versalis seminar

18 April 2013

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# agenda

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versalis today: the management team

Daniele Ferrari
CEO
30 years in the industry

Emanuele Tagliabue
BU Intermediates
32 years in the industry

Franco Meropiali
Planning & Control
18 years in the industry

Giovanni Cassuti
BU Polyethylene
19 years in the industry

Sergio Lombardini
CTO
25 years in the industry

Marco Chiappani
BU Styrenics
25 years in the industry

Stefano Soccol
Business Development and Licensing
21 years in the industry

Carmine Masullo
BU Elastomers
29 years in the industry
poor results have been a drag on group earnings

versalis results

strong turnaround upside
<table>
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<th>key reasons for underperformance and lack of optionality</th>
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<td>1</td>
<td>Sub-optimal industrial footprint</td>
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<td>▪ Created by political events rather than strategic design</td>
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<tr>
<td>2</td>
<td>Production portfolio exposed to commodity</td>
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<tr>
<td></td>
<td>▪ 70% sales on commodity products</td>
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<td>European market oriented</td>
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<tr>
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<td>▪ &gt; 90% sales into mature markets (Italy and EU)</td>
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1. sub-optimal industrial footprint

- **1958-1992**: Imposed acquisitions
  - Attributed ~20 sites in Italy
    - [e.g. Porto Torres with €800m of cash absorption 2002-2012]

- **1993-2001**: Opportunistic divestments
  - From 42 to 16 sites

- **2002-2011**: Efficiency programme
  - €500m 2006-2012
    - [e.g. Energy efficiency, cracker closures, logistics]

**poor industrial footprint as result of our history**
2. over-reliance on commodity chemicals ...

Figures relate to 2010-2012 average per annum
... suffering from cost competition

- West European ethylene feedstock uncompetitive
- Polyethylene prices under pressure from ME imports
- New challenges from US shale gas expansion

**Polyethylene margin breakdown**

100% = European price

- West European: 70%
- Middle East: 15%
- USA: 30%

Ethylene | Logistic | Fixed Costs | Cash margin

**difficult competitive environment for base chemicals in Europe**
3. focus on mature markets of Italy and Europe
market dynamics: some segments see little additional supply...

- **Under pressure**
  - currently suffering from ME and US imports
  - further pressure from up to 40% increase in US ethylene capacity by 2016

- **Relatively protected**
  - little incremental naphtha-based capacity to come onstream
  - increasing demand C4-10 as feedstock
... and lots more demand

Global megatrends relevant to versalis

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<tr>
<th>Mobility</th>
<th>Urbanization</th>
<th>Housing &amp; Construction</th>
<th>Sustainability</th>
<th>Demographic change</th>
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<td>Increasing demand of high performance tyres</td>
<td>Increasing consumer goods</td>
<td>Energy efficiency in new building</td>
<td>More biodegradable materials</td>
<td>Population growth in emerging countries</td>
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<td>High demand for elastomers</td>
<td>Opportunities in hydrocarbon resins</td>
<td>Strong demand for Styrenics (EPS)</td>
<td>Opportunities in green chemicals</td>
<td>Favourable markets in Asia and Latin America</td>
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we are well positioned in these strong and growing segments

1. **Strong position in growing segments**
   - 1° elastomer producer in Europe
   - 3° styrenics producer in Europe
   - 2° EVA producer in Europe

2. **Consolidated client relationships**
   - Strong customer reputation and brand recognition
   - Relationship with key global customers
   - Extensive technical assistance

3. **Leading R&D**
   - Pre-eminent technological position (390 patents)
   - Development of green partnerships
   - Opportunities to develop business in oil service solution
performance products

- **Elastomers**
  - 1st producer
  - Various images of elastomers and related products

- **Styrenics**
  - 3rd producer
  - Images of styrenics products and applications

- **Eva**
  - 2nd producer
  - Images of Eva products and applications

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versalis key strengths ...

1. **Strong position in growing segments**
   - 1° elastomer producer in Europe
   - 3° styrenics producer in Europe
   - 2° EVA producer in Europe

2. **Consolidated client relationships**
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the 3 key actions of our turnaround plan

1. Fix problems: site reconversion, capacity rationalisation
2. Portfolio refocusing on performance products
3. International expansion in fast-growing markets
reconversion opportunity: critical sites

11 sites  3 critical sites

versalis losses substantially due to three critical sites

Note: Sites EBITDA is average per annum 2008-2012 excluding R&D and headquarter costs
Porto Torres: from loss-making basic chemicals to green

**Porto Torres - challenges**

- Old and inefficient chemical complex (270 kta tonnes ethylene capacity)
- ~600 employees
- Average annual loss of €70 mln
- €800m of cash absorption 2002-2012

**Green project opportunities**

- JV with Novamont, owner of proprietary bio-technologies
- Access to land for crop cultivation
- Growing bio-plastics market in Europe

**European bio-plastics market**

- 20% CAGR
- 180 kton 2008
- 320 kton 2009
- 720 kton 2010
- 1,700 kton 2015
- 4,000 kton 2020

Source: European Bioplastics 2012
Porto Torres: the project

**Reconversion**
- 7 plants over three phases (2 under construction)
- 350 kta of total bio-based production
- Up and running Research Centre
- More than 300 employees

**Investments**
Overall JV investments: €500m
Equity capex >€100m

- Phase 1-2: 36%
- Phase 3: 64%

**Porto Torres - EBITDA**

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<td>2012</td>
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Breakeven

