry will see growth consolidating this year at almost 2%. There remains however a general situation of manufacturing over-capacity, in a context characterised by greater competition and the availability of new low-cost capacity in the Middle East. The rebalancing of supply, which occurred during 2009, led to higher plant usage rates in 2010, enabling better operating conditions from the point of view of profit. The weakening of the euro against the US dollar, moreover, will strengthen the competitive positioning of European companies in terms of export opportunities.

The forecasts for quantities sold by the Polimeri Europa Group in the year 2011 are down in basic chemicals, while growth is expected in the polymers segment, above all for elastomers and polyethylene, while styrenes will remain substantially stable.

At the economic level, the profitability recovery period, after the crisis years of 2008 and 2009, is expected to continue, in the wake of the stronger market profitability recorded already during 2010, and the continual implementation of actions to recover manufacturing, logistical and commercial efficiency. In the first two months of the year the selling prices reached, and in some cases exceeded, the levels recorded in the period before the crisis of 2008, with quite regular and strong demand. The greater financial commitment for customers is now encountering more favourable conditions in the credit market than those seen in the last two years, with supply by the banking system which is relaxing the criteria for granting loans and demand sustained not only by financing of the price effect of working capital, but also by the expansion of levels of business. While, on the one hand, the better basic condition of the international economy helps to maintain profitability levels, on the other, the continual strong growth of oil and petroleum feedstock prices may have serious effects on profits in the economic sectors downstream.

In the above context, the Polimeri Europa Group is continuing its investment programme with expansion and rationalisation of plants.

At the economic level, a further recovery in profitability is expected. The extent of this recovery and the possible achievement of the break-even point during the two-year period depend on:

- a) the continuation of favourable market conditions;
- b) flexibility in plant use according to the market conditions;
- c) rapid implementation of new management actions deriving from the new strategic vision.

Corporate Governance

Polimeri Europa SpA is subject to the direction and coordination of Eni SpA, its only shareholder. The regulations, prepared on the basis of the guidelines and instructions of the Eni Group, confirm the choice of the “traditional” system of governance of the company, in which the Shareholders’ Meeting appoints the Board of Directors, which is responsible for managing the business, the Board of Statutory Auditors, to which are entrusted supervisory tasks, and the Auditing Company, which is responsible for independent auditing. The Board of Directors has five members and elects the Chairman and Chief Executive Officer; the Board of Auditors has three regular auditors, one of whom acts as Chairman, and two alternate auditors. Polimeri Europa SpA has defined an articulated and uniform system of rules of conduct concerning its organisational structure, relations with third parties, with the shareholder and with related parties which are in line with the highest standards of Corporate Governance taking into consideration the policies, directives, procedures and practices implemented by the Eni Group. In particular, the rules involve the following:

- endowing the Board of Directors a central role in the company’s Corporate Governance system;

- conferring some administrative powers on the Chairman and some on the Chief Executive Officer, with the exclusion of those which the Board reserves for itself in an exclusive way and which cannot be delegated;
- suitably qualified persons on the Board of Directors;
- establishing Committees (Code of Ethics Committee, Management Committee, Human Resources Committee, Health, Safety and Environment Committee, Risk Management Committee, Credits Committee, Investments Committee, Quality Committee);
- applying a Group Code of Ethics containing standards of conduct that employees must comply with when performing their duties and in relations with third parties;
- applying a Group Antitrust Code of Practice which illustrates EU and Italian standards on the subject of unfair trade practices and abuse of a dominant position as well as the principles of conduct that employees must adopt;
- adopting “Anti-Corruption Guidelines” and “Ancillary Anti-Corruption Procedures” of Eni SpA which govern: the methods of preparation, approval and authorisation of the budget in relation to non-profit initiatives; the rules on the process of requesting, authorising, signing and managing sponsorship contracts; the rules, roles, responsibilities and flows in the process of authorising and reporting expenses for attention to third parties; establishment of administrative responsibility clauses in the context of contractual relationships;
- recourse to an Internal Audit structure, currently centralised in the parent company Eni SpA., which has the task of monitoring observance of internal procedures in order to guarantee the efficiency and effectiveness of management and protection of the company’s assets;
- availability of a website reporting key information about the company as regards the organization and production structure, the accounting documents, the sustainability report, the products and services offered;
- availability of a company and Eni Group intranet site where the organizational manuals which collect the company documents aimed at identifying roles, duties and responsibilities can be consulted and a site dedicated to the collection of standards, circulars, operating procedures which tend to create an Eni’s Group language and culture;
- disclosure in the notes to the individual financial statements of the fees paid to members of the corporate bodies.

Commitment to sustainable development

Introduction

The main commitments undertaken by the company in terms of sustainable development are indicated below, with special reference to the following areas: personnel, environment, technological innovation.

People

As at December 31, 2010 the number of employees working for the companies in the Group was 5,961.

2008	Number of employees	2009	2010
5.380 Italy		5.059	4.902
1.031 Outside Italy		1.015	1.059
6.411		6.074	5.961

The decrease of 113 employees compared to December 31, 2009 was due to the following causes:

- reductions:

- 179 employees left the company for ordinary reasons (retirement, resignation and consensual termination);
- 32 employees were transferred to Eni Adfin SpA following the sale of the “Administration” business unit;
- 11 is the balance of personnel transferred to other companies within the Eni Group;
- 70 employees left the Company under ordinary redundancy procedures, in accordance with Law No. 223/91;

- increases:

- 121 people were recruited, of which 13% are graduates;
- 58 people came into the scope of consolidation with the acquisition by Polimeri Europa GmbH of the "LDPE/EVA Polyethylene" business unit.

The breakdown by category is as follows:

2008	Employees in service	2009	2010
107	Senior managers	105	103
3.563	Managers and Employees	3.401	3.334
2.741	Workers	2.568	2.524
6.411		6.074	5.961

The distribution of permanent employees by age group is the following:

Age band	Total	%
< 30	893	15,0
31-40	1.745	29,3
41-50	1.997	33,5
51-60	1.203	20,2
> 61	123	2,1
	5.961	100,0

The number of employees in service at the end of the year was 5,972, down by 96 compared to the beginning of the year. The number of employees in service is obtained by subtracting from employees on the payroll those seconded to other companies and adding those seconded from other companies.

Employees of Polimeri Europa SpA and of its subsidiaries seconded to other companies of the Eni Group numbered 36, while those seconded to Polimeri Europa SpA from other companies of the Eni Group numbered 47.

Employees in service	2008	2009	2010
Senior managers	108	105	103
Managers and Employees	3.457	3.396	3.344
Workers	2.718	2.567	2.525
	6.283	6.068	5.972

Training

The training programme in Italy and in the foreign subsidiaries amounted to 260,000 person-hours in 2010. This activity was provided mostly with internal resources, but also with the support of Eni Corporate University. Consolidation of the know-how of certain specialist areas was provided by qualified trainers from outside the Eni Group. The financial resources used included € 2.3 million of direct costs, of which more than half was paid to Eni Corporate University. During the year there were various specific training courses, addressed at the specialised study and reinforcement of group-wide or professional issues that are important for the company such as:

- ongoing commitment to the institutional training of young graduates, at the local plants for young diploma holders and also using the services of Eni Corporate University for young graduates, using the editions in English for the resources of associates;
- significant commitment to training and information on environmental, health, safety and quality issues for a total of more than 114,000 hours, including both classroom lessons and training on the job;
- training initiatives with the aim of extending knowledge of compliance to personnel, with the objective of making the guidelines, regulations and internal procedures known and operational. These guidelines and procedures are designed to ensure observance of the law in carrying out Eni SpA's business (in particular

380 “key officers” were involved in Italy and abroad as part of the training cycle on the new “Anti-corruption” legislation which came into effect on January 1, 2010);

- attendances at update and advanced seminars held at Eni Corporate University or other qualified external organisations, to develop and reinforce transversal skills and specialist know-how of resources operating in the various corporate areas.

Incentive and remuneration systems

Polimeri Europa SpA, together with the merit-based policy linked to roles and responsibilities, consolidated its variable incentive system for senior managers and managers related to performance assessments, setting individual targets in line with the company's general objectives. In 2010, performance assessment involved almost all senior managers and managers, identified on the basis of their assigned operating and managerial responsibilities. The incentive policy is linked to achieving results and the level of contribution provided. A long-term incentive system in line with the practices and policies of the Eni Group is in place for senior managers with greater responsibilities and impact on the result of operations.

Environmental responsibility

The final figures, which are significant for the commitment of economic resources by Polimeri Europa, in the protection of the health of its workers and the environment as well as in the prevention of activities to guarantee safety in the workplace and protection against industrial risks to local communities in which the company operates are as follows:

- € 185 million for expenses in the period (€ 154 million in 2009) of which € 46 million for operating actions (€ 33 million in 2009) and € 139 million of current expenses (€ 121 million in 2009);
- € 30 million for capitalised investments (€ 28 million in 2009).

Environmental activities amounted to € 125 million (including polluted area and aquifer management activities), safety activities amounted to approximately € 81 million and Management and Health activities amounted to € 10 million.