*Figures relate to average per annum*
Porto Torres: the project

Reconversion

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Investments

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Porto Torres - EBITDA

€ m

2008-11  2012  2015-16  2017/18
Breakeven

Figures relate to average per annum
Priolo: from loss-making basic chemicals to resins

**Resins – an opportunity**

- High margin products
- $3bn market, growing at GDP+
- Growth in supply limited by feedstocks

**Priolo – challenges**

- Inefficient and oversized cracker
- Loss making polyethylene plant
- Average annual loss of €100m

**Versalis competitive edge**

- Existing C5-C9 capacity, not previously utilised
- Synergic approach with Elastomers and EVA
Priolo: the project

**Efficiency**
- Stop of Polyethylene (LLDPE) production
- Ethylene cracker rationalization (capacity from 790 to 490 kta) increasing operating rates from today 55% to 90% in 2014

**Reconversion**
- New investment to recover internal flows (C5/C9)
- Development of new products (resins) to integrate/expand our portfolio
- Sales target $250m

**Completed by YE 13**

**Contribution from 2016**

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**Priolo – EBITDA**

- €400m investments
- € m
- 2012 efficiency reconversion 2017/18

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**en**
Porto Marghera: restructuring options under study

Green chemistry – an opportunity

- green chemistry – an opportunity for a future transformation
- future candidate site for bio-butadiene investments
- optimisation of existing business under consideration

Marghera - challenges

- Inefficient and under-utilised cracker
- Loss of site integration during last decade
- Average annual loss of €40m

Versalis competitive edge

- apply versalis’ integrated approach to green chemistry to Marghera
- key site for logistics in Northern Italy and for further Butadiene expansion
achieving increasing efficiency on commodity products...

Leading mover on rationalisation

Increasing operating rates to industry average
... and increasing butadiene capacity

**Butadiene scenario**

**versalis response**

**On purpose Butadiene**
- Developing proprietary dehydro process to produce Butadiene
- Pilot plant on stream within 2013

**On purpose bio-Butadiene:**
- Partnership with [Genomatica](https://www.genomatica.com)
- Develop, license bio-butadiene production technology
- Build the first plant based on the bio-butadiene technology

**Producing more butadiene without additional ethylene**
refocusing on performance products: elastomers

**Elastomer scenario**

- Emerging markets leading the way
- Europe and N. America will grow in the more advanced segments
- S-SBR, PBR and EPR growth rate > than commodities rubber

**versalis advantages**

- Technological leadership
- Relationship with key global customers
  - Pirelli
  - Bridgestone
  - Continental
  - Michelin
  - Total
  - Styrolution
  - Henkel
- Feedstock availability from Naphtha crackers
- Market competence

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2013-16 annual growth rate
new elastomer projects and results

**Grangemouth (2014)**
New s-SBR line

**Ravenna/Ferrara (2015/16)**
New s-SBR line
New EPR line
New SBC line

**Latin America**
New complex under consideration

**Asia**
Commercial company in China
S.Korea: JV with Honam
Malaysia JV with Petronas

**Elastomers sales**
- 2012: kton
- 2017-18: >100%

**Elastomers ebitda**
- 2012: €m
- 2017-18: +€300m, >15% Ebitda/Sales

€600m of investments 2013-2016
focus on international projects

**Direct presence in Asia**
Opening of commercial offices in Shanghai

**South Korea**
Partner: LOTTE Chemical
Plant start-up: end 2015
Projected revenues: > $500m

**Malaysia**
Partner: PETRONAS
Plant start-up: end 2017
Projected revenues: > $700m

20% of versalis sales from emerging markets by 2017
new products: oil services solutions...

- Strong market $35bn, with 3.5% annual growth

- Leverage partnership with E&P to develop ad hoc oilfield chemicals
  - chemicals for EOR
  - solvents and drag reducers
  - smart chemicals (anti blow-out solutions)

- Utilize existing plants to produce solvents with limited reconversion investments

- First sales within end-2013

Leveraging the partnership with eni E&P
... and natural rubber

Natural rubber – an opportunity

- Natural rubber demand set to grow
- Opportunity to gain market edge with better production process

Global natural rubber consumption

The versalis project

- Strategic partnership with to make natural rubber out of Guayule
- Guayule production: high quality, highly sustainable
- Initial focus on consumer and medical specialty markets
- Agreement with to optimize the process also for the tyre industry
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a strong investment programme...

Investment programme to deliver strong returns
... to rebalance the business

**Production mix**

€ bn

- **2012**
  - Differentiated products: 2.0
  - Commodities: 4.4
  - Total: 6.4

- **2017/18**
  - Differentiated products: 3.5
  - Commodities: 3.3
  - Total: 6.8

**Ebitda**

€ bn

- **2012**
  - Total: ~1.9

- **2017/18**
  - Total: ~2.8

- Increase: ~0.9

Legend:
- Orange: Differentiated products
- Yellow: Commodities
... and reach break-even and profitability

2013-2016: €500m of incremental EBIT at 2012 scenario
closing remarks – versalis by the end of our turnaround

**Industrially streamlined**
- No sites in structural loss
- Restructuring achieved with no social repercussions

**Less volatile results**
- Reduced production of commodities (-25%)
- Exposure to products with more stable margins

**Exposed to profitable areas**
- Increased differentiated products production (+75%)
- Exposure to growing Asia and Latin America markets

**Delivering a sustainable chemicals business**
versalis
the new face of chemicals

versalis chemistry to evolve

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