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

- Quotas available in 2010: 5,772,482 tonnes of CO₂ of which 5,770,435 tonnes of CO₂ were issued by the Competent Authority in 2010 and 2,047 tonnes from 2009 post-compliance CO₂ (taking into account both the sale to Eni Group companies of quotas for 428,752 tonnes, in accordance with the provisions of Eni's 2009 balancing plan, and the sale of quotas for 793,110 tonnes on the external market);
- 2010 Emissions¹⁵: 4,571,000 tonnes of CO₂;
- *Surplus*: 1,201,482 tonnes of CO₂;

In the last few years, considering both the cyclic nature of the chemicals market, and the economic crisis which struck all the markets starting at the end of 2008, the negative effects of which are still being felt, production volumes, and consequently the emissions associated with energy production, fell significantly. This change can easily be seen by examining the trend in CO₂ emissions in the last few years. In 2010, despite the weak recovery on the markets, emissions remained substantially in line with those of 2009 (down by 30 thousand tonnes).

It is important to note:

- Energy Saving Projects: in 2010 a number of energy saving projects were completed with a reduction¹⁶ of more than 46,000 tonnes of CO₂ (these actions will lead, in the coming years, to an annual drop in emissions of more than 85,000 tonnes per year of CO₂);
- Porto Torres: the reduction in fuel oil consumption in the thermoelectrical power station continued thanks to modulation in the purchase of electricity from outside;
- significant events from the production point of view:

¹⁵ Non-definitive results: data collection is being completed and will be followed by certification by the Accredited Auditor.

¹⁶ The data presented refer to a fixed production level without taking into account planned or accidental shutdowns or load reductions due to unfavourable market situations.

- Mantua: planned shutdown for maintenance (approximately 2 months) of the Styrene Monomer production plant;
- Dunkerque: planned shutdown for maintenance (approximately 2 and a half months) of the entire site;
- Sarroch: planned shutdown for maintenance (approximately 1 month) of a boiler in the thermoelectrical power station;
- Brindisi: stoppages due to problems on the electrical control systems and reduced loads due to unavailability of furnaces.

As regards accident prevention the following results were achieved:

	Italy		Outside Italy		Total	
	2009	2010	2009	2010	2009	2010
N° of Disabling Injuries	19	13	4	2	23	15
Frequency Index	2,33	1,63	2,38	1,15	2,34	1,54
Seriousness Index	0,09	0,06	0,10	0,02	0,09	0,05

There is an evident satisfying downward trend in the number of injuries and in the frequency and seriousness indices.

In 2010, the following facilities achieved the target of “**zero injuries**”: Brindisi, Ferrara, Ragusa (third consecutive year), Priolo (second consecutive year), San Donato Milanese (third consecutive year), Sarroch, Settimo Milanese (third consecutive year), Dunkerque (second consecutive year), Feluy (ninth consecutive year), Grangemouth (third consecutive year), Neiva (second consecutive year), Oberhausen (ninth consecutive year).

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

The following initiatives are also worthy of note:

Safety Analysis: agreements were signed to perform process safety audits, SIL, HAZOP and Root Cause Analyses associated with the relevant guidelines. Agreements were renewed to implement the Construction Sites Directive adjusting them to the changed legislation. These agreements supplement the existing agreement on significant incident risk and the risk assessment document.

Guidelines: the QHSE guidelines were issued/updated to take account of the changed legislative, procedural, organisational and technical frameworks.

Working Groups: Polimeri Europa continues to take part in Eni’s working groups on Safety (work surveillance, emergency plans, industrial risk assessment, accident and injury data bank, injury risk assessment, communicating safety).

Accident and Injury Database: the Accident and Injury Database launch stage was completed at the Italian and foreign Polimeri Europa sites with all cases in the current year and in the past five years being recorded.

Land Transport Rail Tankers Task Force: Polimeri Europa coordinated the Eni working group which laid down best practices in the transport, handling and decanting of rail tankers; this working group collaborated with the one on rail tankers on the definition of guidelines according to the danger class of the product transported.

Another issue which required attention and economic resources, above all in the year 2010, and which represented a major part of the activities was that of “product safety”, regulated by the REACH Regulation and the CLP Regulation which came into effect in June 2007 and December 2008 respectively. The former regulates the obligations of “registration” and “authorization” of products, as a prerequisite for their manufacture. The latter regulates the obligations of classification and labelling of all products as a prerequisite for their introduction into the market. Polimeri Europa has defined the organizational set-up to manage all the operating processes regarding the legislation’s implementation and has issued procedures for performing the activities assigning the various responsibilities. All products subject to REACH were registered, together with notification of classification and labelling, well in advance of the deadline of November 30, 2010.

The 2010 **System Certification** results, for the company’s manufacturing sites, are as follows:

